

**Personnel Committee - 25 October 2022**

**Employee Benefits & Shared Cost AVC's**

**1. Purpose of the Report**

- 1.1 To gain Personnel Committee approval for the introduction of a new employee benefits platform that includes the implementation of a salary sacrifice car lease scheme and a Shared Cost Additional Voluntary Contribution (Shared Cost AVC) pension arrangement for Local Government Pension Scheme (LGPS) members. The principles of which were endorsed by CMT at their meeting of 13 October 2022 subject to approval of a detailed implementation plan.

**2. Recommendations**

- 2.1 Personnel Committee is recommended to approve the introduction of an employee benefits package supplied via partnering with an external provider to deliver a fully managed service covering a range of employee benefits and salary sacrifice options including a car lease scheme and Shared Cost AVCs. Section 3.8 below provides further information.
- 2.2 Personnel Committee is recommended to approve the implementation of a Shared Cost AVC pension arrangement for LGPS members.
- 2.3 Personnel Committee is recommended to approve that earnings related payments, such as overtime, pay increases, contractual allowances, occupational maternity pay, occupational sickness pay and redundancy are calculated on the notional salary before applying the salary sacrifice reduction for Shared Cost AVCs. Section 3.8.5 below provides further information.
- 2.4 Personnel Committee is recommended to approve the inclusion of a new discretion in the Council's LGPS Discretionary Pension Policy Statement to permit LGPS staff to participate in a Shared Cost AVC scheme. Section 3.8.6 below provides further information.
- 2.5 Personnel Committee is recommended to approve the implementation of a Shared Cost AVC scheme for members of the Teachers and NHS Pension Scheme, subject to the necessary changes being made to the regulations to allow these staff to participate. Shared Cost AVCs cannot be implemented at this time for teachers and NHS staff, but approval now will provide us with the necessary authority to introduce a scheme, subject to the legislative changes being made.
- 2.6 Personnel Committee is recommended to approve the implementation of a benefits platform that incorporates both lease cars and Shared Cost AVCs as salary sacrifice benefits and also recommends that any further decisions regarding the detail of the employee benefits platform be delegated to the Executive Director of Resources and Transformation,

including the appointment of a provider, subject to council procurement rules and CMT approval.

### **3. Background Information**

#### *Aim*

- 3.1 As a Council we currently face a number of workforce and labour market challenges, which are contextualised and compounded by our external environment, increased hybrid ways of working brought about in part by the pandemic, a geographically dispersed labour market, widespread national skills shortages and labour supply shortages, increasing national competition amongst employers and a labour market with changing needs and expectations. All of which are adding to our recruitment and retention challenges. This is acknowledged and accepted across the Council and we have made a number of commitments to address these challenges and improve our position as an 'Employer of Choice' over the coming months and years. This commitment is embedded in our Council Plan and supported by our Proud Promises, as well as being a primary focus of the Enabling Culture and Communications (ECC) workstream across the Council. In addition key elements of the Councils Workforce and OD Strategies also aim to improve recruitment, retention and reward. Making the most of our employee benefit offer is a pivotal tool that will allow us to capitalise on our employee offer, marketing it, utilising it and supporting not just recruitment and retention but also employee recognition and reward.
- 3.2 With the current cost of living challenges facing our employees there isn't a better time to offer 'our people' additional support to help them through the financial challenges they may be facing. A benefits platform that offers a comprehensive mix of financial incentives, whether this be through salary sacrifice savings or instant discounts across a range of high-street/online retailers (including the ability to spread the cost of large purchases) may provide much needed support at this current time.
- 3.3. Partnering with an external provider to offer a complete and comprehensive bespoke platform means that we can showcase all of our employee benefits in one easy to use portal. This will allow us to identify and demonstrate to existing employees the full range of benefits they get working for our local authority (in addition to just their pay, through developing a personalised total reward statement), as well as showcasing and marketing our attractive employment offer to prospective candidates and the wider labour market as a whole.
- 3.4 A bespoke platform can be customised to council requirements, will illustrate our total employment offer and could be tailored to include our Proud Promises, our PLATE values and help to promote our supportive and inclusive culture demonstrating the importance of our people and their whole health and wellbeing. There are also platform options that include the ability to communicate directly with employees via a messaging service in order to promote the total benefits offer as well as added wellbeing and reward and recognition initiatives depending on the external provider and elements offered within the package.

