

Report of: Acting Business Manager, Human Resources

To: Executive Board

Date: 6<sup>th</sup> November 2006

Item No:

Title of Report : Cycle to Work Salary Sacrifice Scheme



### Summary and Recommendations



**Purpose of report:** To authorise officers to institute a salary sacrifice scheme allowing employees to lease bicycles to travel to work and to use at work



**Key decision:** No

**Portfolio Holder:** Councillor Jean Fooks

**Scrutiny Responsibility:** Environment



**Stakeholder(s) affected:** All

#### Report Approved by



**Portfolio Holder:** Councillor Jean Fooks

**Legal:** Jeremy Thomas



**Finance:** Andy Collett

**Strategic Director:** Mark Luntley



**Policy Framework:** The Council's Staff Travel Plan



**Recommendation(s):** To authorise the Business Unit Managers, Human Resources and Finance and Asset Management to introduce a salary sacrifice bicycle leasing scheme for employees in partnership with CycleScheme and Total Asset Finance Leasing Limited.



## **1. Introduction**

- 1.1. In November 2005 Environment Scrutiny Committee considered a report on Staff Travel and among the measures to increase cycling to work that the committee considered was the introduction of a salary sacrifice scheme to enable staff to purchase cycles at reduced cost. Options have now been considered and are set out in this report.

## **2. Cycle to Work Schemes**

- 2.1. To promote healthier journeys to work and to reduce environmental pollution, the 1999 Finance Act introduced an annual tax exemption, which allows employers to loan or provide for hire cycles and cyclists' safety equipment to employees as a tax-free benefit through a salary sacrifice scheme.

## **3. How Salary Sacrifice and the leasing arrangement work**

- 3.1. Salary sacrifice is effectively a voluntary reduction in an employee's monthly salary. As the gross pay is reduced there is a consequent reduction in tax and National Insurance contributions (NIC).
- 3.2. Most employers choose to lease the cycles to employees, and funding for the initial purchase of the cycles may come from the employer's own resources or through an independent asset management company, which then receives the monthly lease payments direct from payroll. Since no budgetary provision has been made for such a scheme we have explored this latter option.
- 3.3. At the end of the lease period the bicycle is offered for sale to the employee at a "Fair Market Value", generally 5% of its purchase price.

## **4. How do Employees Pay For Their Bikes?**

- 4.1. Employees give up some of their salary in exchange the Council loans them brand new cycles and cyclist's safety equipment.
- 4.2. An employee visits a participating bicycle dealer and decides the value of the bike and accessories he/she wants, and completes a Hire and Salary Sacrifice Agreement, which they hand to the employer to approve and countersign. The signed Hire and Salary Sacrifice document is then sent to the cycle to work scheme provider.
- 4.3. A certificate for the corresponding value is then issued for the employee to exchange for the bike of their choice, at a dealer of their choice.
- 4.4. The cycle to work scheme provider returns the form to the Council for the employee's file, along with the legally binding equipment hire details completed by our bike retailer at the point of sale.

## 5. How does an employee save money?

- 5.1. Participating employees are provided with brand new bikes from their employers, as non-cash benefits in kind - free of tax.
- 5.2. Employees then fully defray their employer's costs of providing the loan bikes, by small gross salary reductions (not deductions) over 18 months, in a statutory process called Salary Sacrifice.
- 5.3. They can make substantial savings relative to purchase price in the shops because their income tax deductions and National Insurance (NI) contributions go down each month, in line with their salary sacrifice.

