
NON EXEMPT

HAVANT BOROUGH COUNCIL

HR COMMITTEE

Introduction of Shared Cost AVC Scheme to LGPS members

FOR DECISION.

Portfolio Holder: Cllr Tony Denton

Key Decision: No

Report number: HBC/122/2023

1. Purpose

- 1.1. This paper is submitted to the HR Committee for decision to implement a Shared Cost Additional Voluntary Contributions (SCAVC) scheme for Havant Borough Council Local Government Pension Scheme (LGPS) members.
- 1.2. SCAVC schemes have been widely introduced across the UK with over 150 councils already delivering this key staff benefit including locally Hampshire County Council, Portsmouth and Southampton City Councils.

2. Recommendation

- 2.1. HR Committee are recommended:
 - To approve the implementation of a SCAVC pension scheme for LGPS members through a salary sacrifice arrangement.
 - To approve 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. Section 3.5 below for further details.
 - To approve the inclusion of a new discretion in the Council's LGPS Discretionary Pension Policy Statement to allow staff to participate in the SCAVC scheme as set out in Section 3.6 below.

- To approve entering into a contract with AVC Wise to deliver a fully managed service covering SCAVCs for the council. See Section 3.7 below.

3. Executive Summary

- 3.1 LGPS members are permitted to contribute to Standard AVCs and receive tax relief on their contributions through their payslip. AVCs are a long-term pension savings plan that run alongside the main LGPS scheme and 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 saved 100% tax free in most cases.
- 3.2. 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 will not change with the introduction of a SCAVC scheme.
- 3.3. The LGPS and HMRC regulations allow employers to introduce a SCAVC scheme. The advantages of implementing the SCAVC arrangement 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 savings are shown at appendix 1.
- 3.4. To ensure that the SCAVC is compliant with the LGPS/HMRC regulations, the SCAVC 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 SCAVC plan, this is not the case. The employee accepts a contractual reduction in remuneration (a salary sacrifice), equivalent to the amount of SCAVC's 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 a payslip deduction. It may be helpful to note that the members main LGPS benefits are not affected by electing to join SCAVCs.
- 3.5 The second recommendation above, covers the treatment of earnings-related payments for staff who apply for SCAVCs. It is critical that the SCAVC scheme does not affect future earnings due to the salary sacrifice reduction, as this would be counter-productive to implementing a scheme. To avoid this, all councils 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.

- 3.6 The third recommendation above covers the requirement to amend and publish the council's LGPS Discretionary Pension Policy Statement. This is purely an administrative procedure, and the proposed new discretion is shown in the table below.

Additional Voluntary Contributions		
Whether how much and what circumstances to contribute to an AVC scheme	R17 (1)	HBC 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.

- 3.7 The fourth recommendation above, 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.

It guarantees that the scheme will be legislatively compliant with HMRC and LGPS Regulations.
It delivers an efficient automated processing platform with workflow to administer SCAVC applications and scheme amendments including NLW/MNW compliance checks.
It provides accurate calculators to help staff understand the benefits of saving towards their retirement.
It delivers a comprehensive range of pension webinars to enable staff to be better informed and educated about their LGPS pension and SCAVCs.
It provides the launch and ongoing communication collateral to make staff aware of the scheme.
It provides a full audit trail of all transactional activity including embedding electronic contractual change documentation to eliminate internal HR resource.
It provides several help options to support staff (telephone helplines, webchat, webinars, 1 to 1 meetings).
It improves the processing of SCAVCs through a direct link to the AVC providers

It 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.).
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It will deliver additional savings to the council through launch and ongoing communication of the SCAVCs to staff.
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3.8 The key reasons to implement a SCAVC scheme are:

- Staff will have access to a new financial well-being benefit that provides significantly improved retirement benefit outcomes
- The introduction of this employee benefit will improve recruitment and retention
- There is no set up fee, minimal resources are required to implement the scheme and ongoing resource to approve applications is also minimal
- Staff who contribute to a SCAVC scheme will pay lower national insurance contributions (NICs). For most staff this will result in a saving of 13.25%
- Staff will continue to receive income tax relief on their SCAVC contributions
- The combined tax and NIC saving guarantees a growth of over 49% for basic rate taxpayers and over 76% for higher rate taxpayers. See the example in the table in Appendix 1 below.
- The introduction of a SCAVC will have no effect on the main LGPS benefits
- The council will make savings in employer NICs and apprenticeship levy of £1,955 in year 1, with an estimated growth to £8,439 by year 3. See Appendix 1 for details.
- Staff will have access to a wide range of pension webinars and the option of individual pension meetings.