- 3.5 An employee benefits offer that allows us to utilise salary sacrifice for lease cars and in particular hybrid or electric vehicles (EV) also helps us to deliver against action 4.1 of the Council's current Climate Change Action Plan, which includes specifically the introduction of EV salary sacrifice. Dependent on provider, such a platform and offer can be extensively promoted and marketed, alongside other carbon footprint benefits such as a cycle to work salary sacrifice scheme and bike shop purchases offered through monthly payroll deductions.

*Know*

- 3.6 There are a number of employee benefits providers in the market and having done external research over a number of months, we know a number of the larger providers will be able to offer a range of benefits in one customisable platform including Shared Cost AVC's and lease vehicles. Some of these providers offer their benefits platform (and associated marketing and communications) free of charge particularly to public sector organisations and are available to access through our existing procurement framework arrangements.
- 3.7 Depending on the provider and the agreed package, a total employee benefits platform could include any of the following employee benefits (some of which also result in employer National Insurance contribution savings as well as additional Income Tax and employee NI savings);
- Lifestyle Savings – Huge range of instant discounts for a wide variety of well-known high street and online retailers, covering -
    - Supermarkets
    - Food & Drink Offers
    - Days out for all the family
    - Cinema, Theatre & TV
    - Cashback Cards
    - Home, Garden and Pets
    - Mobile, Broadband and utilities
    - Sustainable Living
    - Local Benefits
  - Salary Sacrifice and payroll deductions (providing the ability to spread the cost of large items over a set period of time)
    - Home Electronics
    - Cycle to Work
    - Bike Shop
    - Affordable Loans
    - Travel and Leisure
    - Gym Membership
    - Car leasing
    - AVC Wise
  - Online access to employee health and wellbeing support, such as -
    - Access to a range of wellbeing topics such as stress, anxiety, and domestic abuse
    - Ask Bill – free and impartial money advice from Ask Bill - including tips on how to reduce utility bills, manage money and deal with debt issues

3.8 Shared Cost AVC schemes have been widely adopted across the LGPS in the United Kingdom with over 100 councils already delivering this key staff benefit.

3.8.1 LGPS members are currently permitted to contribute to a standard Additional Voluntary Contribution scheme (AVC) and receive Income Tax relief on their contributions through their payslip. AVCs are a long-term pension savings plan that runs alongside the main LGPS scheme that allows a member to build up a capital sum. On retirement, they can access the benefits through a range of options including the ability to receive the capital sum 100% tax free in most cases.

3.8.2 AVC contributions are paid across to a partnering responsible financial organisation who manage the plan and investments. The LGPS Administering Authority (West Midlands Pension Fund) are responsible for selecting the external provider (currently Prudential), and this arrangement would not change with the introduction of a salary sacrifice Shared Cost AVC scheme.

3.8.3 The LGPS and HMRC regulations provide the necessary authority for employers to introduce a Shared Cost AVC scheme. The advantages of implementing this new Shared Cost AVC arrangement over the current standard AVC scheme is that in addition to the Income Tax relief that staff currently received, they will also receive National Insurance contribution relief too. The Council will also make savings, through a reduction in the employer National Insurance contributions. Section 4.3 (example 1) below provides estimated savings.

