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To: Personnel Committee

Date: 6 June 2013

Subject: Childcare Voucher Scheme – Deductions during Occupational Maternity Pay

Classification: Unrestricted

Summary: For decision. This paper sets out options for revising KCC's current approach to making deductions for childcare vouchers when an employee is on maternity leave.

1. BACKGROUND

- 1.1 Under the KCC childcare voucher scheme employees are able to take a portion of their salary as childcare vouchers. This converted part of the employee's salary is not subject to tax and National Insurance deductions.
- 1.2 Currently, during the course of the Maternity Leave Period KCC does not make deductions for childcare vouchers and fully funds the cost of these (i.e. for up to 52 weeks). KCC's current approach on this matter is in line with the guidance provided by the Local Government Employers (LGE).
- 1.3 Whilst we regularly review all our reward provisions, it was a query raised by a KCC school that triggered this review of arrangements for childcare vouchers. Specifically and contrary to the LGE guidance, Her Majesty's Revenue and Customs (HMRC) have provided advice which identified that it is permissible for KCC to make deductions for childcare vouchers when an employee is in receipt of Occupational Maternity Pay (OMP) which, if applicable, is paid during weeks 7 to 18 of maternity leave.

2. MATERNITY PAY PROVISIONS AND CHILDCARE VOUCHERS

- 2.1 The chart attached as Appendix 1 identifies the maternity pay provisions available to those Kent Scheme employees who, before the commencement of their maternity leave, identify that it is their intention to return to work. The provisions for teachers are similar, however, the first 4 week period is paid at 100% rather than 90%.

- 2.2 The paid maternity leave period (39 weeks) is made up of three elements:
- Earnings related Statutory Maternity Pay (SMP) - paid at 90% of normal earnings. This is paid for the first six weeks of the maternity leave
 - Standard rate SMP (currently £136.78) – paid for remaining 33 weeks of the paid maternity leave period.
 - Occupational Maternity Pay (OMP) - paid for 12 weeks at half normal contractual pay. Payment is made concurrently with the standard rate SMP.
- 2.3 Employers are not legally permitted to make deductions for childcare vouchers whilst an employee is in receipt of SMP. As a consequence of this, employers are responsible for paying for the full costs of the childcare vouchers during the period when the employee is in receipt of SMP. The SMP period of maternity leave is highlighted detailed on the chart in Appendix 1.
- 2.4 KCC also has responsibility for meeting the full cost of the provision of the childcare vouchers whilst the employee is in the unpaid element of maternity leave (i.e. from week 40 onwards).

3. CURRENT ARRANGEMENTS IN KCC

- 3.1 Following the provision of advice from HMRC, a KCC school has raised particular concerns regarding the additional financial costs presented to them from KCC's current approach to not making deductions from OMP. This view is shared by members of the Kent Association of Head Teachers.
- 3.2 A small scale benchmarking exercise was undertaken with other Local Authorities to identify their approach to making deductions for childcare vouchers from maternity pay. The 9 respondents identified that they all make deductions for childcare vouchers from OMP. Furthermore, KCC's childcare voucher provider, Fideliti, identified that, with one exception, all of their public sector clients make deductions from OMP.

4. OPTIONS FOR CONSIDERATION

4.1 Option 1

KCC maintains its existing approach and no deductions for childcare vouchers are made during the entire paid maternity leave period.

