

**NORTH LINCOLNSHIRE COUNCIL**

**GOVERNANCE AND TRANSFORMATION CABINET MEMBER**

**SALARY SACRIFICE SCHEME FOR UNPAID ANNUAL LEAVE**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 To outline and seek approval for the introduction of a salary sacrifice scheme for employees to 'buy' additional annual leave.

**2. BACKGROUND INFORMATION**

- 2.1 One of the agreed changes to employees' terms and conditions from 1 April 2016 was the option for employees to 'buy' additional annual leave. This was one part of the local agreement secured with trade unions.
- 2.2 The council's Annual Leave policy (B.3) currently allows employees to request additional unpaid leave, in excess of their annual leave entitlement, up to a maximum of 4 weeks' per financial year (para 3.8).
- 2.3 If employees make an application under the current policy and their request is approved, this is usually deducted from their salary the month after the unpaid leave is taken. This can be financially burdensome for employees.
- 2.4 A salary sacrifice scheme would involve employees giving up part of their cash salary each month in return for additional annual leave; spreading the cost throughout the financial year.
- 2.5 Salary sacrifice arrangements involve an employee sacrificing an element of their pay before tax and National Insurance (NI) contributions are taken, in return for a benefit, in this instance additional annual leave.

## **Benefits to the council**

- 2.6 The council will save money on the employee salary bill for additional hours' annual leave purchased and through not incurring employer NI contributions.
- 2.7 The scheme would support the council's priorities:
- **'Enable** communities to thrive and live active, healthy and fulfilled lives' Giving employees the option to purchase additional annual leave may enable them to achieve a better work/life balance or meet personal commitments and caring responsibilities, and supports the council's attendance management drive.
  - **'Shape** the area into a prosperous place to live, work, invest and play' A salary sacrifice scheme for additional annual leave will further enhance the council's reputation as an employer by supplementing its benefits and reward package and may improve morale and motivation levels.
- 2.8 The scheme would complement existing council flexible working and family-friendly policies.

## **Benefits to employees**

- 2.9 Employees will save on tax and NI contributions on the amount of salary they sacrifice.
- 2.10 A salary sacrifice scheme for unpaid annual leave would enable employees to spread the cost over the leave year, rather than a potentially sizeable one-off deduction from pay.
- 2.11 The scheme would offer employees the opportunity to enhance their work/life balance.

## **Eligibility**

- 2.12 The only eligibility criteria within HMRC rules for salary sacrifice schemes are:
- The arrangement must be for a minimum of 12 months;

- Employees cannot sacrifice an amount (in combination with any other salary sacrifice deductions they may already make) which would take them below the National Minimum Wage (NMW)/National Living Wage (NLW), according to their age.

2.13 To be eligible for the scheme an employee must:

- Be on a permanent contract or a fixed term contract which has more than 12 months left to run from the commencement of the salary sacrifice agreement;
- Not work on a term-time only pattern, where the periods of annual leave are fixed to coincide with school closure periods;
- Earn above the statutory NMW or NLW after taking into account the amount to be sacrificed;
- Be in receipt of a regular monthly salary at the time the salary deductions commence.

## **Principles**

2.14 The scheme will apply to all employees of the council (subject to the restrictions at 2.12 and 2.13) other than those appointed directly by schools with delegated powers.

2.15 The maximum amount of additional annual leave available for employees to 'purchase' under the scheme would be 20 days' worth (148 hours), pro rata for part-time employees.

2.16 Any request to purchase additional annual leave is subject to line manager approval and will be dependent upon the needs of the service. Separate requests must be made for each leave year.

2.17 Any additional leave granted under the scheme must be requested and taken in line with existing annual leave procedures.

2.18 Salary deductions will be monthly and will be calculated on an employee's basic pay at the date of the commencement of the agreement.

2.19 If approval is granted for the scheme, the Annual Leave policy will be amended to reflect this.

- 2.20 For ease of administration the introduction of a salary sacrifice scheme for additional annual leave should coincide with the start of an annual leave year, e.g. 1 April 2017.

