

Lancashire County Council

Employment Committee

Tuesday, 11th September, 2018 at 10.30 am in Committee Room 'B' (The Diamond Jubilee Room) - County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item
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1.	Apologies
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2.	Disclosure of Pecuniary and Non-Pecuniary Interests
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Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.

3.	Urgent Business
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An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

4.	Date of Next Meeting
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The next meeting of the Committee will be held on Tuesday 9 October 2018 at 10.00 a.m. at County Hall, Preston.

5.	Shared cost salary sacrifice scheme for additional voluntary contributions
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(Pages 1 - 8)

6. Exclusion of Press and Public

The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.

Part II (Not open to Press and Public)

7. Shortlisting and Recruitment and Assessment Process for the Post of Chief Executive and Director of Resources (Pages 9 - 30)

(Not for Publication – Exempt information as defined in Paragraphs 1, 2 and 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

8. Winter Maintenance – Extension of Collective Agreement (Pages 31 - 36)

(Not for Publication – Exempt information as defined in Paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information)

L Sales
Director of Corporate Services

County Hall
Preston

Employment Committee

Meeting to be held on Tuesday 11 September 2018

Electoral Division affected:
(All Divisions);

Shared cost salary sacrifice scheme for additional voluntary contributions (Appendices 'A' and 'B' refer)

Contact for further information:

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Executive Summary

This report seeks approval to introduce a salary sacrifice "Shared Cost" scheme for additional voluntary contributions as part of the Local Government Pension Scheme arrangements.

A change is required to Lancashire County Council's Discretionary Statement of Policy to allow for the implementation of a scheme for Local Government Pension Scheme members to contribute to a salary sacrifice shared cost scheme for additional voluntary contributions.

Recommendation

The Committee is asked to approve:

- (i) the commencement of a salary sacrifice shared cost scheme for additional voluntary contributions as part of the Local Government Pension Scheme, as set out in the report.
- (ii) the proposed amendments to the current Lancashire County Council Discretionary Statement of Policy, as set out at Appendix 'B', to allow for the implementation of the salary sacrifice shared cost scheme for additional voluntary contributions.
- (iii) that all existing additional voluntary contributing employees are entered into the new scheme and all new additional voluntary contributors are automatically opted-in, with the option for each employee to opt-out.

Background and Advice

Employees who join the Local Government Pension Scheme have the option to build up additional benefits by paying Additional Voluntary Contributions by way of a tax free deduction through payroll. If an employee chooses to pay additional voluntary contributions, these are invested separately from the main pension contributions and aim to provide additional income upon retirement. For the Lancashire Pension Fund

the additional voluntary contribution provider is Prudential, who administer the scheme on the Fund's behalf.

Within the Local Government Pension Scheme regulations there is provision to allow an employer to also contribute to an employee's additional voluntary contribution arrangement. This is known as a "Shared Cost" additional voluntary contribution. Currently Lancashire County Council's policy on this is that they will not contribute to an employee's additional voluntary contribution fund on a shared cost basis. However, the county council has recently identified that an option exists to implement a shared cost "salary sacrifice" additional voluntary contribution scheme. This can be facilitated by the Fund's current additional voluntary contribution provider, Prudential, and will result in a cost saving for both the employee and the county council.

To be compliant, the salary sacrifice shared cost additional voluntary contribution scheme must demonstrate that the employee and employer both contribute to the plan. Under the Prudential's terms, this means that the employee agrees to a contractual reduction in salary and the county council contributes this amount into the salary sacrifice shared cost additional voluntary contribution plan on their behalf. The employee also has to pay a nominal £1 a month into the salary sacrifice shared cost additional voluntary contribution fund via a payroll deduction.

By adopting a salary sacrifice shared cost additional voluntary contribution the advantages to the employee are that, in addition to the tax relief that is currently received, the employee will pay a lower national insurance contribution. The county council will also benefit as it will reduce the cost of the employer's national insurance contributions and also their apprenticeship levy.

An example of how those cost savings might be achieved are shown in the example at Appendix 'A'.

Currently Lancashire County Council employees contribute just under £175k per month to the Local Government Pension Scheme additional voluntary contributions scheme with Prudential (approximately £2.1 million per annum). It is possible, therefore, for the county council to make a significant saving as a result of not paying employer national insurance contributions of 13.8% together with the apprenticeship levy of 0.5% on this amount of additional voluntary contribution contributions, on the assumption that it is paid through the salary sacrifice scheme.

Under the proposed scheme, the employee would see the same amount invested in their additional voluntary contribution fund, but by using the salary sacrifice scheme the member pays less national insurance and therefore increases their net pay.

If approved it is proposed that the salary sacrifice shared cost additional voluntary contribution scheme will be designed with an automatic opt-in for existing and new additional voluntary contributors. An appropriate communication exercise will be undertaken highlighting the advantages of the scheme however, the option to opt-out of the new salary sacrifice scheme will also be made available.

