

READING BOROUGH COUNCIL

REPORT BY HEAD OF HR AND ORGANISATIONAL DEVELOPMENT

TO:	PERSONNEL COMMITTEE		
DATE:	8 NOVEMBER 2018	AGENDA ITEM:	5
TITLE:	SALARY SACRIFICE SCHEMES		
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 From January 2019, Reading Borough Council is proposing to implement three new salary sacrifice schemes, for a workplace nursery, Additional Voluntary Contributions (AVCs) and lease cars, which allow employees to save on tax and National Insurance. The schemes will provide a valuable recruitment and retention incentive to employees and will also enable the Council to make savings on Employer's National Insurance contributions.
- 1.2 Salary sacrifice schemes allow employees to exchange a part of their salary for a non-cash benefit from their employer. Employees pay for the benefit from gross salary, which means that the employee does not pay tax and National Insurance on the part of the salary that has been sacrificed. This also means that the Council does not pay Employer's National Insurance contributions on the part of the salary that has been sacrificed by employees.
- 1.3 The schemes proposed in this report support the Council's aim to provide valued recruitment and retention incentives to employees.
- 1.4 The implementation of the Additional Voluntary Contributions (AVCs) salary sacrifice scheme is dependent on the Council changing its Statement of Policy about Exercise of Discretionary Functions under the Local Government Pension Scheme. It will need to be amended to allow it to pay a contribution where an employee has elected to pay an AVC by salary sacrifice. The Statement is included in the Pay Policy Statement as Annex E. A revised Statement is attached as Appendix 1.

2. RECOMMENDED ACTION

- 2.1 To seek agreement on the introduction of salary sacrifice schemes for a workplace nursery, Additional Voluntary Contributions (AVCs) and lease cars.
- 2.2 To seek approval to amend the Council's Discretions Policy to allow the Council to pay shared cost Additional Voluntary Contributions where an employee has elected to pay AVCs by salary sacrifice.

3. POLICY CONTEXT

3.1 The Council has implemented a number of salary sacrifice schemes in the past:

- (a) Childcare Vouchers
- (b) Cycle to work
- (c) Bus to work scheme

3.2 These have proved popular as an employee benefit and produced National Insurance savings for the Council. The bus to work scheme is no longer running due to changes made by HMRC. The childcare voucher scheme has been closed to new applicants from 4 October 2018, also due to changes made by HMRC.

4. THE PROPOSAL

4.1 Current Position:

a) Workplace Nursery

Reading Borough Council runs its own workplace nursery - Kennet Day Nursery. The Nursery currently has 64 places and over the summer had 90% occupancy (which is higher than normal). The occupancy rate changes throughout the year but generally stays above 85%.

The Council runs a childcare voucher scheme. All childcare voucher schemes across the country closed for new applicants on 4 October 2018, but will continue for anyone already in the scheme. Parents are only able to sacrifice a maximum of £243 per month using the childcare voucher scheme, but will be able to sacrifice the entire cost of childcare under the workplace nursery scheme. The average monthly cost at the Kennet Day Nursery is around £695.

b) Additional Voluntary Contributions (AVCs)

AVCs are a means of allowing Local Government Pension Scheme (LGPS) members to contribute more money to their pension. It is a tax free deduction from their salary. Currently, around 4% of LGPS members at the Council do so.

c) Lease Cars

The Council does not currently run any form of lease car scheme.

4.2 Options Proposed

a) Workplace Nursery

From experience, the provider has estimated that 90% of Kennet Day Nursery users who are employees of the Council will use the salary sacrifice scheme. The management fee for the Council will be 2% of the annual childcare fee paid by all users of the nursery. The fee will be paid for two years, the cost of which will be taken from the Employer's National Insurance contributions savings made by the Council. At the end of two years, the Council will retain all savings made. As an indicative figure, this means that the fee will be around £19,000 for two years. The saving to the Council will be around £130,000 for two years based on current usage, from which the management fee will be taken.

b) Additional Voluntary Contributions (AVCs)

Paying AVCs through salary sacrifice will allow employees to add more money to their pensions by not paying National Insurance contributions on the amount sacrificed. The saving of tax and National Insurance can be used to make additional contributions to an employee's individual pension pot. The introduction of other salary sacrifice schemes means that pension contributions may be reduced; this option allows employees to offset the reduction by taking up the AVC opportunity.

From experience, the provider expects an average take up rate of 5% of existing LGPS members.

The management fee will be 4% per year for three years, the cost of which will be taken from the Employer's National Insurance savings made by the Council. At the end of three years, the Council will retain all the National Insurance savings. As an indicative figure, this means that the total management fee for three years will be around £45,000; the saving to the Council will be around £189,000 for three years from which the management fee will be taken.

