

**COMMITTEE:** ADMINISTRATION AND REGULATION COMMITTEE

**DATE:** 4<sup>TH</sup> NOVEMBER 2019

**SUBJECT:** SHARED COST ADDITIONAL VOLUNTARY CONTRIBUTION SCHEME – AMENDMENT TO PENSIONS DISCRETIONS

**REPORT BY:** SERVICE DIRECTOR, HR AND MONITORING OFFICER

**CONTACT OFFICER:** HELEN GINTY, TEAM MANAGER (POLICY & REWARD)  
01582 548294

**IMPLICATIONS:**

LEGAL	✓	COMMUNITY SAFETY	
EQUALITIES	✓	ENVIRONMENT	
FINANCIAL	✓	CONSULTATIONS	✓
STAFFING	✓	OTHER	

**WARDS AFFECTED: NONE**

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**PURPOSE**

1. The purpose of this report is to seek Members' approval to amend the council's pension discretions to enable the council to offer a shared cost additional voluntary contribution scheme for the benefit of employees and the council.

**RECOMMENDATION**

2. **Administration and Regulation Committee is recommended to approve the pension discretions as amended with immediate effect.**

**BACKGROUND**

3. For individuals who pay tax, making Additional Voluntary Contributions (AVC's) into a pension scheme can generate tax savings. This is because regular

contributions are taken from pay before tax. Consequently, AVC schemes are considered a tax efficient way to save towards retirement alongside occupational pension schemes.

4. Due to the rising costs of salary sacrifice schemes to the Exchequer, in the 2016 budget the government announced that it would significantly reduce the range of benefits that attract income tax and National Insurance contributions advantages when provided as part of a salary sacrifice arrangement.
5. However, the government stated its intention to exclude a number of benefits in kind from its policy because it wished to encourage employers to provide these benefits to employees. One of the benefit exemptions was for employer provided pension contributions.
6. Where an employee opts to pay Additional Voluntary Contributions (AVCs) under Local Government Pension Scheme (LGPS) regulations, the employer can also decide to contribute to that employee's AVC arrangement. This is called a shared cost AVC scheme (SCAVC).
7. SCAVC schemes can be operated on a salary sacrifice arrangement.

## **REPORT**

8. To illustrate how this could work in the council. An employee would agree with the council to reduce their pay in return for the same amount (minus £1) of SCAVC payments. As a result the employees earnings are lowered which means that the employee pays less tax and NI. The council pays the pay the employee has sacrificed into their SCAVC pension pot. Employees are required to make a personal payment of £1 each time a saving is made into their SCAVC pot. This is taken from their pay and the employee will normally make tax, but not NI, savings on this personal payment.
9. An illustrative example of how the scheme works in comparison to standard AVCs is shown below. This assumes an employee earning £30,000 per annum who wishes to make a regular monthly AVC of £250 per month (£3,000 per year).

	Without AVC	With standard AVC	With SCAVC
Gross monthly pay (before main LGPS contributions)	£2,500	£2,500	£2,251
LGPS contribution	£162.50	£162.50	£162.50
Employee AVC contribution	£0	£250	£1
Employer AVC contribution	£0	n/a	£249
Total AVC contribution	n/a	£250	£250
Income tax	£275.83	£225.83	£225.83
National Insurance	£218.36	£218.36	£188.48
Monthly pay after tax	£1,843.31	£1,643.31	£1,673.19

