

Consideration of a Bus to Work Salary Sacrifice Scheme

Finance and Resources Committee

25 August 2009

1. Purpose of report

- 1.1 The Council Employees' Salary Sacrifice scheme currently covers 'Bike to Work' and 'Childcare' and previously covered the 'PC scheme'. It has been identified that a 'Bus Travel to Work' scheme would be a beneficial addition to existing schemes particularly taking into account the Environmental Agenda. The purpose of this report is to provide information on the three options available in order to implement a Salary Sacrifice Bus to Work scheme to Council employees and potentially to our other Payroll customers and to make a recommendation on the way forward.

2. Main Report

- 2.1 The Bus to Work scheme offers the opportunity for staff to sacrifice part of their salary in return for an annual bus pass which must include commuting to work. The scheme would offer savings on tax and NI contributions on the amount of salary staff agree to give up from their pre-tax salary. These tax concessions unfortunately do not currently apply to other forms of transport, such as those that run on rails (trains and trams).

The Council also benefits from reduced NI contributions.

- 2.2 To implement this scheme there are a number of options available to the Council and these are summarised below:-

2.2.1 Option 1 - In-House

- Setting up the scheme in-house would require a project team to deal with initial setup and ensure the requirements of HM Revenue and Customs (HMRC) are met. This would involve resources from Payroll Services, Procurement, Trading Standards and Legal Services. The timescale for implementation and approval by HMRC would be a minimum of nine months if sufficient key resources were made available.
- As part of initial setup, arrangements with bus providers would require to be discussed. This would include contractual arrangements and payment terms.

- Significant time and resources would be required in setting this scheme up. There would be no payment fee to a supplier, as all work would be delivered by the Council but compared to other options would take longer to implement and delay NI savings.

2.2.2 Option 2 - Administration by an External company

- Initial set up of scheme would take approximately 5 months as a suitable external company would already have an approved model scheme. A procurement tender exercise would be required to determine the best available external company.
- The Council would then accept the scheme once tendered.
- The Council would still be involved in part of the administration of the scheme eg employee deductions and payment to contractor.
- It is estimated that a fee of 6.5% to 7.5% of total value of passes would be payable to the external company. This figure is reviewed on an annual basis but will be ongoing.

2.2.3 Option 3 - Framework provided by an External company

- A further possible solution has been identified where a provider can supply a middle-way option between 1 and 2, whereby they provide all scheme documentation, promotion and technical support.
- Under this agreement the provider will undertake the task of providing the contract between local bus companies and the Council for the provision of a Bus Travel to Work scheme.
- They also obtain HMRC agreement to the operation of a Bus to Work Salary Sacrifice scheme.
- This would take approximately 5 months to implement as a procurement tender exercise would be required to be undertaken.
- The Council would then administer the scheme.
- An estimated fee of 5% would be levied for the first 12 months only. Thereafter no fee is payable.

3. Financial Implications

3.1 Savings

- Employee saving on both income tax and NI contributions provides approximately a 33% discount for a basic rate taxpayer or 41% for a higher rate taxpayer on the gross cost of an annual bus pass.
- The employer saves up to 9.1% (12.8% for non-contracted out) on NI contributions on the amount sacrificed.

3.2 Estimated Savings to the Council from the Bus Travel to work Scheme (Based on 500 employees)*

	Option 1	Option 2	Option 3
Year 1			
Gross NI	£15,288	£22,932	£22,932
Less Fees	£0.00	£17,640	£12,600
Net Savings	£15,288	£5,292	£10,332
Year 2 and future			
Gross NI	£22,932	£22,932	£22,932
Less Fees	£0.00	£17,640	£0.00
Net Savings	£22,932	£5,292	£22,932

*Estimate is considered a very conservative figure and it is considered that there is potential for greater savings.

3.3 Savings from other Salary Sacrifice Schemes in 2008/09

For information savings achieved on existing salary sacrifice schemes in 2008/09 are as undernoted.

Scheme	Savings
Bike	£12k
Childcare**	£42k

**Net amount after fees of £25k to Lothian and Borders Fire and Rescue Services (LBFRS) who currently administer the scheme.

4. Environmental benefits

There are clear environmental benefits from adopting the scheme including:-

- It limits the amount of private vehicle usage, which saves on emissions, and works towards reducing the council's carbon footprint.
- It supports sustainable development policies and the councils Green Travel Plan.
- It supports the local government Green Travel Plan including Bike2Work.
- It helps to reduce carbon emissions and congestion by encouraging bus use.

5. Conclusion

- 5.1 Factoring in the resource requirements (in particular key individuals), the complexity, risks and timescales involved, option 3 is considered the most appropriate solution. Although potential benefits reduce by £4956 over the scheme's lifetime compared to Option 1, the greater certainty and shorter timescales involved outweigh this.
- 5.2 In addition Option 3 would allow us to explore the opportunities to bring in-house the Childcare scheme, which is currently administered by LBFRS, for the next financial year and make further savings of **£25,000** per annum.
- 5.3 Both the Childcare Scheme and the Bike to Work Scheme could be managed within the existing resources of the Staff Benefits section within Payroll Services.
- 5.4 It should be noted that the current legislation issue regarding Childcare 'non-cash vouchers' during additional maternity leave would not impact on the Bus Travel to Work Scheme as a requirement of the scheme is that you are commuting to your workplace.

6. Recommendations

- 6.1 It is recommended that the Finance and Resources Committee agree:
- (i) To the introduction of a 'Bus to work' scheme.
 - (ii) To implement the scheme on the basis of Option 3.
 - (iii) To agree to the Council exploring the option of bringing the existing Childcare Scheme in-house.


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31st July 2009

Appendices	None
Contact/tel/Email	Graham Mechan, 529 4785, graham.mechan@edinburgh.gov.uk
Wards affected	None
Single Outcome Agreement	National Outcome 2: We realise our full economic potential with more and better employment opportunities for our people
Background Papers	None