

**REPORT TO:** Cabinet

**REPORT DATE:** 9 June 2015

**BY:** Depute Chief Executive (Resources and People Services)

**SUBJECT:** Staff Benefit Scheme - Salary Sacrifice for Cars

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## **1 PURPOSE**

- 1.1 To secure Cabinet approval to implement an employee salary sacrifice scheme for cars.

## **2 RECOMMENDATIONS**

- 2.1 That the Cabinet support the implementation of an employee salary sacrifice scheme for cars as outlined in this report.

## **3 BACKGROUND**

- 3.1 The Council implemented new employee business travel arrangements on 1 July 2013 following a collective agreement with the Joint Trades Unions. As part of the implementation the Council gave the JTU an undertaking that it would investigate the viability of implementing a salary sacrifice scheme.
- 3.2 A salary sacrifice scheme enables most employees to be provided with a new low emission car of their choice, fully maintained and insured by a third party provider. Employees will pay for the car under salary sacrifice arrangements through a monthly gross salary deduction which means a saving in tax, NI and pension for any employee using the scheme.
- 3.3 Salary sacrifice happens when an employee gives up the right to receive part of their 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. The 'sacrifice' is achieved by varying the employee's terms and conditions of employment relating to pay. Salary sacrifice is a matter of employment law, not tax law. Where an employee agrees to a salary sacrifice in

return for a non-cash benefit, they give up their contractual right to future cash remuneration for the period of the salary sacrifice.

- 3.4 The Council anticipates a number of potential benefits from such a scheme:
- it would deliver an employee benefit to Council employees at no cost to the Council
  - it would contribute to the reduction in carbon emissions by offering low carbon vehicles
  - it would contribute towards the local economy through vehicles potentially being serviced in the East Lothian area.
- 3.5 As part of the process, two potential providers of the service were identified (Tusker and NHS Fleet solutions) and both were invited to present to a group of representatives from the Council, including representatives from UNISON and the EIS, to assess the potential benefits of such a scheme.
- 3.6 Both providers deliver broadly the same scheme, however the procurement requirement for Tusker would necessitate a full tendering exercise to use their services.
- 3.7 The NHS Fleet Solutions framework would allow the Council to access the NHS Fleet Solutions contract without any further procurement exercise being undertaken. As such, a relatively short lead in time could be secured.
- 3.8 The NHS Fleet Solutions contract offers the option of either a salary sacrifice lease vehicle or a Net lease vehicle. A net lease vehicle arrangement lets the employee access a vehicle in a similar way as salary sacrifice but is more expensive for the employee as they don't benefit from the Tax, NI and pension savings. With the current interest rates employees could arguably source a cheaper lease arrangement privately; however this would normally mean a financial check and a deposit, neither of which would be required if taken through the net lease scheme.
- 3.9 In terms of satisfying the Council's aims, the scheme would deliver on being a no cost to the Council benefit to our employees, as it would allow them to access a brand new vehicle, taxed, insured etc. Through the net lease scheme, it would also establish a limited scheme for teachers who cannot, because of their pension regulations, access a salary sacrifice arrangement for cars.
- 3.10 The scheme would also contribute to carbon reduction, as the Council in introducing the scheme would set a cap on the vehicles which can be accessed by among other things the CO2 emissions. The scheme partially meets the aim of growing our economy in the Council Plan as notwithstanding that the vehicles will be purchased on a national contract

and sourced nationally, the servicing work could be undertaken at local dealers, generating local business.

- 3.11 Although the scheme is designed to be no cost to the Council, there will be administrative implications and a degree of financial risk associated with the scheme. There are risks related to situations where an Employee's pay does not cover the leasing costs i.e. during periods of long term sick leave, maternity leave, redundancy and in such situations the Council would effectively have to underwrite the leasing costs and subsequently recover any payments from the relevant employee. In some cases this may be difficult i.e. where the employee is dismissed on the grounds of capability or ill health retirement and is therefore no longer on the payroll. The Council can mitigate against this through the implementation of effective debt control and recovery arrangements and possibly through relevant insurance protection.
- 3.12 The scheme providers suggest that the administrative implications on the Council of delivering such a service are minimal. However, it is clear that there will be implications, at least for Payroll although this could readily be alleviated by providing some additional staffing cover that would be funded from the potential income generated and due to the Council through the scheme.
- 3.13 For employees, it will be critical that they are properly informed about the impact on the terms of their contractual, pension and financial commitments. The provider will deliver a presentation for employees to launch the scheme and will work jointly with the Council to work on producing a set of frequently asked questions as well as a scheme brochure to ensure employees are as fully informed as possible.
- 3.14 Subject to Cabinet approval, it is intended that the detailed East Lothian scheme be developed over the summer with formal implementation at the beginning of September.

#### **4 POLICY IMPLICATIONS**

- 4.1 The implementation of the scheme may assist the council in reaching its carbon emissions reduction targets. In addition it may partially meet the aim of growing our economy in the Council Plan as servicing of the vehicle may be undertaken at local dealers, generating local business

#### **5 EQUALITY IMPACT ASSESSMENT**

- 5.1 A Combined Impact Assessment has been completed and no negative impacts have been found.

## 6 RESOURCE IMPLICATIONS

- 6.1 Financial – There should be no net costs arising from the implementation of the scheme. Each vehicle taken up through the scheme would generate a potential gross return to the Council of £1,800 over a 3 year period. The introduction of the scheme will create an additional administrative burden for the Payroll Service who are already working at full capacity and an additional staffing resource will be required to support the introduction and ongoing maintenance of the Scheme. The precise level of the additional requirement is obviously dependent upon scheme uptake and is therefore uncertain but has been provisionally assessed at an additional 1 FTE Payroll Assistant at an approximate cost of £18,300 per annum. It would be intended to recruit to the post initially on a temporary basis for a maximum of 12 months to assess the ongoing requirement.
- 6.2 The table below demonstrates the potential full year effect of income to the Council based on 50 employees per annum taking a vehicle through the leasing scheme. Based on these figures at the end of a 3 year lease period with 150 cars through the scheme the Council could generate £180,000 over the period. However, the non-financial gain is in terms of staff engagement in what may be seen as an excellent employee benefit at no cost to the Council.

	Year 1	Year 2	Year 3
Cars	50	100	150
Annual income (£)	£30,000	£60,000	£90,000

- 6.3 Personnel – there will be an uncertain level of staffing implication associated with the additional administrative burden and in the first instance, an additional payroll assistant will be recruited on a temporary basis. This requirement will be reassessed in light of actual scheme uptake. The Scheme would be publicised in conjunction with the provider.
- 6.4 Other – none.

## 7 BACKGROUND PAPERS

- 7.1 Summary of questions and response from NHS Solutions (available on request from the report author).

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