3.8.4 To ensure that the Shared Cost AVC arrangement is compliant with the LGPS/HMRC regulations, the scheme must be set up as a 'shared cost' scheme which requires both the employee and employer to contribute to the Shared Cost AVC. Although this suggests that the Council will pay a financial contribution towards the Shared Cost AVC plan, this is not the case. How it works in practice is that the employee accepts a contractual reduction in remuneration (a salary sacrifice), equivalent to the amount they would like to pay into the scheme, and the employer pays this amount into the Shared Cost AVC plan on their behalf. To meet the 'shared cost' arrangement the employee is then required to pay a nominal £1 each month into the Shared Cost AVC through a payslip deduction. Section 4.3 (example 2) below provides an example of the comparative savings of the current AVC scheme and new Shared Cost AVC scheme.

3.8.5 Recommendation 2.3 above, covers the treatment of earnings-related payments for staff who opt for Shared Cost AVCs. It is critical that the Shared Cost AVC scheme does not affect future earnings because of the salary sacrifice reduction, as this would be counter-productive to implementing a scheme. To ensure that the scheme is effective, any contractual earnings such as overtime, pay

increases, contractual allowances, occupational maternity pay, occupational sickness pay, and redundancy must continue to be calculated on the notional salary **before** the salary sacrifice is applied. If we calculate contractual pay on the salary after the salary sacrifice, this will result in a reduction in pay on earnings related payments. Without this approach there will be little incentive for staff to commence Shared Cost AVCs and we will not deliver either an improved pension outcome for staff and/or employer savings. This approach is consistent with all other public sector employers who have introduced Shared Cost AVCs.

3.8.6 Recommendation 2.4 above covers the requirement to make amendments to the council's LGPS Discretionary Pension Policy Statement, which is published annually as part of the Council's Pay Policy statement. This is purely an administrative procedure, and the proposed new discretion is shown in the table below.

Shared Cost Additional Voluntary Contributions		
Whether, how much and what circumstances to contribute to a Shared Cost AVC scheme	R17 (1) and R15 (1) (d)	Walsall Council will pay shared cost AVCs where an employee has elected to pay AVCs by salary sacrifice. The amount of these employer Shared Cost AVCs will not exceed the amount of salary sacrificed by the employee. This discretion is subject to the employee meeting the conditions for acceptance into the salary sacrifice Shared Cost AVC scheme and may be withdrawn or changed at any time.

3.8.7 It is important to note that Shared Cost AVCs will not affect the main LGPS scheme benefits provided that the employer specifies in the supporting documentation that the Shared Cost AVC contribution the employer makes to the Shared Cost AVC will be a pensionable emolument (in accordance with the LGPS regulations (Regulation 20(1)(b) of the 2013 Regulations). This will be included in the Shared Cost AVC scheme documentation.

3.8.8 The main advantages of implementing a Shared Cost AVC scheme are:

- Staff will have access to a new financial well-being benefit that provides significantly improved retirement benefit outcomes
- Staff who contribute to a Shared Cost AVC scheme will pay lower National Insurance contributions (NICs) and this saving will automatically be passed into the AVC. For most staff this will result in a saving of 13.25%
- Staff will continue to receive income tax relief on their Shared Cost AVC contributions
- The combined tax and NIC saving equates to a growth/yield rate of over 49% for basic rate taxpayers and over 76% for higher rate taxpayers through the payslip

- The introduction of a Shared Cost AVC will have no effect on the main LGPS benefits
- The council will make savings in employer NICs. Section 4.3 below provides further detail on potential savings
- Staff will have access to a wide range of pension webinars and the option of individual pension meetings.