### **Scheme Administration**

- 2.21 Full administration of a salary sacrifice scheme would be an additional burden on the council, therefore the use of an external provider is recommended in line with other salary sacrifice schemes for childcare vouchers and cars.
- 2.22 Use of a scheme provider who is part of a recognised local or national procurement framework arrangement will avoid the council spending time and money going out to tender.

### **Members of the Local Government Pension Scheme**

- 2.23 In other salary sacrifice schemes (e.g. childcare vouchers and Cycle to Work) gross salary reductions do not affect pension contributions. However in this instance they do. Employees save tax, NI and pension contributions on the sacrificed amount.
- 2.24 For the period during which an employee's taxable pay is reduced as a result of the salary sacrifice arrangement, their pensionable pay will also be reduced. This will mean that all benefits calculated on reduced pensionable earnings would be reduced including pension, lump sum retirement grant, spouse's or partners pension plus any lump sum death grant.
- 2.25 During a period of authorised unpaid leave employees in the LGPS do not pay pension contributions, and the unpaid leave will not count towards their scheme membership. However employees will have the option of paying pension contributions on the additional unpaid annual leave they purchase through the salary sacrifice scheme, which will then maintain their pension benefits, through a Shared Cost Additional Pension Contribution (SCAPC) contract.

### **3. OPTIONS FOR CONSIDERATION**

- 3.1 To implement a salary sacrifice scheme for the purchase of additional annual leave and use P&MM as the scheme providers.
- 3.2 To implement a salary sacrifice scheme for the purchase of additional annual leave and use another scheme provider (e.g. HolidayFlex or Salary Exchange) to operate the scheme on the council's behalf.
- 3.3 To implement a salary sacrifice scheme for the purchase of additional annual leave and use council employees (within Human Resources) to fully operate and administer the scheme.
- 3.4 Not to adopt a salary sacrifice scheme for employees to purchase additional annual leave.

### **4. ANALYSIS OF OPTIONS**

- 4.1 P&MM is the council's current scheme provider for childcare vouchers and administered the council's previous Cycle to Work scheme. A salary sacrifice scheme for additional annual leave could be an 'add-on' to the existing P&MM employee portal, to sit alongside the childcare voucher scheme. P&MM is an approved provider through the ESPO procurement framework therefore there would be no need for the council to enter into a tendering process. P&MM potentially offer the council the biggest net annual savings under a salary sacrifice scheme (see Appendix 1).
- 4.2 Use of another scheme provider to operate the scheme may involve a lengthy and costly procurement process if another provider was not available through a procurement framework. The savings available to the council through other providers may not be as significant as those offered by P&MM (see Appendix 1).
- 4.3 Full implementation, operation and administration of the scheme would be an additional burden for council employees. Other salary sacrifice schemes currently in operation at the council (childcare vouchers and cars) are operated through an external provider.
- 4.4 The option for employees to 'purchase' additional annual leave under a salary sacrifice scheme was a condition of the local agreement between the council and the signatory trade unions as part of the changes to employee terms and conditions agreed from 1 April 2016. The facility for employees to take up to an additional 4 weeks' unpaid leave is an existing provision within the council's Annual Leave policy (B.3, para 3.8).

- 4.5 By not introducing a salary sacrifice scheme for additional unpaid annual leave the council would not benefit from the financial savings available on employer NI contributions, or any tangential benefits associated with the introduction of a scheme.

## **5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

- 5.1 Financial implications: Whichever scheme provider is selected, if approval is given for the scheme, there will be savings to service budgets relative to levels of take-up of the scheme.
- 5.2 Staffing implications: If the scheme is operated through an external provider, there will be minimal administration required. Internal administration by council employees will be limited to:
- Authorisation of the request by managers;
  - Assessment by HR/payroll officers as to eligibility for the scheme;
  - Updating of the payroll system to implement the salary deduction;
  - Correspondence relating to pension 'buy back' arrangements;
  - Updating of annual leave systems to reflect the additional leave purchased;
  - Annual payment of the invoice to the scheme provider.
- 5.3 There are no property or IT implications.

## **6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

- 6.1 An integrated impact assessment has considered the diversity implications of this scheme (see attached).

## **7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTEREST DECLARED**

- 7.1 A salary sacrifice scheme for additional annual leave was a condition of the local agreement between the council and the signatory trade unions as part of the changes to employee terms and conditions agreed from 1 April 2016. The trade unions would welcome its introduction.

