

Finance and Resources Committee

10.00am, Thursday, 27 November 2014

Employee Benefit – Salary Sacrifice Car Lease Scheme

Item number	7.16
Report number	
Executive/routine	
Wards	

Executive summary

The Council's Staff Car Lease Framework Agreement expired in 2013. This arrangement was available to authorised car users only and operated as a standard scheme.

The Council now proposes to operate a new scheme utilising North Tyneside Council's Framework Agreement (supplied by NHS Fleet Solutions). This arrangement would offer both a standard car lease and a salary sacrifice car lease option. The eligibility criteria would be extended to all Council staff.

Based on anticipated volumes, the scheme will be operated at no cost to the Council, with the potential to operate at a net surplus as a result of the salary sacrifice car lease option. The salary sacrifice option also offers potential financial and associated benefits to the employee.

Links

Coalition pledges	P50
Council outcomes	CO18 CO27
Single Outcome Agreement	

Employee Benefit – Car lease salary sacrifice scheme

Recommendations

- 1.1 It is recommended that the Finance and Resources Committee:
 - 1.1.1 approves a new car lease scheme, which utilises the North Tyneside Council's Framework Agreement (supplied by NHS Fleet Solutions). This will include a standard car lease and a salary sacrifice car lease option;
 - 1.1.2 approves extending the eligibility criteria from authorised car users to all appropriate Council staff;
 - 1.1.3 notes the potential benefits to employees, the focus on CO2 efficient vehicles and the availability of electric cars;
 - 1.1.4 approves setting a CO2 emissions cap of 130g/km for all new lease cars;
 - 1.1.5 notes that the scheme, when fully operational, will operate at a net surplus, estimated at £49k; and
 - 1.1.6 delegates authority to the Director of Corporate Governance to finalise the terms and conditions of the Council's participation in the North Tyneside Council's Framework Agreement.

Background

- 2.1 The Council previously offered a Staff Car Lease Scheme limited to authorised car users required to undertake business mileage. Under this scheme the Council entered into lease car arrangements with 163 employees. This arrangement expired in December 2013 on the understanding that existing leases are honoured.
- 2.2 The expiry of the existing agreement presented the Council with an opportunity to consider different service models, including a salary sacrifice option and the overall eligibility criteria. Salary sacrifice schemes are a popular way of providing enhanced benefits to staff, as well as a recruitment and retention tool. Schemes are implemented at no additional cost to the employer and provide the opportunity to make financial savings to the Council and employees.

Options Appraisal

- 3.1 Council officers completed an options appraisal for a new car leasing scheme and these options are summarised below.

Option 1: Ceasing to offer a Staff Car Lease scheme

- 3.2 This was discounted as there is an ongoing business demand for staff who undertake business mileage to have the facility to lease a car. However, the Council could decide to cease to operate a lease car scheme. The alternative would be for the Council to provide a vehicle to staff where there is a requirement for them to undertake business mileage as an essential feature of their duties. This may include a provision for staff to park the vehicles overnight at their place of work.

Option 2: Tendering Council specific contract

- 3.3 It was agreed that putting a Council specific arrangement in place was not the preferred option because a new arrangement is required urgently and resources are prioritised on frontline, high value contracts.

Option 3: Utilising an existing framework agreement for the required services

- 3.4 This approach had a number of benefits to the Council:
- scheme can be operational within 1 month;
 - Council can withdraw from agreement whenever it wishes without penalty;
 - frameworks include both a salary sacrifice lease option, as well as a standard car lease scheme;
 - opportunity to access established schemes;
 - utilise economies of scale with over 100 public sector organisations using the recommended framework; and
 - scheme administration remains largely with the provider.

- 3.5 Following the options appraisal it was determined that an existing framework offered the most benefit to the Council and its employees.

