

EAST AYRSHIRE COUNCIL

CORPORATE GOVERNANCE COMMITTEE - 29 SEPTEMBER 2005

SALARY SACRIFICE EMPLOYEE BENEFITS SCHEME

Report by the Depute Chief Executive/Executive Director of Corporate Support

1. PURPOSE OF REPORT

- 1.1** The purpose of this report is to recommend the introduction for all employees within the Council of a Salary Sacrifice Employee Benefits Scheme in relation to the Home Computer Initiative and Child Care vouchers.

2. BACKGROUND INFORMATION

- 2.1** East Ayrshire Council has a commitment to the development of policies that introduce flexibility into working arrangements to the benefit of the Council, its employees and the Community that it serves as well as assisting in the retention of employees within the Council.
- 2.2** The Government have recently been introducing more incentives to employers to provide tax-free employee benefits including Salary Sacrifice.
- 2.3** A salary sacrifice happens when an employee gives up the right to part of the remuneration due under his/her contract of employment. Usually, the sacrifice is made in return for the employer's agreement to provide the employee with some form of non-cash benefit. The "sacrifice" is achieved by varying the employee's terms and conditions of employment relating to remuneration.
- 2.4** In the past, the term salary sacrifice was mainly used to refer to the giving up of rights to future cash remuneration in return for employer's contribution to an approved retirement benefits scheme. Now it is used to describe any situation where an employee gives up a right to future cash remuneration in return for a benefit in kind.
- 2.5** The Government is keen to develop Salary Sacrifice Initiatives and has introduced tax legislation to encourage employers to provide home computing equipment and child care vouchers to employees.

3. HOME COMPUTING INITIATIVE

- 3.1** In the Finance Act 1999 the Government introduced a £500 annual tax exemption from the taxable benefit on loaned computing equipment.
- 3.2** The scheme was introduced to encourage greater home computer use within the UK population through tax incentives for both employers and their employees. It is therefore an employee benefit which also provides a source of savings for the Council.
- 3.3** The Scottish Executive is actively supporting the scheme and has recently conducted a European Procurement exercise which has identified BT/Dell as the preferred supplier for the public sector at this time.
- 3.4** Under the scheme the employer, supported by the selected computer supplier offers employees a selection of the latest specification desk top computers, laptops and other qualifying peripherals e.g. printers, keyboards and monitors. A 3 year warranty, home delivery and a low cost technical helpdesk are also included.
- 3.5** The computer manufacturer sells the equipment to a finance company who then owns the equipment. The Council leases the equipment from that provider and sub leases it to its employees by way of an employee hire agreement (i.e. a signed contractual document) which requires the employee to be responsible for the computing equipment's safekeeping and for having it insured.
- 3.6** The equipment is paid for over a 3 year period by reducing the employee's gross salary and during this time it remains the property of the Finance Company. At the end of the 3 years the employee can either decide to return the equipment whereby they would be required to pay a collection fee which would be taken from their net pay or they can elect to purchase the equipment on separate terms. If they decide on the latter option ownership would transfer to the employee on payment of a cash sum representing the fair market value of the equipment, from net salary. No taxable benefit would arise in respect of employees taking up this option.
- 3.7** There are benefits for both employees and employers under this initiative. To participate in the scheme the employee must agree to a reduction in their gross salary over the three year period. This is known as 'salary sacrifice', which reduces the amount of salary liable to tax and National Insurance contributions during the three year payment period. The Council will also benefit from savings in employer's National Insurance Contributions.
- 3.8** The maximum salary sacrifice that an employee could use under the HCI would be £500 per annum for the 3 year period with the actual cost being dependant upon the computer specification selected by the employee.

- 3.9** To participate in the Scheme employees must be over 18 years of age and have an expectation to remain with the Council during the 3 year period. During the three year hire period employees are unable to leave the scheme except where they cease to be employed by the Council.
- 3.10** At the end of the salary sacrifice period the employee would return to being paid their full salary with normal income tax and National Insurance deductions being made.
- 3.11** The NI and taxation savings together with the preferential pricing from the supplier means that the employee can obtain computer equipment at extremely competitive prices compared to normal prices available on the high street.
- 3.12** In order to effectively manage demand, the opportunity for employees to hire equipment would be offered in two discrete periods of four weeks during the year. Full details of the Home Computer Initiative will be communicated to all employees.