It provides a fully customisable benefits platform that is delivered and managed as part of a free platform, council resource to support the set up and administer through the platform is limited.
It allows integration of all benefits in one place (including those we already offer – not supplied by the provider) and illustrate our total employee reward offer, our values and our culture, supporting recruitment and retention.
It provides an engaging platform for employees and allows the promotion and marketing of a variety of health and wellbeing initiatives.
An external provider will be responsible for the marketing and promotion of the service as well as managing direct messaging campaigns to staff so they are fully aware of what is available and on offer to them.
A managed provision will also provide the council with ongoing metrics regarding usage, websites hits and popularity of offers so that we gain insights into what benefits our employees want to see more of, what they are utilising and what is likely to motivate our workforce allowing us to better target future benefits offers/campaigns.
<b>Why use a provider specifically for Shared Cost AVCs?</b>
It provides a guarantee to the council that the scheme will be legislatively compliant with HMRC and LGPS Regulations.
It delivers an efficient automated processing platform with workflow to administer Shared Cost AVC applications and scheme amendments including NLW/MNW compliance checks.
It provides accurate calculators to help staff understand the benefits of saving towards their retirement.
It delivers a comprehensive range of pension webinars to enable staff to be better informed and educated about their LGPS pension and Shared Cost AVCs.
It provides the launch and ongoing communication collateral to make staff aware of the scheme.
It provides a full audit trail of all transactional activity including embedding electronic contractual change documentation to eliminate internal HR resource.
It provides several help options to support staff (telephone helplines, web chat, webinars, and one to one meetings).
It improves the processing of Shared Cost AVCs through a direct link to the AVC providers
It includes a continual review process to ensure that all supporting scheme documentation is up to date and relevant (FAQs, videos, Knowledge Hub guidance, retirement projection calculators etc.)
It will deliver additional savings to the council through better communication of the Shared Cost AVC scheme

3.9 Recommendation 2.1 above, advises that the council engages with an external provider to deliver a range of employee benefits including Shared Cost AVCs for several important reasons, shown in the table below.

3.10 Subject to Personnel Committee approval of the introduction of a benefits platform to include a lease car scheme and Shared Cost AVCs, council colleagues (including HR, finance, payroll, procurement, legal, communications) will devise an implementation plan (as changes will also be required to One Source Fusion functionality) and present an update back to CMT advising an implementation date (once available).

### *Our Council Plan priorities*

- 3.11 The policy is directly aligned to the council's strategic priority of internal focus ensuring all council services are customer focussed, effective, efficient and equitable and helps support a positive employee health and wellbeing culture, as well as embedding further our 'employer of choice' proposition.

### *Response*

- 3.12 Subject to approval and development of an implementation plan (refer to section 3.10) including identifying a suitable provider on an existing framework (where feasible) in order to support and speed up implementation and launch. The launch will be project managed alongside the provider, communications and the HR/Payroll implementation team and employee engagement and communication will be ongoing throughout as part of our culture and engagement transformation work.

### *Review*

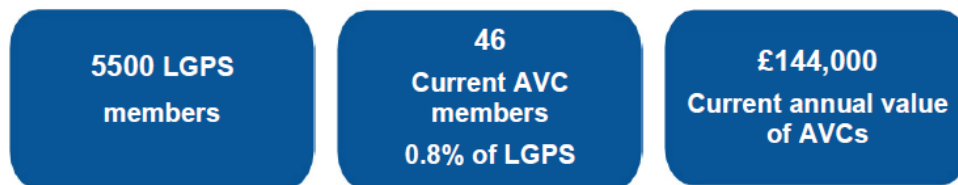
- 3.13 Any partnering arrangement will be reviewed on an ongoing basis and formally 6 months prior to the end of the expiry of any contractual agreement, for example, sign up to a benefits provider would usually be for an initial 2-3 years dependent on provider and the initial agreement.

## **4. Financial Implications**

- 4.1 The benefits platforms are usually free of charge, as is any provider marketing and promotion. Based on research to date, there is normally no initial set up costs, other than limited payroll resource to administer the scheme – this would kept to a minimum and would be supported by the provider.
- 4.2 It is not proposed that the employer makes any contribution to any other elements of the benefits offer including the car lease scheme and other elements signed up (e.g. health insurance) – as these would be voluntary and at the employees cost (the only exception being Shared Cost AVCs – see 4.3 below for further information).
- 4.3 In terms of Shared Cost AVCs, there will be proposed employer NIC savings, however the level of these savings will be based entirely upon on the level of employee take-up. The procurement of an external provider, who has a track record of delivering Shared Cost AVC services to councils will provide the necessary safeguards that the scheme is compliant with employment and tax law. It also removes the risk of the council having to fund back-office resource to deliver a skilled complex service. The external providers who deliver this type of service normally charge fees based on the member take up of AVCs. This is commonly around 4-5% of

