

Review of the Pensions Discretions Statement



To: Civic Affairs Committee 21 September 2022

Report by: Deborah Simpson, Head of Human Resources

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Wards affected: All

OPEN

1. Introduction

- 1.1 This report outlines Cambridge City Council's proposed revised policy statement on Employer Discretions for the Local Government Pension Scheme following a recent planned review.
- 1.2 The attached Appendix A shows an updated Pensions Discretions Statement for consideration, approval and recommendation to Council for adoption.
- 1.3 The report includes a proposal to consider entering into a shared cost AVC Scheme as part of the revised discretions.

2. Recommendations

Civic Affairs Committee is asked to:

- 2.1 approve the proposed policy statement on employer discretions shown as Appendix A.
- 2.2 delegate approval to join a shared cost AVC scheme to the Head of Human Resources, following consultation with the Head of Finance, Executive Councillor for Finance, Resources and Transformation and

Opposition Spokes for Strategy and Resources, if considered appropriate, following further exploration of a suitable procurement process.

2.3 note that Council officers will continue to review the Discretions Statement every 3 years and/or in line with changes to the Local Government Pension Scheme (LGPS) as advised by the Local Government Pensions Committee (LGPC) and the Administering Authority (Cambridgeshire County Council), and any recommended changes will go before Civic Affairs for approval.

3. Background

3.1 The Local Government Pension Scheme (LGPS) legislation has a number of discretionary areas on which Employing Authorities (i.e., Cambridge City Council) have to determine and publish a policy.

3.2 The Council's discretions on enhancement of pension are set out in the Pensions Discretion Statement 2019. This policy was approved by the Civic Affairs Committee on the 30 January 2019. The policy is reviewed every 3 years and/or in line with changes to the Local Government Pension Scheme (LGPS) as advised by the Local Government Pensions Committee (LGPC) and the Administering Authority (Cambridgeshire County Council).

3.3 It was anticipated that there would be changes to the LGPS following consultation on proposed changes in 2020 and 2021. However, no changes have yet been implemented. These proposals were also associated with the introduction in November 2020 and subsequent removal in February 2021 of the Exit Cap provisions. The pensions discretions were to be reviewed in line with the proposed changes to the LGPS which have not yet been introduced. There is no current update on proposals to re-introduce the Exit Cap provisions following a further consultation and guidance on Special Severance Payments or any changes to the LGPS.

3.4 This review of the Pensions Discretion Statement is now taking place in 2022 in line with the 3-year review.

3.5 The Local Government Shared Service Pensions Team (administered by West Northamptonshire) have reviewed the proposed Pensions Discretions Statement which now follows the pension scheme administrator mandated template.

- 3.6 The 2022 review has confirmed the current discretions in the required new format which shows areas where discretions must be stated or are advisory. Changes have been made to clarify wording of some previous discretions but not to alter the substance of the discretion. Where advice has been given we have reviewed the discretion in line with this advice.
- 3.7 The only material area where it is proposed to change the delegation is in the area of shared cost Additional Voluntary Contribution (AVC's). Our current Pensions Discretion Statement precludes us from entering into a shared cost AVC. We are proposing to amend this, please see Section 4 below.
- 3.8 Within Appendix A there are a number of discretions that appear to be replicated, the discretions in places are worded the same but relate to pension scheme members leaving under different sets of regulations.
- 3.9 Where a case is to be treated on its merits, it will be subject to the approval of the Head of Human Resources. Under the Council's constitution the Head of Human Resources is the nominated person "To take such action as may be necessary in relation to superannuation and the payment of pensions on behalf of the Council as employing authority in relation to its employees, former employees and to Cambridgeshire County Council as administering authority; except that, where the Council is entitled to exercise a discretion, the Head of Human Resources is authorised to act under this paragraph only in accordance with principles approved by the Council. In consultation with the Head of Human Resources to pay gratuities and injury awards to employees, former employees and their widows and dependants".
- 3.10 Appendix A contains details of Cambridge City Council's Employing Authority Discretionary Powers, the relevant LGPS Regulations and the recommended decisions. Appendix A also includes a statement on Injury Allowances.

4. Proposal to Consider Introducing a Shared Cost AVC Scheme

- 4.1 During the time since the last review of the Pensions Discretions Statement we have been made aware of a shared cost salary sacrifice AVC scheme which has been entered into by 150 councils including South Cambridgeshire District Council.