### EXAMPLE

The Council acquires the bike chosen by its employee, then lends it to the employee. The cost of bicycle and associated safety equipment is £500.00 incl. VAT

The employee effectively repays the Council for the benefit, by agreeing to a reduction in gross salary each month for 18 months (this is known as a Salary Sacrifice). Also included in the 'Salary Sacrifice' are any costs incurred by the Council in running the scheme = £28.22 per month

Monthly saving: 22% PAYE = £6.21 = 11% NI Payer = £3.11  
Actual net reduction in monthly take home pay, after tax benefits, is £18.90

The employee's actual net cost over 18 months, is £340.27  
The employee's total percentage saving is 32%

## 6. Financial Implications

- 6.1. There are a number of financial benefits for both the employee and the employer with such a scheme. These can be summarised as follows:

### Employee

- around 32% for basic-rate taxpayers and 40% for higher-rate taxpayers on purchase price of a new cycle and associated safety and security equipment
- no deposit required
- no credit check

### Employer

- 12.8% saving on National Insurance contribution (NIC) on the amount sacrificed with only a small administration cost.

6.2. Based on the most conservative assumption on take-up provided by the Cycle to Work providers (3% take-up, £500 average purchase) this would save the Council £2688.

## **7. Selecting Providers**

7.1. The following schemes/providers have been researched.

- Cycle Solutions,
- BringMe Cycle2Work,
- Cyclescheme,
- Boost,
- Halfords
- Club Cycles

7.2. Of these only Halfords, ClubCycles Boost and Cyclescheme appear to provide a seamless package with comprehensive assistance to the Council to set up the scheme.

7.3. Cyclescheme and Boost stand out among these because they partner a range of independent Oxford bicycle retailers, supporting local small businesses and offering employees the widest range of choice. Boost are linked to five local retailers (+1 in Abingdon) and Cyclescheme, nine (+1). Halfords and Club Cycles require that all cycles are purchased through Halfords.

7.4. Cyclescheme can work using Total Asset Finance Leasing Limited as leasing partner with whom we already have an established, satisfactory partnership arrangement for the Home Computer Initiative. Boost partners Axis Leasing Ltd but have stated that they are prepared to work with Total Asset Finance Leasing Limited. Halfords & Club Cycles tie us to their own leasing schemes.

7.5. Cyclescheme has a locally proven track record, currently working successfully with both Universities in Oxford and Oxfordshire County Council.

7.6. For these reasons – local business support, widest employee choice, and proven track record of both leasing company and scheme provider, Cyclescheme with Total Asset Finance Leasing Limited is our preferred option.

## **8. Covering Risks**

8.1. To qualify for tax benefits, all employees have to be offered entry to the scheme, except where the length of a temporary employment contract is less than the length of the lease period, or where salary sacrifice would bring an employee's wage below the statutory minimum.

8.2. It is proposed to limit the total purchase amount per employee to £750 and to set the maximum lease term to eighteen months.

- 8.3. If an employee in the scheme leaves employment before end of lease term, the Council is liable to keep up monthly payments to the end of the term. However by capping the total purchase amount per employee we will be able in almost all cases to recover the full amount from any final salary cheque. The savings the Council makes on Employer's NI contributions will also provide a hedge against this financial risk.
- 8.4. If an employee's bicycle is stolen or seriously damaged during lease term, the employee remains liable for paying the lease to the end of its term. To protect against this the Council can require employees to confirm the cycle is insured to its full replacement value.
- 8.5. Salary Sacrifice has potential implications for pensions but following advice from the LGPS the Council can protect employees' pensions providing the cycle package is specified as a pensionable emolument.
- 8.6. Pregnant employees will be advised to defer the leasing arrangements at least 23 weeks before their expected confinement date until their return to work to avoid losing out on their statutory benefits.

## **9. Trade Union and Employees views**

- 9.1. The Trades Unions have been consulted and support this scheme. There has also been significant employee interest in the scheme through national press coverage and local campaigning by Cyclox.

## **10. Recommendation**

Executive Board is recommended to agree that the Business Managers for Human Resources and Finance and Asset Management set up a Cycle to Work Scheme for Employees with Cyclescheme as supplier and Total Asset Finance Leasing Ltd as lease provider, and applying the risk controls set out in Section 8 of this report.

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Background papers: None