

## **CYCLE TO WORK SCHEME**

Introduction: the Inland Revenue's Cycle to Work scheme allows people to buy a new bike at around half-price using a tax relief scheme. Apart from that saving, the purchase can be taken direct from pay in equal instalments over 12-18 months.

This paper has been researched and prepared by Southwark Cyclists for use by anyone who wants their employer/company to set up such a scheme. It really is much simpler than it looks.

Anyone using this model needs to check for themselves that the arrangements are still in force. Southwark Cyclists can't accept any liability for errors or missed updates.

Firms etc adopting this model should please tell Southwark Cyclists they are doing so and – hopefully – use the donation button on [www.southwarkcyclists.org.uk](http://www.southwarkcyclists.org.uk) to send us at least £50 to help with our overheads etc.

Use the model then to help persuade your organisation to join the scheme if they haven't already.

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23 June 2008

## **Action requested**

The Board is asked to approve the introduction of a Cycle to Work scheme using Cyclescheme as the scheme provider. As can be seen from the table below, Cyclescheme is the only provider that satisfactorily fulfils all the criteria.

Now would be a very good time for us to launch a Cycle to Work scheme, and add to the companies green credentials. In particular, Transport for London announced on 16 June 2008 that this year a record £55 million (up from £36 million last year) is to be invested in cycling in London. This is a 10-fold increase on the £5.5 million spent on cycling in 2000 and will be spent on new and improved cycle lanes, cycle parking, education, events and cycle promotion. The London Mayor, Boris Johnson, has made cycling a top transport priority.

## **Introduction**

This report:

- a) describes the Cycle to Work scheme that allows employees effectively to buy bicycles (and cyclists' safety equipment such as helmets) at around half price through an Inland Revenue tax relief scheme
- b) sets down objective criteria by which the scheme provider should be selected
- c) recommends the scheme provider that we should work with.

## **Research undertaken**

- The Cycle to Work scheme itself was thoroughly researched using all its own publicity materials, leaflets and regulations.
- All 10 potential providers were researched by internet, and interviewed by telephone/email as necessary.
- Advice from the Association of Cycle Traders, the London Cycling Campaign, Southwark Cyclists, Transport for London and DEFRA was taken into account.
- The criteria defined and used below were determined using those best-practices and those sources as above.

## **How the Cycle to Work scheme operates**

1. Following receipt of a voucher request (limited to £1000, including VAT) from an employee, the employer purchases the bike for its employee, with the employee's salary being reduced accordingly. This results in saving on VAT, National Insurance (for both the employer and employee) and Income Tax. A worked example is given at the end of this paper.
2. The bike is loaned to the employee, who pays off this reduced cost through salary deductions spread over usually 12 or 18 months.
3. At the end of the agreed term the user has the option to purchase the bike from the employer, and depending on this sum (usually 5% of original value), will have bought a bike at an overall cost of potentially half the normal retail price. (Again, see the end of this paper for a worked example).

The administration required of us is fairly light -- enrolling an employee into the scheme will take a few minutes, as will the transfer of the bike at the end of the hire period. Salary sacrifice is already part of the most payroll software.

If an employee wishes to purchase a bike costing more than £1000, they can pay the excess themselves direct to the retailer. The alternative is for us to apply for a consumer credit licence which costs at least £380 (currently), lasts five years and takes around six weeks to come through. The Cycle to Work scheme could then be used to purchase bikes costing over £1000. It is not proposed that we apply for a consumer credit licence at the present time. This could be reviewed if there was a significant demand for bikes costing over £1000.

### **Limitations**

This is a Cycle to Work scheme – as the title implies, the tax exemption only applies to an employee mainly using the bike and equipment for qualifying journeys – to work or for part of that journey (to and from the station for example) or between one workplace and another. Mainly means more than 50%.

### **The benefits of the Cycle to Work scheme**

- Encourages more people to use cycles as an environmentally-friendly form of alternative transport and leisure activity
- Helps reduce traffic, particularly at peak commuter times for travelling to/from work, or to/from the station
- Solves car parking problems
- Helps attract, retain and motivate employees
- Encourages a healthier lifestyle, increasing productivity of workforce

### **Scheme providers**

The Cycle to Work scheme is run by a number of commercial providers. Employers contract with the provider to deliver the scheme.

