

# **WIRRAL COUNCIL**

## **EMPLOYMENT AND APPOINTMENTS COMMITTEE**

**30 JANUARY 2012**

<b>SUBJECT:</b>	<b>CYCLE TO WORK SCHEME</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF FINANCE</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	<b>COUNCILLOR ADRIAN JONES</b>
<b>KEY DECISION?</b>	<b>YES</b>

### **1.0. EXECUTIVE SUMMARY**

- 1.1 The purpose of this report is to seek approval to replace the current Cycle to Work Salary Sacrifice Scheme with a simplified Cycle Loan.
- 1.2 The salary sacrifice scheme has operated successfully in Wirral since 2008. 464 employees have used the scheme to lease bicycles intended for use for travel to and from work. This nature of the scheme means the Council makes savings on employers' National Insurance contributions. However this has only been £21,120 over the three years of operation.
- 1.3 A ruling of the Court of Justice of the European Union (CJEU) regarding how VAT should be treated has made the administration of the scheme unwieldy. The ruling also makes the scheme less attractive to employees as they will become liable for VAT on the purchase price of the cycle.
- 1.4 It is proposed to replace the scheme with a more easily managed interest free loan which is cheaper to administer and affords staff the same opportunity to acquire cycles thereby continuing to support the positive health and environmental aspects of the scheme.

### **2.0 RECOMMENDATION**

- 2.1. That the Salary Sacrifice 'Cycle to Work' scheme is ceased and replaced with an interest free Cycle Loan.

### **3.0. REASONS FOR RECOMMENDATION**

- 3.1 The salary sacrifice scheme will be more expensive for the Council to administer from January 2012 when the implementation of a CJEU ruling changes the VAT implications. It will also be more expensive for employees as they will become liable for the VAT.
- 3.2 The scheme has proved effective with 464 people taking advantage of it. It is not clear how many of these cycles are actually used for travel to work as no arrangements currently exist to monitor this.

- 3.3 In order to maintain the positive health and environmental aspects of the scheme it is proposed to replace it with an alternative which is less costly for the Council to administer and more attractive to employees.
- 3.4 The Council already offers interest free 'Green Loans' which can be used to purchase cycles and travel passes. Approximately 100 employees are taking advantage of this.

#### 4.0 **BACKGROUND AND KEY ISSUES**

- 4.1 The current Salary Sacrifice Scheme has been in operation since 2008. 464 employees have used it to purchase cycles from a contracted provider with a total value of £272,720. Employees lease back the cycles from the Council over an agreed period, excluding VAT which the Council is able to recover from HMRC. The lease payment is made by the employee as a 'salary sacrifice' and so the Council benefits from reduced National Insurance contributions. At the end of the lease period the employee may purchase the cycle at its current market value.
- 4.2 The 'salary sacrifice' arrangement is only valid if the cycle is mainly used for business purposes. This presents a tax compliance risk to the Authority as the failure to demonstrate this could result in HMRC penalties being imposed.
- 4.3 Guidance issued by HMRC in December 2009 changed the way the Council had to account for these leases as it set out a depreciation matrix that significantly increased the end of lease market value, disadvantaging employees.
- 4.4 A further change in legislation follows the CJEU ruling regarding Astra Zeneca. The impact of this ruling is that the lease arrangement will be subject to VAT based on the original purchase value rather than the current VAT free amount. The Council has to comply with this new ruling from January 2012. The implications are:-
- (a) The employee is worse off by the VAT included in the purchase price.
  - (b) The payroll system would have to be amended to be able to identify the VAT element of the salary sacrifices.
  - (c) There would need to be increased monitoring of cycle usage
  - (d) There would need to be additional tax reconciliation
- 4.5 In conclusion these legislative changes have made the scheme less attractive to the Council and the employees. An alternative arrangement should be devised that still encourages people to cycle to work.

