

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Employment in Hampshire County Council
Date:	13 March 2019
Title:	Shared Cost Additional Voluntary Contribution Scheme
Report From:	Director of Corporate Resources

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1. Recommendations

- 1.1 That EHCC approve the proposal outlined in this report to set up and implement a SCAVC scheme with the AVC provider Prudential for LGPS members.
- 1.2 That EHCC agree that amendments are to be made to the statement of particulars for any employee who joins the SCAVC plan. These amendments will state that the AVC contributions are considered to be a pensionable emolument and therefore will not affect LGPS pensionable pay.

2. Executive Summary

- 2.1 This paper provides information regarding a Shared Cost Additional Voluntary Contribution Scheme.
- 2.2 The paper includes the benefits of the scheme and details of how it would be implemented for Hampshire County Council employees that are members of the Local Government Pension Scheme.

3. Background

- 3.1 Hampshire County Council (HCC) employees that are members of the Local Government Pension Scheme (LGPS) already have the option to contribute to Additional Voluntary Contributions (AVCs) and receive tax relief on the

amount they pay through payroll. AVCs are effectively a long-term savings plan that runs alongside the mainstream LGPS that allow a member to build up a capital sum with flexible drawdown options at retirement.

- 3.2 Hampshire Pension Fund have two AVC schemes through providers Prudential and Zurich. This arrangement would not change with the introduction of a Shared Cost Additional Voluntary Contribution (SCAVC) scheme. A SCAVC scheme could only be implemented with Prudential as Zurich does not provide this option.
- 3.3 Scope exists to implement a SCAVC scheme for LGPS members. The advantages of this are that in addition to the tax relief that is currently received, the employee will pay lower National Insurance contributions (NICs). In addition, HCC will benefit from a reduction in the employer NICs. An example of such savings can be found in APPENDIX 1.
- 3.4 HMRC do not limit the tax or NIC advantages of salary sacrifice arrangements for pension saving into a registered pension scheme, employer provided pension advice, employer supported childcare, cycle to work schemes or ultra low emission cars.

4. Implementation

- 4.1 Under Regulation 17 of the LGPS Regulations 2017, HCC can exercise the discretion to allow LGPS members to contribute to a SCAVC scheme.
- 4.2 To ensure that the arrangement is compliant with the LGPS regulations, the plan should be set up as a Shared Cost scheme. Both the employee and the employer have to contribute to the SCAVC. Although this suggests that HCC has to actually pay its own contributions, in reality this is not the case.
- 4.3 The participating employee will agree to take a contractual reduction in salary, known as Salary Sacrifice, equivalent to the amount of the SCAVCs they would like to contribute. HCC pays this amount into the SCAVC scheme on their behalf. To ensure full compliance with the legislation, and for both parties to contribute, the employee would also need to pay at least a nominal £1 a month into the AVC fund via a payroll deduction.
- 4.4 An amendment will need to be made to the statement of particulars for any employee who elects to join the SCAVC plan to indicate that the AVC contributions are considered to be a pensionable emolument. This will

ensure that their LGPS pensionable pay is not affected. Without this change there could be a significant reduction in member's retirement benefits.

- 4.5 The SCAVC scheme and any documentation will need to be HMRC compliant and it may be necessary, although not essential, to use external tax advisors to construct the scheme and obtain the required HMRC approval.
- 4.6 Tax advisors PSTAX operate an arrangement called AVC Wise. Portsmouth CC used this to set up their SCAVC scheme. PSTAX will require a minimum three year contract with monthly charges which can be negotiated. The fees payable will include a fully managed service and ongoing support. PSTAX would be willing to discuss the arrangements in more detail should this be required. It is anticipated however, that any costs could be met out of the savings that will be made.

5. Financial benefits

- 5.1 HCC has approx. 26,842 active members in the LGPS, of which 210 have an AVC with Prudential with an average monthly contribution of approx. £200. Take up of AVC's with Prudential is 1.5% of LGPS membership.
- 5.2 If 90% of current Prudential AVC members (189) transfer to the SCAVC scheme, HCC can expect to achieve annual savings of approx. £62,596.
- 5.3 If AVC Wise was used, then PSTAX would expect to see the take up of AVC's increase to a minimum 5% (1,342 members) which would provide HCC with annual savings of approx. £444,470.

6. Conclusion

- 6.1 The SCAVC scheme will be beneficial to those paying AVC's with Prudential, and to any new members who wish to partake in this scheme.
- 6.2 HCC will benefit from any membership of this scheme by way of savings on employer NICs.
- 6.3 Although this scheme could be set up with out the assistance of external tax advisers, there would be significant additional workload for HCC staff that would need to be involved in the administration, communication and publication of this scheme.

- 6.4 Using external tax advisors such as PSTAX would minimise staff workloads but would additionally incur fees that would have to be paid, any charges could be covered by the NICs savings to HCC.
- 6.5 All communication would need to be carefully considered so that this is presented as a choice and not a hard sell, but equally being as informative as possible otherwise there is a risk that no one will sign up for it.
- 6.6 Once set up, if successful, the SCAVC scheme could be extended to our other partners with LGPS employees that are part of the IBC Shared Services arrangement.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	No
People in Hampshire live safe, healthy and independent lives:	No
People in Hampshire enjoy a rich and diverse environment:	No
People in Hampshire enjoy being part of strong, inclusive communities:	No

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents	
The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)	
<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- 1.1.1 The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- 1.1.2 Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- 1.1.3 Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by proposals in this report.

Impact on Crime and Disorder:

Not applicable.

Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption? Not applicable.
- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts? Not applicable.

Example of Shared Cost Additional Voluntary Contribution (SCAVC)

Andrew wants to pay £5,000 a year into the LGPS AVC scheme and earns £40,000 a year.

The current AVC Scheme

Under the current scheme Andrew would agree to pay £5,000 by regular monthly deductions from his pay (£417 per month). He would receive tax relief on this payment but his National Insurance contribution (NICs) would be calculated on gross earnings.

- For tax deduction purposes his salary would be £35,000
- For NIC purposes his salary would be £40,000
- HCC would pay NICs on £40,000

The SCAVC scheme

Under the SCAVC scheme, if Andrew agrees to his salary being reduced to £35,000 a year and HCC pays the £5,000 into the SCAVC scheme on his behalf, he would get the same tax relief, but pay less NICs.

- For tax deduction purposes his salary would be £35,000
- For NIC purposes his salary would be £35,000
- HCC would pay NICs on £35,000
- He would have to pay £1 into the AVC fund

Effect on take home pay

Current AVC scheme		SCAVC scheme	
Gross annual pay	£40,000	Gross annual pay	£35,000
Gross monthly pay	£3,333	Gross monthly pay	£2,916
Income tax (tax code 1185L)	£340	Income tax (tax code 1185L)	£340
NI	£315	NI	£265
LGPS (6.8%)	£226	LGPS (6.8%)	£226
AVC	£417	AVC	£1
Net pay per month	£2,035	Net pay per month	£2,084
Net pay per annum	£24,420	Net pay per annum	£25,008
Employer NIC	£363	Employer NIC	£305

- Net pay increase of £49 every month, £588 per year
- AVC contributions of £418 made to SCAVC scheme
- LGPS contribution rate still based on £40,000
- Employer NIC saving £58 every month, £696 per year