

General Purposes committee On 18 December 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**

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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

Committee will appreciate that this report was presented on October 23rd 2006.

In order to consider the matter more fully the Committee asked for more information and clarification around the following:

- Operation of the scheme in other boroughs/ organisations
- Clarification on the use of 'registered childminders'
- Safeguards over fraud

This report is therefore being re-submitted with the above points being addressed in sections 10 and 11.

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.

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 after 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 to 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

The Head of Legal Services has been consulted on the content of this report. The Council has the power to determine the terms and conditions of staff employed by it under the general provisions of Section 112 of the Local Government Act 1972.

The childcare voucher scheme is one whose elements are regulated according to Inland Revenue rules and criteria. Once the scheme is implemented, the Council is required to keep certain records including records related to the following: -

1. evidence that the scheme has been offered to all staff;
2. details of the children using the childcare;
3. details of the child carers used; and
4. evidence of the requirement for employees to inform of any change in status.

The process for the invitation of tenders for the Childcare voucher provider should conform to the Authority's Contract Standing Orders as set out at Part G3 of the Council's Constitution.

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 can save up to £9.40 on every £100 of childcare vouchers they elect to receive, if not in the pension scheme they can save up to £11.00 on every £100 of childcare vouchers they elect to receive.

If an employee is a higher rate tax payer they can save up to £40 on every £100 of childcare vouchers they elect to receive. If they are a basic rate tax payer they can save up to £22 on every £100 of childcare vouchers they elect to receive. If they are a lower rate tax payer they can save up to £10 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.

10. Services offered by providers

Five major childcare vouchers providers were contacted in order to identify the services offered and information required by these types of providers. A list of responses given by each of the providers is given in table 1.

This section summaries all the responses.

Childcare vouchers available – all offer paper and electronic versions

Information required from staff – Most ask staff to complete a variation of contract (if not done by the provider it must be done by the employer) and provide details of children they are eligible to purchase vouchers for.

Marketing of the scheme – Most provide posters, leaflets, pay slip inserts, adverts for intranet. Some provide road shows / presentations.

Information available to staff – This varies, some offer a helpline which is either at a local call rate or a free phone number. Some provide an information pack and others guidance leaflets.

Who can be paid with the vouchers – All the childcare voucher providers are permitted only to release payment to registered / approved (Ofsted/Nester) child carers listed below.

- Registered childminders, nurseries and play schemes
- Childcare schemes run by approved providers
- Out of hours clubs on school premises run by a school or local authority
- Childcare provided in child's own home by an approved carer
- Childcare provided in child's own home by a nurse from a registered agency

- Approved foster carers (not child's carer)

Most will not make payment to a relative unless they are registered and the registration address is different to the parent's address.

Production and dispatch of the vouchers – All providers send paper versions to employee's home address. Providers vary on when paper and electronic vouchers are available.

Support for employer – This varies, all provide an Account manager. Some provide more e.g. a helpline and a Contract Manager.

Minimum uptake – No providers stipulate a minimum uptake figure.

Minimum contract period – Varies from no minimum contract period to 12 months.

Notice required to end contract - Varies from 30 days to 3 months.

Monthly information required by the Council – Confirmation of voucher order. Some request information on leavers and details of where voucher purchase would take staff under the minimum wage.

When is information required – Some providers agree this with the employers, others stipulate 5-7 days before pay day or delivery date.

Administration / data storage and retention - Some providers agree this with the employer, most retain all required documents.

Administration fee and recovery – The administration fee varies between 1.5% and 7% of the amount of vouchers purchased plus VAT.

Accommodation of staff with multiple job positions – Most can accommodate this providing voucher purchase would not take staff under the minimum wage.

Accommodation of casual staff - Yes, providing voucher purchase would not take staff under the minimum wage.

Initiatives in place to prevent fraud – The level and number of initiatives in place varies between providers. All make payments only to registered carers; and require the registered carer to provide a registration certificate. Other initiatives include security features inbuilt in the vouchers, on-line password protected accounts, security questions on the telephone, internal and external audits, cross checking working, allowing staff to either set accounts or process payments but not both, protective software and guidance for staff on information security.

