

REPORT TO THE EMPLOYMENT COMMITTEE MEETING OF 14th DECEMBER 2016

Meeting: Employment Committee

Date: 14th December 2016

Subject: Salary Sacrifice Schemes

Report of: HR Manager

Portfolio Holder: Councillor King

Status: Decision

Relevant Ward(s): None

1 Purpose of Report

1.1 To outline key information on the operation of and option for salary sacrifice schemes for members of the committee.

1.2 Following the introduction of the Cycle to Work Scheme to provide further information on the other salary sacrifice schemes available.

1.3 To note that the available salary sacrifice schemes have been constrained following the recent Autumn Statement

1.4 To consider offering two new salary sacrifice schemes, namely childcare vouchers and the purchase of annual leave schemes to employees following evaluation.

2 Recommendations:

2.1 **To consider the introduction of childcare vouchers and the purchasing of annual leave schemes under a salary sacrifice arrangement.**

Subject to 2.1

2.2 **To recommend to Council**

(a) That the Council introduce a purchase scheme of annual leave and childcare voucher schemes for the 2017/18 tax year and beyond

(b) To delegate to the Head of Finance and Corporate Services and the Head of Legal and Democratic Services to enter into contractual arrangements as appropriate to operate and administer the schemes.

3 Summary of Reasons for the Recommendations

- 3.1 HM Revenue and Customs (HMRC) have finally announced the reforms to tax and employer National Insurance Contribution (NIC) rules where benefits are provided as part of a salary sacrifice arrangement. The majority of salary sacrifice schemes have had tax and NIC advantages removed. However, childcare vouchers and purchasing annual leave are still within the salary sacrifice framework. The new rules come into affect from the 6th April 2017.
- 3.2 Increased benefits will aid staff retention, increase motivation and feeling of being valued at a time of austerity and possible further rationalisation of resources over the next two to three years.

4 Impact on Communities

- 4.1 A motivated workforce who feel valued and rewarded, thereby leading to an increase in productivity.
- 4.2 Portraying a more positive forward thinking image for potential candidates as a good employer to work for locally, offering benefits in line with competitors.

5. Key Facts

- 5.1 From April 2017, the tax and employer National Insurance advantages of a number of salary sacrifice schemes will be removed so that the salary sacrificed is subject to the same tax as cash income. The exemptions are, to childcare, purchasing annual leave and Cycle to Work schemes. The latter was successfully implemented at Harborough District Council earlier this year.
- 5.2 Salary sacrifice arrangements normally take the form of an employee agreeing to give up cash remuneration in return for some form of non-cash benefit in kind. Once that salary is given up it is not chargeable to income tax nor is it liable for employee or employer NICs.

Example:

An employee's current contract provides for cash remuneration of £40,000 a year with no benefits. The employee agrees with the employer that in future the employee will be paid cash remuneration of £39,500 a year and provided with a salary sacrifice scheme valued at £500. The employer operates pay as you earn (PAYE) on £39,500 of salary rather than £40,000.

The impact of benefits in kind and salary sacrifice schemes have become more apparent to staff with the recent changes to the tapering of child benefit payments introduced a couple of years ago

5.3 Salary sacrifice is a change to an employee's terms and conditions under the employment contract. Salary-sacrifice schemes are set up with the primary aim of converting cash pay that is subject to tax and Class 1 national insurance contributions to a non-cash benefit that has a different tax or national insurance treatment, thereby making a potential tax (employee only) and national insurance (employee and employer) saving.

