
Report To:	Policy and Resources Committee	Date: 22 September 2009
Report By:	Head of Organisational Development and Human Resources	Report No: HR/23/09/AH
Contact Officer:	Alex Hughes, Organisational Development Team Leader	Contact No: 01475 712014
Subject:	Childcare Vouchers Scheme - Salary Sacrifice	

1.0 PURPOSE

- 1.1 The purpose of this report is to recommend to Committee the introduction of a Childcare Voucher Scheme.

2.0 SUMMARY

- 2.1 Childcare Vouchers were introduced by the Government on 6 April 2005. It is a means by which employees can receive relief from Tax and National Insurance contributions up to the value of £55 per week (£243 per month) on their childcare costs (where both spouses or child carers work for the Council, each can claim up to the maximum limit). The employer also receives relief on the National Insurance contributions for each employee in the Scheme.
- 2.2 Childcare Vouchers are a widely used form of employer-funded childcare in the UK due to its cost effectiveness and administrative convenience and they are a significant benefit and a valuable incentive for staff. A number of other local Councils have either already introduced a Scheme or are in the process of introducing one (see 4.1).
- 2.3 Childcare Voucher Schemes are an employee benefit for eligible employees and should have a positive impact on recruitment and retention of employees. This Scheme will further enhance our credentials as a family friendly employer. With changes to the Sex Discrimination Act affecting employees with children born after 5th October 2008, employers will be liable to pay for childcare vouchers during an employee's maternity leave period if they remain on the scheme (see Appendix 1).

This change will increase costs for the Council as where an employee who is a member of the Childcare Scheme goes on maternity leave, the Council will require to pay the cost of the scheme, costs are circa £2k for each employee.

To analyse this risk, Organisational Development and Human Resources contacted East, North and South Ayrshire Councils. East Ayrshire has one case where the employee on Maternity Leave claimed Childcare Vouchers. North and South Ayrshire Councils have had no cases.

3.0 RECOMMENDATIONS

- 3.1 The Committee is recommended to approve the introduction of the Childcare Voucher Scheme.
- 3.2 That the Committee agree that a Scheme Provider will be used.

- 3.3 That the revenue implications for Payroll Services are that any saving in NI the Council makes is used to meet the cost of any extra admin costs for Payroll and/or Organisational Development and Human Resources.
- 3.4 That if the scheme is adopted and an employee joins and subsequently goes on maternity leave that the estimated additional cost of £2k will require to be met by the employing Service.

Head of Organisational Development
and Human Resources

4.0 BACKGROUND

4.1 Take-up / Interest in the Scheme

Table 1: Employee take-up with other Local Authorities with a Childcare Scheme

Council Name	Take-up
East Ayrshire	1.1%
North Ayrshire	0.5%
South Ayrshire	1%
Renfrewshire	Launched 24/02/09

Scheme Provider information suggests an average uptake in the Scheme of between 1% - 3% of employees.

Organisational Development and Human Resources placed an online survey on ICON asking whether employees were interested in the Scheme which provided 212 expressions of interest, which equates to just less than 5% of employees. Corporate Communications were asked to pass the information onto Services where employees had no access to ICON. A breakdown of the 212 responses when asked if they were interested in Inverclyde Council starting a Childcare Voucher Scheme is below:

Table 2: Childcare Scheme Survey Results from ICON

Yes	65.6%	139 employees
No	19.3%	41 employees
Not Sure	15.1%	32 employees

4.2 Conditions of the Scheme

It is a condition of the Scheme that:-

- The Council must make the Scheme available to all eligible employees, i.e. those with responsibility for children up to the age of 15, or 16 years of age if disabled, and whose child/children are either their own child or a child that lives with them for whom they have parental responsibility.
- The Childcare facility must be approved by the Care Commission (Scotland).
- The Council must appoint an authorised Child Care Voucher Scheme Provider (normally for a period of up to three years).

The Scheme operates through an Inland Revenue approved facility known as "salary sacrifice" whereby an employee agrees to forego (i.e. sacrifice) some of his/her gross salary over the contractual period and this reduces the amount of salary liable to tax and national insurance contributions. Working parents can request up to £55 per week, or £243 per month, in non-taxable and NIC exempt Childcare Vouchers.

This can lead to savings of up to £904 - £962 per year for standard rate tax payers and £1,195 per year for higher rate tax payers. Savings are dependent upon the amount of vouchers taken, the tax rate of the employee and whether they are in the pension scheme. Both partners with parental responsibility can participate in the scheme for the same qualifying child, potentially doubling the saving per family.

4.3 Issues for Employees Participating in the Scheme

The following are issues for employees who participate in the Childcare Voucher

Scheme:-

- Where the salary sacrifice value would take an employee's hourly rate below the minimum wage per hour then the employee would not be eligible to participate in the Scheme. Employee's would have to be aware of this when joining the Scheme, or if their salary reduced whilst they were in the Scheme.
- As an employee's gross salary is reduced it would have the effect of decreasing Maternity Pay or Statutory Sick Pay during the period of salary sacrifice.
- The childcare element of an employee's Working Tax Credits (WTC) may be reduced by participating in the Scheme. The Inland Revenue helpline is available to advise employees accordingly.
- Salary sacrifice may have an adverse effect on an employee's state pension. There would be no impact on an employee's occupational pension as pension contribution deductions are made from gross salary before salary sacrifice.

