

REPORT TO: THE MORAY COUNCIL: WEDNESDAY 18 APRIL 2007

SUBJECT: EMPLOYEE BENEFITS

BY: HEAD OF PERSONNEL SERVICES

1. REASON FOR REPORT

- 1.1 To ask Committee to consider The Moray Council offering a wider range of Employee Benefits to its staff.
- 1.2 This report is submitted to Committee in terms of Section a (34)(b) relating to the remuneration, conditions of service and allowances of all posts.

2. RECOMMENDATION

- 2.1 It is recommended that Committee consider The Moray Council offering a wider range of Employee Benefits to its staff, initially Child Care vouchers and a Cycle to Work Scheme.
- 2.2 It is recommended that Committee consider an Employee Benefits Tender for the employee benefits detailed in the report.
- 2.3 It is recommended that savings made from earlier implemented schemes would be passed to future employee benefit schemes to enable the Moray Council to offer an increased range of flexible benefits.
- 2.4 It is recommended that Committee delegate authority to The Head of Personnel Services regarding the ongoing development and expansion of the benefits offered to staff, using the principles highlighted in this report.
- 2.5 It is recommended that Personnel report back to Committee in 12 months.

3. BACKGROUND

- 3.1 Employers are increasingly recognising the value of their staff and are looking at different ways to reward them. The Moray Council recognise that our staff have diverse needs and have already demonstrated this through our flexible family friendly policies and committing to equal opportunities every day in the workplace.

- 3.2 The Moray Council has approximately 5000 staff with an age profile varying from 17-70. Local Government employment comprises of the widest possible range of job types covering all spectrums of working life.
- 3.3 Just like our staff group, Employee Benefits is a diverse area. This requires us to be flexible in what we offer our staff, hopefully meeting individuals needs regarding what an employer can offer. Being one of the largest employers in Moray, The Moray Council should work towards being an employer of choice.
- 3.4 The term 'employee benefits' applies to a range of benefits that an organisation provides to its employees in addition to the various forms of cash pay. In its broadest sense the term includes pensions, sick pay, redundancy etc.
- 3.5 Currently the Moray Council offers a range of benefits to staff including a final salary pension scheme, occupational maternity and sick pay, flexi time, leave, learning and development and discounts at a number of local retail outlets.
- 3.6 Highland Council have already implemented the Cycle to work Scheme and are currently progressing Child Care Vouchers, they also offer local discounts to employees. Aberdeen City are due to introduce Child Care vouchers in the forthcoming weeks and are working on plans to expand employee benefits. Other authorities nationally are offering their staff a wider range of varied benefits, providing a range or varied options to suit everyone.
- 3.7 The Moray Council previously provided an Employee Benefits Directory which was provided by an external provider, this offered a range of products and services from both local and national organisations. The directory was unsuccessful due to delays in publication and consequent loss of currency.
- 3.8 Employee benefits should support our culture and what we are trying to achieve e.g. Health and work – looking at the well being of our staff, promoting wellness, achieving a work life balance – becoming an employer of choice.
- 3.9 It is suggested that the Council introduces an employee benefits package that will provide a flexible range of benefits to its employees, the main reasons being:
 - As part of a more comprehensive Recruitment and Retention strategy to help combat the difficulties the Council has experienced recently, and
 - In a wider context as part of Phase II of the implementation of the Single Status Agreement in December 2006.
 - To become an Employer of choice

4. **Benefits**

- 4.1 Initially it is proposed to provide employees access to Child Care Vouchers and the Cycle to Work Scheme, with provision of a more comprehensive flexible benefits package to follow.
- 4.2 The reason that the above two benefits are being proposed is primarily due to demand from employees – a lot of interest has been raised regarding these benefits. These benefits are also cost neutral to provide and the savings that we make can be fed into other benefits for our staff (outlined in 4.30).
- 4.3 It is proposed to tender for a provider to provide several benefits including Child Care vouchers and the Cycle to Work Scheme initially, then increasing the provision of benefits over time depending on our requirements.
- 4.4 **Child Care Vouchers** provide a simple and cost effective way for Employers and Employees to obtain valuable Tax and National Insurance savings through Child Care costs using a salary sacrifice scheme.
- 4.5 A family friendly organisation offering a Child Care scheme as part of their Employee Benefits package can also retain its competitiveness in the labour market – a high percentage of parents think that family friendly policies will become more important to them over the next five years.
- 4.6 Employees (each parent) can take up to £55 of vouchers per week tax and NI* free giving savings of up to £1195 per year. For example, 75 employees taking £243 of vouchers per month can save us as the employer up to £16,400 per year (before supplier fee deducted). They can be used for registered or approved Child Care providers including:
- Day nurseries
 - Childminders
 - Crèches
 - Holiday Clubs
 - Before & after school clubs
- 4.7 Child Care Vouchers have become a recognised payment method for Child Care. All eligible working parents, with children under 16, are entitled to Child Care Vouchers for the above approved Child Care, regardless of tax status.
- 4.8 Child Care costs that employees meet directly through Child Care Vouchers cannot be taken into account for tax credit purposes. Employees will need to seek advice from the Tax Credit helpline to receive advice on the implications vouchers may have on their tax credits.
- 4.9 The supplier will undertake the administrative activities, including all the marketing to employees, order taking and a provision of a helpline. The supplier takes approximately 5% of the Voucher total as their fee, which we would pay out of the savings from the employer's National Insurance contributions.

