



People, Performance and Development Committee
17 July 2015

Changes to Conditions of Service

Purpose of the report:

This report sets out changes to Surrey Pay terms and conditions of employment in respect of:

- i) The process for buying annual leave under the council's flexible benefits policy; and
- ii) Eligibility to access MyBenefits employee voluntary benefits.

Recommendations:

It is recommended that:

1. The council operates a net pay scheme for staff buying annual leave with effect from 1 January 2016 annual leave year.
2. The MyBenefits voluntary and flexible benefits scheme is open to all non-Surrey Pay staff and elected members within the council with immediate effect.

1 Introduction:

- 1.1 As part of the ongoing work within the Reward Team, changes to regulations and legislation are considered in the context of the Council's Reward Policy. In addition pay reviews are undertaken in order to ensure efficiencies and best practice.
- 1.2 This report addresses changes to Pension regulations in relation to the treatment of annual leave purchase schemes and reviews overall access to MyBenefits employee benefit scheme.

2 Pension Regulation Changes and Salary Sacrifice Scheme for Buying Leave

- 2.1 The council operates a salary sacrifice scheme for buying and selling annual leave. There is a good take up of the scheme which has been growing since it was introduced. See table 1 for number of staff who participated in the scheme between 2012 and 2015.

Table1: Buying and Selling of Annual Leave 2012-2015

Scheme Year	2012	2013	2014	2015
No of staff who sold leave	215	209	207	192
No of staff who purchased leave	609	635	677	744
Total	824	844	884	936

- 2.2 Under the current operation of the scheme both the employer and employee benefit as tax and national insurance contributions are not paid on the leave purchased. In addition, as a salary sacrifice the amount of leave purchased did not affect employee pension contributions.
- 2.3 Under the current scheme, the purchased leave has no adverse impact on staffing budgets, since both the salary and on-costs (national insurance) on the purchased days are cost savings. This means that the service managers are in a position to afford back fill arrangements if necessary.
- 2.4 Under new Government regulations introduced in April 2014 the purchase of additional annual leave through a salary sacrifice scheme is no longer considered as counting towards pensionable pay. This new regulation does not affect holiday entitlement that is sold through salary sacrifice. The impact of this new regulation will reduce the value of employees' pensions. Employees will however have the opportunity to top-up their pension through additional voluntary contributions.
- 2.5 Consideration has been given to the possibility of continuing to offer this benefit as a salary sacrifice, whereby the employee and employer will continue to benefit from relief in income tax and national insurance contributions for the purchased days. However, under this arrangement the council must be able to calculate, inform and agree changes to pensions with each employee purchasing leave. This will be untenable given the considerable additional administration in calculating and agreeing the pension scheme implications for each case.
- 2.6 It is proposed that with effect from 1 January 2016 purchase of annual leave is managed as a deduction from net pay rather than gross pay, avoiding an impact on the value of employee's pension and the additional processing; and making sure that employers' contributions are appropriately paid. The scheme would be adjusted from 1 January 2016, with a staff communications plan to commence from autumn 2015.

Impact and issues

- 2.7 For most staff the effect on their net pay will be much the same under the current method of calculating the deduction as shown in the example below:

Current Salary Sacrifice Scheme:

Assuming hourly rate of £10

Tax @20% £ 2 saving

NI Contributions @10% £ 1 saving

Total employee net cost of one hours' annual leave = £7

New Net Pay Scheme:

Total employee cost of one hours' annual leave to be deducted from net pay = £7

- 2.8 The proposed change will however have an impact on team budgets, as the current scheme produces a saving to the cost centre (in terms of salary and employers' NI contribution). The proposed net pay scheme will show a saving of only approximately 59% of the previous amount - as this is now proposed to be a net pay scheme. Gross costs plus on-costs are now replaced by net pay.

