

WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Corporate Services

Tendering Committee – 28 May 2008

Subject: Salary Sacrifice – Childcare Voucher Scheme - Tendering of the Scheme

1. Purpose

1.1 This report seeks Committee authority to tender for the service provision of a Childcare Voucher Scheme to be implemented within the Council in line with the requirement of best value and efficient government.

2. Background

2.1 Childcare Vouchers were introduced by the Government from 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 The Scheme operates on the basis that an employer appoints an authorised Childcare Voucher Scheme Provider to administer the Scheme and issue vouchers on behalf of the employee to an authorised Child Carer/Organisation.

2.3 By participating in a Childcare Voucher Scheme the Council would enhance its standing as a family friendly employer sensitive to the issues parents face in balancing their working lives with concern for their children's welfare. Research has indicated that whilst it may have a minimal effect on attracting employees to an organisation it proves to be a significant factor in retaining employees.

2.4 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 Councils have either already introduced a Scheme or are in the process of introducing one.

2.5 It is proposed to let the new contract for 2 years with the possibility of an extension of a further 1 year at the Council's discretion, it is proposed that the contract is put out to tender in June 2008 with a view to awarding the new contract at the end of September 2008. It is anticipated that the new contract will be in place and operating by December 2008.

3. Main Issues

3.1 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. 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

Interest in the Scheme

3.2 Scheme Provider information suggests an average uptake in the Scheme of between 1%-3% employees. An initial survey by the Working Group asking employees to express an interest in the Scheme provided 60 expressions of interest, which equates to just less than 1% of employees.

Conditions of the Scheme

3.3 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).

3.4 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 £916 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.

- 3.5** 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 Voucher uptake by employees.
- 3.6** The Childcare Voucher Scheme Provider charges the Council a fee of normally around 5.5% of total voucher value, and the cost of this would be offset by the Council from savings on Employer's National Insurance relief. The Voucher Scheme Provider would be appointed through the appropriate procurement process of advertising in the press, issuing a specification to interested providers and a selection panel. The Voucher Scheme Provider receives the employee's "sacrificed" payments from the Council, issues the vouchers to the Child Carer/Organisation and undertakes the necessary administration and link with the Child Carer/Organisation.
- 3.7** Research has also shown that there may be benefits of offering the Scheme more than once per year and the Working Group is anticipating the Scheme being offered twice a year, (Easter and August) although new employees will be allowed to join during the course of the year and new parents will also be allowed to join after the birth or adoption of a child.

Issues for Employees Participating in the Scheme

- 3.8** 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.

Scheme Provider Selection

3.9 There are several 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. The tendering exercise will be undertaken in line with the Council's tendering procedures.

3.10 A cross section of Service representatives from HR, Payroll, Education, H.E.E.D.S, and Social Work are involved in the development of the specification and will be involved in the selection of the Childcare Voucher provider. Scheme providers have indicated that a scheme could be in operation within 6-8 weeks of the contract being awarded.

4. Personnel Issues

4.1 There will be resource implications in 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.

4.2 The Scheme Provider would support the Council to minimise HR time spent on planning, and implementation by providing project management support, marketing methods/materials and voucher processing.

5. Financial Implications

5.1 Research has indicated an employee take up of between 1% to 3% in the Scheme. This would equate to 65 employees for a 1% take up and 195 employees for 3% take up.

5.2 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.

5.3 Table 1 below provides estimated savings to the Council based on an average spend per participating employee of £200 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 earnings do not exceed the upper earnings limit.

Table 1: Estimated Savings to Council

Take Up	Average Annual Voucher Value	Employers N.I. Savings	Scheme Provider Fee	TOTAL EMPLOYER SAVINGS
1% = 65 employees	200 x 12 x 65 £156,000	£14196	£8580	£5616
3% = 195 employees	200 x 12 x 195 £468,000	£42588	£25740	£16848

6. Risk Analysis

- 6.1** The main financial risk of Salary Sacrifice Schemes is early leavers refusing to pay the remaining balance of the lease. With Childcare Vouchers there is no product that is loaned for an extended period and therefore this risk is nil. The Scheme Provider would supply a list of participants every month for Payroll to check and any leavers or employees in a low pay situation would be identified and removed from the list. This should mean that the Council is not charged for vouchers for leavers, and employees would not fall below the minimum wage.
- 6.2** Unlike the previous Home Computing Salary Sacrifice Scheme, there is no open period for participation in the Scheme. Employees can enter into a scheme or withdraw from a scheme at any time. This creates a need for ongoing administration of the Scheme. However, some providers may require a commitment from the employee for a minimum period of 12 months of constant sacrifice per pay period and therefore this may restrict some temporary employees from participating in the scheme. This could be seen as potentially discriminating against temporary workers and therefore the specification will ask that there is no minimum participation period.

7. Conclusions

- 7.1** The Childcare Voucher Scheme is an excellent employee benefit for eligible employees and should have a positive impact on recruitment and retention of employees. This cost effective Scheme will further our credentials as a family friendly employer and in our approach to flexible working. The tendering exercise will be undertaken in line with the Council's tendering procedures.
- 7.2** The Council will benefit by reduced Employers' National Insurance Contributions. These savings will cover the costs charged by the Childcare Scheme Voucher Administrator and the costs of the additional workload in HR and Finance in establishing the scheme, liaison with supplier, staff communication, salary sacrifice and continuing scheme administration.

8. Recommendations

- 8.1** It is recommended that the Tendering Committee supports the proposal to submit the Childcare Voucher Scheme to a “tender” exercise in line with the current tendering process.

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Appendices: N/A.

Background Papers: N/A

Wards Affected: N/A