## **8. RECOMMENDATIONS**

- 8.1 That approval is given for the introduction of a salary sacrifice scheme for the purchase of additional annual leave.
- 8.2 That the scheme is introduced to coincide with the start of the next annual leave year: 1 April 2017.
- 8.3 That P&MM be the scheme provider.

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**Background Papers used in the preparation of this report:** None



**Savings analysis**

Savings are based on:

- Approximately 2900 eligible employees (total contracted council employees – excluding schools and term-time only employees);
- The average (mean) council salary of £18,000;
- Gross salary savings of £69.04 per additional day's leave purchased (7.4 hours)

**P&MM**

<b>Employee take up</b>	<b>1%</b>	<b>2%</b>	<b>3%</b>	<b>5%</b>	<b>10%</b>
Number of employees	29	58	87	145	290
Reduction in Salary (per day)	£ 2,002.16	£ 4,004.32	£ 6,006.48	£ 10,010.80	£ 20,021.60
NI Saving (13.8%)	£ 276.30	£ 552.60	£ 828.89	£ 1,381.49	£ 2,762.98
<b>GROSS SAVINGS</b>	<b>£ 2,278.46</b>	<b>£ 4,556.92</b>	<b>£ 6,835.37</b>	<b>£ 11,392.29</b>	<b>£ 22,784.58</b>
<b>Service Charge (40% NIC* Savings)</b>	<b>£ 110.52</b>	<b>£ 221.04</b>	<b>£ 331.56</b>	<b>£ 552.60</b>	<b>£ 1,105.19</b>
<b>NET ANNUAL SAVINGS</b>	<b>£ 2,167.94</b>	<b>£ 4,335.88</b>	<b>£ 6,503.82</b>	<b>£ 10,839.69</b>	<b>£ 21,679.39</b>

**HolidayFlex**

<b>Employee take up</b>	<b>1%</b>	<b>2%</b>	<b>3%</b>	<b>5%</b>	<b>10%</b>
Number of employees	29	58	87	145	290
Reduction in Salary	£ 2,002.16	£ 4,004.32	£ 6,006.48	£ 10,010.80	£ 20,021.60
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<b>GROSS SAVINGS</b>	<b>£ 2,278.46</b>	<b>£ 4,556.92</b>	<b>£ 6,835.37</b>	<b>£ 11,392.29</b>	<b>£ 22,784.58</b>
<b>Service Charge (£15pp)</b>	<b>£ 435.00</b>	<b>£ 870.00</b>	<b>£ 1,305.00</b>	<b>£ 2,175.00</b>	<b>£ 4,350.00</b>
<b>NET ANNUAL SAVINGS</b>	<b>£ 1,843.46</b>	<b>£ 3,686.92</b>	<b>£ 5,530.37</b>	<b>£ 9,217.29</b>	<b>£ 18,434.58</b>

**Salary Exchange**

<b>Employee take up</b>	<b>1%</b>	<b>2%</b>	<b>3%</b>	<b>5%</b>	<b>10%</b>
Number of employees	29	58	87	145	290
Reduction in Salary	£ 2,002.16	£ 4,004.32	£ 6,006.48	£ 10,010.80	£ 20,021.60
NI Saving (13.8%)	£ 276.30	£ 552.60	£ 828.89	£ 1,381.49	£ 2,762.98
<b>GROSS SAVINGS</b>	<b>£ 2,278.46</b>	<b>£ 4,556.92</b>	<b>£ 6,835.37</b>	<b>£ 11,392.29</b>	<b>£ 22,784.58</b>
<b>Service Charge (5% NIC* savings plus £325pm)</b>	<b>£ 4,013.92</b>	<b>£ 4,127.85</b>	<b>£ 4,241.77</b>	<b>£ 4,469.61</b>	<b>£ 5,039.23</b>
<b>NET ANNUAL SAVINGS</b>	<b>£ -1,735.46</b>	<b>£ 429.07</b>	<b>£ 2,593.61</b>	<b>£ 6,922.68</b>	<b>£ 17,745.35</b>

**\*National Insurance contributions**