11. Findings from organisations running the childcare voucher scheme – see table 2 for details

Looking at the take up rate in other organisations Haringey can expect between 23-1080 staff to take up the scheme. These figures are based on 9000 staff and the minimum and maximum take-up rate of organisations contacted in table 2. However looking at the take up rate of larger organisations with numbers similar to Haringey the take up rate appears to be about 1%. If this was the case approx 90 staff would take up the scheme each year.

Of the employers contacted all were satisfied with how the scheme runs and the majority were pleased with service provider and scheme in general. Warrington Borough Council reported that they had received feedback from staff that without the scheme they would not have been able to accept job offers.

Administrative charges payable to providers vary from 1.5% - 7% of the value of the vouchers purchased. Hinckley and Bosworth Borough Council who pay the highest administrative fee stated that the tax and N.I savings covered the fee. Based on this we would not anticipate any problems in implementing the scheme in the Council.

An estimate of the savings that could be made from a 1% take up rate based on information from one provider (Fair Care) is outlined below.

Description	Lower rate Tax Payer	Higher rate Tax Payer
Gross Salary	£20,000	£40,000
Childcare Vouchers Value per annum	£2,916	£2,916
Taxable salary	£17,084	£37,084
Employer NI saving at 12.8%	£375	£375
Minus Provider (Fair Care) management fee at 5%	£146	£146
Net Employer saving (Employer NI saving minus management fee)	£227	£227
Employee Tax saving (33% or 41% dependant on lower or higher tax rate payer)	£962	£1,195
Estimated Total Net employer saving	£16,376	£4,094
EMPLOYER	TOTAL SAVING	£20,470

All employers' contacted report that only a minimal level of resources (involving Personnel, Payroll and Finance) is required to administer the scheme each month and that childcare voucher providers did most of the publicity and administration. Based on this we would not anticipate any impact on staffing resources if implementing the scheme in the Council

Table 1 – Childcare voucher providers – Information required and services provided

	BusyBees	KiddiVouchers	Faircare	Leapfrog	Sodexo
Childcare vouchers available	Paper, electronic or both	Paper, electronic or both	Paper, electronic or both	Paper, electronic or both	<p>Paper, electronic or both</p> <p>Electronic Password protected Credited on pay day All transactions can be viewed on-line Notification is given when payment is made Family accounts can be set up where both parents participate so they need to make only one payment</p> <p>Paper vouchers Valid for 18mths Unique barcode Security features on the paper</p>
Information required from staff	Staff must sign a variation of contract which states they are the legal parent or guardian.	Employees must provide details of eligible children's names and date of birth and must sign saying they will only claim for eligible children	Employees must provide details of eligible children's names and date of birth and must sign saying they will only claim for eligible children	Completion of a registration form and variation of contract	Completion of the salary sacrifice form

	BusyBees	KiddiVouchers	Faircare	Leapfrog	Sodexo
Marketing of the scheme	Provide posters, leaflets, pay slip wraps, intranet & e-mail campaigns, road shows and open days.	Provide posters, leaflets, pay slip wraps, intranet pages	Provide posters, leaflets, pay slip wraps, intranet & e-mail campaigns, road shows and open days.	Presentations, posters, e-mail campaigns, leaflets, intranet adverts	Agreed marketing plan Posters Employee leaflet Parent information pack Carer information leaflet Email campaigns Presentations / road shows Pay slip inserts Ongoing promotion Awareness questionnaires Employee feedback survey Others listed above
Information available to staff	Parent information pack provided Customer service free phone number	Website Electronic and paper information leaflets Local rate help line E-mail helpdesk	Not stated	Parent information packs Helpline	Guidance Free phone help line

