

## NORTH LINCOLNSHIRE COUNCIL

### POLICY AND RESOURCES CABINET MEMBER

#### SALARY SACRIFICE FOR CARS SCHEME

#### 1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To outline and seek approval for the council's scheme parameters in respect of the Salary Sacrifice 4 Cars (SS4C) scheme.

#### 2. BACKGROUND INFORMATION

- 2.1 As part of plans to mitigate reductions in business mileage rates, Human Resources (HR) officers entered into dialogue with Tusker Direct Ltd. the provider of the award winning SS4C scheme.
- 2.2 Salary sacrifice arrangements involve an employee sacrificing an element of their pay before tax and national insurance (NI) contributions are taken, in return for a benefit, in this instance a new car. The employee saves tax and NI on the amount sacrificed and the council saves the NI on the sacrificed amount.
- 2.3 The council currently runs successful salary sacrifice arrangements for childcare vouchers and has done so for the Cycle to Work scheme.
- 2.4 Following a European tender process Tusker were awarded a Pan Government Collaborative Framework Agreement with North Yorkshire County Council (NYCC) in early 2010. This means that the Tusker scheme can be introduced without this council spending time and money going out to tender.
- 2.5 Tusker now has 21 live schemes with councils across the UK with a further 11 in scoping and implementation.

#### Benefits

- 2.6 The SS4C scheme allows the council to provide employees with anew, fully maintained and insured car at a lower cost than they could normally achieve in the retail market. In addition to the tax and NI savings each month, employees benefit from corporate buying power and public sector discounts. **Introducing the scheme costs the council nothing.**

- 2.7 All servicing and maintenance of the vehicle is included in the monthly salary reduction along with fully comprehensive motor insurance and roadside assistance.
- 2.8 As it is a benefit, employees will pay Benefit in Kind (BIK) tax dependent on the CO<sup>2</sup> emissions and P11d value of the vehicle but this amount is normally outweighed by the savings already made on the sacrificed element of the salary.

### **Eligibility**

- 2.9 The only eligibility criteria within HMRC salary sacrifice rules are:
- The arrangement must be for a minimum of 12 months;
  - employees cannot sacrifice below the National Minimum Wage.
- 2.10 Although the reductions in business mileage rates primarily effect 'essential users' a significant financial impact will also be felt by many 'casual users'. SS4C scheme entry can be provided to the majority of the workforce regardless of whether there is a requirement for an employee to undertake business mileage. The greater the number of employees that enter the scheme, the greater the saving to the council.
- 2.11 As a cost neutral benefit the SS4C scheme is a useful addition to the council's retention package and would **not involve any subsidy by the council**. The council's car loan scheme was withdrawn in November 2010 as it was felt that cheaper sources of finance were readily available elsewhere.

#### *Employees in fixed-term contracts and those 'at risk'*

- 2.12 As the proposed salary sacrifice arrangement is for a period of 36 months there is a possibility that an individual's employment may cease during that time. On that basis HR will authorise entry to the scheme ensuring that employees applying are in a contract the length of which extends beyond the expiry of any salary sacrifice agreement.
- 2.13 HR will also check that the employee is not subject to ongoing disciplinary proceedings or an organisational review, where in both scenarios dismissal may be an outcome. This is key within the first six months following delivery of the vehicle, as redundancy insurance etc. would not be active during this period.

#### *Employees on Grade 11 and above or equivalent*

- 2.14 Currently employees on Grade 11 and above or equivalent (excluding employees on Soulbury and Teachers' terms and conditions of

employment) are eligible for a lease car, which means the council pays the contract hire costs up to seven per cent of the maximum salary point of the grade. Alternatively they have the option of receiving six per cent in addition to their salary instead of the seven per cent employer contribution to a leased car.

- 2.15 There is nothing to prevent employees currently eligible for a lease car from entering into the Tusker scheme too. Fully comprehensive motor insurance is provided for the main driver and domestic partner so there is no requirement for the employee to be the principal driver of the vehicle.
- 2.16 There is a danger that allowing this group of employees entry to the scheme may be viewed negatively but the council makes a saving for every car obtained through the scheme.

#### *Members of the Local Government Pension Scheme*

- 2.17 In other salary sacrifice schemes, (childcare vouchers and cycle to work) gross salary reductions do not effect pension contributions. However in this instance they do. Employees save tax, NI and pension contributions on the sacrificed amount.
- 2.18 For the period during which an employee's taxable pay is reduced as a result of the salary sacrifice arrangement their pensionable pay will also be reduced. This will mean that all benefits calculated on reduced pensionable earnings would be reduced including pension, lump sum retirement grant, spouse's or partner's pension plus any lump sum death grant.
- 2.19 A move from 'final salary' to 'career average re-valued earnings' is likely to be made by the Government in the near future, the impact of which is not yet clear.
- 2.20 Employees will be required to confirm they understand any individual pension implications prior to entering the SS4C scheme.

