



Salary Sacrifice Scheme Year Commencing 1 September 2023

Introduction

The University provides childcare facilities on University premises for staff and students. These are located on Edgbaston Park Road and on the Selly Oak campus. There are approximately 302 places available which are allocated on a first come, first served basis. The nurseries are registered with Ofsted and are managed by fully qualified staff, employed by the University.

Paying for the day nursery

The usual way for parents to pay for the cost of their nursery places is by invoice. The parent signs a invoice mandate at the start of the year and then the total cost based on the level of use is calculated each month. The University sends the parent a monthly statement showing what the charges are and then debits the parents' bank account. The charges applicable in the year from 1 September 2023 until 31 August 2024 are attached at Appendix A.

However, staff can also choose to pay by Salary Sacrifice. This scheme:

- Reduces the effective cost to employees by generating a saving in the amount of tax and NI paid
- Provides funds for the Day Nurseries so they can maintain and invest in their provision of high-quality childcare facilities
- Gives staff more control of the way their remuneration package is structured without affecting their USS pension entitlements (please note other pensions schemes may be affected, see Appendix B for further explanations concerning pension issues)

How the salary sacrifice tax scheme works

Parents who elect to join the scheme will pay for the nursery place by taking a reduction in gross pay. Reducing your gross salary means the amount of pay which is subject to tax and National Insurance is reduced. As a result, the overall cost of the nursery place is lower than if you pay by invoice, as the savings made in tax and NI more than offset the amount your gross salary is reduced.

The scheme works because under current legislation paying for the nursery place via a reduction in gross salary means the nursery place is considered to be provided for free. The provision of a free place at a qualifying workplace nursery does not give rise to a taxable benefit, resulting in savings in tax and NI. The University meets the qualifying conditions laid down and the scheme has received approval from the Inland Revenue.

The amount your gross salary is reduced by is calculated as the cost of the nursery place based on level of usage plus 10%. This 10% uplift is added on to ensure both the parents and the nurseries are benefiting from the scheme with the parents seeing at least 50% of the savings made in tax and NI. As the scheme depends on the tax savings it is therefore only suitable for you if you pay tax on your university salary.

The benefit the nurseries receive due to the 10% uplift means membership of the scheme helps to increase the level of funds available to support childcare facilities within the University. Those funds will be used to maintain and improve the childcare facilities available, benefiting the children who use them.



The amount of the pay reduction

The scheme has been structured to produce substantial savings to you on the effective cost of obtaining a nursery place. The other half of the tax saving will go towards maintaining and improving nursery care provision.

Below is an example of the difference in cost and benefit between paying via invoice or via salary sacrifice for an employee with a gross salary of £30,000 and who is on a standard tax code. Please note this example is for illustrative purposes only and is not to be taken as a calculation for any particular individual's circumstances.

Original annual gross salary	£30,000
Net pay of original annual gross salary (take home pay after tax and NI)	£24,422
Nursery fees if paid by invoice	£5,000
Annual take home pay after nursery fees paid by invoice	£19,422
Gross annual salary reduction to pay for nursery fees if paid by salary sacrifice	£5,500 (nursery fees plus 10%)
Gross annual salary after nursery fee salary sacrifice reduction	£24,500
Annual net pay of reduced gross salary (take home pay after tax and NI)	£20,682
Annual saving made on cost of nursery by paying through salary sacrifice	£1,260

The University's savings come from the difference between the reduction in salary (and associated employer's NI) and the £5,000 it puts into the cost of running the nursery to replace the amount that was previously paid by the employee.

If you join the scheme a salary reduction will be agreed with you on an individual basis. The amount will take account of the number of sessions that you take up during the year and the number of places you have, if you have more than one child, as well as ensuring your gross salary does not go below national minimum wage.

The quote you will be given for the cost of the nursery place will be based on the funding (if any) you are eligible for at the point of taking up the place. If your funding eligibility changes during the year, an updated quote will be provided and your deductions will be amended according.

If you would like to calculate the amount of tax and NI saving you would make by entering the salary sacrifice scheme, please refer to the guidance document called 'Guidance for estimating your tax and NI saving' which you will have been sent alongside this document.

