

Agenda Item 6

Executive Board Meeting
4 June 2014

Memo No 10/14

HOMWORKING

Purpose

1. To seek the Executive Board's endorsement of the HR Management Board's (HRMB) recommendations with regard to the Homeworking policy and procedure, including buying out the FC's existing Homeworking Facilities Allowance (HFA).

Background

2. A key theme of the FC People Strategy (2011/2016) is to encourage the use of flexible working and alternative locations (including homeworking) to meet business need. To facilitate this, the HRMB agreed in July 2013, that the FC's current policy and procedure on homeworking should be reviewed and confirmed that:
 - homeworking is not an entitlement;
 - not all roles will be suitable;
 - managers will decide if there is a business requirement for all or some of a job to be carried out at home; and,
 - if an individual wishes to work regularly from home an application must be made using the HR Policy & Procedure – Flexible Working.
3. The HRMB also agreed that the revised homeworking procedure would provide further information on the definition of formal contractual homeworking (which can be as a result of either a business requirement or an employee's flexible working request) and occasional homeworking where the employee works from home on an ad hoc non-contractual basis for a specific purpose/reason.

Details of FC's Existing Home-working Facilities Allowance (HFA)

4. The FC's HFA is paid to employees who are required to work from home due to business requirements and there are two rates:
 - a higher rate (**£2214 per year**) which is payable when there is no FC office available and the employee works only from home; and
 - a lower rate (**£738 per year**) which is payable when there is a business need for the employee to regularly work part of their contractual hours at home and the remainder from a FC office.

5. The HFA was established in 1998 using an FC formulae based on the average price of a four bedroom detached house (the assumption being that 15% of the house was allocated as an office), and estimates of additional household expenses (e.g. heating, lighting). The HFA is 'grossed up' to take account of the Income Tax and National Insurance which the employee is required to pay and is not pro-rated for part-time staff.
6. Benchmarking has been undertaken (attached at Appendix 1) which shows that 60% of other Government Departments benchmarked against, pay no allowance for homeworking. Those that do, pay on the basis of HMRC guidance or actual expenditure incurred. The FC currently pays considerably more than all benchmarked Departments.

Details of HMRC Tax-exempt Provision

7. HMRC guidance suggests that any reimbursement for formal homeworking should be based on actual costs. However, given that it can be difficult to calculate this, HMRC allow employers to make a non-receipted tax exempt payment of £18 per month (£216 per year).
8. HMRC expect that this should cover the average home workers costs, especially where these are predominately heating and lighting related. Alternatively, if a homeworker's costs exceed this and they can demonstrate that the costs are actual, additional and necessary, they can be reimbursed on a receipted basis.

Details of Proposals

9. In light of the HMRC guidance and benchmarking, the HRMB has agreed that in future the FC HFA should be brought into line and paid on a tax exempt basis at £216 per annum (pro-rated for part time) with the option for this to be paid on a receipted basis if staff can show that the additional and necessary costs incurred due to homeworking are higher
10. There are currently 41 employees in receipt of the existing FC HFA and the total current spend is approximately £81,000 per annum. Based on the new tax exempt payment of £216 per annum (unless actual costs are higher) the estimated spend for the new HFA based on existing homeworkers will be £8,856 per annum.
11. Appendix 2 details that over a five year period, the FC cumulative spend on the existing FC HFA would be in the region of £405,000. The cumulative spend on the new, proposed HFA would be in the region of £44,280. This results in an estimated saving of £360,720 by year five.

Transitional Arrangements

12. HRMB has considered how to ease the transition for those currently in receipt of the existing HFA moving on to the new £216 annual payment. Options considered include the use of mark-time pay (a "protected" salary which enables retention of

the existing salary and allowance until this is eroded by subsequent pay increases) and a buy-out to compensate for the loss of the existing HFA.

