

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Staffing Portfolio Holder

16th September 2008

AUTHOR/S: Payroll Assistant

FUEL REIMBURSEMENT AND MILEAGE CLAIM PAYMENT METHOD FOR CONTRACT HIRE USERS

Purpose

1. To review the fuel reimbursement rate and mileage claim payment method for Contract Hire users with effect from 1st April 2008.

Background

2. The Council's Contract Hire users, currently numbering 21 staff (7 x Petrol & 14 x diesel), receive fuel reimbursement for official mileage. The current payment is a flat rate of 12.2p per mile irrespective of size of engine or type of fuel.
3. Since the Contract Hire Scheme commenced periodic surveys have been undertaken to keep the rate up to date.
4. There is no national agreement or process to determine the contract hire mileage rate to be used by local authorities. Under the Scheme of Delegation for Executive functions, the Portfolio Holder for Staffing is empowered to agree the fuel reimbursement rate.
5. Her Majesty's Revenue and Customs (HMRC) have advisory fuel rates that are based on engine size and type of fuel. Payments in excess of these rates are treated as a taxable profit and as earnings for Class 1 National Insurance contribution purposes. These rates are revised from time to time by HMRC as fuel prices fluctuate. Current HMRC rates are above our current rates, with the exception of the rate for petrol for 1400cc vehicles. This is demonstrated in the following chart of HMRC rates which are applicable from 1 July 2008:

Engine size (cc)	Petrol	Diesel	SCDC rate
1400cc or less	12p	13p	12.2p
1401cc to 2000cc	15p	13p	12.2p
Over 2000cc	21p	17p	12.2p

Based on the contract hire users current vehicle type and annual business mileage, if the above HMRC advisory rates were applied at SCDC one member of staff would receive a lesser amount and 19 would receive more, and there would be an overall annual financial cost to SCDC of £1529.33 See Appendix 1 for details.

Mileage claim payment method

6. The current method of paying contract hire car users business mileage is a fixed rate per month via their salary. This is calculated by the agreed annual business mileage x mileage rate and divided in to equal monthly payments. At the end of each financial year the contract hire car administrator has to calculate any under or over payments made to each user and then make the necessary pay adjustments. This is an extremely time consuming activity and adds to the payroll administration resourcing costs, at an already overloaded time of the year in the payroll section. An alternative method, of requiring contract hire car drivers to submit monthly mileage returns, would ensure that accurate

payments are made (eliminating over payments and under payments). This would mean that end of year adjustments would not be required.

Considerations

7. A recent survey of local garages has again been undertaken and the following pump prices identified for unleaded petrol:

Price per litre	Petrol	Diesel
Tesco, Ely	115.9p	125.9p
Morrisons Cambourne	111.9p	123.9p
Shell, Trumpington, Cambridge	112.9p	123.9p
Average price per litre	113.6p	124.6p
Equivalent price per gallon	£5.16	£5.66

8. Historically, the council has used an assumed average of 30 miles per gallon, regardless of car type, this equates to a 'fuel only' amount of 17.2p (Petrol) & 18.9p (Diesel) per mile. This results in payments of 5.0p (Petrol) and 6.7p (Diesel) above the current payment of 12.2p.
9. Statistical information has been obtained from carfueldata.org.uk and the average Imperial Combined Fuel consumption for a Ford Focus, Skoda Octavia, Peugeot 307 & Renault Megane is 37.6 mpg for Petrol cars and 51.0 mpg for Diesel cars. This equates to a 'fuel only' amount of 13.7p (Petrol) & 11.1p (Diesel) per mile, which is 1.5p (Petrol) below and 1.1p (Diesel) above the current payment of 12.2p.