	BusyBees	KiddiVouchers	Faircare	Leapfrog	Sodexo
Who can be paid using the vouchers	<p>Ofsted approved carers.</p> <p>This may include</p> <p>Registered childminders, nurseries and play schemes</p> <p>Childcare schemes run by approved providers</p> <p>Out of hours clubs on school premises run by a school or local authority</p> <p>Childcare provided in child's own home by an approved carer</p> <p>Childcare provided in child's own home by a nurse from a registered agency</p>	<p>Ofsted approved carers.</p> <p>This may include</p> <p>Registered childminders, nurseries and play schemes</p> <p>Childcare schemes run by approved providers</p> <p>Out of hours clubs on school premises run by a school or local authority</p> <p>Childcare provided in child's own home by an approved carer</p> <p>Childcare provided in child's own home by a nurse from a registered agency</p> <p>Cannot include a relative unless they are registered and the registration address is different to the parent's address.</p>	<p>Ofsted approved carers.</p> <p>This may include</p> <p>Registered childminders, nurseries and play schemes</p> <p>Childcare schemes run by approved providers</p> <p>Out of hours clubs on school premises run by a school or local authority</p> <p>Childcare provided in child's own home by an approved carer</p> <p>Childcare provided in child's own home by a nurse from a registered agency</p> <p>Cannot include a relative unless they are registers and the a registration address is different to the child's address.</p>	<p>Ofsted approved carers.</p> <p>This may include</p> <p>Registered childminders, nurseries and play schemes</p> <p>Childcare schemes run by approved providers</p> <p>Out of hours clubs on school premises run by a school or local authority</p> <p>Childcare provided in child's own home by an approved carer</p> <p>Childcare provided in child's own home by a nurse from a registered agency</p> <p>Cannot include a relative unless they are registers and the a registration address is different to the child's address.</p>	<p>Ofsted approved carers.</p> <p>This may include</p> <p>Registered childminders, nurseries and play schemes</p> <p>Childcare schemes run by approved providers</p> <p>Out of hours clubs on school premises run by a school or local authority</p> <p>Childcare provided in child's own home by an approved carer</p> <p>Childcare provided in child's own home by a nurse from a registered agency</p> <p>Approved foster carers – not the child's foster carer</p>

	BusyBees	KiddiVouchers	Faircare	Leapfrog	Sodexo
Production and dispatch of the vouchers	Paper vouchers sent to employees home	Employees must access them from an on-line account, if paper versions are required they must print them off	Paper vouchers dispatched within 24 hours of pay day and electronic vouchers are available within 24hrs of receiving employers funds	Available from e-voucher account online or posted to their home or work address.	Available from e-voucher account online or posted to their home address.
Support for employer	Dedicated Contract Manager, Account Manager and internal processing team.	Detailed payment scheme 20 days before pay ay Dedicated account manager	Helpline Account Manager	Account Manager	Account Manager Customer care helpline
Minimum uptake	None	None	None	None	None
Minimum contract period	One pay period But can administer any contract period we ask of staff	None	3 months	12 months	12 months
Notice required to end contract	3 months	30 days	1 month	1 month	30 days
Monthly information required from council	Make payroll deductions Pay invoice	Information on staff where purchase of the vouchers would take them under the minimum wage	Will provide a list of staff and ask for confirmation of any leavers	Confirmation of payroll schedule and voucher order	Approval of monthly order spreadsheet
When is information required	Payment is required 5 days before pay date	Above information required at least 7 days before payday.	Agreed with employer	Agreed with employer	Above required 7 days before delivery date

	BusyBees	KiddiVouchers	Faircare	Leapfrog	Sodexo
Administrati on / data storage and retention	Not provided	On-line sign up constitutes a variation of contract which can be printed off. Provider will keep a record. When an employee leaves they will provide details of payments made.	Agreed with employer	Maintain all paperwork, papers are kept for a minimum of three years. Employer must keep the variation of contract which is provided.	Fulfil all record keeping requirements on the employers behalf
The administrati on fee and recovery	Payment can be made by Direct debit BACS Cheque	Fee 1.5% plus VAT Invoices payable 7 days before pay date.	Fee 4-6% plus VAT	5% plus VAT	Management fee plus VAT. 4.5-6%. This varies depending on take up rate and frequency of orders
Accommoda tion of staff with multiple positions	Yes providing they do not go under the minimum wage	Yes, can indicate that someone has multiple positions to fulfil minimum wage requirements.	Yes	Yes providing they do not go under the minimum wage	No
Accommoda tion of casual staff	Yes providing they do not go under the minimum wage	Yes providing they do not go under the minimum wage	Yes	Yes providing they do not go under the minimum wage	Yes providing they do not go under the minimum wage

