

# FAREHAM

## BOROUGH COUNCIL

### **Report to Licensing and Regulatory Affairs Committee**

**Date**                    **31 January 2023**

**Report of:**            **Deputy Chief Executive Officer**

**Subject:**              **ARRANGEMENTS FOR DEALING WITH ADDITIONAL  
VOLUNTARY CONTRIBUTIONS IN THE LOCAL GOVERNMENT  
PENSIONS SCHEME (LGPS)**

#### **SUMMARY**

This report seeks approval to implementing a salary sacrifice Shared Cost Additional Voluntary Contribution (Shared Cost AVC) pension arrangement for Local Government Pension Scheme (LGPS) members.

#### **RECOMMENDATION**

It is recommended that the Licensing & Regulatory Affairs Committee approves:

- a) the implementation of a SCAVC pension scheme for LGPS members through a salary sacrifice arrangement;
- b) that earnings related payments, such as overtime, pay increases, contractual allowances, occupational maternity pay, occupational sickness pay, and redundancy are calculated on the notional salary before applying any salary sacrifice reduction as detailed in paragraph 8 of the report;
- c) the inclusion of a new discretion in our LGPS Discretionary Pension Policy Statement to allow staff to participate in the SCAVC scheme as set out in Section 3.4 below; and
- d) entering into a contract with AVC Wise to deliver a fully managed service covering SCAVCs as set out Section 3.5 below.

## **INTRODUCTION**

1. This report seeks approval to implementing a salary sacrifice Shared Cost Additional Voluntary Contribution (Shared Cost AVC) pension arrangement for Local Government Pension Scheme (LGPS) members.
2. Shared Cost AVC schemes have been widely adopted across the LGPS in the United Kingdom with over 200 councils, fire/police authorities and universities already delivering this key staff benefit. Several authorities in Hampshire have already implemented schemes including Hampshire County Council, Portsmouth City Council, Southampton City Council and Gosport Borough Council with at least 2 other authorities being close to implementation.

## **BACKGROUND**

3. LGPS members are currently permitted to contribute to a standard Additional Voluntary Contribution scheme (AVC) and receive Income Tax relief on their contributions through their payslip. AVCs are a long-term pension savings plan that runs alongside the main LGPS scheme that allows a member to build up a capital sum. On retirement, they can access the benefits through a range of options including the ability to receive the capital sum 100% tax free in most cases.
4. AVC contributions are paid across to a partnering responsible financial organisation who manage the plan and investments. The LGPS Administering Authority (Hampshire Pension Fund) are responsible for selecting the external provider (currently Prudential), and this arrangement would not change with the introduction of a salary sacrifice Shared Cost AVC scheme.

## **SCHEME DETAILS**

5. The LGPS and HMRC regulations allow employers to introduce a SCAVCs and the advantages of implementing a scheme over the current standard AVC scheme is that in addition to the income tax savings available, staff also save on national insurance contributions. The Council also make savings, through a reduction in the employer national insurance contributions and the apprenticeship levy. The estimated savings are shown in appendix 1.
6. To ensure that the Shared Cost AVC arrangement is compliant with the LGPS/HMRC regulations, the scheme must be set up as a 'shared cost' scheme which requires both the employee and employer to contribute to the SCAVC. Although this suggests that the Council will pay a financial contribution towards the Shared Cost AVC plan, this is not the case.
7. The employee accepts a contractual reduction in remuneration (a salary sacrifice), equivalent to the amount they would like to pay and the employer pays this amount into the SCAVC plan on their behalf. To meet the 'shared cost' arrangement the employee is then required to pay a nominal £1 each month into the SCAVC through their payslip. It may be helpful to note that the members main LGPS benefits are not affected by electing to join SCAVCs.
8. It is critical that the Shared Cost AVC scheme does not affect future earnings because of the salary sacrifice reduction, as this would be counter-productive to implementing a scheme. To avoid this, all employers agree that any contractual earnings such as overtime, pay increases, contractual allowances, occupational

maternity pay, occupational sickness pay, and redundancy will continue to be calculated on the notional salary **before** the salary sacrifice is applied.