Options

10. **Mileage Rates:** The following are possible options in respect of the fuel reimbursement rate:
- (a) SCDC rate to remain unchanged at 12.2p this is not an acceptable option given the fluctuating price of fuel and could leave the contract hire drivers 'out of pocket'.
 - (b) Apply rates as calculated in paragraph 8 above of 17.2p petrol & 18.9p diesel, this would equate to a substantial increase in the rate and an additional cost to the council of £6,895.35 per annum.
 - (c) Apply rates as calculated in paragraph 9 above of 13.7p petrol & 11.1p diesel, these rates would still be out of line with HMRC and the issue of taxable profit and Class 1 NICs (see paragraph 5) would still apply.
 - (d) Apply HMRC advisory fuel rates as detailed in paragraph 5 above. This would provide a nationally accepted rate which could be applied as the HMRC issue updated rates, normally on an annual basis but could be more frequent as the HMRC have uplifted rates three times in 2007/2008.
11. **Mileage Claim Payment Method**
- (a) Continue method of lease car mileage payments as described in paragraph 6 above based on monthly fixed rates. This would not address the administrative pressure as outlined in paragraph 6.
 - (b) Change payment method to actual business mileage claimed and then paid in the subsequent month similar to Essential Car users.

Implications

12. Financial
- (a) None if Option 10 (a) is adopted
 - (b) Based on current annual business miles paid, the additional cost would be £6895 if Option 10 (b) is adopted. The payments in excess of the HMRC rates will have taxable implications for employees.
 - (c) Based on current annual business miles paid, there would be saving of £423 if Option 10 (c) is adopted. The payments in excess of the HMRC rates will have taxable implications for some employees.
 - (d) Based on current (2007/2008) annual business miles paid the additional cost would be in the region of £1600 if Option 10 (d) is adopted. The implementation date would need to be 1st April 2008 in line with the start of the financial year. Payroll staff would ensure that 2008/2009 mileage payments were adjusted accordingly and this would result in some additional work. However, in the long term this option would give some administration staffing benefits for HR/Payroll as outlined in paragraph 6.
 - (e) There are no implications in terms of the contract agreement for contract hire vehicles and any change to the current fuel reimbursement rates will be applied unilaterally to all current drivers.

13.

Financial	As 12 above
Legal	None
Staffing	Paying fair and equitable mileage rates.
Risk Management	None
Equal Opportunities	None

Consultations

14. No formal staff consultation has taken place to date. However a copy of this report has been circulated to UNISON and GMB representatives

Effect on Annual Priorities and Corporate Objectives

15.

Affordable Homes	None
Customer Service	None
Northstowe and other growth areas	None
Quality, Accessible Services	None
Village Life	None
Sustainability	None
Partnership	None

Conclusions/Summary

16. **Mileage Rate:** The current payment of 12.2p is below the HMRC advisory rates. Any payments that the employer makes that are in excess of HMRC advisory fuel rates are treated as a taxable profit and as earnings for Class 1 National Insurance contribution purposes. It would therefore be more equitable for each contract hire car user and easier to manage the mileage rate payments if SCDC adopted the HMRC advisory fuel rates and that payments are increased/reduced in line with HMRC periodic recommendations.

17. **Mileage Payments:** The current payment method requires continual monitoring and upkeep. Additionally the current method requires a large number of end of year calculations and adjustments to take place to reflect the actual payments to that paid by the standard monthly payment. The standard payment per month does not always reflect actual business mileage payments to staff if the event of high fluctuations in business mileage travel. Payroll adjustments have to be made to either claw back overpayments or to make an additional payment, this is resource intensive requiring manual intervention.

Recommendations

18. That the Portfolio Holder for Staffing agrees:
- (a) **Mileage Rate:** that mileage fuel rates move in line with the advisory fuel rates as recommended by HMRC and in future the rates are adjusted annually in line with HMRC rates,
 - (b) and that the rate for 2008/2009 is increased to current HMRC rates with effect from 1st April 2008.
 - (c) **Mileage Payments:** that the standard monthly mileage payments are ceased and are paid monthly in arrears supported by a claim based on actual business mileage, and the Staff Car Scheme Terms & Conditions paragraph 5.7 to reflect this change with effect from 1st April 2008.

Background Papers: the following background papers were used in the preparation of this report:

File on Fuel Reimbursement for Contract Hire vehicles
Staff Car Scheme Terms & Conditions.

Contact Officer: Michel Scarff – HR/Payroll
Telephone: (01954) 713455