

REPORT REFERENCE NO.	HRMDC/17/21
MEETING	HUMAN RESOURCES MANAGEMENT & DEVELOPMENT COMMITTEE
DATE OF MEETING	23 MARCH 2018
SUBJECT OF REPORT	PROVISION OF VEHICLES TO EMPLOYEES
LEAD OFFICER	Director of Finance (Treasurer)
RECOMMENDATIONS	<p><i>That the Committee recommends to the Devon & Somerset Fire & Rescue Authority that:</i></p> <ul style="list-style-type: none"> (a) <i>the Contract Car Hire Schemes for both uniformed and non-uniformed employees are discontinued;</i> (b) <i>a Car Allowance option is introduced for eligible officers (as defined in the report) who wish to have a vehicle for both business and private use;</i> (c) <i>subject to (b) above, the levels of Car Allowance payments and mileage rates as set out in Appendix A are approved for consultation with employees and subsequent implementation;</i> (d) <i>other employees not covered by (b) above but who are required to provide a vehicle for business use receive an Essential User Allowance, the options for which are outlined in Appendix A;</i>
EXECUTIVE SUMMARY	<p>The Service currently operates Contract Car Hire Schemes for both uniformed and non-uniformed employees. The schemes have been under review to ensure that they remain cost neutral to the Service and that they are compliant with HMRC requirements whilst remaining an attractive benefit to employees.</p> <p>As a result of a review by officers it is proposed that the Contract Car Hire Schemes offered by the service be closed and replaced by a Car Allowance payment as outlined in this report.</p> <p>As the proposed payment of a Car Allowance for senior employees includes the Chief Fire Officer and the other Executive Board Officers, this will be a matter for the Authority to determine based on a recommendation from the Human Resources Management & Development Committee.</p> <p>The Service also operates Casual User arrangements for employees who infrequently use their own vehicle and an Essential User arrangement for employees who need to have immediate access to a vehicle whilst at work or on a duty rota. There are no proposed changes to that scheme contained within this report.</p>

RESOURCE IMPLICATIONS	<p>As outlined in the report, annual savings of up to £5,000 are anticipated as a result of moving from the provision of vehicles under the Contract Car Hire Scheme to payments of Car Allowances.</p> <p>Additional costs of between £18,500 and £26,600 are anticipated if all non-uniformed members of the Service Leadership Team were to opt to receive a Car Allowance.</p> <p>There is a net cost to the Authority of implementing these changes of between £13,400 (Option A) and £24,800 (Option B).</p> <p>The simplification of schemes will result in efficiency savings for both Fleet and Finance department employees.</p>
EQUALITY RISK & BENEFITS ASSESSMENT	This will provide parity for the provision of vehicles between uniformed and non-uniformed colleagues.
APPENDICES	Appendix A – proposed Car Allowances
LIST OF BACKGROUND PAPERS	Nil.

1. INTRODUCTION

- 1.1 The Service currently operates Contract Car Hire Schemes for both uniformed and non-uniformed employees. The schemes have been under review to ensure that they remain cost neutral to the Service and that they are compliant with HMRC requirements. The two schemes differ in that for uniformed employees the Service is providing a vehicle for emergency response whereas for non-uniformed employees the vehicle is for normal business use. Private use is permitted under both schemes.
- 1.2 The Service also operates Casual User arrangement for employees who infrequently use their own vehicle and an Essential User arrangement for employees who are required to provide a vehicle for work as part of their contract, e.g. those on a duty rota. Uniformed employees who need a vehicle to respond to incidents under blue light conditions and who do not use that vehicle for private use are provided with vehicles which are classed as a business asset. No changes to either the Casual User scheme or Provided Vehicle Scheme are suggested in this report.
- 1.3 The Contract Car Hire Scheme was originally established to offer employees a choice over the vehicle that they use for business purposes (within a Service Specification) and to allow for private use of that vehicle. One of the benefits of maintaining flexibility for our staff is that the vehicle can also be used for family journeys (such as dropping off children to school/nursery) without having to return home to collect a provided vehicle (which cannot be used for private use).
- 1.4 The Service currently administers and maintains a leased vehicle on behalf of the employee and contributes a fixed amount to the cost based on the employees anticipated business usage. Employees then make up any difference in those costs and any benefit in kind is calculated on an annual basis and submitted to HMRC. The employee pays income tax on the declared benefit in kind and the Service pays employers National Insurance Contributions. There is considerable administrative effort by both the Fleet and the Finance Department in administering and accounting for the scheme and the associated benefits.
- 1.5 In 2017 HMRC introduced new legislation which prevents business assets which are provided for private use from being pro-rated/split between business and private use, which has significantly pushed up the cost of providing the Contract Car Hire scheme to uniformed employees and has also adversely impacted employee's personal tax liability. Consequently, because the uniformed Contract Car Hire scheme is no longer as attractive to employees and carries a significant administrative burden, it is proposed that the uniformed Contract Car Hire scheme is closed and replaced by a Car Allowance to be paid to employees through their salary – meaning that any tax due is calculated on a monthly basis rather than annually in arrears. Having a better idea of their monthly tax liability will support our employees in financial planning and budgeting and enable them to make clear decisions on the type of vehicle or scheme that they opt for. There are currently eight employees who use the Uniformed Contract Car Hire Scheme.
- 1.6 The non-uniformed Contract Car Hire Scheme was established to provide similar benefits (albeit on a different taxation basis) to non-uniformed employees and so it is recommended that this scheme is also closed and replaced by a Car Allowance to be paid through salary. There are currently eight employees who use the non-uniformed Contract Car Hire Scheme.