9. The key reasons for implementing a SCAVC scheme are:
  - a. Staff will have access to a new financial well-being benefit that provides significantly improved retirement benefit outcomes
  - b. The introduction of this employee benefit will improve recruitment and retention
  - c. There is no set up fee, minimal resources are required to implement the scheme and ongoing resource to approve applications is also minimal
  - d. Staff who contribute to a SCAVC scheme will pay lower national insurance contributions (NICs). For most staff this will result in a saving of 12%
  - e. Staff will continue to receive income tax relief on their SCAVC contributions
  - f. The combined tax and NIC saving guarantees a growth of over 46% for basic rate taxpayers and over 72% for higher rate taxpayers. See the example in the table in Appendix 1 below.
  - g. The introduction of a SCAVC will have no effect on the main LGPS benefits
  - h. The council will make savings in employer NICs and apprenticeship levy of £620 in year 1, with an estimated growth to £4,719 by year 3. See Appendix 1 for details.
  - i. Staff will have access to a wide range of pension webinars and the option of individual pension meetings, webchat, telephone and email support.

## IMPLEMENTATION ISSUES

10. The recommendation (c) covers the requirement to make an amendment to our LGPS Discretionary Policy Statement to allow deductions to be made. This is purely an administrative procedure, and the wording of the discretion is shown in the table below:

Additional Voluntary Contributions		
Whether how much and what circumstances to contribute to an AVC scheme	R17 (1)	Fareham Borough Council will pay shared cost AVCs where an employee has elected to pay AVCs by salary sacrifice. The amount of these employer shared cost AVCs will not exceed the amount of salary sacrificed by the employee. This discretion is subject to the employee meeting the conditions for acceptance into the salary sacrifice shared cost AVC scheme and may be withdrawn or changed at any time.

11. The recommendation (d) to deliver the service through an external provider will require the procurement options to be considered. A detailed requirements specification has been drawn up to ensure that the service provider delivers a comprehensive inclusive service that requires minimal support from council officers.
12. The recommendation advises that the council procure the services of AVC Wise to deliver SCAVCs through a fully managed service, for the reasons set out in the table below. AVC Wise are the only provider in the UK who deliver a fully managed service SCAVCs for LGPS members.

AVC Wise guarantee that the scheme will be legislatively compliant with HMRC and LGPS Regulations.
The fully managed service (FMS) delivers an efficient automated processing platform with workflow to administer SCAVC applications and amendments and includes an NLW/MNW compliance calculator.
AVC Wise provide helpful calculators to explain the cost and benefits of saving SCAVCs towards their retirement.
AVC Wise deliver a comprehensive range of pension webinars to enable staff to be better informed and educated about their LGPS pension and SCAVCs.
The FMS provides the launch and ongoing communication collateral free for employers to make staff aware of the scheme.
The AVC Wise platform provides a full audit trail of all transactional activity including embedding electronic contractual change documentation inside the platform to eliminate internal HR resource.
The FMS provide numerous help options to support staff (telephone helplines, webchat, webinars, 1 to 1 meetings), eliminating the need for employers to support SCAVC enquiries.
AVC Wise improve the member experience of applying for or amending AVCs the processing of SCAVCs through a direct link to the AVC providers
The FMS includes a continual review process to ensure that all supporting scheme documentation is up to date and relevant (FAQs, videos, knowledge hub guidance, calculators etc.).
AVC Wise will deliver employer budget savings to the council from day 1 of launch and will then grow the savings through regular ongoing communication of the SCAVCs to your staff.

13. To deliver the SCAVC service through AVC Wise will require procurement to determine the appropriate route to contract with the service provider.
14. To safeguard any future compliance issues, AVC Wise will ensure that the Shared Cost AVC salary sacrifice scheme complies with the HMRC rules both at the launch date and on an ongoing basis. We will be required to carry out some routine checks to ensure that applications comply with the National Living Wage/National Minimum Wage rules and functionality exists within the AVC Wise platform for these checks to be undertaken.

