

EMPLOYMENT COMMITTEE	AGENDA ITEM No. 6
22 JULY 2015	PUBLIC REPORT

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SALARY SACRIFICE CAR LEASING SCHEME FOR EMPLOYEES

R E C O M M E N D A T I O N S	
FROM : Director of Governance	Deadline date : N.A.
<p>That Employment Committee approve:</p> <ol style="list-style-type: none"> 1. The introduction of a Salary Sacrifice Car Scheme for employees as set out in this report; and 2. The revision of car mileage rates whereby staff who participate in the scheme would be reimbursed for the petrol element only in the nationally agreed car mileage rates. 	

1. ORIGIN OF REPORT

- 1.1 This report follows on from savings approved in the Councils Medium Term Financial Strategy, whereby it was identified that introducing a salary sacrifice scheme would save £100k in a full year.

2. PURPOSE AND REASON FOR REPORT

- 2.1 HMRC rules permit employers to operate certain salary sacrifice schemes. In essence these schemes enable an employee to “sacrifice” an element of their salary in exchange for certain benefits. The sacrifice is made before deductions for tax, national insurance contributions and, in certain cases, Pension contributions.
- 2.2 The employer also sees benefits as no employer’s national insurance and pension contributions are made on the sacrificed salary.
- 2.3 This report proposes that the City Council operates such a scheme to enable employees to sacrifice their salary in return for a lease car.
- 2.4 This report is for the Committee to consider under its Terms of Reference No 2.3.1.4 “To determine local terms and conditions of employment for employees”.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
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4. BACKGROUND

- 4.1 With minimal pay awards over recent years many employees at the top of their pay grade, the council recognises that employee finances have been squeezed. Therefore, traditional monetary incentives as a means of encouraging productivity have been limited. Surveys and research undertaken has shown that for the vast majority of employees a varied benefits package;

- makes them feel valued as employees,
 - plays a key part in them remaining with the council
 - plays a significant role when considering alternative employers
- 4.2 The Council already operates some Salary Sacrifice schemes, such as Childcare Vouchers and car parking.
- 4.3 Salary Sacrifice Car Schemes have become more popular since the changes to benefit in Kind (BiK) tax on company cars in 2008, which continues to favour low emission cars with lower levels of Benefit in Kind tax. Low emission vehicles benefit the most from these schemes.
- 4.4 From the Council's perspective, a Salary Sacrifice Car Scheme allows it to provide an additional benefit to the employee at no additional cost, with the potential to achieve savings. This is made possible by the employee covering all the costs associated with the vehicle which results in the Council paying reduced national insurance and pension contributions on the amount of salary sacrificed by the employees. This would equate to 22% of the amount of salary sacrificed by the employee. The full cost of the vehicle is recharged to the employee.
- 4.5 However, the advantage for the employee with a Salary Sacrifice Scheme is that the reduction in gross salary (which covers all the costs of the vehicle) results in savings on income tax, pension and national insurance contributions which more than offset the BiK liability. It should be noted that these schemes only work well and only provide significant benefits if employees choose lower valued, lower CO2 emission cars, as that way the BiK they pay is lower.
- 4.6 The benefits of a salary sacrifice scheme include:
- Making employees' money go further.
 - Employer National Insurance and Pension savings created from the salary sacrifice scheme will provide significant on-going savings for the council.
 - Peterborough keeping pace with other employers so that it can attract and retain talent particularly in difficult to recruit to posts.
- 4.7 One of the main benefits of the scheme to both employees and the Council is that by using the scheme, employees would be driving greener cars. High emissions vehicles do not attract the BIK advantages and also, it would run counter to the City Councils Environment policies to facilitate employees to have more polluting models. It is therefore recommended that employees be limited to leasing vehicles with emissions levels below 140g/km. This would mean that employees would still be able to choose from around 2000 different vehicles and models.