3.9 The recommendation to deliver the SCAVC service through AVC Wise will require procurement to determine the appropriate route to contract with the service provider.

3.10 To safeguard any future compliance issues, the Shared Cost AVC scheme will require HMRC approval prior to launch. This has been successfully achieved by all councils who have gone live. The council will also be required to carry out some routine checks to ensure that any 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.

4. Additional Budgetary Implications

- 4.1. The council's payroll system will need a minor amendment to build a new payroll element for the salary sacrifice deduction to be funded if necessary, by the year 1 savings of just over 2K (See Appendix 1)

5. Background and relationship to Corporate Strategy and/or Business Plans

- 5.1. The introduction of the scheme would support the Councils' strategy to be a modern and attractive local government employer offering a significant financial benefit beyond standard LGPS pension.

6. Options Considered

N/A

7. Resource Implications

- 7.1. Financial Implications

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 £1,955 in year 1. This saving is expected to grow to £8,439 by year 3 as a result of widespread communication of this new employee pension benefit to staff. 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 SCAVC services. This includes the important assurance that the councils 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. The council will save 14.3% on the total amount staff salary sacrifice less AVC wise fees of 4.5% resulting in a net saving of 9.8%. There are no set up fees.

S151 Officer comments

Date: 22 December 2022

The implementation of the scheme carries no financial risk to the authority and, over time, will attract low level financial savings through reduced employer NI contributions. Any associated management and/or operational costs of facilitating the scheme will be fully funded through respective savings generated.

7.2. Human Resources Implications

A preliminary or full equality impact assessment is not required as this report does not result in any equality issues.

7.3. Information Governance Implications

None identified.

Other resource implications

There will be a requirement for communications support to implement the policy across the Councils.

7.4. Climate and Environment Implications

No associated impacts

7.5. Other Resources Implications

None

8. Legal Implications

8.1. There are a number of legal or associated issues associated with the implementation of a SCAVC scheme.

8.2. 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.

8.3. AVC Wise must provide the necessary assurances that the scheme will be compliant with the HMRC salary sacrifice regulations and seek approval as such.

8.4. The council's discretionary pensions policy will need to be amended and published to provide the authority to allow staff to enter into SCAVCs as one of our discretions.

8.5. The scheme documentation will need to state that the SCAVCs 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.

Monitoring Officer comments

The HR Committee has constitutional responsibility to adopt policy in respect of staff pay, pensions and other terms and conditions of employment (paragraph 2.4.2 of Section E6 of Part 2). The recommendations in this report will also satisfy the requirement in the LGPS Regulations and Discretionary Compensation Regulations to formulate, review and publish the Council's Discretionary Policy Statement.

23rd December 2022

9. Risks and Mitigation

10. Consultation

10.1. Unison have been consulted in line with the usual consultation processes.

11. Communication

11.1. The introduction will be communicated to all members of staff via internal channels.

12. Appendices

Appendix 1 – Shared Cost AVC Employer and Employee Savings table

13. Background papers

13.1. None

Agreed and signed off by:

Portfolio Holder: Cllr. Tony Denton, 1 November 2022

Executive Head: Matt Goodwin, 7 December 2022

Monitoring Officer: Mark Watkins, 23 December 2022

Section 151 Officer: Malcolm Coe, 22 December 2022

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Appendix 1 – Employer and Employee Savings Tables

Shared Cost AVC Employer Estimated NIC Savings table

The estimated savings are calculated using the following data

	Year 1	Year 2	Year 3			
Number of LGPS members	243	243	243			
Number of current standard AVC members (less 10%*)	6	12	24			
Total AVC paid pm	£1,668	£3,600	£7,200			
Total AVC per year	£20,020	£43,200	£86,400			
Average AVC per month	£278pm	£300	£300			
% take up	2.53%	5.19%	10%			
* It is estimated that 10% of staff will stay in the current standard AVC						
	Standard AVC			Shared Cost AVC Scheme		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Estimated gross employer NIC and apprenticeship levy savings (14.30%)	Nil	Nil	Nil	£2,853	£6,157	£12,314
Less FMS fees (4.5%)	Nil	Nil	Nil	£898	£1,938	£3,875
Estimated net savings	Nil	Nil	Nil	£1,955	£4,219	£8,439

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 every £1 saved	46.96%	46.96%

In this example after only 12 months the employee has saved nearly £960 through the tax system (it has cost the employee £2,041 to grow their AVC 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	£141.91	£1,702.92
Tax/NIC saving	£108.09	£1,297.08
% growth on every £1 saved	76.17%	76.17%

In this example after only 12 months the employee has saved nearly £1,300 through the tax system (it has cost the employee £1,702 to grow their AVC into £3,000).