4.2 Option 2

Deductions for childcare vouchers are taken from OMP. This will mean the following:

Period of Maternity Leave & Payment	Childcare Voucher Deductions from Employee's Maternity Pay
Weeks 1 to 6 SMP (90% of normal earnings)	None – KCC is required to fund the vouchers
Weeks 7 to 18 OMP (half pay) + SMP (standard rate)	Deductions from OMP will be at 100% cost of the vouchers* * where the cost of the vouchers exceeds the amount of the OMP, KCC will have to fund the difference as deductions cannot be made from SMP
Weeks 19 to 39 SMP (standard rate)	None – KCC is required to fund the vouchers
Week 40 onwards Unpaid maternity leave	None – KCC is required to fund the vouchers

4.3 Option 3

The deduction for childcare vouchers from OMP is made in proportion to half pay that the employee is receiving. This will mean the following:

Period of Maternity Leave & Payment	Childcare Voucher Deductions from Employee's Maternity Pay
Weeks 1 to 6 SMP (90% of normal earnings)	None – KCC is required to fund the vouchers
Weeks 7 to 18 OMP (half pay) + SMP (standard rate)	Deductions from OMP will be at 50% of the cost of the vouchers. KCC funds the additional 50% cost of the vouchers.
Weeks 19 to 39 SMP (standard rate)	None – KCC is required to fund the vouchers
Week 40 onwards Unpaid maternity leave	None – KCC is required to fund the vouchers

- 4.4 The table below provides information on the take up of Childcare vouchers in the non schools workforce in a typical month (May 2013), together with the value of the vouchers.

Month	No. of staff receiving Childcare Vouchers	Value	No. on maternity leave	Value
May-13	352	£68,386.38	14	£2,661.72

The annual cost of providing Childcare Vouchers to those on maternity leave is therefore as follows:

a) No deductions taken during maternity leave (£2,661,72 x 12)
- £31,940

b) Deductions taken during OMP only (12 weeks period) if sufficient funds -
£23,955.48.

This represents an annual saving of £7,985.16.

- 4.5 The maximum cost of providing childcare vouchers to an individual on maternity leave for 52 weeks is £2,916 (£243 per week). If deductions are taken during OMP (12 weeks), the cost reduces to £2,187, making a saving of £729 to KCC.

5. OTHER CONSIDERATIONS

- 5.1 There are a number of payroll providers used by schools. Schools would therefore need to instruct their payroll provider to ensure that any revised KCC policy applies in practice.
- 5.2 In view of our practice to date and the impact on staff of such a change it is critical that this is suitably published and communicated to those who may be affected.

6 CONCLUSION

- 6.1 In view of the consideration by HR, feedback from the Kent Association of Head Teachers and the information from the benchmarking exercise, it will be beneficial from a budgetary perspective to revise KCC's approach to making deductions for childcare vouchers from occupational maternity pay.