- 1.7 To ensure parity with uniformed colleagues and improve recruitment and retention of senior professional employees, it is proposed that an equivalent Car Allowance is paid to senior non-uniformed employees on Grade 11 (Area Manager equivalent). The payment would only apply where employees choose to use their own vehicle for business use and would be £500 lower than that paid to uniformed colleagues in recognition that insurance and fuel costs will be lower due to lack of blue light use.
- 1.8 Similarly, it is proposed to alter the Executive Board Contract Car Hire Scheme so that it reflects the proposed change to schemes outlined above, in that a Car Allowance would be paid via salary for those Officers who wish to use their vehicle privately, to replace the provision of vehicles via the Contract Car Hire scheme.
- 1.9 The underlying principle of the Contract Car Hire Schemes has always been to ensure that the cost to the Service of providing vehicles for both business and private use is contained within the cost of a vehicle under the Provided Car scheme. The proposed changes to payment of a Car Allowance and the Essential User Scheme will maintain this principle for both Options.
- 1.10 If the Authority approves the principles contained within this report, the next step is to consult with staff regarding the payment of the allowance and which Option, A or B, is to be developed into policy for the management of future schemes.

2. IMPACT OF CHANGES FROM A CONTRACT CAR HIRE SCHEME TO PAYMENT OF A CAR ALLOWANCE

Taxation

- 2.1 Any benefits provided to an employee for their personal use of a vehicle attract personal Income Tax and National Insurance together with Employer's National Insurance Contributions. Car Allowances paid via salaries would be taxed at source and subject to the same tax and national insurance rules. Under the current Contract Car Hire Schemes mileage is paid at the HMRC "fuel only rate" which is typically £0.11 per mile. Where an employee provides their own vehicle they can be reimbursed for mileage up to a maximum of £0.45 per mile without attracting any personal Income Tax or Employer's National Insurance Contributions.

The proposed changes to mileage rates and allowances contained in Option A of this report mean that employees could receive a higher level of tax free reimbursement for their business mileage (43p per mile) whilst the underlying contribution towards the cost of vehicle would reduce. Every employee's mileage and tax circumstances are different so assumptions have been made when calculating the average impact of these proposed changes on employees. These assumptions are based on the 2016/17 declared Benefit in Kind figures.

Any car allowance paid would be subject to tax at source through the PAYE system and an Option is also included (Option B) to increase the level of car allowance payment whilst maintaining current fuel only mileage rates.

Flexi Duty Officers

- 2.2 Flexi Duty Officers are required to respond under blue light conditions to operational incidents and therefore, were the Committee be minded to endorse the recommendations contained within this report and at Appendix A, they will be required to provide a vehicle which is fitted out with blue lights, meets Service specified standards and is insured appropriately.

It is estimated that a move from the Contract Car Hire Scheme to payment of a Car Allowance for Flexi Duty Officers as outlined in this report would produce savings of between £1,000 (Option B) and £4,800 (Option A) per year for the Service and provide an average additional benefit after tax to each Officer of £328 (Option B) and £440 (Option A) per year.

Under the Car Allowance Scheme and as a result of HMRC guidance, Flexi-Duty Officers Home to Work mileage cannot be treated as business mileage (for taxation purposes) and under the proposed new arrangements such mileage would cease to be reimbursed.

Non-uniformed Contract Car Hire and Essential Users

- 2.3 Non-uniformed employees designated to have Essential User status currently receive payments from the Service in two parts, an annual lump sum of £1,239, and a mileage rate based upon the HMRC rate advisory rate, currently 45p per mile.
- 2.4 It is proposed under Option A that the mileage rate be reduced to 43p per mile (reducing to 25p for business miles in excess of 10,000) to provide consistency across all groups of employees and provide value for money to the Authority.
- 2.5 Non-uniformed employees who are currently eligible for the Contract Car Hire scheme (those that travel in excess of 2,000 business miles per year) would be considered for eligibility to be moved on to the Essential Users Scheme and receive a lump sum payment of £1,239 and a mileage rate of £0.43 per mile. It is estimated that this will save the Authority circa £1,000 per year when compared with the current costs of the Contract Car Hire Scheme and provide an average additional benefit after tax to the employee of £1,061 per year.
- 2.6 Option B is based upon paying an increased allowance for Essential Users of £3,300 and switching to fuel only mileage rates (typically 11p per mile) and is expected to save the Service £300 per year. This option is likely to slightly increase the amount of tax paid by employees by £89 per year.