Joining the scheme

You will be able to join the scheme at the beginning of each academic year. New joiners may be accepted later when a nursery place becomes available. In order to join the scheme, you will need to sign a consent form under which you will agree to a change in the terms and conditions of your employment by taking a lower salary and being provided with free nursery facilities.

enquiries@daynurseries.bham.ac.uk daynurseries.bham.ac.uk



Membership of the scheme is for 1 year, which commences on 1 September 2023 to 31 August 2024. If you join part way through the year you will be a member until 31 August 2024. Once enrolled on the scheme, you will have agreed to the monthly salary payment until 31 August 2024 to pay for a full 12 months' nursery usage on the usage requested prior to joining the scheme. Towards the end of the academic year, you will be given the opportunity to renew membership of the scheme or leave it.

If at the end of the year you wish to renew your membership for the forthcoming year, the University will provide you with a revised pay sacrifice figure. This will take into account your latest salary details, any changes to nursery costs resulting from price rises, variations in the number of sessions you require and how many nursery places you require. You will then need to agree to a change in the conditions of your employment, as they relate to the provision of nursery accommodation.



Adjustments/withdrawal

When you take up a nursery place, the agreement is that it is for the full duration of the year until 31 August. Typically, it is not possible to change the arrangement during the year. However, an adjustment to your agreed arrangement will be considered on a case by case basis in circumstances such as:

- Stopping work to go on to maternity leave
- Long-term absence
- Leaving employment
- Marriage, divorce/separation
- House move
- Change to place of work
- Returning from maternity leave
- Birth or adoption of a child
- Death of a dependent
- Returning from long-term absence
- Significant change in partner's circumstances
- Significant change in contractual hours
- Children starting school
- Serious illness of a child
- Partner made redundant
- Loss of a partner

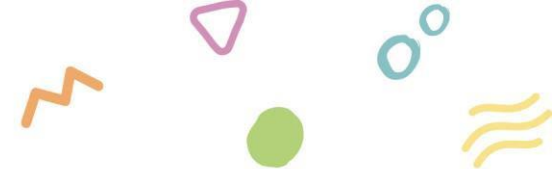
If you encounter any of these circumstances, please contact the Nurseries team at the earliest opportunity so they can consider where your adjustment can be accommodated.

Please note no recalculations will be applied for a decrease in usage for these circumstances until the following term for September 2023 starters.

If you decide not to continue as a member of the scheme, your salary will automatically revert back to its original level along with any pay awards, increments or promotions that may have been awarded on 1 September of that year. If you leave the tax scheme, this will not prejudice continued use of nursery facilities providing you have an allotted place.

If at the end of the year you decide to withdraw from the tax scheme, you may continue to use the nursery facilities providing you have been allocated a place. In this instance you will be required to complete a invoice mandate to enable to university to collect your nursery fees on a monthly basis.

In the event that your contract of employment is terminated, you will be entitled to the free place(s) at the University Day Nursery up to and including the date your final salary payment is paid to you; or, in the event that you receive a payment in lieu of notice, the date of receipt of that payment, if later.



Pensions

By agreeing to a payroll reduction, you may face pension implications. These depend on your personal circumstances and which pension scheme you belong to. Pension issues are explained in Appendix B.

Your payslip

Your payslip will continue to show your current gross pay (i.e. before the reduction) as your annual salary. The University will operate a system of 'notional' salary (what your salary would be as if you were not in the scheme) and an 'actual' salary (taking into account the pay reduction). Your payslip will continue to show the notional salary and the pay sacrifice will show up as a payroll deduction to your monthly gross pay.

Future pay awards, increments and promotions

Any future pay awards, increments or promotions will be based on your current annual salary i.e before the reduction. Any pay awards, increments or promotions, will increase your notional salary and when you leave the scheme your actual salary will revert to the level of your notional salary so you will not lose out.

Mortgage references

You should quote your current annual salary (i.e. salary before the deduction) on mortgage applications and as explained above your payslip will substantiate this figure as your annual salary. If the University Payroll Office receives requests for mortgage references from lenders, they will quote your current salary i.e. before the reduction.

Need help?

If you have any queries about the scheme, please contact the Payroll Team by raising a call via the [HR Portal](#)



Appendix A

Day Nursery fees 1 September 2023 until 31 August 2024

	Full-time weekly rate	Half-day rate	Daily rate
Non-University	£288.50	£36.00	£68.50
University staff and students	£267.50	£34.00	£64.50

Full fees are payable for Bank Holidays and nursery training days but not for University Closed Days.

