

North Tyneside Council

Report to Cabinet

Date: 9 May 2016

ITEM 6(d)

Title: Salary Sacrifice Car Leasing Scheme

Portfolio(s): Deputy Mayor

Cabinet Member(s): Cllr Bruce Pickard

Report from Directorate: Chief Executive's Office

Report Author: Alison Lazazzera, Head of Human Resources and Organisational Development (Tel: (0191) 643 5012)

Wards affected: None

PART 1

1.1 Executive Summary:

In accordance with Contract Standing Order 8(4) the Authority is required to undertake an EU-compliant procurement exercise where the estimated potential contract value is in excess of £500,000.

In 2011 the Authority undertook a procurement exercise to appoint a preferred provider to administer and manage a salary sacrifice car leasing scheme on behalf of the Authority.

This contract was for 3 years with options to renew for a further 12 months and again for 12 months (5 years in total). The options to extend have been utilised and the contract will expire on 31 May 2016. It is therefore proposed that an EU compliant procurement exercise is undertaken for a provider to administer and manage a salary sacrifice car leasing scheme on behalf of the Authority.

1.2 Recommendation(s):

It is recommended that Cabinet:

- (1) agree that an EU-compliant procurement exercise be undertaken in order to identify a preferred provider for a salary sacrifice car leasing scheme; and
- (2) authorise the Head of Human Resources and Organisational Development, in consultation with the Deputy Mayor, the Head of Finance, and the Head of Law and Governance, to undertake such procurement exercise and award a contract for a period of 3 years with option to extend for 12 months, on 2 consecutive occasions (to a maximum of 5 years) to the successful bidder following the procurement exercise.

1.3 Forward Plan:

Twenty eight days notice of this report has been given and it first appeared on the Forward Plan that was published on 11 April 2016.

1.4 Council Plan and Policy Framework

This report does not relate to the priorities in the 2014/18 Our North Tyneside Plan.

1.5 Information:

1.5.1 Background

The Authority has in place an Employee Benefits Package under which it offers a number of salary sacrifice schemes for employees to opt into.

Currently the Authority offers salary sacrifice schemes for:

- Childcare Benefits
- Cycling to Work
- Training and Qualifications
- Professional Subscriptions
- Buying Additional Leave
- Workplace Parking
- Car Leasing

1.5.2 What is a salary sacrifice scheme?

A salary sacrifice scheme is an arrangement whereby the employee agrees to a reduction in their pay in exchange for a benefit. The reduction (coming off gross pay) is not subject to Income Tax or National Insurance (NI) deductions. The employee therefore saves money by paying less income tax and NI; a variation in an employee's contract of employment is required to give permission for this to happen. For the Authority there are savings in employer's NI.

An employee benefits package, with salary sacrifice schemes, will also help to attract and retain top talent and to increase employee morale.

1.5.3 Car leasing salary sacrifice

The car leasing salary sacrifice scheme enables eligible employees to lease a new car for a period of time (usually 2 or 3 years). The amount paid by the employee also covers insurance, road tax, maintenance, routine servicing and breakdown cover. This would allow for a regular, known payment per month, rather than variable, unknown bills.

It is proposed to use a third party to administer and manage the scheme on the Authority's behalf, to reduce the need for internal resources to manage the scheme. The Authority would not buy the cars, but lease them from a procured management company. The employee's salary sacrifice covers the leasing cost and the cost of the insurance, maintenance and the other items listed above. This has been identified as the most efficient low risk approach.

Local Government Pension Scheme rules state that a car leasing salary sacrifice scheme is not a pensionable emolument, therefore employees will need to understand that joining the car leasing scheme may affect their pension. Detailed guidance will be given to employees to enable them to make an informed decision should the recommendation be adopted. The Authority may also benefit from this because employer pension contributions for those taking part in car leasing salary sacrifice will be reduced.

The cost of the vehicle to the employee will depend upon the type of car leased.