13. Given the current Government Pay Policy, it is difficult to forecast how long a mark-time arrangement would require to be in place to eliminate the existing salary. However, based on a potential scenario of no incremental progression and a 1% Cost of Living increase being applied every year, mark-time would have ended for 85% of the lower rate cases within 2 years but for the higher rate cases only 14% would have ended after six years, increasing to 57% after seven years and 79% after 8 years. This would of course mean no salary increase for these individuals during these periods.
14. A buy-out payment would be based on the difference between the existing FC HFA and new HFA over a number of years. For example, a 2 year buy out payment to staff in receipt of the lower rate HFA would result in the individual receiving a payment of £1,044 and would cost the FC a one-off payment around £44,812. A buy out of five years in respect of the higher rate HFA would mean a payment of £9,990 to the individual costing approximately £222,343 whereas an 8 year buy out would cost £355,750 with payment of £15,984 to the individual.
15. HRMB's recommendation is to make a buy out payment to staff to compensate them for the loss of the existing HFA. The mark time scenario is not preferred because of the uncertainty around future pay increases, the varying timescales for individual arrangements and the perception of staff that any cost of living increases awarded would be 'invisible' as no actual benefit would be experienced.
16. The buy out option will realise longer term cost savings for the FC. For example, if the buy out is agreed at two years for the lower rate/five years for the higher rate, the cost of around £267,155 will be recouped by year four based on the savings gained by moving to the new HFA. Thereafter, annual savings will be in the region of £72,144.

Risk Assessment

17. The HFA is significantly out of sync with other Government Departments and the HMRC guidance. In continuing to pay the existing HFA, the FC may be open to a risk of challenges in relation to equal pay. The HRMB decision to move to the tax exempt £216 will affect those currently in receipt of the existing HFA and this paper considers options to mitigate this impact.
18. Current homeworkers contracts may require updating. To mitigate this risk it is recommended that current arrangements and contracts are reviewed on a case by case basis and discussed with the HR Business Partner teams to establish any necessary action.

Communications issues

19. HR Policy will consult with the FCTU about the new HR policy and procedure and changes to the Homeworking Facilities Allowance (HFA) as well as working with HR

Services and HR Operations Managers on the implications for those currently in receipt of HFA.

20. The HRMB agreed a low-key launch of the HR policy and procedure. The Connect Bulletin will be used to advise all employees when the new documents will be available in the staff handbook.
21. All current homeworkers will be contacted directly to advise of the changes and the implications for them.

Conclusion

22. The Executive Board is asked to:
 - consider and endorse the recommendations of the HRMB in relation to the Homeworking policy and procedure to enable further consultation with FCTU;
 - support the move to the new HFA in light of the benchmarking undertaken, the HRMC guidance and the need to demonstrate public accountability;
 - agree the recommendation to buy out the existing HFA, providing a view as to the buy out period that should be offered.

Janine Emerson
HR Policy and Pensions Manager
4th June 2014

Benchmarking

	Categories of home worker	Reimbursement of additional household expenses
Forestry Commission	1) Occasional 2) Formal	Yes £2214 (no FC office) or £738 (work from home part of time, rest in FC office).
DEFRA	1) Occasional / ad hoc 2) Partial - regular but not 100% of time. 3) Full-time - all contracted hours at home.	No
Scottish Government	1) Informal – occasional home working. 2) Formal - working from home on a regular basis (all or part of time).	No
Welsh Government	1) Casual / ad hoc 2) Informal - works for home for less than 60% of their time. 3) Formal – works from home at least 60% of time	No
DWP	1) Informal – ad hoc home working. 2) Formal - based at home 100% of time.	Yes Employee provides household bills as evidence of their additional costs.
SNH	1) Informal – occasional home working. 2) Formal – regular home working (either all or part of the time)	Yes Monthly allowance based on HMRC guideline (£18 per month).

EXISTING FC HFA RATES V NEW HFA RATES

No. of YEARS SPEND	TOTAL EXISTING FC HFA COSTS (Approximate)*	NEW HFA from 2014	CUMULATIVE DIFFERENCE BETWEEN EXISTING & NEW HFA**
1	81,000	8,856	72,144
2	162,000	17,812	144,288
3	243,000	26,568	216,432
4	324,000	35,424	288,576
5	405,000	44,280	360,720

* Existing costs are dependant on individual tax codes/earnings which may change during the tax year.

** Actual Difference could vary if costs are paid on an actual and receipted basis.