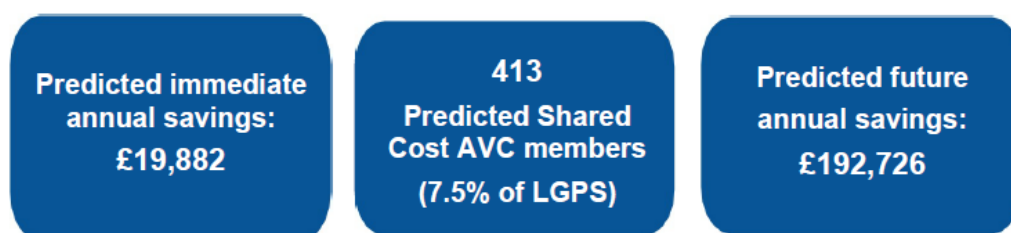
the employer NIC savings. There are normally no set up fees and post 'go live' there will be employer savings of around 11% on the total member AVC contributions.

### Example 1 - Shared Cost AVC Employer Estimated NIC Savings based on current AVC uptake



If we assume 90% of the current AVC members (41) transfer to the salary sacrifice Shared Cost AVC arrangement, **Walsall Council** can expect to achieve immediate annual savings of around **£19,882**, based on 15.55% employer saving.

### Example 2 - Shared Cost AVC Employer Estimated NIC Savings Model (based on year 3 of implementation) - assuming an increase in take up of 7.5% and applying £250 per month average Shared Cost AVC value (increase in take up estimated as a result of provider promotion and marketing activity)



## 5. Legal Considerations

5.1 There are a number of legal issues that require action prior to the implementation of a Shared Cost AVC scheme;

- The Shared Cost AVC scheme information pack and frequently asked questions must explain the scheme in sufficient depth to enable staff to understand the implications of becoming a Shared Cost AVC member.
- The employee will be required to sign a salary sacrifice agreement to vary the contract of employment to accept the contractual reduction in remuneration.
- The Shared Cost AVC scheme will need to be approved by HMRC.
- The council's discretionary pension's policy will need to be amended and published to provide the authority to enable staff to pay into Shared Cost AVCs as one of our discretions.
- The scheme documentation will need to state that the Shared Cost AVCs are to be treated as a pensionable emolument in accordance with the



LGPS regulations (Regulation 20(1)(b) of the 2013 Regulations), to ensure that a member's main scheme benefits are not reduced.

- 5.2 The report identifies and addresses the risks and makes the appropriate recommendations to avoid any potential loss to contributors regarding the LGPS and seeks to maximise tax efficiencies to be delivered to both the employee and employer. This comment is set against the additional reassurance that all current AVC holders will receive a full briefing on Shared Cost AVCs and that the scheme will be approved by HMRC before implementation.
- 5.3 Any procurement of any goods and/or services under the employee benefits scheme will be a contract directly between the benefits provider and the employee, Walsall Council as the employer will take no responsibility in any way.

## **6. Risk Management**

- 6.1 An equality impact assessment is not required as this report does not result in any equality issues. The employee benefits offer will be available to all employees on a fully voluntary basis and will be accessible in a number of formats with support options for access available.

## **7. People**

- 7.1 There is no direct impact on our citizens as a result of this policy. The policy is however, part of the employment and benefits framework that helps to ensure that residents of Walsall get the best possible services from council employees.

## **8. Consultation**

- 8.1 The details of any resultant employee benefits package implemented will be shared with trade union colleagues in our information and consultation forum, ERF, as well as widely communicated and promoted across the council via a number of communication channels and in conjunction with the council's communications employee engagement specialist.

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