#### *Members of the Teachers Pension Scheme (TPS) and support staff in schools*

- 2.21 Employees in the TPS are prevented from entering salary sacrifice schemes of this type. The scheme could be extended to support staff in schools but there is a significant likelihood of schools transferring to academy status during the period of any agreement.

## *Councillors*

2.22 Although for income tax purposes councillors' allowances are treated as earned income and subject to normal PAYE and NI arrangements, the statutory basis for those allowances means that they can not be subsumed within salary sacrifice arrangements for employees.

### **Insurance and contingencies**

2.23 SS4C is essentially business contract hire, and the council is responsible for any costs associated with the vehicle under its agreement with Tusker. However, these costs and responsibilities are passed on to the employee through the salary sacrifice agreement and scheme policy between the council and the employee.

2.24 Insurances are available for the council to select as mandatory for the employee to protect them in the event of terminating the arrangement early in the circumstances of:

- Early termination (including resignation);
- shortfall (the difference between the insurer's settlement figure and early termination charge);
- redundancy;
- maternity, paternity and adoption.

2.25 A mix of any, some, or all of the above can be included in the scheme and once selected by the council they will be mandatory for all employees entering the scheme. A six month exclusion period following delivery of the vehicle, applies to early termination, redundancy and maternity insurance.

2.26 Tusker have recommended the selection of their minimum level of contingency (£4000) for early termination, shortfall and redundancy on the basis that no early termination cost within a capped CO<sup>2</sup> emissions framework of 120g/km has to date exceeded this amount.

2.27 The recommended excess period and level of cover in respect of maternity, paternity and adoption is nine months and £4500.

### **3. OPTIONS FOR CONSIDERATION**

3.1 There is a CO<sup>2</sup> emission limit on vehicles within the Pan Government Collaborative Framework Agreement of a maximum of 120g/km. Beyond that individual organisations are generally free to set their own parameters. Options for the introduction of a salary sacrifice for cars scheme exist as follows:

- a) Consider alternative provider.

- b) Consider provision of insurance through the corporate provider.
- c) Consider increasing the level of contingencies recommended by Tusker.
- d) Consider inclusion of administration fee.
- e) Consider capping the percentage of annual salary to be sacrificed.
- f) Consider the exclusion of manufacturers or certain vehicle styles.

#### 4. ANALYSIS OF OPTIONS

- 4.1 The council could consider alternative salary sacrifice for car providers but not without spending time and money going out to tender.
- 4.2 The council could provide insurance and contingencies through its existing provider; however this would create an additional internal administrative burden. **Adding the insurance option to the SS4C offering costs the council nothing** and examples suggest including it continues to provide an attractive new car offering to employees.
- 4.3 The council could consider increasing the level of contingencies recommended by Tusker but to a large extent is guided by the company's experience of existing schemes. The length of cover in respect of maternity fits with the usual period of paid maternity leave offered by the council. **All costs are passed on to the employee entering a salary sacrifice arrangement.**
- 4.4 The council could pass an administration fee onto employees but this has the potential to make a new car offering through Tusker less attractive, potentially reducing the savings made through take up. A saving is already made from reduced employer NI contributions and capacity for internal administration by the council's Payroll department exists within current structures.
- 4.5 The council could consider capping the percentage of annual salary to be sacrificed by employees but to a large extent the offering is about personal choice. Employees are limited from dropping below the National Minimum Wage and whilst a more paternalistic approach may be commendable there is nothing to prevent an employee from entering into a personal contract purchase arrangement for a new car.
- 4.6 The council could consider the exclusion of manufacturers or certain vehicle body styles but any negative perceptions associated are likely to be limited by the CO<sup>2</sup> emissions cap of 120g/km. In excess of 4000 vehicles remain available for selection. **The inclusion of prestige makes in the scheme costs the council nothing. In fact the greater the cost of the vehicle, the greater the saving to the council.**

## 5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

- 5.1 As with other salary sacrifice schemes the SS4C scheme is designed to achieve a saving for both employees and the council. Savings for the council will be dependent upon the scheme parameters set and employee take up.
- 5.2 Administration of the SS4C scheme is minimal as the scheme is largely administered by Tusker.

## 6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)

- 6.1 If a proportion of council employees switch to cars with an upper CO<sup>2</sup> limit of 120g/km for business mileage this will contribute to the council's commitment to the carbon management plan.
- 6.2 The SS4C scheme also assists the council in managing duty of care obligations under the Corporate Manslaughter Act 2008 with regard to grey fleet (business mileage undertaken in employee owned vehicles).

## 7. OUTCOMES OF CONSULTATION

- 7.1 The trade unions are in favour of any steps taken to mitigate the impact of reductions in business mileage rates.
- 7.2 The council's management team have been consulted and are in favour of the scheme parameters proposed.

## 8. RECOMMENDATIONS

- 8.1 That subject to final endorsement of legal documentation, approval is given to enter the SS4C scheme on the basis of the recommended parameters. **Introducing the scheme costs the council nothing.**
- 8.2 That scheme entry is provided to all employees with the exception of those in the TPS and support staff in schools. HR and payroll will assess any fixed-term/'at risk' and NMW implications prior to approval.

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