

Review of mileage payments

Consultation document

Working in partnership as a sub-group of the NHS Staff Council the Mileage Sub Group has been reviewing the allowances paid to staff who use their own vehicles on official business. These are set out in:

- Section 17 and Annex L of the NHS Terms and Conditions of Service Handbook
- Section 21 of the Terms and Conditions of Service, Consultants 2003 are covered by paragraphs 277 to 304
- Annex I of the Hospital Medical and Dental Staff and Doctors in Public Health Medicine and the Community Health Service Terms and Conditions of Service
- Schedule 20 for Associate Specialist and Speciality Doctors in their new Terms and Conditions.

This document sets out background information about mileage allowances and the review; and an outline of the options which have so far emerged out of the partnership discussions in the sub group.

We are seeking feedback from managers and staff in partnership. We have put together a structured questionnaire; that is available from the NHS Employers website at www.nhsemployers.org/mileage Copies of the questionnaire can be obtained from NHS Employers using the contact details below.

Please provide feedback wherever possible in partnership and signed off by the HR director and the chairs/secretaries of staff side, by the **24 April 2009** to:

Pay and Contracts
NHS Employers
2 Brewery Wharf,
Kendell Street,
LEEDS.
LS10 1JR

Or

Email: mileage@nhsemployers.org

We strongly encourage all employees to feed into this partnership consultation process but this should be via their respective local staff side representative, national union office or employer.

Background

The NHS has a responsibility to reimburse costs incurred by staff who use their own vehicles to travel on NHS business. At present there is no agreed national system for ensuring that expenses paid remain in line with the cost of motoring and there is no method for deciding what current costs are and how rates of reimbursement should be calculated. Yet it is essential that nationally agreed rates appropriately reimburse staff for the costs they incur when they use their own vehicles for work purposes.

We have been working in partnership to consider what needs to be done to deliver a national system which is appropriate to the needs of staff, employers and the service and is consistent with the agreed principles detailed below.

The purpose of this exercise is to give employers and staff the opportunity to feedback to us what their needs are and what they want from a system which will be fair and sustainable to the service in the future.

We will need to consider other issues relating to Mileage Allowance policy, for example, allowances for the transportation of heavy or bulky equipment and motor cycle rates etc as part of our ongoing work programme.

History

The national system of reimbursement of travel expenses was formerly in the remit of the General Whitley Council (GWC) and national rates of mileage allowances were last fully reviewed in 2000. The uplift to rates applied in July 2008 was the first change since then. Up to 1993 rates were reviewed annually by reference to the estimates of motoring costs produced by the Automobile Association (AA). At that time AA estimates of costs and the allowances in the old handbook were all based on engine size.

Mileage allowances and the wider Mileage Allowance policy were transposed from the GWC arrangements to Agenda for Change or were included in negotiations on new contractual conditions for medical and dental staff. The arrangements dating back to the GWC/Whitley days were copied into the new Agenda for Change Handbook and medical and dental terms and conditions.

In July 2008, NHS Employers agreed a 10 per cent increase to mileage allowances for all NHS staff amidst rising fuel prices. That agreement was made in conjunction with a commitment to continue talks that will conclude the review of mileage allowances and we have been considering a range of options which are based on recognised methodologies for the calculation of the costs of motoring.

Lease cars

We are not proposing to make changes to the arrangements for lease cars. (Some principles are described in Annex M in the Agenda for Change Handbook and in the relevant texts of national conditions for doctors and dentists). The details of arrangements for lease car users are worked out by partnerships locally.

Going forward

Changes in vehicle design and performance, together with the emergence of the environmental or “green” agenda and the health care needs of an expanding population, make it important to ensure there is a sustainable system for the future. The mileage sub group is therefore proposing a new national system, described in the national conditions of service, with scope for local partnerships (as now) to agree some of their own arrangements, where these would be more beneficial than the nationally agreed arrangements.

Principles

The subgroup believes that mileage allowances should be based on certain core principles. These include:

- **fairness:** allowances should reflect the cost of using vehicles for work and should be felt ‘fair’ by car users
- **simplicity:** the system should be easy to administer - allowing staff to make claims easily and managers to deliver reimbursement quickly and must be deliverable on existing payroll systems
- **transparency:** all staff and managers should be clear how mileage rates are calculated and what the entitlements are, how they will be reviewed and how changes will implemented
- **a partnership system:** under the NHS Staff Council for regular review of allowances based on the agreed measure.

The full Terms of Reference which we have been working to and the principles we have identified as important can be accessed on the NHS Employers website. The options we are proposing are in line with the principles outlined above.

What does the current system of allowances look like?

NHS rates distinguish between standard and regular users, see table 1

Table 1: Rates paid to standard and regular users¹ in the NHS.

