



General Purposes Committee
6th February 2006

**Report from the Director of Human
Resources and Diversity**

For Action

Wards Affected:
ALL

Report Title: Childcare Voucher Scheme

1.0 Summary

- 1.1 This report concerns the provision of a childcare voucher scheme for Brent council employees and also seeks the endorsement of the General Purposes Committee for employees to participate in a Salary Sacrifice Scheme, in order to receive Childcare Vouchers.

2.0 Recommendations:-

That members:

- 2.1 Approve the introduction of a Childcare Voucher scheme as outlined in this report
- 2.2 Agree the adoption of a Salary Sacrifice Scheme as outlined in this report
- 2.3 Agree that employer's savings made under the scheme, in the first instance, are used to cover the initial set up cost.
- 2.4 Agree that the cost of maintaining the scheme is paid for, out of the money generated as a result of the savings made by the Council.
- 2.5 Agree that employees are limited to taking a maximum of £50 per week (£217 per month) in Childcare Vouchers.

2.6 Agree that the Director of Human Resources and Diversity has delegated authority to raise the level at which the scheme is capped in the future, in accordance with HM Revenue and Custom changes and to decide the terms on which Childcare Vouchers will be offered to the Council's employees.

3.0 Detail

3.1 The government, as part of its Childcare Strategy reviewed the treatment of employer supported childcare in 2003. It sees employers as playing an important role in helping people balance work and family life, and in particular helping parents meet their childcare needs. Providing Childcare Vouchers supports the government's Childcare Strategy and is an initiative officers believe the council should adopt.

3.2 The council introduced a Worklife Balance Policy in 2004, which recognised the increasing demands for employees to have a balance between their work and home commitments. The policy covers a number of initiatives including flexible working. The Childcare Voucher Scheme is a family friendly initiative and is a flexible way of an employer offering support to employees with childcare responsibilities. Vouchers are often viewed as an attractive benefit that, as well as contributing to the retention of staff, could also act as an incentive for potential new employees.

3.3 On 6th April 2005 the value of the benefits of providing employees with help towards the cost of childcare was increased. From this date an employee could now benefit from savings on both tax and national insurance. Childcare Vouchers are non taxable and exempt from national insurance contribution up to a limit of £50 per week or £217 per month. As the vouchers are also exempt from employer national insurance contributions, the employer will make a saving as well. For an employee, participation in the Childcare Voucher Scheme could represent an annual saving between £800 to £1000 a year.

3.4 There are qualifying conditions laid down by the government around the use of Childcare Vouchers. These are:

- 1) The vouchers can only be used towards the payment of childcare providers that are Ofsted registered or approved.
- 2) The child receiving the care provision must be a child or stepchild of the employee and maintained wholly or partly at the employee's expense, or a child who lives with the employee and for whom the employee has parental responsibility.
- 3) The voucher can be used for a child up to the 1st September following their 15th birthday or 1st September following their 16th birthday if they are disabled.

3.5 The Childcare Voucher Scheme proposed for Brent Council is to be operated via a Salary Sacrifice Scheme. Under this scheme the employee will give up the contractual right to receive part of their salary due under their contract of employment. The sacrifice is made in return for the employer's agreement to provide the employee with a form of non cash benefit, which in this case

would be childcare vouchers. The value of the vouchers will be treated as pensionable pay for the purposes of the Council's pension scheme so as not to impact on the employee's final pension.

- 3.6 The Salary Sacrifice Scheme requires a contractual change in the terms and conditions of the employee. Under this scheme the employee will give up their right to return to their original salary for a minimum period of 12 months. The Council will have a discretion to allow the employee to return to their original salary within this period which will be exercised in appropriate cases e.g. a reduction in the employee's working hours.
- 3.7 The proposed scheme will be capped at a maximum of £50 per week or £217 per month, as this is the maximum level at which employees will save on tax and national insurance.
- 3.8 Under the revised contractual arrangements between the employee and the council, the employee will be entitled to lower cash remuneration and a benefit (childcare vouchers). This will have an impact, as it will reduce the employee's entitlement to earnings related benefits.
- 3.9 Accepting childcare vouchers may mean that some employees will be in jeopardy of going under the national minimum wage. The council has a legal obligation to ensure that this does not happen. Where this is likely to occur, the employees in question will not be permitted to participate in the scheme.
- 3.9 Employees participating in the Childcare Voucher Scheme also run the risk of going under the Lower Earnings Limit (LEL). This is the lowest level of income at which you will pay national insurance contributions. Although there is no statutory regulation to stop an employee's pay from falling below this limit, it would be unwise for an employee to do so. Going under the LEL will affect contribution-based benefits such as incapacity benefit, Jobseekers Allowance and state pensions. Earnings related benefits can also be affected if cash earnings are reduced to less than the LEL and hence entitlement to earnings related benefit will be reduced. Earnings related benefits include Maternity Allowance and the State Second pension which forms part of the State Pension. Employees who fall below the LEL will lose entitlement to work related payments such as Statutory Maternity Pay (SMP) and Statutory Sick Pay (SSP).
- 3.10 Although the scheme offers some savings employees will need to consider the potential effect that a reduction in their pay may have on benefits such as Statutory Maternity Pay or Working Tax Credit. Guidance produced to accompany the scheme will make this point explicit.
- 3.11 The scheme will be publicized through a number of mediums, including the intranet, payslips, the Children's Information Service and presentations by the voucher provider. Copies of the scheme and guidance will also be available on the intranet. Information on the scheme will be available in the staff handbook.

- 3.12 The administering of the issuing and redeeming of the childcare voucher will be carried out by an external provider. The Director of Human Resources and Diversity has delegated power to award the contract for this service under Part 4 of the Constitution.

4.0 Financial Implications

- 4.1 The Childcare Voucher Scheme is to be introduced on a self financing basis. However, there will be initial set up costs. The set up costs will include establishing a payroll procedure for childcare vouchers and taking legal advice regarding contractual changes to the employment contract and the service level agreement. Human Resources and Diversity will cover the initial set up costs estimated to be £5k, which will be recouped from the savings made by operating the scheme.
- 4.2 The gross savings generated by the Childcare Voucher Scheme for the employer will be approximately 10 per cent of the employer's national insurance contribution per employee.
- 4.3 The childcare voucher provider's service charge is 5.5 per cent of the value of vouchers ordered.
- 4.4 The council must inform HM Revenues and Customs that they have introduced a Childcare Voucher Scheme. Approval for the scheme will then be sought from HM Revenues and Customs. It is not possible to obtain approval for a scheme prior to its introduction.

5.0 Legal Implications

- 5.1 Participation by a Council employee in the proposed Childcare Voucher Scheme will require a legally binding variation of that employee's contract of employment with the Council. Legal Services have worked with Human Resources and Diversity in developing a standard form agreement which will need to be signed by participating employees before the Scheme is given effect in their case.

6.0 Diversity Implications

- 6.1 None as the scheme will be available to all members of staff.
- 6.2 The Childcare Voucher Scheme will be monitored via the take up of the scheme and the number of related enquiries.

7.0 Staffing/Accommodation Implications (if appropriate)

- 7.1 The scheme is offered to all employees however, teachers' terms and conditions exclude them from participating in a Salary Sacrifice Scheme.

Background Papers

None

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