Framework Agreement

- 3.6 A review of existing framework arrangements available to the Council was undertaken by the Payroll & Systems Manager, Staff Benefits Team Leader and a Senior Category and Procurement Specialist from the Commercial and Procurement Service. Following this exercise a detailed review of the preferred provider's scheme was undertaken to ensure it met the Council's requirements.
- 3.7 The North Tyneside Council's Framework Agreement (operated by NHS Fleet Solutions) is deemed to be the most suitable as:
- it was the only existing scheme which could demonstrate ongoing competitive pricing for car orders (vehicles provided by mini competition undertaken utilising a Government Procurement Service contract);

- scheme offered efficient set-up times;
- provider manages the end of the lease process (mileage/damage recharges);
- the scheme is the largest of its kind in the UK with 15,000 cars on the road;
- there is no joining fee; and
- it was the only scheme which offered a salary sacrifice and standard (net deduction) car lease schemes.

Scheme Eligibility

- 3.8 The previous car lease scheme was limited to authorised car users required to undertake business mileage. It is proposed to widen the eligibility criteria for the scheme so it is available to all Council staff. The use of cars for business journeys will remain unchanged and will only be permitted after alternative options of sustainable transport have been considered.
- 3.9 The widening of the scheme recognises that staff do buy cars and the new scheme will allow staff to access competitive and CO₂ efficient cars. A move to lower CO₂-emitting cars is consistent with current trends and in 2013 63.3% of new car registrations met the EU's 2015 CO₂ target of 130g/km. In support of this objective the Council would set the maximum CO₂ emission level of a car that staff could lease.
- 3.10 Other Councils in the framework have either set a maximum level of 140g/km or have no cap set. It is recommended that the Council should set a cap of 130g/km on all new lease cars.
- 3.11 The scheme also has potential financial benefits for the employee. Using corporate buying power and public sector discounts, the scheme allows councils to provide employees with a new, fully maintained and insured car at a lower cost than they could normally achieve in the retail market. There are also financial benefits for the Council with a salary sacrifice scheme potentially operating at a net budget contribution of £49k per annum as a result of reduced pension and NI contributions. This is detailed in Section 5.

Salary Sacrifice and Standard Car Lease Options

- 3.12 NHS Fleet Solutions offer a fully managed lease car service. The employee enters in to a lease agreement where the car is hired directly from the NHS Fleet Solutions for an agreed period and for the rental costs stated in the schedule. During the lease hire period the car is the property of NHS Fleet Solutions.
- 3.13 The majority of the scheme administration will be undertaken by NHS Fleet Solutions, with the Council responsible for paying the annual car lease charge and deducting this from the employee's salary in 12 equal instalments. In the previous scheme the Council was more involved in the day to day administration.

- 3.14 If an employee ends the agreement early then they may be liable for early termination costs. However, they will have an option to transfer the lease to a personal agreement.
- 3.15 The proposed framework scheme will offer a standard car lease (net salary reduction) and a salary sacrifice car lease (gross salary reduction) option.
- Salary Sacrifice Scheme: potentially available to all staff, however teachers are excluded due to the Scottish Teachers Superannuation Scheme pension regulations.
 - Standard car lease option: available for teachers, or non teaching staff who do not wish to enter into a salary sacrifice scheme.

Salary Sacrifice Option and Pensionable Pay

- 3.16 The main benefit of a salary sacrifice scheme is that it involves a reduction from an employee's gross salary, instead of net as applies to a standard car lease scheme. The employee sacrifices an element of their pay in return for a benefit – the lease car. As the sacrifice is applied to gross pay, the employee saves on tax, National Insurance (NI) and pension contributions on the relevant amount. As it is a benefit, employees will pay a benefit in-kind tax liability dependent on the CO2 emissions and the value of the car. The lower the CO2 emission the lower the tax charge the employee incurs, which makes the lower CO2 emission/electric cars a more beneficial option. This cost is outweighed by the savings made on the sacrificed element of their pay.
- 3.17 As the employee is sacrificing their salary this will affect their pensionable pay. The Council currently has a final salary pension scheme so this would only impact on employees in their last years of employment and an employee would need to consider the implications and the potential options to manage this situation.
- 3.18 The Council will be moving to a career average pension scheme from April 2015. This will have wider implications and an employee would need to consider the initial financial benefits against the longer term pension impact. This would be made clear in all documentation.

