

**REPORT TO:** Executive Board  
**DATE:** 28 March 2013  
**REPORTING OFFICER:** Strategic Director – Policy & Resources  
**PORTFOLIO:** Resources  
**SUBJECT:** Salary Sacrifice Car Scheme  
**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 To seek approval to phase out the Council's existing car lease scheme and replace it with a salary sacrifice scheme.

**2.0 RECOMMENDATION: That the Strategic Director – Policy and Resources, in consultation with the Resources Portfolio Holder, be authorised to:**

- (1) Design and approve a local car leasing scheme policy and associated guidance for employees;**
- (2) Undertake the necessary procurement activity to appoint a provider to deliver a salary sacrifice car lease scheme;**
- (3) Arrange the phasing out of the Council's existing employee car lease scheme; and**
- (4) Undertake the operational management of the scheme.**

## **3.0 SUPPORTING INFORMATION**

### **Background**

3.1 The Council currently provides an in-house car leasing scheme which is used by approximately 160 employees. Under the scheme employees are required to pay the full cost of the lease from their salary. Any entitlement to Essential Car User Allowance is however used to offset the cost of the lease. The main cost to the Council of operating the current scheme therefore relates to the provision of insurance cover to lease car drivers. In 2012/13, the cost of this insurance was approximately £115,000.

3.2 There is an opportunity for the Council to achieve financial savings by replacing the existing car leasing scheme with a salary sacrifice scheme. Salary sacrifice is a contractual arrangement whereby an employee gives up the right to receive part of their cash remuneration, usually in return for their employer's agreement to provide some form of non-cash benefit, in this case a car. As the salary sacrifice comes out of gross pay the employee is able to save on income tax, national insurance and pension contributions. The Council would similarly also make savings on its employer's national insurance contributions and pension contributions.

- 3.3 The scheme is essentially business contract hire. As such, the Council would be responsible for any costs associated with vehicles provided under the scheme. These costs are then passed on to the employee through a salary sacrifice agreement between the authority and the employee. The vehicle supplier would remain the legal owner of the vehicles throughout the contract period although employees will be given the opportunity to purchase the vehicle outright at the end of their lease.
- 3.4 The Council already has salary sacrifice schemes in place for childcare vouchers, mobile phones, computers and bicycles.

#### **Benefits to the employee**

- 3.5 The scheme offers a range of benefits to employees:
- ✓ Access to a new vehicle without credit checks or a deposit being required
  - ✓ Fully comprehensive motor insurance
  - ✓ Tax, national insurance and pension savings
  - ✓ All servicing, MOT & maintenance
  - ✓ Annual Road Fund Licence
  - ✓ Comprehensive breakdown and recovery assistance
  - ✓ Provision for certain lifestyle events (resignation, redundancy, maternity, paternity, adoption and total loss)

#### **Benefits to the Council**

- 3.6 The scheme also offers a range of benefits to the Council:
- ✓ Employers NIC and pension savings on the salary being sacrificed
  - ✓ Excellent employee benefit at no cost to the Council
  - ✓ Environmentally friendly low CO2 vehicles reducing the Council's carbon footprint
  - ✓ Effective staff retention tool
  - ✓ Helps meet the Council's duty of care obligations through provision of a fully maintained vehicle
  - ✓ The replacement of the existing car lease scheme will realise an annual insurance premium saving of approximately £115,000 per annum over a three to four year period.

#### **Procurement route**

- 3.7 There are a number of framework agreements for salary sacrifice lease car schemes that have been awarded by other public sector bodies. The Council is able to access these frameworks free of charge and this would remove the need for the Council to undertake its own expensive procurement exercise.

## **4.0 POLICY, FINANCIAL AND OTHER IMPLICATIONS**

- 4.1 It is proposed that the existing employee car lease scheme is removed following the introduction of a salary sacrifice scheme for cars.
- 4.2 Employees who are currently supplied with vehicles under the existing car lease scheme will remain unaffected. However, there will be no option to renew under the existing scheme when an employee's current vehicle contract expires. To assist transition to the new scheme provision will however be made for existing lease car contracts to be extended for up to 12 months if required, subject to agreement being reached with the relevant leasing company.
- 4.3 The level of savings generated through a salary sacrifice scheme will be dependent on employee uptake and the value of vehicles selected. Experience at other local authorities suggests that the annual saving on Employers NIC and pension contributions is approximately £400pa. There are approximately 160 employees who are provided with vehicles under the existing car lease scheme (which is restricted to essential users). If the same numbers of employees were to access the salary sacrifice scheme the annual saving would be £80,000. However, as the scheme would be open to a greater number of employees it is anticipated that savings could be in excess of this figure once the scheme becomes established.
- 4.4 There is also potential for the scheme to be designed in such a way to allow the Council to make savings on its Class 1A National Insurance Contributions (on Benefits in Kind) in regard to the existing car leasing scheme. This would ultimately realise further savings of approximately £60,000 per annum.
- 4.5 Implementation of the salary sacrifice scheme will remove the need for the Council to arrange insurance for lease car drivers realising a saving of approximately £115k per annum once the existing scheme is phased out.
- 4.6 Total savings to the Council, following the full rollout, would therefore be over £250,000.

## **5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

- 5.1 The proposal provides an opportunity for the Council to avoid costs in terms of Employers NIC contributions and paying for insurance cover for existing lease car drivers. As such, this will facilitate the redirecting of financial resources towards the delivery of all the Council's priorities.

## **6.0 RISK ANALYSIS**

- 6.1 Employee uptake of the scheme could be adversely affected by the proposals to move the Local Government Pension Scheme (LGPS) to a career average revalued earnings (CARE) scheme. The Council will therefore need to fully inform employees of the potential impact on their future pension entitlement before they enter into a salary sacrifice agreement for a car.
- 6.2 The other main risks to the scheme relate to changes that may occur in an individual's circumstances, such as:

- Early Termination due to a person leaving the employment of the Council;
- Redundancy;
- Total Loss Contingency (to cover any shortfall in the insurance settlement if the vehicle is stolen or written off);
- Maternity, Paternity & Adoption.

Provisions to mitigate the risk of these events will be included in the design of the scheme.

- 6.3 As occurs with the existing lease scheme, it is proposed that vehicles will be delivered to the Lowerhouse Lane Depot where they will be inspected prior to being issued to employees. This will ensure that all vehicles supplied under the scheme are fit for purpose and comply with the Council's duty of care as required under the PUWER regulations.
- 6.4 The implementation of a new salary sacrifice scheme will inevitably create some additional work in terms of administering the scheme to ensure all the pre-application assessments are undertaken. This work will primarily be carried out within the Human Resources Division and will need to be considered as part of the scheme's implementation.

## **7.0 EQUALITY AND DIVERSITY ISSUES**

- 7.1 Replacement of the existing car leasing scheme with a salary sacrifice car scheme is more inclusive as the scheme is open to all employees on permanent contracts providing that the sacrificing of salary does not take employees below the national minimum wage.

## **8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

None under the meaning of the Act.