7. RECOMMENDATION

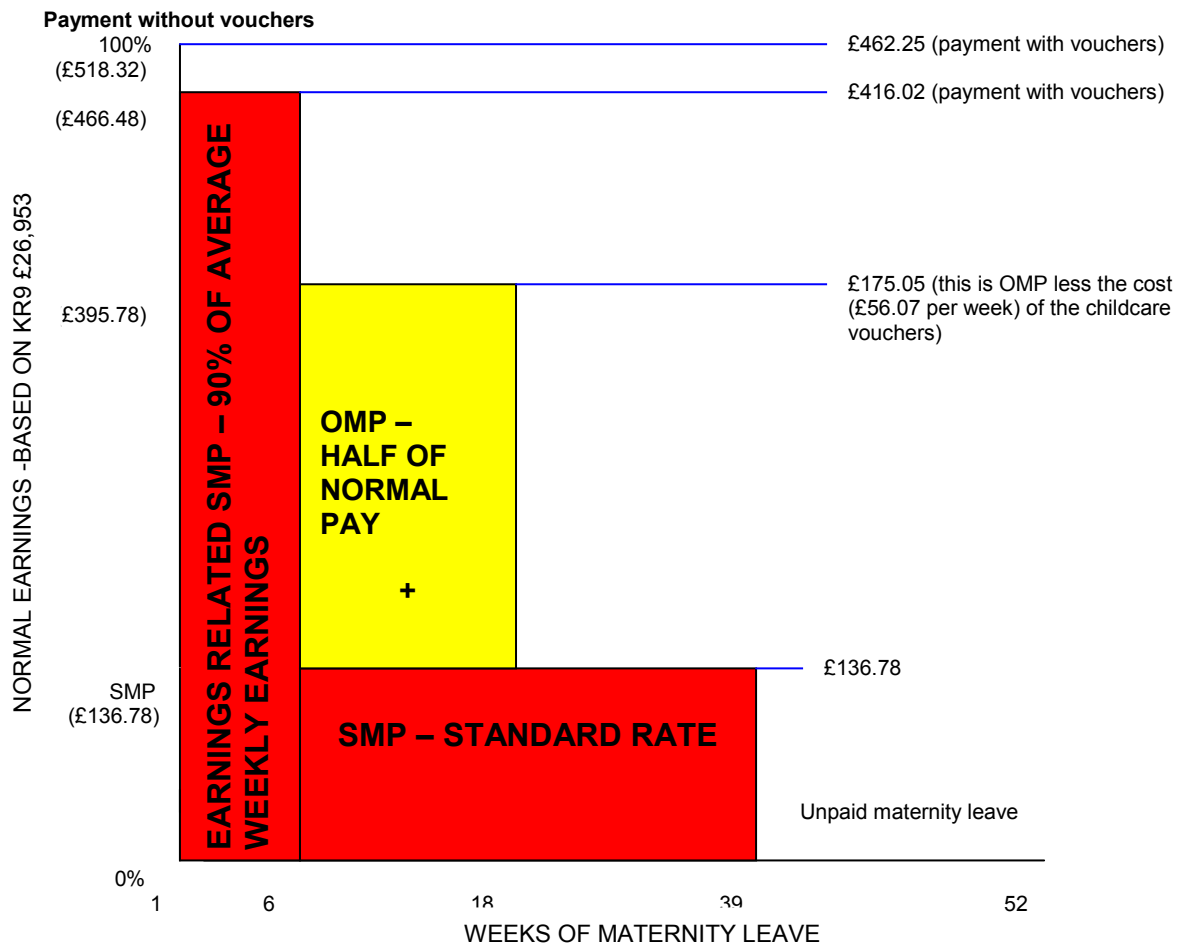
- 7.1 Personnel Committee is invited to review the above options and decide if they wish to make any changes to current arrangements regarding deductions for childcare vouchers during OMP.
- 7.2 In order to ensure appropriate communication it is recommended that implementation is from 1st September 2013.

Background Documents - none

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Appendix1.

MATERNITY PAY COSTS WITHOUT CHILDCARE VOUCHERS – INCLUDES COMPARISON WITH PROVISION OF VOUCHERS



Cost of Maternity Provisions Without Childcare Vouchers

Example based on a salary of £26,953 (KR 9)

SMP (90% of Average Weekly Earnings)	£2,798.94
SMP (Standard rate)	£4,513.74
OMP (½ contractual pay)	£3,109.92

Total: £10,422.60

Cost of Maternity Provisions with Childcare Vouchers

Example based on a salary of £26,953 (KR 9)

SMP (90% of Average Weekly Earnings)	£2,496.12
SMP (Standard rate)	£4,513.74
OMP (less cost of childcare vouchers) *	£2,100.60

Total: £9,110.46

Cost of childcare vouchers (based on employee having vouchers to the value of £243 per month/£56.07 per week)

SMP (6 weeks)	£336.42
SMP (21 weeks)	£1,177.47
Unpaid (13 weeks)	£728.91

Total: £2,242.80

* Assuming Personnel Committee decide on Option 2

Total cost of maternity provisions = £11,353.26

However, if the employee leaves the childcare voucher scheme before week 17 of their pregnancy and is allowed to rejoin the scheme before commencing maternity leave the following costs will need to be added to the **£10,422.60** figure above:

SMP (6 weeks)	£336.42
SMP (21 weeks)	£1,177.47
Unpaid (13 weeks)	£728.91

Total cost of maternity provisions = £12,665.40