Measures of success

- 4.1 The success of the scheme will be measured through:
- enhanced staff benefits scheme for Council staff;
 - financial benefits to the Council and the employees;
 - CO2 emissions, with the Council setting the maximum CO2 emission level of a car that staff could lease; and
 - monitoring of all new scheme users to quantify the reduction in staff moving to lower CO2 emitting cars.

Financial impact

- 5.1 The Council's administration costs for the scheme include employers NI liability on the benefit in-kind provided, loan costs and bad debt provision. When compared with the previous scheme, staff costs are reduced as the provider is responsible for much of the scheme administration. For the salary sacrifice option the Council makes a saving as a result of reduced NI and pension contributions as the employee is sacrificing an element of their pay
- 5.2 Based on existing car lease scheme users moving to a salary sacrifice option, the new scheme would run at an estimated net surplus of £49k (see Appendix 1 for details). Current lease car users are on a 3 year contract and will remain on the existing scheme until their lease contract expires. Therefore, savings will not be fully realised until the old scheme has been phased out (December 2016).
- 5.3 As the salary sacrifice scheme would be open to all staff, with the exception of teachers, additional employer cost savings are possible. This amount would be approximately £350 per annum per user.
- 5.4 Savings from this scheme will help mitigate future loss of existing income streams as a result of recent government initiatives. These include payroll services to the Scottish Fire & Rescue Service, the Forth Estuary Transport Authority and the existing Childcare salary sacrifice scheme which is to be phased out as an employer provided benefit from the autumn of 2015.
- 5.5 The costs associated with procuring this contract are in the lowest category, up to £10,000.

Risk, policy, compliance and governance impact

- 6.1 The risks associated with salary sacrifice schemes are as follows:
 - an employee cannot go below the minimum wage;
 - Lifestyle changes can impact on contract e.g. long term sick;
 - early termination of lease car e.g. resignation ; and
 - end of contract charges.
- 6.2 The scheme will be set up to mitigate these risks and these will be managed between the new provider and the Council's Staff Benefits team, or is covered in the contractual arrangement with the employee. In addition, the scheme arrangements include a bad debt provision.
- 6.3 The current lease car policy will require to be updated to reflect the proposed scheme. Existing contracts under the previous scheme will be honoured to the end of their term.
- 6.4 The Council reimburses 'authorised' car users for their business journeys based on the HMRC Approved Mileage Allowance Payments and these rates would apply to lease car users.

Equalities impact

- 7.1 This scheme is available to all staff and includes the opportunity to adapt vehicles to meet users' protected characteristics i.e. disabilities.
- 7.2 The salary sacrifice option is financially more beneficial to higher paid staff due to the reduction being from gross pay i.e. higher tax rate payers. The scheme is less likely to appeal to lower paid part-time staff whose pay cannot fall below the statutory minimum wage. The standard scheme will, however, remain an option for all staff.
- 7.3 Staff approaching retirement age will be required to consider the pension implications of sacrificing part of their pay, particularly the final salary element of their pension.
- 7.4 Teachers cannot sacrifice their pay but they are still eligible to use the standard scheme.

