

## **INTRODUCTION OF SALARY SACRIFICE SCHEME TO LEASE CARS**

### **Purpose**

1. The purpose of this report is to recommend to the Staffing Policy Committee that a salary sacrifice scheme to lease cars is introduced for staff by April 2011, using Tusker Direct as a provider.

### **Background**

2. Wiltshire Council currently runs a salary sacrifice scheme for Childcare vouchers and has previously done so for bikes. Salary sacrifice involves the employee sacrificing an element of their pay before tax and NI is taken, in return for the lease of a car over a three year period. The employee saves tax and NI on the amount sacrificed and Wiltshire Council saves the NI on the sacrificed amount.
3. A Salary Sacrifice scheme which enables staff to lease a car would be made available to all staff, excluding teachers, and subject to some parameters (for example, salary must not fall below the national minimum wage, an employee must have a contract which covers the period of the lease). It would not involve any subsidy by the Council.
4. The Staffing Policy Committee will also consider the Staff Management Executive Board's recommendation to close the three current subsidised lease car schemes by 31<sup>st</sup> March 2012.

### **Using Tusker**

5. Tusker will set up the salary sacrifice scheme and administer the scheme. North Yorkshire County Council (NYCC) uses Tusker Direct and under the same terms, Tusker has been awarded a Pan Government Collaborative Framework Agreement. This means that the scheme becomes available to all UK contracting public sector authorities so we can introduce the scheme without spending time and money going out to tender.
6. The Pan Government Collaborative Framework Agreement provides two specific parameters to the scheme: any car leased under the scheme must have an upper CO2 limit of 120g/km; and the lease must be for 3 years.
7. Tusker has presented the scheme to various stakeholders within the Council (HR, finance, procurement, pensions, payroll). All stakeholders clarified how the scheme might work from their point of view and have provided feedback which has been taken into account for this report. Legal and Procurement have reviewed the framework agreement and consider it is well written and clear. Full and detailed discussions have taken place with North Yorkshire County Council whose scheme has been open nearly a year.

### **Benefits for the council**

8. A Salary Sacrifice Scheme for cars is a tangible benefit for employees at a time when other areas of their terms and conditions may be affected by the current financial climate and the scheme may therefore help to boost morale at a difficult time. It could promote retention and be an added attraction for new staff. Tusker Direct could introduce the scheme before the current subsidised lease car schemes are closed, allowing many of

those who are affected by this closure to consider whether they want to join the salary sacrifice scheme instead.

9. There will be an upper CO2 limit of 120g/km on the cars that can be leased. Incorporating this limit into Wiltshire's scheme supports the Council's current corporate plan which states that the Council has to reduce its CO2 emissions by 20% by 2014 from its 2008/09 baseline footprint. Wiltshire is a rural county with limited public transport options for many, resulting in the car being the preferred option for both commuting and work mileage. If a proportion of the Council's staff switch to low emission cars for personal and work related miles, this would reduce the carbon emissions in the County. Tusker Direct can provide a monthly report on CO2 reduction the Council has achieved through the salary sacrifice scheme. To emphasise its green credentials North Yorkshire has labelled their scheme the Green Car Lease Scheme and Wiltshire Council would do the same.
10. Over 1300 staff used a car for business travel in the last 12 months; some of these staff have a contractual requirement to provide a car for business travel. A salary sacrifice scheme for cars could help these drivers provide a car for work.
11. A scheme which provides new, fully maintained cars to Council employees can help ensure the Council meets its Duty of Care obligations under the new Corporate Manslaughter Act introduced in April 2008.
12. Using Tusker will benefit Wiltshire businesses as Tusker is bound to source vehicles from local dealers.

