

Meeting of:	<b>Cabinet</b>
Date of Meeting:	<b>Thursday, 01 December 2022</b>
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Shared Cost Additional Voluntary Contributions scheme (AVC's)
Purpose of Report:	To request an amendment to the Pension discretions to allow for the introduction of a Shared Costs AVC scheme
Report Owner:	Executive Leader and Cabinet Member Performance and Resources
Responsible Officer:	Head of Human Resources and Organisational Development
Elected Member and Officer Consultation:	Sarah Jeanes - Payroll Manager Matt Bowmer - s151 Officer/Head of Finance Tom Bowring - Head of Policy and Business Transformation
Policy Framework:	This is a matter for Executive decision by Cabinet .
Executive Summary:	<ul style="list-style-type: none"> <li>To request an amendment to the Pensions discretions to allow for the introduction of a Shared Cost Additional Voluntary Contributions (AVC) scheme. The standard AVC scheme is run by Prudential, who have confirmed this can now be extended to the shared cost scheme.</li> </ul>

## **Recommendations**

1. That Cabinet approves the adoption of the Shared Cost Additional Voluntary Contributions (AVC) Scheme to enable employees who are LGPS members to apply for a salary sacrifice AVC subject to meeting the scheme criteria.
2. That Cabinet approves the amendment of the Local Government Pension Scheme Review of Discretionary Powers under the LGPS Regulations 2014 (attached at Appendix A).
3. That Cabinet approves that Contract Standing Orders are waived to enable the award of the contract to AVC Wise for a period of 3 years.
4. That Cabinet authorises the Monitoring Officer/Head of Legal and Democratic Services to execute the contract with AVC Wise.

## **Reasons for Recommendations**

1. Approving the adoption of the scheme would be a significant benefit for Councillors and staff who are members of the LGPS and would also result in large savings in National Insurance for the Council.
2. To ensure the policy is up to date.
3. To enable the direct award of contract to AVC Wise.
4. To execute the agreed contract.

## **1. Background**

- 1.1 The current discretions have been in place since the review of the discretionary powers in LGPS Regulations in 2014, at which time the approved AVC provider for Cardiff and Vale pension scheme, Prudential did not facilitate this option.
- 1.2 A Shared Cost AVC is a salary sacrifice scheme which enables the employer to save on National Insurance Contributions (NICs) and Apprenticeship Levy (where applicable) on the total amount of salary sacrifice. Employees will also make Income Tax and NIC savings when they join the Shared Cost AVC scheme making it beneficial for all parties.
- 1.3 An AVC is a means for employees to top up their retirement pot and can be accessed from the age of 55.

## **2. Key Issues for Consideration**

- 2.1 Should the Council consider amending the discretions, shared AVC's would be available to staff who are members of the LGPS, currently 3,877 employees.
- 2.2 The Council will pay Shared Costs AVC contribution where an employee has elected to pay AVC's through salary sacrifice. This is a Council discretion which is

subject to the employee meeting the Council's conditions for acceptance in the salary sacrifice shared costs AVC scheme and may be withdrawn at any time.

- 2.3 There is no limit on the amount that can be contributed however as a salary sacrifice scheme staff would not be permitted to sacrifice an amount which would leave their salary below the National Minimum Wage.
- 2.4 There are currently 52 members of staff who have an AVC, the majority of these staff will automatically transfer and then have the option of opting out of the shared cost AVC. Those who already contribute an amount that would result in their salary falling below the minimum wage and staff who are contributing £2 or less per month to the standard AVC would not be able to transfer to the Shared Cost Scheme.
- 2.5 There is currently only one known supplier for this platform which enables Local Authorities to introduce a Salary Sacrifice Shared cost arrangement. A tendering exercise was carried out in 2019 and only AVC Wise responded, it is therefore proposed that the Council work with AVC Wise to deliver this benefit to staff.
- 2.6 AVC Wise would provide a fully managed solution including a website, online applications, support, marketing, administration, advice and ensure that the Council is operating within HMRC guidelines as well as obtaining HMRC approval to commence the scheme.
- 2.7 There is a buy in contract period of 36 months thereafter the professional fees will continue to apply for the duration the Council continues to use the managed solution.
- 2.8 Presentations/Webinars inviting staff to understand the scheme will be run by AVC Wise.
- 2.9 The provider of the AVC will continue to be Prudential who have confirmed their support for the scheme.