Sustainability impact

- 8.1 The new scheme will reduce the Council's and users' CO2 emissions by using new efficient cars to undertake essential business mileage and any private mileage. The use of cars for business journeys is only permitted after alternative options of sustainable travel have been considered
- 8.2 The Council would set the maximum CO2 emission level of a car that staff could lease. The scheme includes the leasing of electric cars.
- 8.3 The aim of the scheme is not to increase car usage but where car journeys are necessary that they are undertaken in the most sustainable manner. This will provide a wider benefit to Edinburgh's air quality management as new cars are more efficient across a range of pollutants.
- 8.4 The scheme supports the Council in managing its duty of care obligations under the Corporate Manslaughter Act 2007, with regards to its grey fleet requirements i.e. employees must use roadworthy and fully insured vehicles in the course of their duties.
- 8.5 Where feasible, orders through the recommended Framework Agreement will be placed with local car dealerships. This will ensure economic benefits are maximised in the local area.

Consultation and engagement

- 9.1 As part of the evaluation process, senior staff from Finance, Commercial & Procurement Services, Organisational Development, Legal, Risk and Compliance, and the Sustainability Manager were consulted before taking this initiative forward.

Background reading/external references

None.

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Links

Coalition pledges	P5 – Meet greenhouse gas targets, include the national target of 42% by 2020.
Council outcomes	CO18 – Green – We reduce the local environment impact of our consumption and production. CO17 – The Council supports, invests in and develops our people.
Single Outcome Agreement	
Appendices	Appendix 1 – Financial calculations Appendix 2 - Summary of Tendering and Tender Evaluation Processes

Appendix 1 - Financial calculations

	£	£	£
Income:			
Employers NI saving		38,000	
Employers Pension saving		68,800	
			106,800
Costs:			
Staff Costs		39,890	
Employers NI Liability on Benefits in kind		15,846	
Borrowing costs		808	
Bad Debt provision		1,250	
			57,794
Surplus			49,006

Full year savings based on all 163 current lease car users converting to a salary sacrifice scheme.

Appendix 2 - Summary of Tendering and Tender Evaluation Processes

Framework Agreement title	SP/000485/DR (QTLE-8FDBU5 – Salary Sacrifice Car Leasing Scheme)
Contracting Authority	North Tyneside County Council
Framework Agreement Supplier	NHS Fleet Solutions
Framework Agreement Period (including any extensions)	1 st June 2011 to 31 st May 2014 with the option (by North Tyneside Council) to extend by a further 2 x 12 months (up to 31 st May 2016).
Primary award criterion applied by the Contracting Authority	Most economically advantageous tender.
Cost:Quality Ratio applied by the Contracting Authority	40:60
Council Contract Title	Salary Sacrifice Car Lease Scheme.
Council Contract Period	2 years with the option to extend for up to a further 2 year period undertaken at the sole discretion of the Council (1 September 2014 to 31 August 2016, with an option to extend to 31 August 2018).
Council Estimated Contract Value	£ 400,000 (Annual) £ 800,000 (Total less extensions)
Standing Orders observed	1.3.1 - Business case (including options appraisal) that meets the strategic and service objectives of the Council is completed in order to ensure that best value is achieved and that complies with relevant sustainable development and equality requirements. 2.1 - Before commencing a tendering procedure the relevant Director must consult with the Commercial and Procurement Manager to establish whether any existing contracts or framework contracts accessible to the Council may fulfil their requirements.
Portal used to advertise	N/A (utilising existing Framework Agreement)
EU Procedure chosen	N/A (utilising existing Framework Agreement)
Invitations to tender issued	N/A (utilising existing Framework Agreement)
Tenders returned	N/A (utilising existing Framework Agreement)

Tenders fully compliant	N/A (utilising existing Framework Agreement)
Recommended supplier/s	N/A (utilising existing Framework Agreement)
Evaluation Team	<ul style="list-style-type: none"> • Graham Mechan - Payroll & Systems Manager, HR & Payroll Service Centre • Ann Tonner - Staff Benefits Team Leader, HR & Payroll Service Centre
Procurement Advisor	<ul style="list-style-type: none"> • Claudine Persaud - Senior Category and Procurement Specialist, Commercial and Procurement Services
Legal Advisor	<ul style="list-style-type: none"> • Lizzie Connell - Solicitor, Legal, Risk and Compliance