

## **CABINET**

**2 DECEMBER 2014**

### **COMBINED GATEWAY 1 PROCUREMENT COMMENCEMENT AND GATEWAY 3 CONTRACT AWARD: CAR SALARY SACRIFICE SCHEME FOR EMPLOYEES**

Portfolio Holder: Councillor Alan Jarrett, Finance

Report from: Neil Davies, Chief Executive

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#### **SUMMARY**

This report informs Cabinet of the Monitoring Officer's decision, in consultation with the Procurement Board, regarding the procurement of a Car Salary Sacrifice Scheme for Employees for a period of three years. This report had previously been approved for submission to the Procurement Board after review and discussion by Business Support Directorate Management Team.

The Business Support Directorate Management Team had recommended that this project be approved as a Category B, Medium risk procurement and was considered at the Procurement Board on 8 October 2014 where it was agreed that the report be submitted to Cabinet for information.

#### **1. BUDGET AND POLICY FRAMEWORK**

1.1 Whilst medium risk procurements are not a matter for decision by Cabinet, the Procurement Board referred this scheme to Cabinet for information. There is potential for the scheme to make significant savings for the council if there is a considerable take-up.

#### **2. BACKGROUND INFORMATION**

##### **2.1 Background Information**

2.1.1 The council is continually seeking to enhance its employee benefit provision. In the current economic climate it is even more important for the council to offer employees options for making their salary go further and also to attract, retain and reward staff.

2.1.2 The Green Car Salary Sacrifice Scheme will allow the council to provide employees with a brand new fully maintained and insured car at a lower cost than they could normally achieve in the retail market.

2.1.3 The scheme will not only save money for employees but could also create significant savings for the council too. These are explained further in the report.

2.1.4 This scheme will help reduce the council's carbon footprint by recommending that the upper limit of CO2 emissions for cars chosen through the scheme is 130gm/km or below. This will enable employees a choice of up to 3,800 low emission vehicles.

#### 2.1.5 What is a salary sacrifice car scheme?

The scheme enables staff to be provided with a new low emission car of their choice, fully maintained and insured. Staff will give up an element of their salary in exchange for the car under a salary sacrifice arrangement. In doing so their gross salary will be reduced and they will save on tax, NI and pension contribution on the element of salary that is sacrificed.

#### 2.1.6 How can the council benefit from the scheme

If the take-up of the scheme is high, the council is set to achieve significant savings in relation to Employers NIC savings and possibly pension savings on the salary being sacrificed.

#### 2.1.7 Other benefits for the council are:

- Excellent employee benefit at no cost to the Employer
- Environmentally friendly low CO2 vehicles – all vehicle tail-pipe emissions are off-set and the scheme will be awarded carbon neutral status..
- Staff retention tool
- Helps meet Duty of Care obligations through a fully maintained vehicle with business use insurance
- Reduction in carbon footprint.

2.1.8 These schemes are currently in operation in a number of local authorities and private sector organisations. To benefit those within the public sector there are a number of schemes available via existing OJEU framework agreements. It is recommended that Medway Council would use one of the existing frameworks. Further details can be found in paragraph 4.2.

#### 2.1.9 Benefits for staff

There are a number of benefits for staff who choose to use the scheme, these include:

- fixed cost motoring
- Brand new fully maintained car
- All servicing & MOT

- Tax and National Insurance savings (see appendix one for example savings for employees based on tax code)
- Fully comprehensive motor insurance for the main driver and domestic partner (including same-sex partner)
- No deposit required and no credit check process
- Mechanism provides employee with additional savings in the form of VAT efficiencies, corporate finance rates and public sector discounts.
- Access to an online system where cars can be viewed, compared and ordered.
- A helpline to deal with all queries
- A provision which requires minimal administration by council staff (the main impact will be on payroll in terms of making the deductions and arranging payment)
- Replacement tyres
- Annual Road Fund Licence
- Comprehensive Breakdown and Recovery assistance
- Provision for certain lifestyle events (Resignation, Redundancy, Maternity Paternity & Adoption and Total Loss)
- Annual Licence check directly with the DVLA
- Option to purchase the vehicle at the end of the salary sacrifice period

#### 2.1.10 Eligibility

It is recommended that the following eligibility criteria are set. Employees will be able to access the scheme if they:

- hold a substantive post with a regular pattern of work with a contract that extends for the duration of the scheme (ie three years)
- have completed their probationary period;
- have an hourly rate above the National Minimum Wage after all salary sacrifice and other deductions have been made;
- are not at risk of redundancy;
- are not at risk of dismissal;
- have a full UK driving licence for 12 months or more; and
- are not in scope for a TUPE transfer.