Table 2: Directorate Impact on Net Pay Annual Leave Purchase Scheme:

No. Of ee's purchasing leave per directorate 2015	Directorate	Ave. Days	Ave. Pay	Existing Total Directorate Savings (incl on-costs)	New Scheme Total Savings	Per Employee Per 6 Days					New Scheme Directorate Total Loss
						Existing Gross Cost Savings	Plus 12.5% On Cost	Existing Scheme Savings	New Net Cost Savings (66% of B)	Total Loss Per 6 days	
A						B	C		D	(B+C)-D=E	AxE
172	ASC	6	£ 25,000	£ 111,329	£ 65,313.56	£ 575.34	£ 71.92	£ 647.26	£ 379.73	£ 267.53	£ 46,015
108	BS	6	£ 25,000	£ 69,904	£ 41,010.84	£ 575.34	£ 71.92	£ 647.26	£ 379.73	£ 267.53	£ 28,893
109	CEO	6	£ 25,000	£ 70,551	£ 41,390.57	£ 575.34	£ 71.92	£ 647.26	£ 379.73	£ 267.53	£ 29,161
272	CSF	6	£ 25,000	£ 176,055	£ 103,286.56	£ 575.34	£ 71.92	£ 647.26	£ 379.73	£ 267.53	£ 72,768
48	C&C	6	£ 25,000	£ 31,068	£ 18,227.04	£ 575.34	£ 71.92	£ 647.26	£ 379.73	£ 267.53	£ 12,841
35	E&I	6	£ 25,000	£ 22,654	£ 13,290.55	£ 575.34	£ 71.92	£ 647.26	£ 379.73	£ 267.53	£ 9,364
744				£ 481,561	£ 282,519						£ 199,042

- 2.9 In 2015, 744 staff purchased leave as shown in Table 2 (above). Under the new net pay scheme this would mean an estimated future savings of £282,519, rather than £481,561 under the gross pay scheme. It should therefore be noted that future savings may not be enough to cover the full cost of staff back fill. However, this scheme still represents a saving in overall costs and the risk of additional costs is only associated with ability to purchase backfill.

- 2.10 In non-regulated services backfill for leave purchased is generally absorbed within current staffing resources. In regulated services, limits on purchased leave are operated to limit additional leave pressures, e.g. in Adults Social Care staff are encourage to take all of their leave within current year and carry forward plus purchased leave is generally a maximum of five days unless there are special circumstances.
- 2.11 In order to ensure that the council is compliant with the new pension regulations it is recommended that a net pay purchase of annual leave scheme is introduced from 1 January 2016.

3 Eligibility to Access MyBenefits Salary Sacrifice Schemes

Introduction

- 3.1 MyBenefits is the name given to the council's voluntary and flexible employee benefits scheme. It forms part of the Surrey Pay conditions of service and was therefore originally only available to staff on Surrey Pay and conditions of service.
- 3.2 The MyBenefits scheme is popular amongst staff due to the wide range of benefits on offer and the savings staff can make and is viewed by services as a tool to assist with staff recruitment, retention and reward. Through the scheme all permanent staff and elected members have access to the 'lifestyle' offers and discounts, where staff can save money on shopping, days out, holidays, cashback and much more.
- 3.3 In January 2015 the Council launched a new salary sacrifice lease car scheme in partnership with Leasedrive, which is currently open to all staff on Surrey Pay terms and conditions of service and firefighters.
- 3.4 In addition the council sought HMRC approval with regard to Member's eligibility to participate in salary sacrifice products. HMRC have confirmed that elected members of the Council are also entitled to participate in the salary sacrifice schemes and the appropriate procedures, policy updates and communications are currently being developed for future consideration by PPDC.

Background

- 3.5 Over the years, as staff on different terms and conditions have TUPE'd into the council, various elements of MyBenefits have been offered in order to smooth the transition. MyBenefits is therefore no longer exclusively made available to staff on Surrey Pay conditions of service and there is an inequality in the access of different groups to different elements of the scheme, including a range of non Surrey Pay staff are currently able to access elements of the benefits package.

