



REPORT TO EMPLOYMENT PANEL

PORTFOLIO AREA: FINANCE, RESOURCES AND GOVERNANCE

Date of Meeting: 14 August 2012

Public

Inside Policy Framework

Title: Employee Benefits – Cycle to Work Scheme
Report of: Organisational Development Manager
Report reference: CE 12/12

Summary:

In July 2011, the Employment Panel approved the introduction of an Additional Annual Leave scheme and further work on developing a Cycle to Work scheme. The Employee Benefits Working Group has now developed a Cycle to Work scheme.

Recommendations:

The Employment Panel is asked to:

1. Consider the Cycle to Work scheme and approve it for consultation.
2. Consider a cycle mileage rate and approve further development of this.

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Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

1 BACKGROUND INFORMATION AND OPTIONS

Introduction

- 1.1 There are a wide range of benefits organisations can offer to their staff which support engagement in the workplace. Effective pay and reward strategies, together with initiatives including flexible working, offers on goods and services, recognition of achievement and learning and development opportunities contribute to successful recruitment and retention.
- 1.2 In July 2011, the Employment Panel approved the introduction of an Additional Annual Leave scheme which enabled staff to buy up to ten days of extra annual leave each year. The scheme was introduced in November 2011 for the remainder of the 2011/12 holiday year and offered again for the 2012/13 holiday year starting in April 2012. This year 37 staff have bought extra holiday.
- 1.3 At the same meeting, information was provided about a Cycle to Work scheme and the Employment Panel approved further work on this. The Employee Benefits Working Group which is made up of staff from Organisational Development, Finance, Service Support, Personnel and Legal Services has now completed work on a Cycle to Work scheme.
- 1.4 The Cycle to Work scheme would operate under a salary sacrifice model which offers tax and National Insurance savings to staff and National Insurance savings to the City Council as the employer.

2 CYCLE TO WORK

- 2.1 Cycle to Work schemes enable employees to buy a bike and/or bike equipment at a reduced price through a salary sacrifice arrangement. The employee saves on tax and National Insurance Contributions and the employer saves on National Insurance Contributions.
- 2.2 The City Council offers a range of health and wellbeing initiatives to staff and a Cycle to Work scheme could encourage staff to take more exercise. It could also help to reduce car use which would reduce congestion, improve air quality and reduce carbon dioxide emissions.

- 2.3 The Employee Benefit Working Group recommends Halfords as the preferred provider of the City Council Cycle to Work scheme. The Halfords scheme is HMRC compliant and is cost free to the employer. The Halfords scheme is also compliant with Public Sector Procurement rules and is part of a framework agreement that the Council can access without breaching EU procurement procedures.
- 2.4 The City Council Cycle to Work scheme would have two 'windows' per year when staff would be able to buy bikes, the exact times to be determined. This approach makes it easier to administer and market the scheme. Staff would be able to buy bikes and/or bike equipment costing from £100 to £1000.
- 2.5 The process would be:
1. Staff choose bike and/or bike equipment and apply online through a dedicated City Council portal on the Halfords website
 2. They sign electronic hire agreement
 3. Employer approves their application
 4. Staff emailed electronic letter of collection
 5. Staff collect bike at Halfords store or independent partner shop
 6. Salary sacrifice starts for staff to repay cost of bike over 12 months
 7. At end of window employer invoiced by Halfords
- 2.6 **Finance Options** - There are various options available through the Halfords scheme for financing the purchase of the cycles. These are:
1. Outright Purchase by City Council (with 12.5% Cashback)
 2. 0% Finance (No Cashback)
 3. 9% Finance (with 12.5% Cashback)
- 2.7 **Option 1** - With this option the City Council would purchase the cycles from capital resources and would own the cycles for the 12 month salary sacrifice period. The capital cost would then be recovered through the employee deductions over 12 months. Therefore, the initial cost will be recovered after the 12 month period. The Halfords scheme offers a 12.5% cashback on the cost of the bike to the employer, so as well as saving in National Insurance contributions, the City Council would also generate 12.5% cashback on the value of every cycle purchased.