### **3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?**

- 3.1 Long term - the proposals will reduce HMRC employer liability costs for the Council, the greater the number of staff who join, the greater the savings will be.
- 3.2 Involvement - by planning for the future to be financially secure in retirement, this will ease anxiety, and provide added financial security.

### **4. Climate Change and Nature Implications**

- 4.1 There are no climate change or nature implications with the content of this report.

## **5. Resources and Legal Considerations**

### **Financial**

- 5.1** The saving for the Council is up to 15.55% of employer contributions – 13.8% in Employers' NI contributions, 1.25% Health and Social Care levy, and 0.5% apprenticeship levy.
- 5.2** AVC Wise will charge 4.5% of the salary sacrifice as a fee which will be deducted from savings made.
- 5.3** The Council can expect an immediate saving of around £24,317 based on the 15.55% savings. This is based on the current 3,877 LGPS members, of which 52 employees are already paying AVCs (1.3%) with an annual current value of £14,480 per month. The £24,317 assumes 90% of the Current AVC members transfer to the salary sacrifice Shared Cost AVC arrangement.
- 5.4** Based on activity in other councils and following a concerted marketing and staff communication campaign, AVC Wise predict a take up of a minimum of 7.5% (291) members. By applying the £250 average Shared Cost AVC value the potential savings for the Council be circa £126,636.

### **Employment**

- 5.5** As this is a salary sacrifice scheme this would entail an amendment to terms and conditions of employment due to the voluntary reduction in salary.
- 5.6** Other than the introduction of the Shared Cost AVC scheme the introduction of the LGPS Discretions policy will not impact on employees across the Council as the reflect operational arrangements already in place.
- 5.7** Consultation with the Trade Unions have taken place and they are in full agreement with the introduction of the Shared Costs (Salary Sacrifice) scheme.

### **Legal (Including Equalities)**

- 5.8** This report complies with the LGPS and HMRC guidelines. The new policy will satisfy the requirements of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 to formulate, publish and keep under review the policy that it applies in the exercise of its discretionary power. Should the Council agree to amend the policy a statement will be published with the amended policy and may not be effective until one month from the date of publication.
- 5.9** In formulating and reviewing its policy the Council must also under the regulations have regard to the extent to which the exercise of its discretionary powers (in accordance with the policy) unless properly limited, could lead to a serious loss of confidence in the public services and be satisfied that the policy is workable, affordable and reasonable having regard to the foreseeable costs.
- 5.10** At present this option is only available to staff in the LGPS and therefore staff who are in the Teacher's pension scheme are not eligible to apply.

## **6. Background Papers**

Current LGPS discretions.

**Local Government Pension Scheme Review of Discretionary Powers under  
the LGPS Regulations 2014**

<b>Discretion</b>	<b>Existing Policy</b>
<p><b>1. On request retirement</b> An employee aged 55 or over with two or more years of pensionable membership may request retirement with immediate payment of benefits.</p> <p>Under the 2014 scheme, employer's consent is no longer required if aged between 55 and up to 60. A number of employees are protected from actuarial reductions by the 85 year rule -where age and service in full years add up to 85.</p> <p>Pensions paid under these circumstances may be subject to a reduction depending on the total pensionable membership accrued. The employer may waive the reduction on compassionate grounds.</p>	<p>No automatic "switching on" of the 85 year rule for retirement under the age of 60.</p> <p>Otherwise, each case to be considered on its own merits by the ER/R Committee taking account of :-</p> <ul style="list-style-type: none"> <li>• The financial viability of the case;</li> <li>• The effect on Council services;</li> <li>• Any compassionate ground which could justify waiving the actuarial reduction.</li> </ul>
<p><b>2. Waiving Actuarial Reductions</b> From April 2014, an employer has the power to waive actuarial reduction of LGPS benefits on any grounds although for employees qualifying under the 85 year rule, some parts of the pension may only be waived on compassionate grounds.</p>	<p>Restricted to compassionate grounds only as part of the consideration of the merits of the individual case by the Early Retirement / Redundancy Committee.</p>
<p><b>3. Augmentation</b> Augmentation is the power that employers have to award extra periods of LGPS membership totalling up to 10 years at any time during an employees' pensionable membership.</p>	<p>No augmentation scheme should be introduced.</p>
<p><b>4. Additional Pension</b> Employers have the power to award additional pension of up to £5,000 per year payable from the date pension is payable under any other provision in the regulations.</p>	<p>No awards of additional pension should be made.</p>
<p><b>5. Shared Cost Additional Voluntary Contribution (AVC) schemes</b> The employer has the discretion to contribute towards the AVC scheme which operates in the same way as the standard employee schemes.</p>	<p>No shared cost AVC scheme should be introduced.</p>