Under the terms of the Local Government Pension Scheme, where an employee opts to pay AVCs, an employer can also contribute to the employee's AVC fund. This is known as a shared cost AVC (SCAVC). The employee agrees to a reduction in salary equivalent to the amount of salary that will be sacrificed. In practice, the Council pays this amount from the employee, on the employee's behalf, and does not have to make its own contribution. Both parties must contribute to the scheme, and to ensure compliance under Local Government Pension Scheme regulations, the employee must pay a nominal £1. For example, if an employee sacrifices £100 to be paid into the AVC fund, the Council will pay £99 (via salary sacrifice from the employee's salary) and the employee will pay £1.

The employee benefits by not paying tax and National Insurance. The Council benefits by not paying National Insurance (13.8%) or the apprenticeship levy (0.5%) on the amount sacrificed.

The Council's Statement of Policy about Exercise of Discretionary Functions under the Local Government Pension Scheme will be need to be amended to allow it to pay a contribution where an employee has elected to pay an AVC by salary sacrifice. The Statement is included in the Pay Policy Statement as Annex E. A revised Statement is attached as Appendix 1.

c) Lease Cars

Under this scheme, the employer leases the car from the provider. The employee enters into a three year agreement to lease the car from the Council. The monthly cost will depend on the value of the car.

Cars are available for the employee without the need to provide a deposit and no credit check is made. However, employees will be provided with a full breakdown of the monthly cost by the provider so that they can check affordability. In addition, salary cannot be sacrificed to a level below the national minimum wage.

For the employee, there are tax and National Insurance savings made through salary sacrifice and the monthly cost of the car includes:

- Fully comprehensive insurance

- Maintenance and servicing
- A new, more fuel efficient car
- European breakdown and recovery (and courtesy car)
- Annual road fund licence

For Reading Borough Council, there are savings made through salary sacrifice and some of the other benefits of the scheme are:

- Encouraging employees to drive more modern, fuel efficient cars (the Council will have the option of only allowing 'greener' cars to be leased through the scheme by limiting CO2 emissions, e.g. to 120g/km)
- Little administration with the costs easily covered by the savings on Employer's National Insurance contributions
- No management fee is payable as the employee will deal directly with the provider
- Supports sustainability as electric cars and more fuel efficient cars are available
- The employee is responsible for all early termination costs which will be covered by an insurance built into the monthly cost paid by the employee

The provider estimates that around 2% of employees will use the scheme. The saving on employer's NI contributions will depend on the employee's choice of car, but an 'average' car can result in £688.29 National Insurance saving each year (£51,622 per annum, if 2% of employees use the scheme).

National conditions of service for teachers do not currently allow them to enter a lease car salary sacrifice scheme.

5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 The implementation of the lease car scheme can work alongside Reading Borough Council's initiative to contribute to a green and healthy planet. The scheme allows employees to choose electric and low emission cars at an affordable cost. The Council can set the emission level with the scheme provider.
- 5.2 All the schemes allow participants to make financial savings, which can contribute to employee recruitment and retention.

6. COMMUNICATION AND CONSULTATION

- 6.1 The schemes will need to be communicated carefully to employees as salary sacrifice is not suitable for everyone. For example, the payments that are sacrificed from an employee's gross salary to fund a lease car have the potential to reduce their pension contributions and to affect any tax credits.
- 6.2 A communications plan for the three schemes will be drawn up, in consultation with Joint Trade Unions, if approval is given by this Committee. The provider for each scheme will also provide template communications and assist in promoting them, e.g. by running road shows and drop in sessions for employees to attend at Council work places.

7. EQUALITY IMPACT ASSESSMENT

- 7.1 All employees are able to participate in the proposed salary sacrifice schemes. No particular group will be impacted more than any other.

8. LEGAL IMPLICATIONS

- 8.1 Contract Procedure Rule 4.2 (c) will apply. This states that an exemption can apply where the number of suppliers or contractors for any particular type of works, services or supplies is limited or may be available from only specialist suppliers and the available market is such that genuine competition is impossible.

9. FINANCIAL IMPLICATIONS

- 9.1 All salary sacrifice schemes should be cost neutral, as any management fees will come out of the savings that are made by not paying Employer's National Insurance contributions on the amounts sacrificed. The actual savings will depend on the number of employees who join the salary sacrifice scheme.

The estimated savings in Employer's National Insurance contributions for the next four years are shown below, less any management fee payable by the Council. These are based on current costs.

Scheme	Estimated Employers NI savings, less management fee 2019/20	Estimated Employers NI savings, less management fee 2020/21	Estimated Employers NI savings, less management fee 2021/22	Estimated Employers NI savings 2022/23
Nursery	£55,500	£55,500	£65,000	£65,000
AVCs	£48,000	£48,000	£48,000	£62,962
Lease cars	£51,622	£51,622	£51,622	£51,622
Total	£155,122	£155,122	£164,622	£179,584

NB: The management fee for the nursery is 2% for two years. For AVCs it is 4% for three years. There is no management fee for the lease car scheme. The employer's NI savings are based on the cost of an 'average' car; for this example, a Peugeot 208 1.5 litre. It is not possible to fully quantify the employer's NI savings for this scheme as it depends on the type of car leased by the employee.

10. BACKGROUND PAPERS

None.