

HAMBLETON DISTRICT COUNCIL

Report to: Cabinet
3 September 2013

Subject: SALARY SACRIFICE CAR LEASING SCHEME

**All Wards
Portfolio Holder for Support Services and
Economic Development: Councillor P R Wilkinson**

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of this report is to gain approval from Cabinet for the introduction of a salary sacrifice car leasing scheme for all Council employees. This report follows approval by Cabinet in May 2013 for an investigation into the viability of such a scheme.
- 1.2 The Council currently has two salary sacrifice schemes in operation, a cycle to work scheme and a child care voucher scheme. The proposed salary sacrifice car leasing scheme would be run using the same principles as these existing schemes.
- 1.3 A salary sacrifice is where an employee gives up the right to receive part of the cash pay due under his or her contract of employment. Usually the sacrifice is made in return for the employer's agreement to provide the employee with some form of non-cash benefit, in this case a lease car.
- 1.4 Lease car salary sacrifice schemes are a cost effective means of an employee procuring a new car. Savings accrue to the employee through a reduction in their tax, national insurance and pension contributions, although the employee is liable for benefit in kind (company car tax) which is based upon the carbon dioxide emissions of the vehicle.
- 1.5 There are also a number of benefits for the Council in introducing a salary sacrifice car leasing scheme. They deliver savings to the Council in respect of reducing employers national insurance and pension contributions. They can have a positive impact on staff morale and retention. They also have the ability of reducing the carbon footprint of the Council, by restricting the cars available to fuel efficient vehicles.

2.0 THE SCHEME:

- 2.1 The characteristics of the salary sacrifice car leasing scheme are set out below:-
 - The employee enters into a contract with the Council for a lease car sourced from the lease company;
 - The contract duration is for two or three years at which time the car can be purchased or returned to the lease company;
 - The contract covers the cost of the car, road tax, repairs and maintenance, insurance, servicing and breakdown repair and recovery;
 - Staff opting out early from the scheme will be subject to early termination charges. This is equivalent to 5 monthly payments in year 1, 3 monthly payments in year 2 and 1 monthly payment in year 3.

- 2.2 The lease car provider will be procured from an existing procurement framework, this is a low risk cost effective method of procurement.
- 2.3 All salary sacrifice schemes are governed by rules laid down by HM Customs & Revenues, one stipulation is that they must be available to all staff providing that the reduction in salary does not take them below the National Minimum Wage. This check will need to be made by the Council's Human Resources section for each employee requesting access to the scheme be reviewed throughout the term of the lease to ensure any future contract changes made during the lease period do not take the employee's hourly rate, after the lease car scheme deduction, below the National Minimum Wage.
- 2.4 There is evidence that salary sacrifice car leasing schemes can have a positive impact on staff morale, recruitment and retention. The reason for this is twofold; firstly the prospect of a low cost new car every three years is an attractive proposition. Secondly, the cost of early termination may dissuade staff entering into the scheme from seeking alternative employment.
- 2.5 The proposed salary sacrifice car leasing scheme has the ability to lower the carbon footprint of the Council, this is achieved by only allowing employees access to low carbon emission vehicles. In deciding on a maximum level of carbon emissions to set it is important that the scheme remains attractive and that this restriction does not deter staff from joining the scheme. Having considered this in detail it is proposed that a limit of 120g/km is set; this level is deemed to be low emission by the government with free vehicle tax in the vehicles' first year, together with lower vehicle tax in future years and low benefit in kind (company car tax). Currently there are over 1,400 types of car available with this level of carbon dioxide emission, allowing employees a wide range of choice. A study commissioned by the Council in 2011 stated that the average carbon dioxide emissions for Council employee vehicles were 171g/km producing 98 tonnes of carbon dioxide from business mileage alone. Depending upon take up a limit of 120g/km has the potential of significantly reducing the Council's carbon dioxide footprint in this area.
- 2.6 As with all salary sacrifice schemes there are a number of financial and operational risks which include:-
- Payment default – if an employee leaves and refuses to pay the termination payment for the vehicle the liability would be with the Council. To mitigate this risk, employees would be required to sign contracts and any default would be pursued through the legal system;
 - Parental Leave – if an employee goes on maternity leave (for a period of up to 12 months) the Council would only be able to claim payments from occupational maternity pay, which is paid for 12 weeks at half contracted pay for employees meeting the required criteria. The reduction to half pay may take the employee below the National Minimum Wage threshold and prevent the Council from recouping the cost. In such circumstances the Council would be required to bear the cost of the lease whilst the employee would still have full use of the vehicle. This risk could also affect employees in receipt of Paternity and Adoption Pay.
 - Sick Leave - Government legislation does not allow for any Salary Sacrifice payments to be taken from statutory payments. Therefore the Council could not take lease car payments from any Statutory Sick Pay payments and again in circumstances were the employee is only in receipt of these payments the Council would be required to bear the cost of the lease whilst the employee would still have full use of the vehicle;

- If the employee's pay after the deduction of the lease car payments should fall below the National Minimum Wage at any stage during the lease period, the Council would only be able to take part of the lease car payments from the pay above the National Minimum wage;
- Capacity – some of the administration of the scheme would fall within the remit of the Human Resources section, this may present a capacity issue if the initial take up is significant. To mitigate this risk, additional temporary resource could be financed from savings the Council will make from the scheme.

2.7 Although the risks set out above are small in relation to the number of employee's affected by maternity, long term sick leave and other contractual changes that could give rise to a liability on the Council. Two actions will be taken to mitigate these risks, firstly contacts would be written to allow the Council to recoup these payments at a later date once the employee returns from maternity or sick leave. Secondly, the savings for the Council generated from the scheme could be used to fund any potential liabilities, although this requirement is unlikely.

2.8 A schedule of some example vehicles and the associated costs and savings to the employee are presented in Annex A, these are based on an employee who is not a higher rate tax payer.

3.0 RISK ASSESMENT:

3.1 There are no risks associated with this report.

4.0 FINANCIAL IMPLICATIONS:

4.1 The implementation of a salary sacrifice lease car scheme will generate a budget saving for the Council as savings will accrue in respect of employers national insurance and pension contributions on the amount of salary an employee sacrifices. It is difficult to quantify this saving as it depends upon take up of the scheme however; if 100 employees (approximately 16 % of the workforce) entered the scheme with an average salary sacrifice of £3,500 the Council would save around £80,000 per year.

5.0 LEGAL IMPLICATIONS:

5.1 The legal implications are dealt with in paragraph 2.1.

6.0 EQUALITY/DIVERSITY ISSUES:

6.1 Equality and diversity risks have been considered and there are none to report.

7.0 RECOMMENDATION:

7.1 It is recommended that Cabinet approve the implementation of a salary sacrifice car leasing scheme for all employees.

JUSTIN IVES

Background papers: Nil
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Example Cars and estimated costs and savings for employees

Car	Full Lease Cost	Benefit In Kind Tax	Income Tax Saved	National Insurance Saved	Pension Saved	Employee cost per month
Citroen C2 Hatchback 1.4i	£209	£19.15	£41.80	£25.08	£13.58	£147.69
Peugeot 3008 Hybrid4 MPV 5Dr 2.0h e-HDi	£490	£44.90	£98.00	£58.80	£31.85	£346.25
BMW 1 Series 116 Hatch 5dr 1.6d	£388	£45.13	£77.60	£46.56	£25.22	£283.75
Volvo V60 Estate 1.6D2	£442	£70.52	£88.40	£53.04	£28.73	£342.35
Volkswagen Golf Hatch 5Dr 1.6TDI	£362	£42.29	£72.40	£43.44	£23.53	£264.92