Non Uniformed Service Leadership Team

- 2.7 Should the Committee agree to the option for senior non-uniformed employees within the Service Leadership Team receiving an equivalent Car Allowance to their uniformed equivalents, then this would result in six employees receiving a payment of between £4,000 (Option A) and £5,350 (Option B) per annum (as outlined in Appendix A) which is equivalent to a maximum additional cost to the Authority of £26,600 per year. It should be noted that some of these employees already benefit from either the Contract Car Hire Scheme or the Essential User Allowance.
- 2.8 Consultation has indicated that the payment of a Car Allowance will assist in attracting and retaining high calibre professional employees to operate at a senior level within the organisation.

Executive Board

- 2.9 It is recommended that the Executive Board car scheme reflect that of the rest of the organisation and therefore proposed Car Allowances payments to replace the current Contract Car Hire Scheme are outlined in Appendix A.

3. ADMINISTRATION OF A CAR ALLOWANCE PAYMENT

- 3.1 The introduction of a Car Allowance payment as outlined in this report will simplify the existing arrangements available to both uniformed and non-uniformed employees and assist with consistency across the organisation. Significantly less administrative effort will be required in sourcing and administering vehicles and their maintenance as employees will become responsible for their own vehicle. There will also be efficiency savings made to the year-end calculation of benefits in kind and employees will better understand their personal taxation liability given that payments will be made through monthly salaries.
- 3.2 Given that employees will be required to source and maintain their own vehicles there will be a new requirement – to ensure legal compliance and the safety and wellbeing of our employees – for the Service to have effective systems in place to keep records of the MOT, Servicing and Insurance status of employees' vehicles. The Service currently uses a data base for driving licence checks which could be utilised for wider record keeping.

4. OTHER FINDINGS

- 4.1 Discussions have been held with other Fire and Rescue Services in researching the introduction of a Car Allowance scheme, amongst other options, and there are several other Services which successfully operate such schemes for their uniformed and non-uniformed employees. Given that specialist insurance is required for driving under blue light conditions, it has been confirmed that such insurance is available to individuals.

5 CONCLUSIONS

- 5.1 A move away from current Contract Car Hire Schemes and the introduction of a Car Allowance payment would:

- Generate efficiency and financial savings for the Service;
- maintain a flexible solution to those employees who wish to use vehicles for both business and private use;
- provide comparable employee benefit in terms of costs for the individual

**AMY WEBB
Director of Finance (Treasurer)**

APPENDIX A TO REPORT HRMDC/18/21

Proposed Car Allowances

Option A - Maximise Mileage rate						
Role	2016 Calculated Values	Multiplier of response vehicle	2018 Car Allowance - response	2018 Essential User Allowance	Typical Mileage Rate*	Proposed Mileage rate
Provided vehicle - car only cost	£2,850	1	£3,000	-		
Non-uniformed staff	£1650- £3250~	-	-	£1,239	£0.11	£0.43
Flexi Duty Officer	£2,850	1	£3,000	-	£0.11	£0.43
Service Leadership Team	£4,125	1.5	£4,500	£4,000	£0.11	£0.43
EB Grade 1	£5,063	1.84	£5,520	£5,020	£0.11	£0.43
EB Grade 2	£5,625	2.05	£6,150	£5,650	£0.11	£0.43
EB Grade 3	£6,188	2.25	£6,750	£6,250	£0.11	£0.43
ACFO	£6,750	2.45	£7,350	£6,850	^	£0.43
CFO	£9,000	3.27	£9,810	£9,310	^	£0.43

Option B - Maximise Allowance paid						
Role	2016 Calculated Values	Multiplier of response vehicle	2018 Car Allowance - response	2018 Essential User Allowance	Typical Mileage Rate*	Proposed Mileage rate*
Provided vehicle - car only cost	£2,850	1	£3,000	-		
Non-uniformed staff	£1650- £3250~	-	-	£3,300	£0.11	£0.11
Flexi Duty Officer	£2,850	1	£3,900	-	£0.11	£0.11
Service Leadership Team	£4,125	1.5	£5,850	£5,350	£0.11	£0.11
EB Grade 1	£5,063	1.84	£7,176	£6,676	£0.11	£0.11
EB Grade 2	£5,625	2.05	£7,995	£7,495	£0.11	£0.11
EB Grade 3	£6,188	2.25	£8,775	£8,275	£0.11	£0.11
ACFO	£6,750	2.45	£9,555	£9,055	^	£0.11
CFO	£9,000	3.27	£12,753	£12,253	^	£0.11

* HMRC Approved mileage rates are based upon engine size and therefore are dependent upon the vehicle specification chosen by the employee

~ Current vehicle contribution rates are determined by the number of business miles completed by an employee

^ Uniformed members of the Executive Board operate under the provided car scheme and are therefore provided with a fuel card