- 2.8 On a cycle costing £499, the employee would make savings of £159.68, with the employer total savings being £118.81 (A detailed breakdown of the savings achievable is shown at Annex A)
- 2.9 **Option 2** - Halfords also provide two finance options for the purchase of the cycles, one at 0% and one at 9%. With the 0% option, the cycles would be purchased and owned by the finance company. The finance company will then issue a repayment plan to the City Council for the recovery of the debt (from the employee's salary deductions). The 0% finance option does not give the facility for any cashback savings.
- 2.10 On a cycle costing £499, the employee would make savings of £159.68, with the employer total savings being £56.44. (A detailed breakdown of the savings achievable is shown at Annex A)
- 2.11 The 9% finance option would operate in the same way as the 0% finance, with the interest cost being added to the cost of the cycle and passed on to the employee, therefore decreasing the savings that the employee can make. The City Council would still be entitled to the 12.5% cashback with this option.
- 2.12 On a cycle costing £499, the employee would make savings of £129.14, with the employer total savings being £118.81. (A detailed breakdown of the savings achievable is shown at Annex A)
- 2.13 **Preferred Option** - The preferred option would be to finance the outright purchase of the cycles from capital resources. This option gives the greatest savings to the employee and employer. Although the City Council would have to use capital resources to finance the initial purchase, this will be repaid within 12 months. If the take up of the scheme is 4% at the average amount of £500, then the potential cost would be £12,500. The Employee Benefits Working Group recommends the cashback option which is available on all Halfords sourced bikes (not special orders). Halfords would pay the cashback four months after all the letters of collection in the window have been redeemed. See Annex A for detailed information on the finance options.
- 2.14 **Procurement** - The use of Halfords as the preferred partner for the City Council would require no further procurement exercises to be carried out. The Pro5 Group which combines the expertise of the five biggest

professional buying organisations have recently conducted a formal tender process for the provision of a Cycle to Work framework across the UK. This framework was formally awarded to Halfords, making it available to any public sector organisation to access. There is therefore no need to undertake any further advertising or tender process and the City Council can enter into agreement with Halfords for the provision of the scheme.

- 2.15 **End of Hire Period** - At the end of the 12 month hire period the bike belongs to the City Council (if bought outright from Council resources). Halfords offer a managed end of hire service which transfers ownership of the bike to the employee. The HMRC valuation matrix shows the residual value of the bike at key milestones and Halfords use this to determine how much needs to be paid. They recommend the P11D method which transfers ownership of the bike to the employee at the end of the 12 month period. This means that the transfer of ownership is treated as a benefit in kind, and the employee pays the taxable benefit of the residual value. This is then recovered by HMRC by a reduction in the employee's personal tax allowance through their tax code. Annex A provides an example of this benefit. If employees choose not to keep the bike, which Halfords say is very rare, they return the bike to the City Council who can either add it to the collection of pool bikes or return it to Halfords for sale. (The Council would have recovered the full cost of the cycle from the employee so there is no loss to the Council).
- 2.16 **Staff Without Internet Access** - Although the main way for staff to take part in the scheme is through an online application and then be emailed an electronic letter of collection another way is available for staff without access to computers at work or at home. These staff can visit a Halfords store to choose a bike, ring a dedicated customer services department to order the bike and a letter could be sent to staff to approve their application. They would then be sent a letter from Halfords to take to the store to collect their bike.
- 2.17 **Certain Groups of Staff and Members** - Halfords have identified several groups who may not be covered by the normal scheme rules.
- Staff aged under 18 are unable to sign the hire agreement and would need a parent or guardian to act as guarantor.
 - Staff at or close to the National Minimum Wage (NMW) would not be able to take part in the scheme as salary sacrifice schemes cannot reduce their wages to less than the NMW, however Halfords could offer a single payment

option of a basic bike which costs £20 upfront and then they could have a bike worth up to £100 and pay Halfords directly.

- Staff in the probationary period would be offered a lower limit to standard staff and £200 was suggested as the maximum amount.
- Members could buy a bike and repay it through their monthly allowance payments but they would not benefit from the tax and National Insurance Contribution savings.
- For staff on temporary contracts lasting longer than one year the normal scheme rules would apply. Staff on temporary contracts lasting less than one year would not be able to take part in the scheme.
- Staff who leave the City Council as a result of redundancy would have any outstanding money deducted from their redundancy payment or final pay.