Savings to employee		£50 (tax)	£79.88 (tax+NI)
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10. This is an optional scheme, and whilst for the vast majority of employees who wish to make AVCs it will provide savings, there are a minority for whom this scheme may not be attractive. Employees over the state pension age do not make NI contributions and therefore this scheme would not benefit them over a standard AVC arrangement. Similarly, the benefits in the table above may not be applicable to a small number of higher earning employees who are close to their annual pension allowance.
11. Currently Bedfordshire pension scheme utilise Prudential for their AVCs and this would remain the same. The SCAVC scheme changes only the way the AVC contributions are collected.
12. This scheme would only be open to LGPS members. It will not apply to TPS or NHS pension scheme members.
13. There is no impact on the main pension benefits of the employee as the contributions continue to be made on the full notional salary pre AVC salary sacrifice. There is a requirement to amend contracts of employment to specify that the contribution that the council makes to the SCAVC would be a pensionable emolument, and this would form part of the scheme administration.
14. There is no limit to the amount that an employee can pay into such a scheme, however, salary sacrifice payments should not cause employees pay to fall below the national living wage and safeguards are built into the system to prevent this from happening.
15. Despite the aging profile of the council workforce and the fact that AVC's currently attract tax relief, only 1.5% of the council's LGPS members made AVCs in the last financial year. This equates to 38 employees.
16. The savings to the council will depend on the take up of SCAVCs and /or on the number of employees who currently have AVCs who opt to move over to SCAVCs. For illustrative purposes, assuming 90% of the current AVC members transfer to a SCAVC arrangement, the council can expect to achieve an annual saving of £20,420 before charges, based on 14.3% employer saving (employer NI contribution plus apprenticeship levy). Any promotion of the AVC scheme could potentially increase this figure.
17. We would be seeking the support of a specialist external company to support the introduction and running of this scheme.
18. Based on the experience of other councils who have introduced a SCAVC scheme, and with a marketing and communications effort to launch the scheme, the take up is expected to increase to 10% (245 members) or above over a 3-year period. If this was the case, using an estimation of average AVC values, the

council could achieve annual savings of around £92,835 before charges, £63,835 net. If employees opted to reinvest the money saved from their NI contributions into their AVC plans then this figure could increase further.

19. The anticipated charges for running this scheme with take up as set out in 18 above, would be in the region of £29,000 (approx. 4.5% of the salary sacrificed under the scheme). Suppliers are not charging a minimum fee therefore, if there was no take up for the scheme, there would be no fee.
20. As the total employer NI contribution and apprenticeship levy saving is 14.3% of the salary sacrificed, the cost of introducing, implementing and administering the scheme can be met comfortably from these savings, leaving the council with a net saving. In the example at para 18, the net saving to the council after charges would be in the region of £63,835. The net savings in year 1 and 2 may be lower and would depend how soon employees sign up to the scheme. Not all of the savings will relate to the General Fund as the Council also has employees funded through HRA,, DSG and Public Health grant.
21. In order to introduce a SCAVC scheme, the council's pension discretions need to be amended and approved. Proposed wording shown at appendix 1.

### **LEGAL IMPLICATIONS**

22. This scheme can only operate if the council's pension discretions are amended to permit a SCAVC scheme. This report has been agreed with Jasbir Josen Senior Solicitor on 9<sup>th</sup> October 2019.

### **FINANCIAL IMPLICATIONS**

23. There is the potential for both employees and the council to make savings as a direct result of this scheme. The amount of savings will be determined by the take up.
24. Dev Gopal, Service Director, Finance and Audit agreed this report on 9<sup>th</sup> October 2019.

### **STAFFING IMPLICATIONS**

25. This is a voluntary scheme. There is no impact on employees apart from as advised within the report.
26. Angela Claridge, Service Director, Human Resources and Monitoring Officer agreed this report on 16 October 2019.

### **EQUALITIES IMPLICATIONS**

27. Following consultation with the Social Justice Unit, it has been confirmed this proposal will have a positive impact for all members of staff who wish to take

advantage of the scheme. An IIA will not be required for this report. Signed off by Maureen Drummond, Cohesion and Equalities Adviser, 11 October 2019.

### **CONSULTATION ARRANGEMENTS**

- 28 The Trade Unions have been fully sighted on the detail of the scheme; they have not raised any objections or concerns.
- 29 Bedfordshire Pensions have consulted on the additional wording within the pension discretions and have not raised any issues or concerns.
- 30. CLMT have been consulted and agreed the proposals set out in this report.

### **APPENDIX**

Appendix 1 – Luton Council's Pension Discretions

### **LIST OF BACKGROUND PAPERS**

None

### **LOCAL GOVERNMENT ACT 1972, SECTION 100D**

None