Regular user allowances and standard mileage rates			
Engine Capacity	Up to 1000cc	1001 to 1500cc	Over 1500cc
Lump sum	£ 508	£ 626	£ 760
Rate up to 9000 miles	£ 0.297	£ 0.369	£ 0.440
Rate over 9000 miles	£ 0.178	£ 0.201	£ 0.226
Standard mileage rates			
Engine Capacity	Up to 1000cc	1001 to 1500cc	Over 1500cc
Rate up to 3500 miles	£ 0.374	£ 0.473	£ 0.583
Rate over 3500 miles	£ 0.178	£ 0.201	£ 0.226

Passenger allowances –5 pence.

Public transport rate –24 pence

Bicycle allowance – a minimum of 10 pence

Motorcycle allowance – dependant on cc and mileage (see Annex L)

Standard methodologies for the costs of motoring

The sub group understands that recently the debate on mileage allowances has become focussed on fuel costs. These are an important part of motoring costs and changes in the cost of fuel should be reflected in the overall mileage allowance rate. There are many other items contributing to the full costs of motoring for staff for example tax, insurance, depreciation, repair and MOT costs. The sub group believes that only by taking account of all the costs involved can we be sure that staff are being appropriately reimbursed for their motoring costs.

The schedule of motoring costs produced by the AA has been the basis for the calculation of national mileage allowances for many years. This sets out in detail the costs of running a car.

As part of our review we have considered if an alternative source of information on motoring costs would be more appropriate or more practicable. For example, we have looked in detail at the schedule of motoring costs produced by the RAC. Our preference is to recommend the AA schedule as the best source of information on the costs of motoring. It is, we believe, the best basis for calculating mileage allowances because it provides the facilities needed for the regular review of motoring costs, including those costs like fuel which tend to change often.

1. The AA schedule of motoring costs

Motoring costs tables are produced annually by the AA and have been since 1960. Care needs to be taken with comparisons due to changes that have taken place over the years, namely:

¹ Please refer to the Agenda for Change Terms and Conditions of Service, Section 17 for full details of the definition of a regular user

- Cars are more economical and safer;
- Today's cars produce less than 2% of the emissions of earlier vehicles; and
- Cars are quieter, easier to drive, more durable and reliable.

The AA figures are:

- based on how much it is likely to cost the average private user to run a petrol or diesel powered car in the following purchase price categories
 - less than £10,000
 - from £10,000 – £13,000
 - from £13,000-£20,000
 - from £20,000-£30,000
 - over £30,000
- based on the purchase price of a new car which is replaced after 5 years
- based on an analysis of the running costs of the 60 top-selling models representative of the UK market.

Standing charges

Standing charges are defined as the costs of keeping the vehicle on the road even if it is not used. They include:

- road tax
- insurance
- cost of capital used – this is the loss of interest incurred on money that would otherwise be in a bank account (i.e. the cost of purchasing a vehicle)
- loss of value – depreciation costs
- annual roadside breakdown cover.

The standing charges per mile can be calculated by dividing the standing charges by the miles travelled per year.

Running costs

Running costs per mile relate directly to using the vehicle and include:

- petrol
- parking and tolls
- tyres
- servicing and repair costs.

The fuel cost element can be increased or reduced in-line with fuel price fluctuations.

2. The RAC

Each year the RAC publish a technical leaflet of illustrative vehicle running costs in conjunction with Emmerson Hill Associates. They represent a guide to the cost of running, from new, a privately owned car for a period of three years with an annual mileage of 12,000 miles. Vehicle running costs are produced in April for:

- petrol engines
- diesel engines
- motorcycles (annual mileage assumed 6000 miles).

In summary, the RAC schedule illustrates costs by engine size of vehicle showing insurance grouping, assumed fuel consumption, CO₂ emissions levels (g/km).

- The costs considered include:
 - (i) Depreciation
 - (ii) Costs of finance – interest incurred on car loan
 - (iii) Cost of fuel over three years given the assumed fuel consumption and the average travel is 12,000 miles per annum
 - (iv) Servicing and maintenance costs
 - (v) Tyres and replacement parts
 - (vi) Insurance premiums
 - (vii) Excise licences
 - (viii) RAC Membership.

The total cost over a three year period is used to calculate an annual cost and a cost per mile in pence.

A fuel reimbursement calculator shows the costs per mile for petrol and diesel cars by engine size and average miles per gallon with varying fuel prices such that ***the fuel cost element can be calculated on a per mile basis and increased or reduced in-line with fuel price fluctuations.***

What options are emerging under these methodologies?

Based on average petrol prices over the six month period from April 2008 to September 2008 these methodologies suggest rates in the range of 50 - 60 pence per mile for an environmentally friendly family sized car.

At the date of consultation the sub-group has discussed options with two main themes:

Option 1: a single rate per mile travelled for the purpose of work. The distinction between regular and standard users is removed and no regular user allowance is paid.