4.4 Main Childcare Issues

There are a number of important issues linked to the provision of an efficient and effective Childcare Scheme. Currently, the Council have no schemes specifically designed to assist employees with their costs of childcare although employees have access to flexi time and time off for emergencies. Childcare Vouchers can be used to pay for:

- Registered child minders, nurseries and play schemes
- Out-of-hours clubs on school premises run by a school or local authority
- Childcare schemes run by school governing bodies under the extended schools' scheme
- Childcare schemes run by approved providers, for example, an out-of-school hours scheme
- Approved foster carers (the care must be for a child who is not the foster carer's foster child)
- In Scotland only, childcare given in the child's own home by (or introduced through) childcare agencies (excluding relatives of the child), including sitter services and nanny agencies, which must be registered.

- 4.5 There are numerous Childcare Voucher Scheme Providers currently operating. All these provide the administration required to run a successful scheme, acting as the central agent to allow employees and childcare providers to participate and providing information for Payroll to enable the salary sacrifice to be deducted.

If the Council were to adopt the scheme then the Scheme Provider would be asked to promote the scheme and carry out the bulk of the administrative duties. It should be noted that all Councils contacted use a Scheme Provider.

5.0 PROPOSALS

- 5.1 To proceed with the introduction of a Childcare Voucher Scheme. Although the council could make savings on National Insurance Contributions as per Table 3 below there is also the potential for this to have a cost to the Council (see Appendix 1) if employees chose to continue to receive Childcare Vouchers whilst on Maternity Leave (we would

be liable during the SMP and unpaid period of Maternity Leave).

6.0 IMPLICATIONS

6.1 Finance:

Research has indicated an employee take up of between 1% to 3% in the Scheme. This would equate to 55 employees for a 1% take up and 165 employees for a 3% take up.

Savings would be made by the Council through exemption from employer national insurance costs, however these savings would require to be offset against the administration fee payable to the Scheme Provider and the resources needed to administer the scheme.

Table 3 below provides estimated savings to the Council based on the maximum amount of £243 per month and an administrator fee of 5.5%. It should be noted that this example is based on the assumption that the employee is in the pension scheme and paying standard tax with an N.I. saving of £265 per employee.

Table 3: Estimated Savings to Council

Take Up	Average Annual Voucher Value	Employers N.I. Savings	Scheme Provider Fee	Total Employer Savings
1% = 55 employees	243 x 12 x 55 = £160,380	£14575	£8820	£5755
3% = 165 employees	243 x 12 x 165 = £481,140	£43725	£26462	£17263

The financial advantage to the Council is that during the term of the salary sacrifice the Council would obtain Employer's National Insurance relief on the value of Childcare Vouchers uptake by employees. This can lead to savings of up to £265 per year for standard rate tax payers and £373 per year for higher rate tax payers. However, any saving in NI the Council makes is used to meet the cost of any extra admin costs for Payroll and /or Organisational Development and Human Resources.

6.2 Human Resources:

The Scheme Provider would support the Council to minimise Organisational Development and Human Resources time spent on planning, and implementation by providing project management support, marketing methods/materials and voucher processing. However, this would still require additional resources on start-up.

There will be resource implications for administering the Childcare Voucher scheme, primarily because the total value of the vouchers will vary. The Council would be required to check data from the Scheme Provider against Payroll every month, reporting back issues to the Scheme Provider and adjusting reductions from payroll. The invoice from the Scheme Provider may vary on a monthly basis, therefore reconciliation will be required each month.

By requesting that the Scheme Provider carries out the main administrative duties the effect on Organisational Development and Human Resources should be minimal. The work on reconciliation will fall with Payroll.

The three Ayrshire Councils advised that it did take time to set up the admin procedures and timetable at the start of the project but once these were in place there were no resource implications for Human Resources or Payroll with no additional staff required.

6.3 Legal: None

7.0 CONSULTATION

7.1 An online survey was conducted on ICON between 25th June and 28th October 2008. Corporate Communications also sent an email to all staff in July asking employees to participate in the survey. School support managers were asked to send information about the survey to all staff in their clusters.

7.2 Consultation has taken place with trades unions.

Appendix 1

How changes to the Sex Discrimination Act (SDA) will affect Childcare Voucher Schemes

Childcare Vouchers are considered a non-cash benefit. Therefore, if an employee is taking part in a salary sacrifice scheme to receive childcare vouchers at the point when she goes on maternity leave and she receives Statutory Maternity Pay, she no longer qualifies for salary sacrifice.

This means her employer would be obliged to continue to provide the vouchers during the SMP and unpaid periods of Maternity Leave. In addition, if any employee chooses to take parental leave, we would also be liable to continue their childcare vouchers.

Before the change to the SDA in October 2008, the scheme would have been cost neutral with savings from NI contributions (NIC) paying for any additional administration costs. Although there is now the potential cost of £1947 per employee (£55 maximum vouchers per week x 39 weeks (21 weeks SMP and 13 weeks unpaid) = £2145 less £198 NIC). The impact of the risk to the council is not clear as this will depend on whether:

- the employee takes up the maximum allowance
- the employee returns to work after Statutory Maternity Pay runs out after 39 weeks (further reducing the risk by 25% during the 13 weeks unpaid period)

There would be no obligation to the Council to continue providing the vouchers if the employee chooses to opt out of the scheme prior to maternity leave commencing.

In response to the new legislation, all the Ayrshire Councils will not be withdrawing their schemes and Renfrewshire Council still launched their scheme on 24th February 2009.

The use of Childcare Vouchers by employees will benefit local nurseries in Inverclyde.