It is anticipated that the proposed salary sacrifice shared cost additional voluntary contribution scheme will act as an incentive for staff to make additional voluntary contributions. This is likely to lead to an increase in the number of new additional voluntary contributors and existing additional voluntary contributors potentially increasing the amount they pay. As such greater national insurance savings for both employees and the county council would be achieved.

In order to allow the county council to implement a salary sacrifice shared cost additional voluntary contribution scheme the current Local Government Pension Scheme Discretions Policy approved in October 2014 is required to be changed. The proposed changes in relation to this specific policy area are set out in Appendix 'B'.

To ensure that any adopted scheme is compliant with Her Majesty's Revenue and Customs regulations, a tax specialist will be engaged. The selection of an appropriate tax specialist will form part of the implementation process with the potential for commissioning a fully-managed service. This may incorporate an administration facility to manage employee applications and the provision of support for the county council in terms of staff communications. Typically the fee for such a service would be based on a percentage of the amount of salary sacrificed.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Financial

On the assumption that 90% of the current additional voluntary contributions members transfer to the new salary sacrifice shared cost additional voluntary contribution scheme, the county council can expect to achieve an annual saving of around £270k per annum, based on a 14.3% employer saving (employer national insurance contributions of 13.8% plus apprenticeship levy of 0.5%).

With a potential annual fee for a managed service, typically in the region of 3.5% of the amount of salary sacrificed, a net saving for the council of around £204k per annum could be achieved.

Legal

The compliance with legal requirements in relation to the recommendations in this report relate largely to taxation. This would be addressed by appointing an appropriate tax advisor and confirming Her Majesty's Revenue and Customs approval before implementing the scheme.

The county council will specify in the contract of employment that the contribution the employer makes to the salary sacrifice shared cost additional voluntary contribution will be a pensionable emolument.

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
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N/A		
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Appendix A

Illustrative cost savings

Example

Pensionable pay - £30,000

AVC contribution each month £250

	Without AVC	With Normal AVC	With Salary Sacrifice Shared Cost AVC
Gross pay before LGPS contributions	£2,500	£2,500	£2,251
LGPS Contributions	£163	£163	£163
Employee AVC Contributions	£0	£250	£1
Employer AVC Contributions	£0	£0	£249
Total AVC Contributions	£0	£250	£250
Income tax	£276	£226	£226
National Insurance	£218	£218	£188
Monthly pay after tax	£1,843	£1,643	£1,673

1. Employee Saving

In the above example, the employee sees £250 per month invested in their AVC fund with or without the salary sacrifice scheme, but by using the salary sacrifice scheme the member pays less national insurance contribution and therefore increases their net pay.

The "salary sacrifice" shared cost AVC (SS SCAVC) scheme does not affect a member's LGPS benefits, provided Lancashire County Council specifies in the contract of employment that the contribution the employer makes to the SS SCAVC will be a pensionable emolument. Therefore there is no detrimental impact to the calculation of pension benefits as a result of joining the SS SCAVC scheme.

2. Employer saving

Using the example above the employer is effectively paying the employee the same amount per month with a normal AVC (£2,500 gross pay) as they would with a salary sacrifice shared cost AVC (£2,251 gross pay plus £249 AVC contribution, totalling £2,500). However as the gross pay under the salary sacrifice scheme only amounts to £2,251, the employer only pays national insurance on this lower amount. For the employer this will represent a saving of £34.36 per month being the 13.8% national insurance against the AVC of £249. A further amount is saved equalling 0.5% of the AVC of £249 per month relating to the apprenticeship levy.

Proposed insertion to Lancashire County Council's statement of policy under the Local Government Pension Scheme Regulations

Shared Cost Additional Voluntary Contributions (SCAVCs)

(Regulation 17 of the LGPS Regulations 2013, Regulations 15(1)(d) of the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, Regulation 25(3) of the LGPS (Administration) Regulations 2008 and Regulation 15(3) of the LGPS (Benefits, Membership and Contributions) Regulations 2007)

An active member may elect to pay AVCs into a scheme established under contract between his appropriate administering authority and a body approved for the purposes of the Finance Act 2004.

An employer can, at its discretion, contribute to the AVC scheme and where they do the AVC scheme is known as a shared cost additional voluntary contributions arrangement (SCAVC). An employer should establish whether, how much and in what circumstances to either continue with an existing SCAVC or enter into a new SCAVC.

Employer's policy:

Lancashire County Council will only facilitate a Shared Cost Additional Voluntary Contributions scheme where this is part of Lancashire County Council's agreed shared cost salary sacrifice additional voluntary contribution scheme.

Agenda Item 7

(NOT FOR PUBLICATION: By virtue of paragraph(s) 1, 2, 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

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Agenda Item 8

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