	BusyBees	KiddiVouchers	Faircare	Leapfrog	Sodexo
Initiatives in place to prevent fraud	<p>Vouchers cannot be redeemed by anyone else but the carer detailed on the voucher as each carer is given a unique serial number</p> <p>Payment can only be made to a carer registered with the provider. The carer must provide a copy of their registered or approved certificate.</p> <p>For online retrieval carers must enter a unique password</p> <p>Providers staff are not allow to both set up and make payments on the same account preventing fraudulent accounts being set up.</p> <p>Achieved BS EN ISO 9000:2000 are internally inspected twice a year and externally audited once a year</p> <p>Fully compliant with the Data Protection Act</p> <p>Full guidance given to staff on use of e- mail, internet abuse, information security.</p> <p>Protective computer software.</p>	<p>Payments made to registered carers only and all work is cross checked.</p>	<p>Random tests on eligibility criteria</p>	<p>Vouchers can only be used by the registered parent guardian and redeemed by the registered carer. Their details are printed on the vouchers to ensure this.</p>	<p>Electronic vouchers are password protected</p> <p>Security questions on the telephone</p> <p>Paper vouchers have security features similar to bank notes</p> <p>Have never had an incident of forgery</p> <p>Payment can only be made to a carer registered with the provider. The carer must provide a copy of their registered or approved certificate.</p>

Table 2 – Feedback from employers where a childcare voucher scheme has already been set up.

Name of organisation	Take up rate	Exchange of information	Resources	Set up costs / Admin charge	Other information provided	Satisfaction with scheme
Manchester City Council	0.4% 100 out of 28000 staff	Spreadsheet uploaded from employer and payroll make deductions	Provider dealt with most of the publicity and the admin resource required in the set-up was minimal.	Information unavailable	Are working with the providers towards a launch for teachers	Happy with how the scheme works.
Greenwich Council	0.25% 27 out of 12500 staff	Information unavailable	Admin resource is minimal; provider did most of the publicity.	Information unavailable	Work with Surestart who send out leaflets on the scheme.	Happy with the scheme and its simple process
East Devon District Council	2.4% 12 out of 500 staff	Spreadsheet uploaded from employer for HR to authorise and log and payroll make deductions	Admin resource is minimal; provider did most of the publicity	7% admin charge based on number of vouchers purchased each month	Did take several months to implement	Have no issues with the service and are happy with the scheme.
Kennett District Council	12% 30 out of 250	Information unavailable	Provider did most of the work setting up the scheme and there is a minimal monthly admin resource required	Information unavailable		Happy with the service, have had no problems with leavers/ overpayments.

Name of organisation	Take up rate	Exchange of information	Resources	Set up costs / Admin charge	Other information provided	Satisfaction with scheme
Hinckley and Bosworth Borough Council	2.1% 8 out of 380 staff	Information unavailable	Provider did most of the work setting up the scheme. The council advertised on the intranet. There is a minimal monthly admin resource required	No set up costs 7% admin charge based on number of vouchers purchased each month Savings on tax and N.I which offset the admin charge		User friendly scheme with good after sales follow up.
Warrington Borough Council	0.6% running for 2 weeks only 23 out of 4000 staff	Information unavailable	Some administration required by HR who receive the applications (most providers do this on behalf of the employer) and issue variations of contracts and by payroll who make deductions Did not tender	Information unavailable		Very pleased, have received feedback that without the scheme staff would not have accepted a job with the council.
Daventry District Council	1.25% 5 out of 400 staff	Information unavailable	Minimal admin resource required by payroll and finance	Information unavailable		No issues and are happy with the scheme.
Trowers and Hamlin	4.4% 20 out of 450 staff	Information unavailable	Minimal admin resource required by payroll and finance	Monthly 1.5% admin charge based on number of vouchers purchased each month plus VAT		Have had no issues and are happy with the scheme.

Name of organisation	Take up rate	Exchange of information	Resources	Set up costs / Admin charge	Other information provided	Satisfaction with scheme
Financial Risk Management Ltd	4.6% 6 out of 130 staff	Information unavailable	All enquiries dealt with by provider. Only a minimal admin resource is required.	Monthly 1.5% admin charge based on number of vouchers purchased each month plus VAT		Very pleased with the scheme, was set up very simply with just a phone call.
141 Worldwide	12% 42 out of 350 staff	Information unavailable	No impact as payroll is outsourced.	Monthly 1.5% admin charge based on number of vouchers purchased each month plus VAT		Happy with the scheme and the admin charge.