Since the scheme has launched there have been 346 cars taken out via this salary sacrifice arrangement with a total value of £1.1m.

1.5.4 Eligibility

The car leasing scheme will be made available to all employees, regardless of whether the employee uses their car for business use.

Employees cannot take part in the scheme if the salary sacrifice means that their pay falls below the national living wage. Although teachers are prevented from participating in a salary sacrifice scheme (with NI savings) for car leasing due to restrictions in their particular terms and conditions they are able to participate through payroll deduction.

Employees under notice of termination of employment and temporary employees whose contracts of employment will end before the full term of the leasing arrangement is completed (the leasing arrangement is usually for 2 or 3 years) will not be able to enter the scheme.

Detailed guidance will be provided to employees on the scheme upon request.

1.5.5 Procurement

Research carried out shows that there are a number of companies that are available to offer the scheme to the Authority.

The scheme will offer employees a fully managed service with access to a range of makes and models of vehicles to suit their needs. These will include a choice of electric models and cars with low-carbon-dioxide (CO₂) emissions, offering employees the ability to reduce their motoring carbon footprint.

It will provide employees with an all-inclusive package of a brand-new car, servicing and maintenance, road tax and insurance with the option to buy the car at the end of the lease period at a current market value.

Employees do not have to find a deposit or use any savings to purchase a car and are not required to go through a credit check.

All of the above ensures our employees have a motoring choice in terms of cost, peace of mind and convenience.

1.5.6 Social Value

The Public Services (Social Value) Act 2012 requires public bodies to consider how the services they commission and procure might improve the economic, social and environmental well-being of the area. It is a requirement of the service that the provider

will evidence how they will deliver a social value through the delivery of the contract. The tender process employed to choose an appropriate provider to deliver the service will assess this specific requirement.

1.6 Decision options:

The following decision options are available for consideration by Cabinet:

Option 1

Cabinet approves the recommendation to undertake a procurement exercise in order to identify a preferred provider for a salary sacrifice car leasing scheme and authorise the Head of Human Resources and Organisational Development, in consultation with the Deputy Mayor, the Head of Finance and the Head of Law and Governance, to undertake that exercise and award a contract to the successful bidder following the procurement exercise, in accordance with the recommendations at paragraph 1.2 above.

Option 2

Cabinet approves the recommendation to undertake a procurement exercise in order to identify a preferred provider for a salary sacrifice car leasing scheme in accordance with the recommendations at paragraph 1.2 (i), authorises the Head of Human Resources and Organisational Development, in consultation with the Deputy Mayor, the Head of Finance and the Head of Law and Governance, to undertake that exercise, but requires that approval is sought from Cabinet prior to contract award.

Option 3

Cabinet does not approve the recommendation to undertake an EU procurement exercise in order to identify a preferred provider for a salary sacrifice car leasing scheme and refers the matter back to officers for further consideration.

Option 1 is the recommended option.

1.7 Reasons for recommended option:

Option 1 is recommended for the following reasons:

If Cabinet approves the recommended option, the procurement will commence as soon as possible to ensure the Authority is able to continue to offer a car leasing scheme to employees.

If the preferred option is not approved, the Authority will be unable to undertake the proposed procurement exercise and will not be in a position to continue to offer a car leasing scheme to employees. The requirement to return to Cabinet before a contract is awarded will also delay the implementation of a scheme, which will affect the amount of savings that can be achieved in the 2016/17 budget.

1.8 Appendices:

None.

1.9 Contact officers:

Alison Lazazzera, Head of Human Resources and Organisational Development, Human Resources and Organisational Development, tel. (0191) 643 5012

Carol Murphy, Strategic HR Specialist, Human Resources, tel. (0191) 643 5027

David Anderson, Principal Accountant, Strategic Finance, tel. (0191) 643 5722

Carol Humphries, Solicitor, Law and Governance, tel (0191) 643 5340

Denise Pearson, Procurement Manager, tel (0191) 643 5651

1.10 Background information:

The following background papers/information have been used in the compilation of this report and are available at the office of the author:

The Authority's Contract Standing Orders.

