

NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

PERSONNEL COMMITTEE

16th October 2017

REPORT OF THE HEAD OF FINANCIAL SERVICES – D Rees

MATTER FOR DECISION

WARDS AFFECTED

All

SHARED COST ADDITIONAL VOLUNTARY CONTRIBUTION SCHEME

Purpose of Report

1. This report seeks approval to implement a shared cost salary sacrifice scheme for additional voluntary contributions (SSAVC) as part of the Local Government Pension Scheme (LGPS) arrangements.

Background

2. Currently, staff who join the LGPS have the option to contribute an element of their pay as an additional voluntary contribution (AVC). This long term saving plan is offered by an independent insurance company and runs alongside the LGPS. AVC's are deducted directly from pay and currently attract tax relief. They allow staff to build up a capital sum for their retirement.
3. The Council has recently identified that the scope exists to implement a shared cost salary sacrifice additional voluntary contribution scheme, continuing with the current AVC providers, Prudential.
4. The advantage of such a scheme is that, in addition to the tax relief that is currently received, the employee will pay a lower national insurance contribution. The Council benefits as it will reduce the cost of the employer's national insurance contributions.

Shared Cost Additional Voluntary Contribution Scheme

5. To comply with the LGPS the salary sacrifice AVC scheme must demonstrate that the employee and employer contribute to the scheme. Operationally, this means that the employee agrees to a contractual reduction in salary and the Council contributes this amount into the shared cost SSAVC plan on their behalf. The employee also has to pay a nominal £1 a month into the SSAVC fund via a payroll deduction.

6. To ensure that the introduction of an SSAVC scheme attracts staff and results in reduced costs for the Council, it is proposed that earnings related payments such as overtime, pay awards and redundancy are calculated on the notional full salary. In addition, it is proposed that the LGPS pensionable pay is not affected as without this being specified it could significantly reduce retirement benefits and act as a disincentive to staff joining the scheme.
7. These changes would also mean that the current Local Government Pension Scheme Discretions Policy approved in September 2014 needs amendment and publication to give the Council the discretion to implement a shared cost SSAVC. The proposed changes are:

New discretion	Neath Port Talbot CBC will exercise the discretion to allow LGPS scheme members to contribute to a shared cost salary sacrifice additional voluntary contribution scheme.
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8. There are a range of reasons for implementing a shared cost SSAVC and these include:
 - The Council will see a reduction of 13.8% in employer national insurance contributions on the total value of any SSAVCs.
 - Staff joining the SSAVC scheme will see a reduction in national insurance contributions and this will be an incentive towards saving towards a pension for both existing and new contributors. This saving is at 12% for most employees, with the saving falling to 2% for salary payments greater than £45,000.
 - Joining the scheme does not have a detrimental effect on staff pay or main pension benefits providing this is clearly stated as part of the development of the scheme.
 - The arrangements with the Swansea Pension Fund dealing with beneficiary information and coordinating the payment of AVCs will not change, even though this is an SSAVC scheme.

Scheme implementation

9. To ensure that there is a successful SSAVC implementation, we will need to communicate the changes effectively to all the existing 439 LGPS AVC contributors. This will be achieved by direct correspondence, presentations and intranet content. It is proposed that the scheme will be designed with an automatic opt in to the new arrangements, though the contributors will be asked for their preference before implementation.

10. Any scheme must be implemented with care to ensure that the documentation is HMRC compliant. The Council's tax advisor has successfully supported one English authority through this process and ensured that the scheme and its documentation are HMRC compliant. This is extremely important, with failure to achieve this compliance resulting in the savings made for employees and employers failing due for repayment, along with interest and penalty charges.
11. As HMRC will not approve a salary sacrifice scheme until it is live, the scheme would be initially implemented for a single staff member. This would minimise the risk to the Council of incurring costs. Once the scheme is approved it can be rolled out throughout the Council, starting with those who are already contributing to AVCs.
12. This new SSAVC will introduce some additional checks for Payroll as a salary sacrifice arrangement cannot reduce an employee's cash earnings below the National Minimum Wage. This is unlikely to have a significant effect on staff members currently contributing to AVCs.

Financial Impact

13. The fixed fee agreed with the Council's tax advisor for the design of the scheme, negotiations with our investment provider and applying for HMRC clearance is £6,750, which will be funded from the existing budget position. Set against this is the potential to reduce the Council's costs. Assuming that 90% of the current contributors to AVC switch to this more beneficial scheme, savings of £70,000 can be made each year. It is anticipated that this option will be attractive as current AVC contributors will see an increase in their take home pay as demonstrated by the example in Appendix 1.
14. Once the SSAVC scheme is marketed and further employees join the scheme, the savings will increase.

Equality Impact Assessment

15. This proposal does not result in any equality issues, so there is no requirement for an equality impact assessment in respect of this item.

Workforce impacts

16. This scheme will provide a benefit to workforce members who are part of the LGPS.

Legal Impacts

17. There are significant legal requirements in respect of this item which can be addressed by working with our advisor and confirming HMRC approval before rolling out the scheme.

Risk Management

18. This report includes plans to mitigate the risks that arise during the introduction of the SSAVC scheme.

Consultation

19. There is no requirement under the Constitution for external consultation on this item.

Recommendation

20. It is recommended that Members:
- Confirm the scheme is developed on the basis that earnings related payments such as overtime, pay awards and redundancy are calculated on the notional full salary. Also, that the scheme includes provision for the LGPS pensionable pay to be unaffected as part of the introduction of the arrangements.
 - Approve arrangements to amend and publish the Council's discretionary policy as updated for the new discretion to allow shared cost AVC.
21. The following recommendation will be presented to Policy and Resources Cabinet Board on 1st November 2017.
22. It is recommended that members agree that the Council commission its tax advisor PSTAX to support the development and implementation of a shared cost salary sacrifice additional voluntary contribution scheme on a fixed cost basis of £6,750, to be funded from the existing budget position.
- ## **Reasons for Proposed Decision**
23. To introduce a shared cost salary sacrifice additional voluntary contribution scheme to reduce the Council's costs and provide a benefit to employees who are members of the Local Government Pension Scheme.

Implementation of Decision

- 24.** The decision is proposed for implementation after the three day call in period

Appendices

- 25.** Appendix 1- Additional Voluntary Contributions

List of Background Papers

Local Government Pension Tax Regulations

PSTAX newsletter – AVC Wise

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Additional Voluntary Contributions

Current AVC Scheme

Alex earns £25,000 and contributes £3,000 a year by regularly monthly deductions from pay of £250.

This means that for tax purposes the pay is £25,000 less £3,000 = £22,000.

The pay for National Insurance is £25,000.

The pay for the Local Government Pension Scheme is £25,000

Shared Cost Salary Sacrifice Scheme

Alex agrees that the Council contributes £3,000 a year into the SSAVC fund.

This means that for tax purposes the pay is £25,000 less £3,000 = £22,000.

The pay for National Insurance is also reduced to £22,000.

The notional full pay for the LGPS remains at £25,000.

Alex pays the required £1 a month into the SSAVC fund to meet the legislative requirements.

The effect on take home pay and the saving available to the Council are as follows:

	Current AVC	New SSAVC
Annual pay	£25,000	£22,000
AVC	-£3,000	-£12
LGPS	-£1,625	-£1,625
Income tax	-£1,775	-£1,775
National insurance	-£2,021	-£1,661
Net pay per year	£16,579	£16,927

Alex's take home pay per year increases by £348.

The Council saves national insurance of £414 each year.