Option 2: Retain the regular/standard user distinction but simplify the system so that all regular users receive the same lump sum payment to cover their standing charges and a rate per mile to cover the running costs only.

Income tax

HMRC publishes Approved Mileage Allowance Payments (AMAP). The current rates are set out below.

Vehicle	Business miles travelled	
	First 10,000 miles (£ per mile)	Over 10,000 (£ per mile)
Cars and vans	40p	25p
Motorcycles	24p	24p
Bicycles	20p	20p

If the rate of allowance paid to an employee exceeds forty pence the excess over this sum is taxable - it is subject to income tax and national insurance contributions. The lump sum regular user allowances are taxed and subject to national insurance in full. However when the mileage rate is less than the AMAP rate the difference is offset against the tax and NI liability on the regular user lump sum.

If an individual is reimbursed over the AMAP level the difference between the AMAP rate and the rate they receive will be taxed. If they are paid less than the AMAP rate they can receive tax relief on the shortfall.

Public transport or similar rate

The sub-group is considering whether there is a continued need for a public transport rate (PTR) of mileage allowance or whether all miles undertaken on work business should be paid at the same rate. At present the PTR is less than the normal mileage rate(s). The Handbook provides PTR to be used:

- in certain circumstances where travel by public transport is possible and cheaper than paying the normal mileage rate
- in certain circumstances when employees are required to attend their place of work outside normal hours and the travel costs are additional to their normal travel to work costs
- sometimes when staff attend training courses and when mileage is claimed.
- in situations where employees have moved their base as a direct result of organisational change (excess mileage)
- where staff travel out of their Strategic Health Authority (England), Health Board (Scotland), Local Health Boards(Wales) or Health and Social Care Board (Northern Ireland) boundaries
- where staff do not accept the employers' offer of a lease car.

It would be helpful to have feedback on which of these circumstances apply in your organisation as well as your view on whether there should be different mileage rates for different activities. Is there a continuing need for a public transport rate or similar that differs from the proposed new NHS mileage rate?

Review of mileage rates

Under the auspices of the NHS Staff Council the sub-group are committed to ensuring that a review period for mileage allowances is agreed as part of this consultation. We are currently exploring the practicalities of a regular review of mileage allowances and further consideration will be given to this whilst being mindful of the potential for mileage allowances to decrease as well as increase. We need to give further consideration on how such changes could be applied in a practical and expedient manner.

Transition/buy out

As with any new system it is recognised there may be a decrease or increase to the existing rates or indeed a break even position and we will seek to manage this in a fair and equitable manner.

We have considered how the transition from the allowances we use now to a new system may be handled. It will be important to ensure that there is no disruption to reimbursement at the point where a new system is introduced. It will be equally important to ensure that mileage rates continue to reimburse staff for their expenses and that they keep track with motoring costs.

Options in the following broad categories are open for consideration:

- **Transition:** staff move to a new system of allowances in stages over the course of two years. Those receiving increases and decreases in the payments received would do so in stages. These could be gradual, evenly spaced stages or some other arrangement.

Note: It is anticipated that there will be an agreed period of review for the new system of allowances and that the new rate will fluctuate over the transition period. To ensure that the transition rates keep pace with the new system of allowances, the transition arrangements would be increased/decreased by the same percentage as the new system of allowances.

- **Buy out:** If any losses incurred from a new system of allowances are bought out by the employer the new rates are implemented immediately (*NB: the employer would be responsible for meeting the cost of any buy out*)

The environmental agenda (the green agenda)

We have reviewed the responsibilities the NHS has been given to ensure sustainable development and carbon reduction. These tend to be summarised using the term "the green agenda". The achievement of the targets the NHS has been set depend on local partnerships implementing strategies which bring together all the talents and expertise of the workforce.

The sub-group has considered the green agenda in all of the options it has considered. *Directgov* (<http://campaigns.direct.gov.uk>), the official Government website for information has listed, in association with What Car, the top rated fuel efficient 'small family' and 'family' cars. These fall into the AA schedule of motoring costs purchase price category from £13,000 - £20,000 which links to the range of rates proposed within this consultation.

The sub-group is looking for further comments from managers and staff as to how they would like the new mileage allowances to be made to dovetail with wider travel plans and strategies for sustainable development of NHS services.

'*Saving carbon, Improving Health: NHS Carbon Reduction Strategy for England*' was launched on the 27 January 2009 by the Department of Health. The document is available from http://www.sdu.nhs.uk/page.php?page_id=94

Timetable

We will review your feedback in detail and decide which option is best to pursue. A recommendation will need to be made to the NHS Staff Council at its meeting on 9 July 2009. The sub group is discussing with NHS payroll what arrangements can be made for implementation if all these processes are successful. Sufficient time will need to be allowed for facilities on payroll in each country to be thoroughly tested before they are implemented. New rates of mileage allowances would take effect from an agreed date. New rates would not be backdated.