In order to decide which provider we should appoint, the following criteria have been used.

1. Ease of administration, implementation and internal marketing to staff
2. No administration fee or direct costs to either us or employees
3. Employees should not be bound to use a single retailer – so that the scheme runs along Fair Trade principles
4. Optimum customer choice and after-sales service by bike shop retailer – not mail/internet order as these cannot allow customers to try the bike first or provide an after-sales service

There are ten recognised providers. All of these have schemes designed to simplify implementation and administration of the Cycle to Work scheme, and for most there is zero direct cost to the employer.

The scheme providers are listed below and compared against the above criteria.

PROVIDER	GENERAL BACKGROUND	CRITERIA NOTES:
<b>Boost</b>	Cycle to work scheme-specific provider, working with Independent Bicycle Dealers (IBDs), UK-wide	£10 admin fee per order, charged to employee
<b>Bring Me</b>	Flexible employee benefits provider from LloydsTSB Registrars	employees have to buy their bikes at Halfords
<b>Club Cycle</b>	Part of Vision Asset Finance Ltd, a lease financing company	employees have to buy their bikes at Halfords
<b>Cyclescheme</b>	Cycle to work scheme-specific provider, working with IBDs, UK-wide	choice of local cycle shops nationwide
<b>Cycle Solutions</b>	Run by Wheelies Direct, insurance replacement for cycles	mail / internet order only
<b>Evans Cycles</b>	National cycle store	A good geographical spread, but choice is restricted to the bikes they stock
<b>Future Media</b>	International learning and communications company (primary focus is not the Cycle to Work scheme)	employees have to buy their bikes at Halfords
<b>Halfords</b>	Primarily car accessories, national store	employees have to buy their bikes at Halfords
<b>Healthcare Communications</b>	Primarily a "provider of bespoke communication software solutions"	uses Wheelies Direct as supplier – mail / internet order only
<b>Powabyke</b>	Retailer of purpose-designed electric bikes	electric bicycles only

With a number of providers, bicycles have to be purchased from Halfords, where the choice is fairly limited and tends to be at the cheaper end. It is not felt that a Halfords arrangement would be attractive to many of our staff.

### **Recommendation**

Cyclescheme is the **only** provider that satisfactorily fulfils all the criteria.

It is worth noting that:

- The London Cycling Campaign (the largest urban cycling organisation in the world) uses Cyclescheme as its provider.
- Cyclescheme are the preferred supplier to the Department for Transport.

Cyclescheme states that it is run in accordance with the Government's green travel plan processes and conforms to the requirements of the HM Revenue & Customs, Office of Fair Trading and Department for Transport.

**It is therefore recommended that we now take on Cyclescheme as our Cycle to Work provider.**

**Further information**

Last year was historic for cycling in London, as the Capital hosted the Grand Depart of the Tour de France for the first time and saw the first London Freewheel bike ride with tens of thousands of cyclists (particularly families) riding on closed roads in central London. Transport for London (TfL) estimates that over 500,000 cycle journeys are now made per day in London. This is a 91% increase since TfL was created in 2000, but is still only about 1% of all journeys made in the Capital. TfL wants to more than quadruple this by 2025 to 5%. Boris Johnson said on 16 June *"the overall number [of cyclists] is still too low, which suggests that many Londoners need further encouragement to take [cycling] up... I am exploring a range of options to make cycling safer, more practical and more attractive... I am hoping to inspire a whole new generation of cyclists"*.

**Example of salary sacrifice for cycle purchase loan**

<b>Loan period of 12 months</b>	<b>Standard rate tax payer</b>	<b>Higher rate tax payer</b>
Total cost of cycle + cyclists safety equipment*	£500.00	£500.00
Less VAT	74.47	74.47
Net cost of bike + accessories	425.53	425.53
Income tax savings over hire period	93.60	170.16
NI savings over hire period	46.80	4.20
Final cost for hire period	285.13	251.17
Net monthly payments by salary sacrifice	23.76	20.93
Fair market value payment (5% of original retail price)	25.00	25.00
Total cost of bike to employee	310.13	276.17
Total savings on full retail price	38%	45%

\*this can include cycle helmet, bells and bulb horns, lights, mirrors, mudguards, panniers, luggage carriers, locks and chains, pumps, puncture repair kit, reflective clothing, cycle clips, dress guards, mirrors.