### **Risks to the Council**

13. As no deductions can be taken from statutory pay the council becomes liable for the cost of a lease while an employee receives statutory pay (maternity, paternity, adoption or sickness). This also affects the salary sacrifice Childcare Voucher Scheme that Wiltshire Council currently runs. Currently the Council does not advertise to staff that the Council becomes liable for the amount sacrificed, but responds truthfully to any queries about it from staff. This approach will be continued with this salary sacrifice scheme.
14. All quotations include early termination cover should an employee resign or be made redundant from the company prior to the end of the term. However, this insurance does not cover the first six months of the lease which leaves the possibility that the council will incur a debt if an employee leaves and does not pay the early termination charge for which they are liable. Overall, this is viewed as a small risk as in practice this has not happened yet in North Yorkshire County Council. Any risk will be reduced by introducing some restrictions into the scheme. For example, only allowing those who have passed their probation to apply; seeking to transfer the car to another employee to avoid an early termination charge at all; by ensuring that managers are aware of the need to be prompt in informing payroll of a leaver, so that any monies owed can be deducted from a final salary.
15. LGPS Regulations do not permit the employee or employer to make pension contributions on the amount sacrificed. However, if these contributions are not made over the three year lease then there would be a short fall in the pension scheme. The pension team have reviewed this risk and view it as a medium and long-term risk. Details of their modelling are at Appendix A. Following Pension advice, the Council will continue to pay into the pension fund the value of employer contributions on the amount sacrificed. This will be done in a way that the pension fund officers advise is most suitable. In order to reduce the risk of a shortfall in the pension fund from not having the employee contribution, Wiltshire Council will use the savings from NI (outlined below) to contribute as necessary to the pension fund in a way the pension officers advise is most suitable.

16. Sacrificing an element of an employee's salary could impact on other elements of an individual's welfare and benefits, both within employment and without and Wiltshire must ensure that employees are as informed about any personal financial impact as possible. Frequently Asked Questions (FAQs) will be available to all those interested in joining the scheme, clearly communicating what needs to be considered. North Yorkshire County Council's FAQs are at Appendix B for information.
17. All staff who choose to have a car through salary sacrifice will sign an amendment to their contract to agree to reduce their salary. As such, if the council wants to remove the scheme, it would need to consult to amend the contract of each employee who is in the scheme.

### **Financial considerations**

18. It is anticipated that the salary sacrifice scheme can be introduced within existing day-to-day budgetary provision.
19. Through the council not having to pay NI on the sacrificed amount it is anticipated that the salary sacrifice scheme will generate net savings of approximately £180 - £300 per annum per car, depending on what type of car is chosen. Take up is projected to be in the region of 2-5% of staff in year 1-2; and 8% in year 3. North Yorkshire is currently on target to reach 2% by the end of their first year. With a take up of 2% of non schools staff this could be approximately £18,000 - £30,000 in NI savings per year.
20. Internal administration will be minimal as the scheme will be administered by Tusker. The cost of internal administration has been modelled taking into account feedback from all stakeholders involved. Finance has approved our approach to this modelling which is at Appendix C. Internal administration will be offset by the savings on National Insurance outlined above, or through the introduction of an administration fee for the employee.
21. Any savings generated from not paying NI on the sacrificed amount will be used to reduce the loss to the pension fund of employee contributions. Using the minimum and maximum range of NI savings outlined above, with an admin fee of £5 per month for the employee, the impact on the pension fund ranges from a £3000 deficit to a £8500 saving. Using an average NI saving the scheme is cost neutral to the council, with no adverse impact on the pension fund.

### **Recommendations**

22. The Staffing Policy Committee is recommended to agree the introduction of a Salary Sacrifice Scheme for cars using the Pan Government Collaborative Framework Agreement operated by Tusker Direct, with the aim of implementing the scheme by the beginning of the next financial year (April 2011).
23. The Staffing Policy Committee is recommended to agree that national insurance savings are used, as needed, to offset the loss of employee pension contributions.
24. The Staffing Policy Committee is recommended to agree that a notional salary is kept for the same elements of pay that the Childcare Voucher Scheme keep a notional salary for.
25. The Staffing Policy Committee is recommended to agree that the Salary Sacrifice Scheme for Cars is marketed as a 'Green Car Scheme'.

**Barry Pirie**  
**Service Director**  
**HR and Organisational Development – Resources**

---

Report Author: Claire Parr – Senior Project Officer – Pay Harmonisation Team