## **PROPOSED POLICY**

- 4.6 A working group comprising officers from Tax Compliance, Finance Administration, Sustainable Transport, and Human Resources met in August 2011 to review the implications of the changes in legislation and devise an alternative offer. The options discussed were:-

- (a) Maintain the current scheme
- (b) Cease offering any support for cycle purchases
- (c) Introduce an interest free Cycle Loan scheme
- (d) Introduce a Cycle Loan scheme with interest

### **4.7 Summary Options Appraisal**

- a) Maintaining the current Salary Sacrifice Scheme is unlikely to attract new applicants as the financial benefits to employees have been reduced. This will also be costly to administer requiring additional resources in Finance. Failure to monitor proper usage exposes the Council to HMRC scrutiny and risk of penalty. Any such penalty would impact on the current 'low risk' status and attract HMRC investigation.
- b) Ceasing offering any support for cycle usage will not cost the Council. However the health and environmental benefits will be lost. Making interest free cycle loans available to staff, and promoting them, contributes to several policies including Wirral CRed, Wirral Carbon Reduction Plan, Wirral Council Travel Plan and the Merseyside Local Transport Plan.
- c) An interest free Cycle Loan is likely to attract new applicants and so will have positive health and environmental implications. The cost to the Council would be in administration and cash flow.
- d) A Cycle Loan scheme that charges reasonable interest, similar to that charged for people using the Assisted Car Purchase Scheme would be beneficial as above, but will avoid the cash flow costs. Given the current low interest rates this is not considered to be significant. It should also be noted that several local cycle shops offer interest free finance.

### **4.8 The Proposal**

- a) It is proposed that the most beneficial option is to offer an interest free loan to employees for the purchase of a cycle. The loan period will be for 12 months.
- b) It is also proposed that a maximum loan amount is set at £1,500. Employees will be able to supplement their loan with any amount they so choose; an option that is not currently available.
- c) Loans could be used to purchase a combination of cycle and travel pass which could serve to reduce car usage in adverse weather conditions. This facility is already available and saves people about 16% on the cost of public transport. Promoting the scheme is likely to increase take-up.

#### 4.9 The advantages of this proposal include:-

- (a) Continued promotion of healthy lifestyles and employee well being
- (b) Cycle purchases can be made from any provider
- (c) Employees own the cycle at the outset
- (d) Significantly reduced administration and monitoring
- (e) Outside the scope of VAT
- (f) Reduced risk of HMRC penalty

#### 5.0. **RELEVANT RISKS**

- 5.1 Changing the current scheme to the one proposed reduces the risk of non compliance with CJEU ruling and reduces the risk of HMRC penalties.
- 5.2 All loans present a risk of non payment. This would be minimised by the repayments being deducted from salary. Setting a maximum limit will serve to deter people taking on unmanageable debt.

#### 6.0. **OTHER OPTIONS CONSIDERED**

- 6.1 All options considered are contained within this report.

#### 7.0. **CONSULTATION**

- 7.1 There has been some consultation with users of the current scheme. Once the impact of the CJEU ruling has been explained this alternative Cycle Loan Scheme is considered more attractive, particularly as the cycle belongs to the employee at the outset.

#### 8.0. **IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 8.1 There are no direct implications.

#### 9.0. **RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

- 9.1 This proposal reduces risk to the Council. The Council will lose the benefit of reduced Employers National Insurance contributions (£21,120 over 3 years). However this saving would be lost in any case as the administration cost of sustaining the salary sacrifice scheme would probably be more than the current saving.
- 9.2 This could be recovered by charging interest on cycle loans at 5% per annum.
- 9.3 Maintaining the current Cycle to Work Scheme will require additional resources to properly administer. The administration of the Cycle Loan Scheme can be accommodated within the Finance Administration Team.

#### 10.0. **LEGAL IMPLICATIONS**

- 10.1 The Cycle Loan will be subject to a loan agreement between the Council and the employee.

## 11.0. EQUALITIES IMPLICATIONS

- 11.1 All permanent staff will be eligible to apply for a Cycle Loan. Previous restrictions on low paid staff would no longer apply. Setting a limit on the amount of the loan will serve to avoid financial hardship for some people on lower incomes.

## 12.0. CARBON REDUCTION IMPLICATIONS

- 12.1 There will be positive implications arising from increased cycle ownership and use for travel to and from work. These include reduced use of fossil fuels, vehicle emissions, congestion and pollution. If these can be calculated they will contribute to the carbon reduction target.

## 13.0. PLANNING AND COMMUNITY SAFETY IMPLICATIONS

- 13.1 People using cycles on busy roads may be exposed to more risk than people in their cars or using public transport. The Scheme will allow for people to include personal safety equipment, such as helmets, in the loan amount.

FNCE/14/12

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## APPENDICES

None

## REFERENCE MATERIAL

## SUBJECT HISTORY (last 3 years)

Council Meeting	
None	