2.18 **Other issues**

- Staff are not required to use bikes and/or equipment bought through the scheme for work every day. HMRC states that 50% of the use must be for cycling to work which means that even if the bike is only used twice a year, as long as one of these is a qualifying journey the employee qualifies for the taxable benefit. Cycling to a train station also counts as cycling to work. Staff are able to use the bikes and/or equipment for leisure use.
- If staff taking part in the Cycle to Work scheme go on maternity leave or long term sickness their payments will be frozen until they return to work.
- In the rare event that a member of staff dies while taking part in the scheme there are a number of options open to the City Council. These are:
 - The bike belongs to the City Council so their estate gives it back to us
 - Offer the estate the option to pay the balance outstanding
 - Write off the cost of the bike
 - The recommendation is to ask for the bike back.
- If a member of staff leaves the City Council before all repayments have been made they are still responsible for paying the remainder. Payment could be taken from the final salary payment but if this is not sufficient to cover the amount or would cause hardship to the employee, a monthly payment plan could be agreed. The bike remains the property of the City Council until it is totally paid off, so if they refuse to pay debt collection action could be taken.
- Halfords say the take-up of Cycle to Work schemes is usually 2 – 4% of the workforce. The usual amount spent on bikes and/or equipment is £500 per member of staff.
- It is strongly suggested that staff take out appropriate insurance as if the bike is lost or stolen during the hire period staff are required to continue making payments.
- If staff are using their bike for work purposes it is suggested we should require them to wear helmets.

- Basic cycle training and road safety awareness training will be available for staff who have not ridden a bike for some time.
- Halfords offer bikes from a range of providers but can also link with local or specialist shops.
- Halfords have a store in Workington so Revenues and Benefits staff based at Allerdale and Copeland would be able to take part in the scheme.
- There is no onus on the employer to prove that staff are using their bikes to cycle to work and if HMRC decide to investigate it is the employee's responsibility to prove this. If any are found not to be using it for work purposes they will lose the tax benefit and it should not have any impact on the whole City Council scheme. We are unable to obtain definitive advice from HMRC as to whether the City Council would have to repay National Insurance Contributions if any staff were found to be not using the scheme to cycle to work until the scheme is set up. Halfords have advised that in the ten years they have been running Cycle to Work schemes HMRC has never investigated a scheme.
- If Halfords is chosen as the provider, all City Council staff would get 10% discount on all Halfords stock (not just bikes). Staff signing up for the Cycle to Work scheme would get a one year bike care plan (servicing and repair is covered, staff just have to pay for parts) and a 20% discount voucher for Apollo bikes for their family members.

3 CYCLE MILEAGE RATE

- 3.1 A number of staff have suggested that the City Council introduce a cycle mileage rate for staff who use their own bikes to cycle on council business. Cycle mileage rates are offered by councils across the country and are considered a useful way to reduce traffic congestion, increase staff fitness levels, improve air quality and reduce transport costs.
- 3.2 HMRC has an approved cycle rate of 20p per mile and most councils offer this although several pay more to promote cycle use over other forms of transport.
- 3.3 Introducing a cycle mileage rate would encourage staff who buy bikes through the Cycle to Work scheme to use their bikes to cycle to meetings and would reward staff who currently cycle to meetings. It may also encourage other staff who drive to local meetings to cycle instead.

4 CONSULTATION PLANNED

Consultative Joint Committee
Carlisle City Council staff

5 RECOMMENDATIONS

The Employment Panel is asked to:

- i. Consider the Cycle to Work scheme and approve it for consultation.
- ii. Consider a cycle mileage rate and approve further development of this.

6 REASONS FOR RECOMMENDATIONS

Effective pay and reward strategies, which this benefit would contribute to, aid successful recruitment and retention and can lead to increased morale and staff wellbeing.

7 IMPLICATIONS

- Staffing/Resources – Some additional administrative support may be needed to administer the benefit but this would be paid for from the income raised from the holiday purchase scheme.
- Financial – Contained within the report
- Legal – The proposed scheme will either be classed as forming part of staffs' terms and conditions of employment or be a discretionary benefit with the right reserved by the Council to withdraw the scheme. If the latter is the chosen option then this should be explicitly stated in documentation. The Cycle to Work arrangement scheme will need to be underpinned by an agreement between the Council and the employee to cover, for example, repayment of funding should the employee leave the employment of the Council during the relevant period.
- Corporate – This benefit will contribute to successful recruitment and retention and could lead to increased morale and staff wellbeing.
- Environmental – A Cycle to Work scheme could increase the number of staff cycling to work which could help to ease traffic congestion.
- Crime and Disorder – None
- Impact on Customers – None

- Equality and Diversity – This benefit will not have any negative impact and will have positive benefits for individual members of staff.