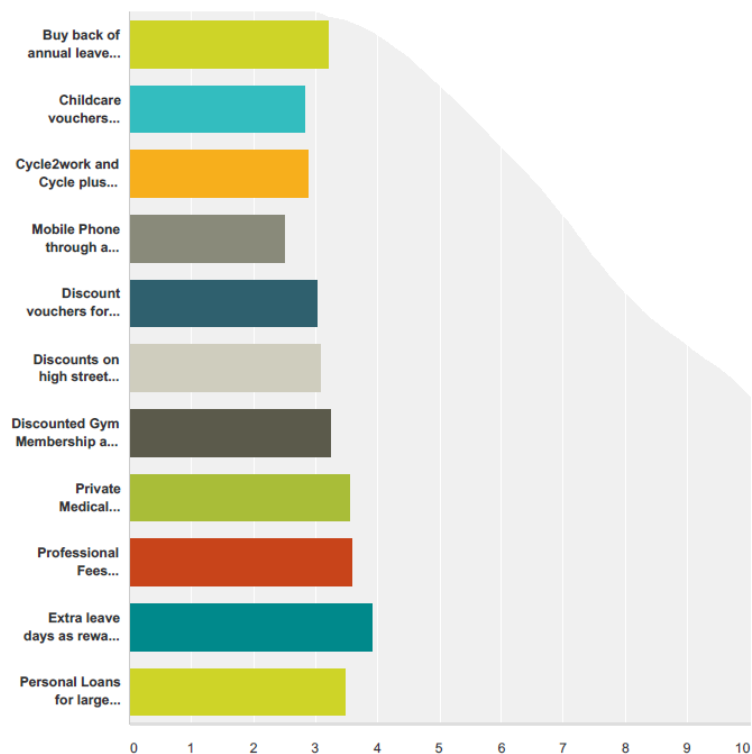
5.4 Staff benefits currently offered by Harborough District Council are:

- the option to join the Local Government Pension Scheme
- additional annual leave after five years continuous service
- Cycle to work scheme
- flexible working and flexi time
- discounted gym membership (not through salary sacrifice)
- use of the staff car park (in accordance with the travel policy)

Please note, not all of these benefits are open to the whole workforce.

5.5 A recent pay and benefits staff survey carried out by East Midlands Councils in September 2015, (see appendix A) looked at the type of schemes available under the salary sacrifice framework applicable at the time. This clearly showed the attractiveness of salary sacrifice schemes as part of an overall recruitment and retention framework.

5.6 Overall the purchasing of annual leave was the 6th highest rated benefit, whilst childcare vouchers were ranked as the 10th most popular benefit.



- 5.6 Salary sacrifice schemes play a significant role in reward schemes at other local authorities within Leicestershire and nationwide. Currently, Harborough only offers the cycle to work scheme (that three employees to date have applied to).

5.7 Purchasing Annual Leave

The purchasing of annual leave is seen as an attractive benefit to exiting staff as evidenced through the staff survey results. This allows the Employer and the employee to consider working patterns that support work-life balance and generates an income stream to the Council. Discussions with other Councils in Leicestershire where this is on offer indicate that their schemes are very popular amongst their workforces and are an integral part of the package of employee benefits that promote recruitment and retention. It is important to note that the Council is not promoting buy back of leave from employees and will continue to encourage employees to take all of their allocated leave

- 5.8 The Council can save the amount of salary the employee has sacrificed plus the employer National Insurance contributions on this amount, thereby cutting the salary bill without compromising overall productivity: Recent studies suggest that an increase in annual leave allowance can reduce absenteeism and positively influence productivity.
- 5.9 Extra annual leave had wide appeal to the majority of staff who responded to the survey.
- 5.10 Employees can apply to take a salary sacrifice in exchange for extra days annual leave beyond their normal annual holiday entitlement. A maximum number of days will be stipulated (normally no more than one week's additional leave). Any buy back request over 1 week will be considered by the Head of Paid Service.
- 5.11 Employees can spread the cost of the extra days by agreeing to a monthly deduction from their gross salary, thus reducing the immediate financial impact.

5.12 Childcare Vouchers

The provision of childcare vouchers has been operating within organisations for many years (though not currently in Harborough District Council). For many parents the option of reducing the high cost of childcare is a desirable 'benefit' to offset the high cost of childcare and to widen the opportunity of childcare providers on top of the Government's 'free offer' of childcare

- 5.13 Voucher schemes are an integral part of the government's childcare policy and are operated through employers offering the scheme (often accessing national frameworks). They allow parents to pay for their childcare needs out

of their pre-tax salary. For parents the advantages are both clear and beneficial.