* NI assumed at 7.5% which is an average Employers contribution for The Moray Council

- 4.10 Indications from Child care vouchers suppliers are that they all provide a similar comprehensive service that is flexible to council employees. There have been many enquires over the last year regarding vouchers.
- 4.11 The following highlights typical savings to be made by employees:

How Much can I save?					
Annual savings based on monthly Child Care costs of					
Annual Salary	£50	£100	£150	£200	£243
£34k + (40% tax)	£246	£492	£738	£984	£1196
£10k -£33k (Basic tax)	£198	£396	£594	£792	£962

- 4.12 **Cycle to Work Scheme** encourages employees to cycle to work and potentially allows us as an employer to reap the benefits of healthier workforce.
- 4.13 To promote healthier journeys to work and to reduce environmental pollution, the 1999 Finance Act introduced an annual exemption, which allows employers to loan cycles and cyclist's safety equipment to employees as a tax-free benefit. The exemption was one of the series of measures introduced under the Governments Green Transport Plan.
- 4.14 Utilising the initiative, the council as a public sector employer will be able to participate. The employee must agree to a reduction in their monthly gross salary over the specified period. The amount of this monthly deduction will depend on which cycle and safety equipment package the employee decides to choose and will re-pay their loan.
- 4.15 There is no limit to the total value of the equipment including the cycle, although the Office of Fair Trading (OFT) has advised the group consumer credit licence will cover schemes up to a value of £1000.
- 4.16 The Cycle to Work Scheme would be offered via a "salary sacrifice" arrangement. Under such arrangements, the employee agrees to sacrifice some of their salary / wage in return for the loan of the equipment. Because the sacrifice is made from gross pay, employees who are above the relevant Income Tax and National Insurance thresholds will have lesser reductions on account of these. The Council may be able to reclaim VAT on the leasing cost of the cycles and equipment. This would allow further savings which together with the tax and NI* savings could reduce the cost to employees by up to 40% on the full (VAT inclusive) cost.
- 4.17 The tax exemption removes the tax that would otherwise apply to cycles and cyclist's safety equipment loaned to employees provided certain conditions are met:

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- Ownership of the equipment is not transferred to the employee during the loan period
 - Employees use the equipment mainly for qualifying conditions (i.e. for journeys made between the employees home and workplace, or part of these journeys, or for journeys between one workplace and another).
- 4.18 The supplier will undertake most of the administrative activities, including all the marketing to employees, order taking and a provision of a helpline. With the cost borne by the supplier, the burden to the public sector employer is minimal. This is further enhanced by the fact that all savings in employer's National Insurance contributions accrue to the employer, from this there would be a 5% cost to pay to the supplier.
- 4.19 At the end of the loan period, The Moray Council may choose to give the employee the option to purchase the equipment at a substantially less value of the original cost to transfer ownership. Alternatively, The Moray Council may wish to allow their employees to continue to use the cycle without transferring ownership, as long as the tax exemption conditions are met (see 4.17).
- 4.20 There has been a lot of interest regarding this scheme, especially following The Moray Council's Environmental Awareness day.
- 4.21 Further Employee Benefits including health, dental, optical and alternative medicine would also be included in the tender document along with leisure and cultural discounts providing savings on sports, leisure, holidays travel, shopping and theatres.
- 4.22 Savings made from earlier implemented schemes would be passed to future employee benefit schemes to enable the Moray Council to offer an increased range of flexible benefits.
- 4.23 The issues around the scheme relate to eligibility and varying levels of benefit. The vast majority of Council staff would be eligible to participate in Child care vouchers and the cycle to work scheme
- 4.24 For the cycle to work scheme, there are certain conditions an employee must meet to be eligible, including being able to fulfil the terms of the lease contract by meeting full cost of the lease over the agreed term. This will particularly affect employees whos employment may be due to end in the near future, e.g. due to retirement or the end of a temporary contract. Under the rules of the scheme, any leavers are required to pay the full remaining cost of their package back to The Moray Council from their final net pay; therefore the tax and NI* benefits on the remaining term would be lost.
- 4.25 Employees under the age of 18 are ineligible. It is a criminal offence to send material inviting anyone under 18 to obtain goods/services on a hire agreement.
- 4.26 Employees on or near the National Minimum Wage (NMW), who, if participating in either scheme, would drop below the NMW hourly rate are ineligible under legislation.

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- All full time, permanent staff would be eligible, but some of the lowest paid employees in part-time (although permanent) could be ineligible, depending on 3 factors: hourly rate, number of hours worked and the bicycle package chosen. Employees with lower earnings may not benefit from the Tax and National Insurance savings provided by the salary sacrifice arrangement. The lower the cost of the bicycle packages, the greater the number of eligible staff.