Impact assessments

Does the change have an impact on the following?

Equality Impact Screening	Impact Yes/No?	Is the impact positive or negative?
Does the policy/service impact on the following?		
Age	No	
Disability	No	
Race	No	
Gender/ Transgender	No	
Sexual Orientation	No	
Religion or belief	No	
Human Rights	No	
Social exclusion	No	
Health inequalities	No	
Rurality	No	

CYCLE TO WORK SCHEME

ANNEX A

		PURCHASE	FINANCE @ 0%	FINANCE @ 9%		PURCHASE	FINANCE @ 0%	FINANCE @ 9%
Certificate Value		499.00	499.00	499.00		1,000.00	1,000.00	1,000.00
Finance Cost		0.00	0.00	44.91		0.00	0.00	90.00
Total Price		<u>499.00</u>	<u>499.00</u>	<u>543.91</u>		<u>1,000.00</u>	<u>1,000.00</u>	<u>1,090.00</u>
Gross Monthly Reduction		41.58	41.58	45.33		83.33	83.33	90.83
BASIC RATE TAXPAYER								
Tax savings	20.0%	8.32	8.32	9.07	20.0%	16.67	16.67	18.17
NI Savings	12.0%	4.99	4.99	5.44	12.0%	10.00	10.00	10.90
Net Cost per month		28.28	28.28	30.82		56.67	56.67	61.77
Total Cost over 12 months		339.32	339.32	369.86		680.00	680.00	741.20
Total Savings Made		(159.68)	(159.68)	(129.14)		(320.00)	(320.00)	(258.80)
Residual Value based on HMRC Matrix	18.0%	89.82	89.82	89.82	25.0%	250.00	250.00	250.00
Transfer of Ownership Fee		1.00	1.00	1.00		1.00	1.00	1.00
Taxable Benefit (P11D)*	20.0%	17.76	17.76	17.76	20.0%	49.80	49.80	49.80
Employer NI Contributions (@10.8%)	10.8%	9.59	9.59	9.59	10.8%	26.89	26.89	26.89
VAT included in Transfer of Ownership Fee		0.17	0.17	0.17		0.17	0.17	0.17
Total Cost to Employee		18.76	18.76	18.76		50.80	50.80	50.80
Net Savings Made		(140.92)	(140.92)	(110.38)		(269.20)	(269.20)	(208.00)
Net Cost of Bike		358.08	358.08	388.62		730.80	730.80	792.00
Employer Savings (@ 10.8%)	10.8%	(53.89)	(53.89)	(53.89)	10.8%	(108.00)	(108.00)	(108.00)
Cost to Employer of resale (NI & VAT)		9.76	9.76	9.76		27.06	27.06	27.06
Cashback from Halfords (12.5%)	12.5%	(62.38)	0.00	(62.38)	12.5%	(125.00)	0.00	(125.00)
TOTAL NET EMPLOYER SAVING		(106.51)	(44.13)	(106.51)		(205.94)	(80.94)	(205.94)
Up front capital investment		500.00	0	0		1,000.00	0	0
Repayable over 12 months employee deductions		(41.58)				(83.33)		
Lost interest on capital from cash balances @ 2.5%		0.52				1.04		

*The taxable benefit would be recovered through an adjustment to the employees tax code, so would be recovered monthly through PAYE

HMRC Valuation Matrix Age of Cycle	Original Price of Bike	
	Less than £500	More that £500
1 year	18%	25%
18 months	16%	21%
2 years	13%	17%
3 years	8%	12%
4 years	3%	7%
5 years	0%	2%
+6 years	0%	0%

With outright Purchase, if the Employee doesn't take ownership of the cycle after the 12 months hire period, the cycle will be the property of the Cou as it wishes.

With Finance, the cycle becomes the property of the Finance company