- 3.6 Whilst originally the offer of MyBenefits was used as leverage to harmonise staff onto full Surrey Pay terms and conditions of service, as part of the council move towards 'clean pay'. Feedback from the service suggests that the benefits package alone does not provide sufficient 'leverage' to influence employee decisions on transfer to Surrey Pay. This differential treatment in access to benefits, many of which support family friendly employment, is now having a deleterious impact on morale and employee relations amongst excluded staff.
- 3.7 We have mapped the access to benefits for different groups to show which benefits non Surrey Pay staff groups are unable to access, which includes the salary sacrifice tax-free saving schemes listed below:
- childcare vouchers;
 - cycle to work scheme;
 - mobile phone scheme;
 - training and qualification loan;
 - health assessments;
 - workplace parking schemes; and
 - lease car scheme.
- 3.8 Following the successful launch of the lease car scheme in January 2015, a number of enquiries have been received from non Surrey Pay staff requesting clarity regarding eligibility to participate in salary sacrifice schemes. Table 3 below summarises current eligibility to participate in employee salary sacrifice schemes.
- 3.9 As previously stated most staff already have access to the MyBenefits 'lifestyle' offers, provided by the council's benefits provider P&MM. By extending salary sacrifice schemes to non Surrey Pay staff, the only additional charge the council will incur would be in relation to those staff who applied for Childcare Vouchers. At present the council is charged an administrative fee by the provider equivalent to 1 per cent of the voucher cost. However, given the overall savings to the council through reduced employer national insurance costs, extending the salary sacrifice schemes to additional employees would overall result in a saving.

Recommendation

- 3.10 It is recommended that full access to MyBenefits, including salary sacrifice schemes is made available to all staff groups.

Table 3: MyBenefits Eligibility Matrix

Staff Group	Lease cars	Childcare vouchers	Cycle to work	Mobile phones	Training & Qualification loans	Health Assessments	Workplace Parking
Surrey Pay t&c's	✓	✓	✓	✓	✓	✓	✓
Bank & Casual	Not eligible as not paid monthly						
Firefighters	✓	✓	✓	✓	✓	✓	✓
Staff on NJC national t&c's - Educational Psychologists & County Coroner	Not eligible as not on Surrey Pay t&c's						
Staff on JNC national t&c's – youth workers	Not eligible as not on Surrey Pay t&c's						
Tupe	Not eligible as not on Surrey Pay t&c's. However, can apply if in a CCV scheme.						
Unattached teachers	✓	✓	✓	✓	✓	✓	✓
Teachers in Surrey Schools	Not eligible as per national t&c's	✓	✓	✓	Not eligible as per national t&c's	Not eligible as per national t&c's	✓
Schools support staff in Surrey Schools	✓	✓	✓	✓	✓	✓	✓
Teachers in Academy schools on local / national t&c's	Not eligible as per national t&c's	✓	✓	✓	Not eligible as per national t&c's	Not eligible as per national t&c's	✓
Schools support staff in Academy schools	x	✓	✓	✓	✓	✓	✓
Teachers in Foundation schools on local / national t&c's	Not eligible as per national t&c's	✓	✓	✓	Not eligible as per national t&c's	Not eligible as per national t&c's	✓
Schools support staff in Foundation schools	✓	✓	✓	✓	✓	✓	✓
Teachers in Voluntary Aided schools on Surrey Pay t&c's	✓	✓	✓	✓	✓	✓	✓
Schools support staff in Voluntary Aided Schools	✓	✓	✓	✓	✓	✓	✓
County Councillors	✓	✓	✓	✓	✓	✓	✓

4 Conclusions:

Financial and value for money implications

- 4.1 The financial impacts of these changes are relatively limited and offer value for money in the opportunity to address staff concerns, promote consistency and fairness within the pay system and improve morale. The specific implications are as follows:
- Introducing a net pay purchase of annual leave scheme will continue to produce a savings in team budgets which will be reduced from £428K to £252K. This could result in budget pressures if the costs of backfill exceed savings. However, this is mitigated by approval practices within services which already manage excessive impacts of leave purchase.
 - Extending the MyBenefits salary sacrifice schemes to non Surrey Pay staff groups could lead to increased take up of benefits which will result in an overall saving in reduced employer national insurance costs, these proposals will not incur any significant cost to the Council

Equalities and Diversity Implications

- 4.2 These proposals promote consistency in the application of employee benefits.

Risk Management Implications

- 4.3 These proposals help manage and reduce the impact on moral of equality of access and the related potential for claims of unequal treatment.

5 Next steps:

- 5.1 Procedures, policy updates and communications to be developed in relation to extending salary sacrifice schemes to elected members for consideration at a future PPDC.
- 5.2 Snet pages and communications to be prepared in relation to eligibility to MyBenefits salary sacrifice schemes and the purchase of annual leave scheme.

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Background Papers: None

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