

General Purposes committee On 23 October 2006

Report title: Introduction of a childcare voucher scheme

Report of Head of Personnel

1. Purpose

To outline the benefits of having a childcare voucher scheme, employee and employer implications and outline further actions required in order to progress with the scheme.

2. Recommendations

That this committee agree

- a. The introduction of a childcare voucher scheme to eligible employees.
- b. That the scheme will be administered by an external childcare provider
- c. That authority is delegated to the Head of Personnel in deciding on the childcare voucher provider.
- d. That the Childcare Voucher functionality on SAP be configured.
- e. Employee should be subject to a fixed period contract where they agree to purchase vouchers over the set period.

Report authorised by:



for Chief Executive

Contact officer: **Stuart Young, Head of Personnel**

Telephone: **3174**

3. Access to information:

Local Government (Access to Information) Act 1985

No documents that require to be listed were used in the preparation of this report.

4. Background

The childcare voucher scheme's aim is to help with childcare costs. In April 2005 Childcare vouchers became tax and national insurance exempt. In April 2006 the exemption amount was agreed at £55 per week or £243 per month.

This means that the first £243 a month spent on childcare vouchers will be free from tax and national insurance contribution providing the Inland Revenue guidelines are followed. These are:

- That the scheme is generally available to all employees where the scheme operates.
- That employees use the childcare vouchers to pay for registered or approved childcare.

The scheme is a salary sacrifice scheme meaning that the employee will agree to sacrifice a part of their salary in exchange for childcare vouchers and associated benefits. Since the scheme is operated through a salary sacrifice arrangement there needs to be a revised contractual arrangement between the employee and employer for the period that the vouchers are 'purchased'. This is a simple document that can be provided by the chosen childcare provider and would be kept on the employee's personal file. Actual records would be kept by the childcare voucher provider.

The childcare voucher provider can arrange for employees to receive paper based or electronic voucher or for vouchers to be paid directly to the approved registered carer.

The vouchers are pensionable as such the Local Government Pensions Committee recommend that a suitable form of wording be included in the contract of employment to define the value of the Salary Sacrifice as being pensionable (under regulation 13(1)(c)¹ of the Local Government Pension Scheme Regulations 1997). This will remove any possible dispute or challenge regarding the status of the reduction in pay.

5. Implications for Council policy

The scheme brings a number of potential benefits for the Council.

In 2004 the Council introduced the Flexible Working Scheme whereby staff can change their working hours, arrangements to help with balancing work and home priorities. The childcare voucher scheme builds on this by providing financial savings. The cost of childcare is expensive and the high costs mean that some employees struggle financially. As childcare vouchers are tax and NIC exempt (up to a fixed amount) there are financial savings for the employee. This saving will help employees meet the increasing cost of childcare.

The scheme will aid recruitment and retention. Other organisations where the scheme is running have seen an increase in the rate of return after maternity leave. This means that staff with specialist knowledge are retained and costs of recruiting (approx. £7000, based on a salary of £15,000) are avoided.

¹ Regulation 12(1)(b) of the Local Government Pension Scheme (Scotland) Regulations 1998

The scheme supports the notion of being an employer of choice. The voucher scheme will be a valuable incentive for new staff especially for potential applicants that have childcare responsibilities.

6. Proposals

It is recommended that vouchers should be purchased at the same value each month for a fixed period to be reviewed after the scheme has been running for a year. After the year depending on administration costs and take up, the Council will consider options for a more flexible purchase allowing employees choice in varying the amount of vouchers that can be purchased over a period.

The employees standard rate for the scale will be taken into consideration for work related payments, not the salary are the childcare voucher deduction. Where an employee will be having a change to their pay e.g. due to maternity or sick leave they should have the opportunity for opt out of their contractual agreement.

Pay control agree to provide the 'childcare providers' with monthly details of employees deductions and payment for the vouchers on a monthly basis. Pay slips will display as a separate item the deductions. SAP the system currently used for payroll has a facility whereby childcare voucher deductions can be input, this function would need to be running for the voucher scheme to operate.

The childcare voucher provider will work with Personnel to publicise the scheme by a number of methods such as road shows, poster campaigns and providing advice on eligibility, registered childcare and benefits for staff e.g. whether staff should use the scheme if they already receive tax credits.

Personnel will engage in discussions with trade union representatives regarding the implementation of the scheme.

Human Resources have already held meetings with a number of childcare voucher providers however it is proposed that the Council enters into the tender process for a childcare voucher provider and that authority be delegated to the Head of Personnel in deciding this provider.

7. Legal Services Comments

Legally the scheme must follow certain criteria as set down by the Inland Revenue covering the records that are required to be kept; the childcare voucher will be able to hold documents required, these can then be requested when required.

Legal will be involved in the tendering process.

8. Financial Implications

Employer

Childcare voucher providers administering the scheme charge from 4-6% of the value of the vouchers ordered, for this they will generally publicise the scheme, provide information packs, vouchers and provide an information line. The savings the employer makes on NI makes the scheme cost neutral to run.

Employee

If an employee is a member of the Local Government Pension Scheme (LGPS) they will save £9.40 on every £100 of childcare vouchers they elect to receive, if not in the pension scheme they will save £11.00 on every £100 of childcare vouchers they elect to receive.

If an employee is a higher rate tax payer they will save £40 on every £100 of childcare vouchers they elect to receive. If they are a basic rate tax payer they will save £22 on every £100 of childcare vouchers they elect to receive.

Where the amount of vouchers purchased will take the employee below the national minimum wage the employee will not be eligible for the scheme.

The amount of salary reduction in lieu of Child Care Vouchers is treated as pensionable pay from which contributions are to be deducted.

As there is a potential cost saving to the council procurement requires the tendering process to be followed.

9. Equalities implications

The scheme supports family friendly policies such as flexible working currently being run by the council. The cost of childcare can be prohibitive and may mean that some employees are unable to return to work after having a baby, given that the majority of council employees are women there will be a positive incentive for women to return to work after maternity leave thereby retaining their skills and experience.

This scheme promotes work-life balance and is open to men and women. It is open to both parents and individuals with parental responsibility.