**Local Government Pension Scheme Review of Discretionary Powers under  
the LGPS Regulations 2014**

<p><b>6. Shared Cost Additional Pension Contribution (APC) schemes</b> Employees can choose to make Additional Pension Contributions. There is an option for the employer to share the costs.</p>	<p>The Council will pay SCAVC contributions where an employee has elected to pay AVCs by salary sacrifice. The amount of these employer SCAVC contributions will not exceed the amount of salary sacrificed by the employee. This is a Council discretion which is subject to the employee meeting the Council's conditions for acceptance into the salary sacrifice shared cost AVC scheme and may be withdrawn or changed at any time".</p>
<p><b>7.Flexible retirement</b> The regulations allow flexible retirement where staff aged between 55 and up to 75 may receive their pension and continue in employment. This would require a reduction to working hours or grade. The pension benefits paid would be reduced but the employer has the discretion to waive the reduction by making a payment into the pension fund.</p>	<p>Determined by ER/R Committee on a case-by-case basis in line with regulations. Applications for flexible retirement will only be considered where there is a financial or operational benefit to the Council; Applications for flexible retirement will be considered on the basis of the individual merit; Applications must result in a reduction of hours worked of at least 40% or a reduction in salary/grade of at least 40% or a combination of hours/salary/grade leading to a reduction of at least 40% in employment costs. Reductions to grade as a result of job evaluation would not be eligible. Applications must be supported by the Directorate, with a full business case outlining all operational and financial issues; The business case would require the approval of the Head of HR and Head of Finance plus the Managing Director in the case of applications from Chief Officers.</p>
<p><b>8.Suspension of compensatory pension on remarriage</b> The Council has the discretion to suspend either a widow's or widower's pension of a person who ceased employment prior to 1 April 1998 and who remarries or co-habits after that date.</p>	<p>Suspension rules should not apply to those who ceased employment prior to 1 April 1998.</p>

**Local Government Pension Scheme Review of Discretionary Powers under  
the LGPS Regulations 2014**

<p><b>9. The power to grant lump sum compensation of up to 104 weeks.</b> The Council has the discretion to pay up to a maximum of 104 weeks pay to eligible employees. Decisions on eligibility for voluntary redundancy and access to enhanced redundancy payments and / or retirement benefits and severance on grounds of efficiency of the service need to be based on criteria which properly reflect the interests of the Council balanced with the interests and aspirations of staff who may wish to leave. These payments are inclusive of any payments allowed under the statutory redundancy provisions.</p>	<p>In respect of redundancy, to award the number of weeks payable in accordance with the statutory redundancy table with the application of a factor of 1.7. – i.e. maximum 49.5 weeks with cap of £30,000. In respect of efficiency, to award the number of weeks payable in accordance with the statutory redundancy table with the application of a factor of 1.0. – i.e. maximum 30 weeks with cap of £20,000. In determining lump sum severance payments each case is considered on its own merits taking account of :-</p> <ul style="list-style-type: none"><li>• Operational service issues;</li><li>• The financial viability of the case;</li><li>• Whether redeployment is an alternative</li></ul>
<p><b>10. The power to increase a statutory redundancy payment</b> The Council has the discretion to increase the statutory redundancy payment by applying up to an actual weeks pay instead of restricting to current statutory maximum.</p>	<p>Voluntary redundancy payments to be based on actual weeks pay. A ceiling of £30,000 to be applied to redundancy payments.</p>