## **FINANCIAL IMPLICATIONS**

15. The employer NIC savings (after AVC Wise fees) based on the estimated take up of staff that transfer from the existing AVC arrangement to a SCAVC is expected to be £620 in year 1. This saving is expected to grow to £4,719 by year 3 resulting from communication of this new employee pension benefit to staff.

16. The procurement of AVC Wise who have delivered SCAVCs to over 200 public sector bodies provide the assurance that we are appointing an external provider, who has a proven track record of delivering SVAVC services. This included the important assurance that the SCAVC scheme will be compliant with employment and tax law. It also removes the risk of the council having to fund back-office resource to deliver a skilled complex service.
17. The council will save 14.3% on the total amount staff salary sacrifice and after AVC Wise fees of 4.5% this results in an employer net saving of 9.8% as there are no set up fees.

## **RISK ASSESSMENT**

18. There are a number of legal or associated issues with the implementation of the SVAVC scheme.
19. The council must ensure that the AVC Wise portal includes the salary sacrifice agreement to vary the contract of employment to accept the contractual reduction in remuneration for every application or amendment of SCAVCs.
20. AVC Wise must provide the necessary assurances that the scheme will be compliant with the HMRC salary sacrifice regulations and obtain approval.
21. The council's discretionary pensions policy will need to be amended to provide the authority to allow staff to participate in SCAVCs.
22. The scheme documentation will need to state that the SVAVCs contributions are to be treated as a pensionable emolument in accordance with the LGPS regulations (Regulation 20(1)(b) of the 2013 Regulations), to ensure that a member's main scheme benefits are not reduced.
23. The unions will be consulted in line with the usual consultation process.

## **CONCLUSION**

24. The SVAVC scheme will give staff the opportunity to increase their pension benefits in a secure way.
25. The introduction of the scheme would support our strategy to be a modern and attractive employer by offering a significant financial benefit beyond the standard AVC arrangement. It will also act as a recruitment and retention tool.

**Appendices:** Appendix 1 – Employer and Employee Savings Tables

**Reference Papers:** Report to the Licencing and Regulatory Committee on 8 July 2014 - Policy Statements Relating to the LGPS 2014 Regulations

## **Enquiries:**

For further information on this report please contact Neil Wood. (01329 824506)

## Employer and Employee Savings Tables

**Shared Cost AVC Employer Estimated NIC Savings table**

The estimated savings are calculated using the following information

	Year 1	Year 3
Number of LGPS members	409	409
Number of current standard AVC members (less 10%*)	6	20
Total AVC paid pm	£533	£4,034
Total AVC per year	£6,403	£48,408
Average AVC per month (existing members remain on current AVC amount, new members pay £250 pm)	£89	£202
% take up	1.47%	5%
Savings	Year 1	Year 3
Estimated gross employer NIC and apprenticeship levy savings (14.3%)	£905	£6,887
Less FMS fees (4.5%)	£285	£2,168
Estimated net savings	£620	£4,719

**Shared Cost AVC Employee Savings Tables**

Table 1.

Employee pays £250 per month into a SCAVC and pays basic rate (20%) income tax and national insurance

	<u>Per month</u>	<u>Per year</u>
AVC amount	£250.00	£3,000.00
Cost to employee	£170.12	£2,041.44
Tax/NIC saving	£79.88	£958.56
% growth on cost to employee	46.96%	46.96%
In this example after only 12 months the employee has saved £958 through the tax system (i.e. it has cost only £2,041 to grow the savings into £3,000).		

Table 2.

Employee pays £250 per month into a SCAVC and pays higher rate (40%) income tax and national insurance

	<u>Per month</u>	<u>Per year</u>
AVC amount	£250.00	£3,000.00
Cost to employee	£145.02	£1,740.24
Tax/NIC saving	£104.98	£1,259.76
% growth on cost to employee	72.39%	72.39%
In this example after only 12 months the employee has saved £1,259 through the tax system (i.e. it has cost only £1,740 to grow the savings into £3,000).		