5. HOW THE SCHEME WOULD WORK

- 5.1 There are many contract hire companies in the market who provide Salary Sacrifice Car Schemes, including those who have in place a framework agreement that is used by many Councils. This Framework Agreement is available to the wider public/not for profit sector including Local Authorities. Accessing this Framework removes the necessity for a separate OJEU tender procedure hence cutting out management time and cost.. The Council would therefore enter into an arrangement with a scheme provider within this framework.
- 5.2 The contract would be between the Council and the scheme provider and in effect, the Council then allows the employee to use the car. Each contract hire period lasts for 36 months. Therefore the scheme would be open only to directly employed staff in permanent contracts or have a fixed term contract of 36 months or more at the commencement of the contract.

- 5.3 Teachers are excluded from the scheme as a salary sacrifice scheme of this nature would be in breach of the statutory school teachers pay and conditions document.
- 5.4 Any salary sacrifice arrangement that results in an employee receiving below the national minimum wage would be in breach of legislation.
- 5.5 It is also proposed that the provider be asked to use local vehicle suppliers where possible – although this will be dependent upon the contractual arrangements between the scheme provider and the car manufacturers.
- 5.6 It should also be noted that employees who participate would see a reduction in their LGPS benefits, as their pensionable salary would be calculated after the amount of salary sacrifice deducted. This will form part of the scheme publicity and the LGPS is able to provide more detailed information.

6. CAR MILEAGE RATES

- 6.1 An additional benefit for the Council would be a reduction in the cost of fuel reimbursement via mileage claims. Currently the Council pays 45p pence per mile for an employee using their own car in line with the nationally agreed NJC rates. These rates are made up of a variety of elements, of which the petrol element is 10.3 pence per mile. Given that the car leasing scheme covers all costs except petrol it is proposed that employees who have a car provided in the Salary Sacrifice Car Scheme receive the petrol element only in respect of mileage undertaken on council business.

7. RISKS

- 7.1 Running a Salary Sacrifice Scheme is not without risk and issues that need to be managed. However, the scheme can be set up in such a way as to mitigate the impact of most, if not all, of these risks. The main risks/issues are as follows:
- An employee may be absent either on maternity leave or through long-term sickness. Mitigated by – insurance against these risks provided as part of the rental can be built into the scheme specification. The insurance is funded by adding a small premium to the rentals
 - Early termination of the vehicle as a result of resignation, redundancy, or dismissal Mitigated by – the insurance provisions outlined above.
 - End of contract charges such as excess mileage or damage recharges. Mitigated by – Scheme Providers will monitor the running mileage of vehicles provided on the scheme and, where necessary, offer to re-schedule the agreement. This results in a slight increase in the monthly rental where a vehicle shows a trend to run over-mileage, but an excess mileage charge at contract expiry is avoided. It is the responsibility of the employee to settle any recharges for damage to the vehicle but the Framework Providers will waive any such charges up to £150. Damages in excess of this cost will be recharged to the Council who will need to recover the sums from employees. Increased damage waiver amounts are available in return for additional premiums payable with the vehicle rental, which it is recommended are included in the lease charges to the employees.

8. IMPLICATIONS

- 8.1 Financial - Savings will be dependent upon the type of vehicle taken by the employee, and the amount of mileage undertaken, however, where salary sacrifice car schemes have been implemented elsewhere, a 5% take up has been seen. This could equate to around 65 vehicles being provided through this scheme, assuming an average monthly rental cost of £300 savings to the Council of over £50,000 per annum would not be unrealistic given this level of participation. There would also be some savings resulting from lower mileage rates paid

9. CONSULTATION

- 9.1 Trades Unions have been consulted on the proposals at a meeting of the Joint Consultative Forum on 3rd June 2015 and confirmed that they were in agreement with both the scheme and the revised car mileage rates.

10. REASONS FOR RECOMMENDATIONS

- 10.1 By introducing a salary sacrifice scheme for lease cars, it gives a recruitment and retention benefit to our employees whilst also providing savings to the Council.
- 10.2 The proposal to limit the employee choice of cars to greener models also supports the Councils Environment Capital and Energy Innovation priorities.

11. BACKGROUND DOCUMENTS

HMRC Guidance "Salary sacrifice and the effects on PAYE" Published June 2014