Financial implications for both the council and the employee are highlighted below:

#### 2.1.11 Financial implications for the council

A car salary sacrifice scheme is essentially business contract hire, and as such the employer is responsible for any costs associated with the vehicle under its agreement. These costs and responsibilities are passed on to the employee through the salary sacrifice agreement and scheme policy between the authority and the employee.

There is potential for the scheme to make significant savings for the council if there is a considerable take-up (see table below provided by a car salary sacrifice provider). It is recommended that the savings from the scheme are part used to cover any administrative costs incurred by the scheme which are

likely to fall to payroll. Corporate Management Team will determine how the remainder of the savings will be utilised.

<b>Savings</b>	<b>Average gross rental of £350</b>
Average P11d	£15,000
Vehicle tax rate	15%
Class 1a NIC paid on vehicle	£25.87
Class 1 NIC saving on sacrificed salary	£36.40
Pension saving on salary sacrificed	£49.00
Employer monthly saving per employee	£59.53
Employer annual saving per employee	£714.36

Typical uptake: 3000 employees / 3% take up per annum

#### 2.1.12 Financial implications for employees

There are some risks and financial considerations that need to be taken into account before an employee signs up to the scheme. These are:

- The employee's salary cannot fall below the National Minimum Wage following the sacrifice;
- A salary sacrifice arrangement can affect certain state benefit entitlements, including:
  - contribution based benefits such as a state pension;
  - earnings related benefits like Maternity Allowance;
  - work related payments such as statutory sick pay.
- LGPS pension's scheme – for the period during which the taxable pay is reduced pensionable pay will also be reduced.
- employees will pay Benefit in Kind tax dependent on the CO2 and P11d value of the vehicle but this amount is normally outweighed by the savings already made on the sacrificed element of the salary
- anyone currently claiming car mileage allowances who choose to use this scheme will only be able to claim the NJC petrol rates for business mileage (details available on the Just4you intranet site). This would mean that anyone who is an essential car user would lose the right to the annual essential car user allowance.

The main risks of the scheme are to the employee, namely in the event of early termination. However, the council will ensure there are provisions built into the chosen scheme, at cost to the employee to ensure that any payments due in the event of early termination, redundancy, Total Loss Contingency and Maternity, Paternity and Adoption are covered by the employee. There are also options to manage exposure to long term sickness and TUPE, both can be included in an early termination cover but this would be subject to an additional cost.

In view of the above, employees will be encouraged to seek financial advice before entering the scheme.

### 3. BUSINESS CASE

#### 3.1 Procurement Project Outputs / Outcomes

3.1.1 As part of the successful delivery of this procurement requirement, the following procurement project outputs / outcomes within the table below have been identified as key and will be monitored as part of the procurement project delivery process.

<b>Outputs / Outcomes</b>	<b>How will success be measured?</b>	<b>Who will measure success of outputs/ outcomes</b>	<b>When will success be measured?</b>
<b>1. Successful implementation of the scheme</b>	Through the timely rollout of the chosen scheme.	HR and Category Management	Throughout the implementation stages.
<b>2. Uptake of the implemented scheme</b>	Through analysing the takeup of the scheme, with target setting and targeted marketing where appropriate.	HR and Category Management	Monthly, with a GW4 report 12 months post implementation.
<b>3. Savings generated for the Council</b>	Through the reconciliation of savings generated to measure the success.	HR and Category Management	Monthly, with a GW4 report 12 months post implementation.

## **3.2 Procurement Project Management**

3.2.1 The procurement exercise has been managed and run by Category Management, with support from HR.

## **3.3 Post Procurement Contract Management**

3.3.1 Post-procurement contract management will be run by the HR department, who will have significant support from the service provider during implementation of service. This will be followed up with regular contract reviews between HR and the supplier in addition to usage and savings monitoring.

## **4. MARKET CONDITIONS AND PROCUREMENT APPROACH**

### **4.1 Market Conditions**

4.1.1 The Car Salary Sacrifice market is buoyant, with a number of suppliers able and willing to provide this service. Further to this, there are a number of OJEU compliant frameworks which Medway Council could access.