4.27 With reference to salary sacrifice schemes:

- Employees on long term sick leave may have up to 26 weeks full pay and 26 weeks half pay, then no pay. It is proposed that the contracted salary sacrifice should ordinarily continue through full pay and half pay periods. Also, it is proposed that a payment holiday of up to 26 weeks be allowable on exception, where the employees intention is to return to work. Under the rules of the scheme, employees who do not return to work are treated as leavers and would be required to pay the remaining cost of their package back to The Moray Council. It is proposed, that we retain the right to review each case on an individual basis and are sensitive to the employees circumstances. The same flexibility would apply to death in service.
- It is proposed that people on paid maternity leave continue to sacrifice salary as agreed. Where the employee chooses to extend leave of absence, it is proposed that a payment holiday of up to 26 weeks is allowed in line with current policy on maternity provisions. Payments would continue on the employees return to work. Under the rules of the scheme, employees who do not return to work are treated as leavers and would be required to pay the remaining cost of their package to The Moray Council.

4.28 Why should The Moray Council implement a wider, new range of benefits for our staff?

- It demonstrates that The Moray Council cares about its staff and understands their needs
- They are easy to implement and hassle free to run
- We can tailor promotions around The Moray Councils staff profile
- These are benefits that are available across the workforce
- We are investing in The Moray Council's employees and still making savings(highlighted in 4.31)

4.29 **A wider range of benefits** – The tender will be looking for a supplier to provide arrange of benefits as highlighted in this report. By utilising one supplier, this will hopefully secure a lower percentage fee and a more focused promotion and delivery of benefits.

4.30 The Moray Council also hopes to offer access to the following product areas in the future:

- Lifestyle – travel, leisure, entertainment and shopping
- Healthcare – dental, optical

- Insurance – travel, home, motor, caravan, pet, extended warranty, yacht/boat and personal accident

4.31 The funding for introducing these benefits would be cost neutral, in that there would be no upfront costs for The Moray Council. Estimated figures using a single supplier (taking into account the fee payable to the supplier and two launches of both Child Care Vouchers and the Cycle to work scheme):

Cycle to work – Costs are based on two launches, 2% and then 1% take up, an average cycle price of £400 and NI* saving at 7.5%

Total approx saving to TMC =£4500 per annum

Child Care Vouchers – Costs are based on two launches, 2% & then 1.5%(based on 2600 employees in the benchmarked age profile), an average of £200 month of Child Care Vouchers and NI* saving at 7.5%

Total approx saving to TMC=£16400 per annum

Year 1 Total annual saving £20,900

Fee to Supplier £ 1,045

Total net Saving £19,855

To introduce further benefits such as Lifestyle, the savings made could be used to contribute towards these. These would be discussed with Finance as options and savings arise.

4.32 Another option would be to tender for a each benefit separately, with a different supplier providing each benefit. Although a specialist provider may be sourced for each benefit, this would mean that The Moray Council may then have higher supplier fees, a higher resource requirement within The Moray Council to co-ordinate the benefits from different suppliers and may not be able to source as many discounts or savings.

5. **Summary of Implications**

(a) **Corporate Development Plan/Community Plan/Service Improvement Plan:** Employee benefits are reflected as a measure of how good an employer/organisation is. Therefore, implementing further benefits will assist the objective of being a good employer.

(b) **Policy and Legal:** There are no legal or policy implications.

(c) **Resources (Financial, Risks, Staffing and Property):** There are no specific resource implications due to the management of the projects by the supplier. All other staffing implications regarding eligibility etc are covered in the body of the report.

It is understood that employees participating in the Cycle to work scheme or Child Care Vouchers via salary sacrifice would be eligible to pay contributions on their full salary. This will be investigated with the Pension Scheme administrators as part of development of the scheme.

The Moray Council would be required to provide information regarding eligible staff, there will also be some payroll activity to set up the salary sacrifices and also the requirement to flag up the need to take action to recover outstanding sums. There may be some resource implications regards liason with the supplier from the Payment section.

The Moray Council may want to review the provision of cycle racks to encourage the take up of the scheme. A cost would be attached to this provision but is unknown at this time.

The Moray Council could make net saving of £19,855 if the take up rate is as predicted in 4.31.

(d) Consultations: CMT have been consulted with the above.

6. CONCLUSION

6.1 The Moray Council recognise that our staff are diverse and have already demonstrated this through our flexible family friendly polices and committing to equal opportunities in the workplace. It is suggested that The Moray Council provides a wider range of benefits to its staff. The enhanced range of benefits should support our culture including Health and Work and achieving a worklife balance. A wider range of benefits will also form part of our Recruitment and Retention Strategy, part of Phase II of the implementation of Single Status and help us to become an employer of choice.

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Background Papers:
Ref: [p/admin/reports/p&r/employee benefits](p/admin/reports/p&r/employee%20benefits)