4. CHILD CARE VOUCHERS

- 4.1** Since April 2005, employees are now eligible to receive up to £50 per week of their childcare costs free of tax and National Insurance when their employer provides them with childcare vouchers for registered carers.
- 4.2** The process involves the employer signing up to a childcare voucher company and paying an administration fee for the service. The voucher company then supplies the vouchers, either directly to the employer to distribute them or directly to the employee. Upon receipt of the voucher, the employee simply 'pays it' to the childcare provider, who then redeems the value of the voucher from the voucher provider, usually by direct payment into their bank account.
- 4.3** Under the salary sacrifice arrangement, any childcare vouchers up to a maximum of £50 per parent per week will qualify for income tax and National Insurance exemption.
- 4.4** Employees are not required to change anything regarding their current childcare arrangements provided that the current carer is registered with the Care Commission, as the voucher scheme simply changes the way they pay their existing carer with the child carer redeeming the vouchers with the childcare voucher company.
- 4.5** There are a number of childcare voucher companies who would administer the voucher scheme on an ongoing basis on the full administration option which attracts a service charge of 5.5% of the value

of vouchers ordered. Under this option, the childcare voucher company will collate the orders, arrange payroll mandates, produce and distribute the vouchers.

- 4.6 The childcare voucher company would provide, at their expense, relevant promotional material to make employees aware of the scheme.

5. ISSUES RELATING TO SALARY SACRIFICE SCHEMES

- 5.1 Salary Sacrifice Schemes by reducing an employee's gross salary may have a potential impact on an employee's Maternity Pay, State Pension, Working Tax Credit, Child Tax Credit and Statutory Sick Pay as well as have an impact for those employees near the minimum wage or close to retirement.
- 5.2 There would be no impact on an employee's occupational pension accrual as pension contributions would still be based on the employee's gross salary prior to salary sacrifice deduction.
- 5.3 Appropriate promotional material will be issued to employees informing them of the general potential impact of salary sacrifice schemes. However, employees will need to investigate any potential impact on their own personal circumstances prior to participating in the Scheme.
- 5.4 The Payroll Section of the Finance Service will require to amend their systems to take into account employees' salary sacrifice reductions.

6. FUTURE SALARY SACRIFICE INITIATIVES

- 6.1 The Government are considering extending the use of salary sacrifice schemes to other Initiatives e.g. purchase of mountain bikes. It is therefore, recommended that the Head of Personnel be authorised to introduce further Salary Sacrifice Initiatives as they arise in the future.

7. FINANCIAL IMPLICATIONS

- 7.1 Any additional administrative costs associated with the introduction of the Salary Sacrifice Scheme will be offset by the savings arising from the reduction in employers National Insurance contributions.
- 7.2 With regard to child care vouchers, the savings will be based on the value of vouchers ordered by employees less the service charge of 5.5% which will be met from the savings in employers national insurance costs.

8. POLICY / LEGAL IMPLICATIONS

- 8.1** The adoption of a Salary Sacrifice Employee Benefits Scheme will assist in the retention of employees within the Council and supports the Council's principle of being an employer of choice as the cost of childcare is one of the main barriers preventing parents, predominately women from returning to the workplace which conform to the Improving Opportunities Theme contained within the Community Plan. The Home Computing Initiative will promote the development of IT skills and conforms to the Promoting Community Learning Theme contained within the Community Plan.

9. TRADE UNIONS

- 9.1** The proposal is subject to consultation with Trade Unions

10. RECOMMENDATIONS

- 10.1** The Corporate Governance Committee is asked to:

- (a) approve the adoption of a Salary Sacrifice Employee Benefits Scheme in relation to the Home Computer Initiative and Child Care vouchers, subject to consultation with Trade Unions;
- (b) authorise the Head of Personnel to introduce further Salary Sacrifice Initiatives as they arise in the future.
- (c) otherwise note the content of the report.

Elizabeth Morton
Depute Chief Executive/
Executive Director of Corporate Support
27 July 2005

LIST OF BACKGROUND PAPERS

Nil

Anyone wishing further information should contact Martin Rose, Head of Personnel (Telephone 01563 576092).