- 4.2 Currently the Council operates a standard Additional Voluntary Contributions (AVC) scheme. This allows employees to sign up with our AVC provider, Prudential, to have a fixed percentage or amount deducted from their earnings and paid into a fund managed by Prudential. There is now a further option to expand what is on offer to include a Shared Cost AVC scheme.
- 4.3 An AVC is not part of the LGPS pension fund. The money is invested by an independent provider into a personal account. The employee chooses how much to invest and the risk level. As an investment the accrual/loss depends on how well the fund performs. The money is taken as a tax lump sum, usually at retirement. The LGPS and AVC contributions are deducted directly from pre-tax salary and are eligible for tax relief. Both contribute towards an employee's annual pension allowance.
- 4.4 A Shared Cost AVC scheme enables both the Council and our employees to make extra savings in National Insurance contributions (NICs) when compared to a standard Additional Voluntary Contribution scheme. With a standard AVC the employee only makes savings in Income Tax, and we as the employer make no savings. The introduction of a Shared Cost AVC scheme would, therefore, provide further benefits.
- 4.5 AVC Wise offer a fully managed, HMRC compliant and approved shared cost AVC scheme. This is processed as a salary sacrifice which does not cost the employer anything and could potentially generate some significant savings (dependent on take up).
- 4.6 The scheme also benefits employees as the scheme is a salary sacrifice so they can benefit from NI savings in addition to the tax savings already offered by the standard AVC scheme that we currently have in place.
- 4.7 The scheme is run in conjunction with our current AVC providers, Prudential, and with the support of our pension fund. AVC Wise administer the scheme including the employee and employer portal, marketing, promotion and provision of salary deductions to payroll. The payroll deductions are paid over to Prudential. There is a management fee for this, paid by the Council.
- 4.8 Employer savings on a salary sacrifice scheme for Employers NI and the App Levy total 14.3%, the fee from AVC Wise is significantly less

than this, therefore the Council could benefit from any AVC salary deductions. We currently have between 20 and 30 employees who have AVC's which is quite modest, this is possibly due to employees not being aware of their options. Presentations which would be provided by AVC wise to employees will give the overview of these and also cover the LGPS.

- 4.9 The scheme is already in operation across over 150 local authorities, with a number of authorities in the process of signing up.

5. Procurement

- 5.1 There is an option to enter into a shared cost salary sacrifice scheme AVC with a provider and research activity into the procurement options has been undertaken. This has concluded that entering into a procurement agreement through a framework contract is the most appropriate route. There are two potential framework options and further work needs to be done to explore which is the most effective route.

- 5.2 As further work needs to be completed it is proposed that delegated approval to join a shared cost AVC scheme is given to the Head of Human Resources, following consultation with the Head of Finance, Executive Councillor for Finance, Resources and Transformation and Opposition Spokes for Strategy and Resources, if it is considered appropriate following further exploration of a suitable procurement process.

6. Implications

a) Financial Implications

There are no significant changes from the existing discretions recommended in respect of financial implications with the exception of the proposal to join a shared cost AVC scheme. Where individual decisions are made potential costs will vary depending on the personal circumstances of each employee involved, their reason for leaving and the appropriate discretions. It is therefore impossible to give an accurate prediction of costs.

b) Staffing Implications

This report deals with pension discretions for employees and former employees. There are no direct staffing implications as a result of the recommendations in this report.

c) Equality and Poverty Implications

This report deals with pension discretions for employees and former employees; access to pension is normally from age 55 onwards other than for ill health. It should be noted that the Government has announced the earliest age that employees can take their pension will increase from age 55 to 57 from 6 April 2028. This will not apply to ill health retirements. The LGPS is a national scheme and is open to all employees.

d) Net Zero Carbon, Climate Change and Environmental Implications

There are no direct environmental implications as a result of the recommendations in this report.

e) Procurement Implications

Research into the procurement options has concluded that entering into a procurement agreement through a framework contract is the most appropriate route. There are two potential framework options and further work needs to be done to explore which is the most effective route.

f) Community Safety Implications

There are no Community Safety implications as a result of the recommendations in this report.

7. Consultation and communication considerations

Trade Unions – GMB and Unison, Chief Executive, Directors, Strategic Procurement Manager, Head of Legal and Head of Finance.

8. Background papers

Background papers used in the preparation of this report:

- Existing Employers Discretions
- Pension Position Statement
- What is Pensionable Pay document

9. Appendices

Appendix A – Cambridge City Council LGPS Employer Discretions Policy

10. Inspection of papers

To inspect the background papers or if you have a query on the report please contact Deborah Simpson, Head of Human Resources, tel: 01223 458101, email: deborah.simpson@cambridge.gov.uk or Mike Scott, Payroll Manager, tel: 01223 458172, email: Mike.Scott@cambridge.gov.uk