Children aged 3 years and 4 years are entitled to Early Education Funding the term after their third birthday. Government guidelines set the maximum hours available per day, each week, this entitlement of 15 or 30 hours is stretched over 50.8 weeks only. From April 2024, working parents of 2-year-olds will be able to access 15 hours childcare support although full details are yet to be finalised (as at August 2023).

The nursery operates on a self-financing basis. It is regrettable but a nursery place will be withdrawn if nursery fees remain unpaid. It is our policy to recover unpaid nursery fees. Legal action will be taken where necessary.

Appendix B

Pension issues

The exact effect of joining the nursery tax scheme will vary depending on which pension scheme you belong to and on individual circumstances.

The scheme is based on employees taking a salary reduction in return for a free nursery place. The saving arises from the reduction in tax, employers' NI, and in some cases employees' NI. The reduction in salary could have implications on pensions.

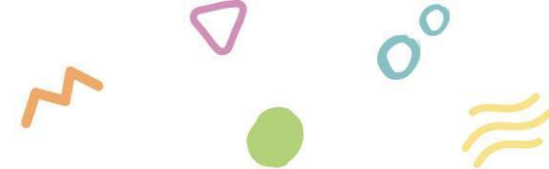
The University treats the salary reduction in such a way that you have a notional salary (i.e. the salary before the reduction) and an actual salary (i.e. the one you paid after the reduction). Your payslip will show your notional salary as your annual salary, but you will see the monthly Day Nursery Scheme deduction to arrive at your annual monthly gross pay.

Universities Superannuation Scheme (USS)

USS recognises notional salaries. This means that the nursery tax scheme has no impact on your pension entitlements or contributions. Your USS contribution will be calculated on your notional salary and your pension rights (including death in service entitlements) will be calculated on your notional salary.

Birmingham Pension and Assurance Scheme (BPAS)

BPAS adopts the same approach as USS so the nursery tax scheme will have no impact on your pension contribution or entitlements.



NHS Pension Scheme

The NHS pension scheme does not recognise notional salaries. This means you will pay contributions on your actual salary, i.e. your contributions will reduce in line with your salary reduction. There are two potential detrimental effects on your pension entitlements:

1. If you die in service the death grant will be reduced, as it will be based on a multiple of your reduced salary.
2. As your pension is a Career Average Revalued Earnings Scheme your pension benefits are built upon a year-by-year basis based on your actual pensionable earnings in each year. Therefore, entering into any salary sacrifice arrangement that reduces your gross pensionable earnings will have a negative effect on the amount of pension that you are able to build up in that year.

Below is a simple example to illustrate how salary sacrifice could affect the amount of pension benefits you build in the scheme.

Tom earns £18,000 a year.

	Year 1	Year 2	Year 3
Year 1 pension	£333	£345*	£357*
Year 2 pension	N/A	£333*	£345*
Year 3 pension	N/A	N/A	£333
Total pension to date	£333	£678	£1,035

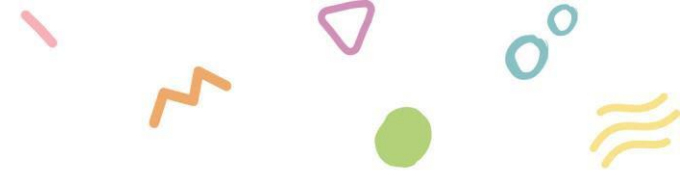
Tom joins the Workplace Nursery Salary sacrifice scheme for the same three years, which reduces his pensionable earnings by £1200 a year reducing his annual pensionable earnings to £16,800.

His pension benefits would be:

	Year 1	Year 2	Year 3
Year 1 pension	£311	£322*	£333*
Year 2 pension	N/A	£311*	£322*
Year 3 pension	N/A	N/A	£311
Total pension to date	£311	£633	£966

- Revalued at 3.5% assuming 2% CPI + 1.5%

From the example you can see the reduction in pension benefits payable that being part of the salary sacrifice scheme will cause. You will need to consider these effects very carefully in deciding whether to join the scheme or not. You may wish to consider seeking independent professional advice.



Additional Voluntary Contributions (AVCs)

Some members of staff pay AVCs out of their monthly salary. AVCs are calculated as a percentage of gross pay. If you join the scheme and are in USS and BPAS they will be calculated on your notional salary so the amount you pay in will not change as a result of joining the day nursery scheme. If you are in the NHS scheme you may want to contact the NHS Pension Scheme for advice.