### **4.2 Procurement Process Undertaken**

4.2.1 As mentioned within 4.1 (Market Conditions) above, there is a buoyant market of easy to access, legally compliant frameworks which the Council is able to access for the provision of this service. As such, the procurement process undertaken consisted of evaluating the market offerings in relation to the Council requirements (outlined within 4.3 below) and inviting a number of suppliers in to present their provisions. Additionally to this, HR services and Category Management attended '*Employee Benefits Live*' to further assess the market.

4.2.2 Following this, after consultation between HR and Category Management, an OJEU compliant framework was selected as outlined below as it was deemed to meet the requirements outlined within section 4.3.

4.2.3 The Salary Sacrifice Car Scheme will be procured under the 'Everybody Benefits – North Yorkshire County Council' framework. We shall be procuring from Lot3 – green lease cars.

### **4.3 Evaluation Criteria**

4.3.1 Not applicable in relation to the framework. Category Management has undertaken Due Diligence in collaboration with HR for the provision of a Salary Sacrifice scheme, with minimum criteria having been set.

4.3.2 This minimum criteria includes staff helplines, a tailored website, marketing to staff, zero access fee, minimised administration processes and adherence to HMRC regulations.

## 5. RISK MANAGEMENT

### 5.1 Risk Categorisation

<b>1. Risk Category: Service Delivery</b>	<b>Likelihood: D</b>	<b>Impact: III</b>
<b>Outline Description:</b> The supplier failing to meet its obligations under the framework agreement, resulting in an employee not receiving their vehicle.		
<b>Plans to Mitigate:</b> Safeguards are in place whereby an order will not be accepted, or they will be informed at the earliest opportunity, should an order not be able to be fulfilled.		
<b>2. Risk Category: HMRC regulation adherence</b>	<b>Likelihood: D</b>	<b>Impact: II</b>
<b>Outline Description:</b> The Council will be required to adhere to tax regulations under HMRC guidance.		
<b>Plans to Mitigate:</b> This will be managed by the Payroll department.		

## **6. CONSULTATION**

### **6.1 Internal (Medway) Stakeholder Consultation**

Aside from CMT, DMT and PB there will be no internal stakeholder consultation.

### **6.2 External Stakeholder Consultation**

6.2.1 There will be no direct external stakeholder consultation in the delivery of this procurement process.

## **7. PROCUREMENT BOARD – 8 OCTOBER 2014**

7.1 The Procurement Board considered this report on 8 October 2014 where the Monitoring Officer, in consultation with the Procurement Board, agreed to commence and award the procurement of a Car Salary Sacrifice Scheme for Employees. In addition, the Procurement Board referred this report to Cabinet for information.

7.2 The Monitoring Officer, in consultation with the Procurement Board, has awarded the contract for the provision of a car salary sacrifice scheme to Tusker Direct, via the Everybody Benefits North Yorkshire County Council Framework agreement.

7.3 The scheme is due to be introduced in 2015.

## **8. SERVICE COMMENTS**

### **8.1 Financial Comments**

8.1.1 The procurement requirement and its associated delivery (as per the recommendations at Section 10, will be funded from existing revenue budgets.

8.1.2 Service to work with finance to agree savings realisation methodology.

8.1.3 Further detail is contained within Section 2.1 Financial Analysis of the Exempt Appendix.

### **8.2 Legal Comments**

8.2.1 This paper seeks permission to utilise a current, EU Complaint framework. Subject to the framework being used in line with the terms and conditions of that framework then there are no legal implications.

8.2.2 The client should note that they should satisfy themselves that the framework is fully maintained by the “owner” and suppliers are subject to periodical checks to ensure they are still a suitable/viable company provider of the service.

### **8.3 TUPE Comments**

8.3.1 TUPE will not apply to this procurement.



## 8.4 Procurement Comments

8.4.1 This requirement will be procured through an EU compliant framework, and raises no specific procurement concerns.

## 8.5 ICT Comments

8.5.1 There are no ICT implications relating to this procurement.

## 9. OTHER INFORMATION

9.1 Not applicable.

## 10. RECOMMENDATION

10.1 The Cabinet is asked to note the contents of this report.

## 11. SUGGESTED REASONS FOR DECISION

11.1 The scheme enables staff to be provided with a new low emission car of their choice, fully maintained and insured.

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### BACKGROUND PAPERS

The following documents have been relied upon in the preparation of this report:

Description of Document	Location	Date
None		