

North Tyneside Authority

Report to Cabinet

Date: 23 August 2016

ITEM 6i

Title: Salary Sacrifice:
Child Care Vouchers

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 agreed a procurement exercise to appoint a preferred provider to administer and manage a salary sacrifice child care voucher 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. The options to extend have been utilised and now the contract is due to go out for re-tender. The current contract lapses on 30th September 2016, therefore the Procurement team are currently seeking a temporary extension with the current provider to December 2016.

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 childcare vouchers scheme. This should include consideration of whether to rely on a framework currently being used by another public sector body where value for money can be demonstrated; 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 twice for 12 month periods 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 12 August 2016.

1.4 Authority Plan and Policy Framework

This report does not relate to the priorities in the 2014/18 Our North Tyneside Plan. However, it reflects a benefit to those staff teams who deliver those priorities.

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.

The Government commenced a consultation on 10th August 2016" on salary sacrifice for the provision of benefits in kind" This closes on 19th October 2016 and looks to limit the number of benefits in kind that attract advantages relating to income tax and National Insurance Contributions. Schemes excluded from the consultation document are pension savings, employer supported childcare and cycle to work as the government wish employers to continue to promote these.

1.5.3 Child care voucher salary sacrifice

The current child care voucher scheme has been supplied by Edenred. The scheme can be accessed by Authority employees (including Teachers) with responsibility for childcare for children up to the age of 16. The scheme is currently available to North Tyneside Authority and partner organisations. Employees signing up to the scheme to provide tax free childcare can now save over £850 a year.

Between 01/06/15 to 31/07/16 there were 339 employees using the Child Care Voucher scheme, with an overall spend of £647,405.40 on vouchers.

The net saving to the Authority generated by the Childcare Vouchers salary sacrifice scheme over the previous five years is £117,584.

An employee on an annual salary of £19,245, paying £243 per month to child care will save approximately £48.60 in Income Tax and £29.23 in Employee National insurance contributions. The employer will save £33.62 in Employer National Insurance contributions.

An employee will save roughly 12% on their NI liability and 20% on their tax. The employer will save approx 13.8% on their NI liability.

The employee enrolls on the current scheme by completing a salary sacrifice agreement. The provider of the current scheme sends a "Welcome Pack" that includes details for the employee's care provider on how the scheme works, if they aren't already affiliated with the company. The employee then receives paper vouchers which are given to the actual childcare provider. They then return the vouchers to the scheme provider for redemption. Alternatively an electronic voucher membership card may be issued depending upon the childcare provider in question.

1.5.4 Eligibility

The new child care voucher scheme will continue to be made available to all employees of the Authority including Teachers, as a salary sacrifice scheme. As before, employees cannot take part in the scheme if the salary sacrifice means that their pay falls below the national living wage. Employees who are under notice and temporary & casual employees will not be able to enter the scheme.

The detailed guidance provided to employees on the scheme will be updated to reflect any changes required following procurement of the new provider.

1.5.5 Procurement

There are a number of companies that are available to offer the scheme to the Authority. The Authority could choose to run its own independent EU-compliant procurement exercise to identify a preferred provider to manage the child care voucher sacrifice scheme on its behalf or it could use a framework already in place for another public sector organisation which would allow it to demonstrate Value for Money, such as the ESPO Framework 319 as detailed below.

ESPO Framework 319 – Staff Benefits was procured by Eastern Shires Purchasing Organisation (ESPO). There are 7 providers on the framework for Childcare Vouchers; these are Busy Bees Benefits Ltd, Edenred (UK Group) Ltd, Fideliti Ltd, ICOM Works Ltd, P&MM Employee Benefits, Sodexo Benefits & Rewards Services, and Wider Plan Ltd.

Suppliers on the framework have already been assessed during the procurement exercise for their financial stability, track record; experience and technical ability, there are no extra charges, pre-agreed terms and conditions, and minimum administration. A mini competition from this framework would allow further value for money. Therefore it is likely that this scheme will meet the requirements of North Tyneside Council, though an in-depth review of the exact terms and conditions of this scheme will need to be completed. If we were to use the ESPO framework we would be able to set up a 'call off contract' which would then allow us to agree specific start, end and extension dates.

It is not considered feasible to run a childcare voucher scheme in house due to potential costs associated with the set up and administration of such a scheme.

1.6 Decision options:

The following decision options are available for consideration by Cabinet:

Option 1

Cabinet approves the recommendation to seek to extend the current agreement with Edenred for three months to allow for a procurement exercise to be completed. Also to undertake a procurement exercise in order to identify a preferred provider for a salary sacrifice Child Care voucher 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 does not approve the recommendation to undertake an EU procurement exercise in order to identify a preferred provider for a salary sacrifice child care voucher 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 immediately to ensure the Authority is able to continue to offer a child care voucher 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 child care voucher scheme to employees. The requirement to return to Cabinet before a contract is awarded would also delay the implementation of a scheme, which would 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
Sarah Heslop, Manager Commercial Team, Law and Governance, tel (0191) 643 5456

1.10 Background information:

The following background papers/information has 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.

Childcare Voucher schemes provide a saving to the Authority on the Employer's National Insurance contribution on the amount of salary being sacrificed. The employee saves National Insurance and Income Tax contributions that would have been payable on the amount sacrificed.

The level of saving per employee depends on their individual salary, in terms of which Income Tax band they fall into, as well as the amount of spend each employee signs up to for the child care voucher scheme. An example is provided earlier in this report.

It is assumed that there would be no requirement for any additional resource to administer the replacement scheme. Within the current contract with Edenred the authority collects the money deducted from the employees and pays it across intact to the provider so there is no cost to the Authority beyond the current cost of payroll administration which is covered by the Engie contract. It is expected that the same or similar administration process will be followed when working with a new provider. The savings to the Authority accrue through the reduced employer NI contributions and continue to be dependent on the take up of the scheme. It is not expected that a new provider would propose any charges against the Authority.

2.2 Legal

As the value of the contract as a whole is anticipated to exceed the threshold of £500,000, 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 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 child care voucher scheme, they will be required to enter into an appropriate variation to their contract of employment. 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 Human Resources, Procurement, Law and Governance and Strategic Finance in preparation of this report.

A trade union representative 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.

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