- 5.14 Working parents can claim up to £55 per week in childcare vouchers operated through the scheme. The allowance applies to each person, so a working couple could actually claim two sets of vouchers, which equates to £486 per month.
- 5.15 Childcare vouchers can be used from the moment a baby is born right up to the age of 15, or 16 if the child is disabled.
- 5.16 Employees who are basic-rate taxpayers save up to £933 a year
- 5.17 Employers savings over the tax year in NIC is up to £402 a year per scheme member
- 5.18 The Council could access existing frameworks for childcare vouchers via existing ESPO framework

5.19 Other Benefits of Salary Sacrifice Schemes

The last staff survey highlighted the desire of a number of staff for the Council to consider other benefits in addition to the core salary determined by the Council's pay and grading framework. This is important as a recent East Midlands Council report found that Harborough District Council's pay levels when compared with other public sector/not for profit organisations were typically at the lower quartile to average pay point for the sector. The ability for existing and potential employees to be access a wider range of benefits than just core salary is therefore considered essential as part of a modernisation of our benefits package to support recruitment and retention.

- 5.19 Next years pay award has already been agreed nationally by the NJC at 1%. In the absence of being able to increase base pay, the modernising of our benefits package with the implementation of additional staff benefits will bring Harborough District Council more in line with other local employers, both private and public sector, making us a more competitive and attractive to work for.
- 5.20 Increased benefits will aid staff retention, increase motivation and feeling of being valued at a time of austerity and possible further rationalisation of resources over the next two to three years. In the recent consultation on changes in travel expenses employees have highlighted that the offer of additional benefits through salary sacrifice schemes could help mitigate against other changes in terms and conditions.
- 5.21 Additional staff benefits will assist candidate attraction and will make Harborough District Council more competitive.

5.22 A salary sacrifice arrangement results in savings for employers gained from the employer part of the national insurance contributions liability. This in addition to any income from buy back schemes (i.e. annual leave) will therefore contribute to the delivery of efficiency savings targets contained within the MTFs over the next three years and beyond.

5.23 Childcare voucher providers can be sourced through the ESPO framework.

6 Legal Issues

6.1 A variation to employees' contracts will need to be issued for those employees choosing to sacrifice part of their salary under these schemes.

6.2 When introducing a salary sacrifice scheme, HMRC must be satisfied that the salary sacrifice is effective for tax purposes; otherwise the employee's full salary will be subject to PAYE tax and Class 1 national insurance contributions.

6.3 Salary sacrifice arrangements cannot reduce an employee's pay below the national minimum wage rates.

7 Resource Issues

7.1 Employer set-up costs of a salary sacrifice scheme using in house resources are minimal.

7.2 There may be an initial peak in workload from staff wishing to take advantage of a scheme. This will involve an HR Advisor and Payroll Officer to administer a variation to contract and make the adjustment in liaison with Leicester City Council to the pay statements to reflect the salary sacrifice reduction.

7.3 Discussions with Unison Representatives will need to be held to ensure they are aware of the benefits and the financial implications of the schemes and that employees views are taken into account when implementing such schemes.

8 Equality Implications

8.1 Those employees who are on a lower salary may not be able to partake in the schemes to the same degree as someone who is higher paid due to the salary sacrifice taking them below the national minimum wage.

8.2 This does not mean salary sacrifice schemes do not satisfy equality legislation. If a specific tax exemption requires that a benefit is made available to all employees, then this condition must be fully satisfied, whether or not all employees are able to participate in a salary sacrifice arrangement. However, where the only reason that employees are excluded from a childcare scheme is because of low cash earnings, this does not prevent the

tax exemption from applying, where the childcare benefit is made available generally to all other employees.

9 Impact on the Organisation

9.1 Minimal set up cost.

9.2 Positive impact on retention and recruitment.

9.3 An increase in motivation and productivity as staff will feel more valued and better rewarded.

10. Risk Management Implications

10.1 There are no specific additional risks arising from the adoption of the two additional schemes.

11 Consultation

11.1 None required.

11.2 Discussions with Unison Representatives will be required so employee views are taken into account when considering appropriate schemes.

12 Options Considered

12.1 To adopt one (or both) of the two schemes detailed within this report of the

12.2 Not to adopt either salary sacrifice schemes

Previous report(s): Employment Committee Report 19 January 2015 Terms & Conditions Review,

Information Issued Under Sensitive Issue Procedure:

Ward Members Notified: No

Appendices:

Appendix A – Staff Survey Report on Pay and Benefits September 2015