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

There are no financial implications in the initial procurement process, as the Authority would have the option not to award at the end should it wish not to.

The scheme itself will contribute towards workforce savings targets added to the budget since the original scheme was introduced. The existing scheme has led to a saving of £0.280m during the five years to date.

The saving to the Authority is the Employer's National Insurance that would have been payable on the salary being sacrificed. The reduction in pay also reduces pension contributions, which would be an additional saving to the Authority.

The employee will save National Insurance and Income Tax contributions that would have been payable on the amount sacrificed. This is reduced by the tax payable on the Benefit in Kind received.

The employee's pension contribution will be reduced, which is a saving. Under current Local Government Pension Regulations this would lead to a lower pension payable to the employee if it falls in one of their last three years of employment.

The level of saving per employee will depend on which Income Tax band they fall into as well as their choice of car, depending on the level of CO₂ emissions for the vehicle.

When the Authority agrees to an employee leasing a car, the agreement is between the provider and the Authority, with an agreement with the employee that will mirror this liability for payment. However, it will be the Authority that will be contractually liable to ensure payment is made to the providers.

Some of the providers involved in the previous procurement exercise were able to add a small amount to the cost to employees and build a fund to cover against costs due, for example, to redundancy or maternity leave, and it is intended that this flexibility will be taken into account in scoring the returns of any procurement undertaken.

There will be minimal additional resource required to administer the scheme, and any costs will be covered by existing budgets. Overall the scheme is a net saving to the Authority.

2.2 Legal

As the value of the contract as a whole is anticipated to exceed the threshold of £500,000.00 this procurement requires Cabinet approval. Any procurement process will be undertaken in accordance with the Authority's Contract Standing Orders and EU and UK public procurement requirements. Due to the anticipated value of the contract, which is likely to be in excess of the applicable EU threshold relating to services contracts (£164,176), the full EU procurement requirements will apply. Any award would be based on the most economically advantageous tender and the successful tenderer would be appointed on terms and conditions approved by the Head of Law and Governance.

Where an individual employee chooses to join the car leasing scheme, they will be required to enter into an appropriate variation to their contract of employment. Joining the scheme will also impact on their pension. Detailed guidance will be provided to employees to enable them to take an informed decision, as outlined at paragraph 1.5.3.

2.3 Consultation/community engagement

2.3.1 Internal Consultation

Agreement of the Senior Leadership Team to the proposals to introduce employee salary sacrifice schemes was given in December 2010.

Regular meetings have been held with officers from Procurement, Law and Governance and Strategic Finance in preparation of this report.

A trade union representative was involved in the procurement of the car leasing scheme in 2011 and will be invited to be involved in this particular procurement exercise.

2.3.2 External Consultation/Engagement

No external consultation is required as the scheme does not impact on members of the public.

2.4 Human rights

There are no human rights implications directly arising from this report.

2.5 Equalities and diversity

An equality impact assessment has been carried out on the Authority's approach to pay, reward and recognition, including salary sacrifice schemes. A review of this equality impact assessment will take place prior to the procurement exercise.

The only anticipated impact on equality and diversity is as follows:

Younger employees may be required to pay more insurance than older employees, depending upon how the insurance scheme of the successful car leasing management company operates.

2.6 Risk management

Any risk management issues will be included with the Authority's risk register and managed through this process.

2.7 Crime and disorder

There are no crime and disorder implications directly arising from this report.

2.8 Environment and sustainability

There are no environment and sustainability implications directly arising from this report.

PART 3 - SIGN OFF

- Deputy Chief Executive
- Head(s) of Service
- Mayor/Cabinet Member(s)
- Chief Finance Officer
- Monitoring Officer
- Head of Corporate Strategy