

## DRAFT REPORT

To: POLICY & RESOURCES (FINANCE) SUB COMMITTEE	Subject: REVIEW OF CAR LEASING SCHEME
From: DIRECTOR OF FINANCE	
Date: 13 January 2006	Ref: AC/BC

## 1 Introduction

- 1.1 This report provides a review of the Car Leasing Scheme which has been in operation, in its current format, since October 1997.
- 1.2 The report aims to summarise the current position of the operation of the Car Leasing Scheme and provide a basis for aligning the Car Leasing Scheme and the Car Mileage Reimbursement Scheme.

## 2 Background

- 2.1 The Personnel Services Committee of 23 October 1997 approved the report 'Car Leasing / Car Allowances'. The report confirmed the eligibility criteria and the basis for determining the Council's contribution.
- 2.2 Eligibility Criteria – the criteria is as follows:-
  - Chief Officer
  - Staff whose posts required a car for the effective discharge of their duties where business mileage was in excess of 2,500 miles per annum.
  - Posts that for operational purposes must have a car as certified by the employing Director as requiring to carry out the necessary duties.
- 2.3 Council Contribution – the basis for determining the Council's Contribution is:-
  - 8% of the employees salary subject to,
    - > A maximum of £3,000
    - > A minimum of £1,800Based on a full time employee.
- 2.4 The expectation within the report was that there would be 927 posts taking up car leasing.

### 3 Current Position

- 3.1 The Council has 649 employees with a car lease with details summarised in the tables below. The number varies during the year due to new leases and terminations, but has been fairly constant at this level for a number of years. This level of car leases is significantly lower than the original expectations when the Council approved the scheme at the last review which anticipated over 900 car leasing users.

*Table A*

Lease Costs			
Number	Council	Employee	Mileage
649	£1,389,666	£484,393	1,102,332

As Table A highlights, the Council pays on average 3 times the contribution that the employee pays towards the lease.

The average cost to the Council per lease is £2,141

The average mileage per lease is 1,699, effectively a reimbursement of £1.26 per mile.

The average employee contribution per lease is £746

*Table B*

Annual Mileage Claimed					
	0	1 – 999	1,000 – 2,499	2,500+	Total
No of employees	152	146	175	176	649
% of Employees	23%	23%	27%	27%	

- 3.2 Table B highlights that a significant percentage of car leases are for low mileage users. Consequently this requires the Council to make a significant payment per mile travelled in comparison to the costs which would be borne under the Car Mileage Reimbursement Scheme.
- 3.3 The Car Lease Scheme pays a reduced mileage rate of 7.11p per mile compared to 35.1p per mile (essential user) or 53p per mile (casual user). The above analysis reflects those miles claimed, however, given the rate of reimbursement, there may be users who have not claimed all business mileage incurred. The cost for mileage reimbursement within the Car Leasing Scheme is approximately £78,000.
- 3.4 The Council incurs a liability for National Insurance Contribution of approximately £156,000 per annum (based on 2004/05 liability) as a consequence of the Car Leasing Scheme. The liability for Class 1A NIC is determined by the individual's taxable benefit (which is calculated in relation to the car price, emission level, and their personal contribution to the lease cost) and cannot be directly varied by the Council.

3.5 The total cost of operating the Car Lease Scheme is summarised as:-

Lease Cost – Council Contribution	£1,390,000
Mileage Reimbursement	£78,000
National Insurance Contribution	<u>£156,000</u>
	£1,624,000 per annum

#### 4 Review

4.1 The Car Leasing Scheme has been in operation for 8 years and the cost to the Council of supporting the 649 leases is £1.624M per annum. Given the length of time that the scheme has operated and the significance of the expenditure involved it is opportune to review the scheme to assess if it is still consistent with the Council's needs and priorities.

4.2 The Council has 649 existing leases, which would require to be supported in their present form until their termination. The table below details the termination profile of these leases:-

Year	Number of Terminations	Council Contribution
2005/6	161	£172,000
2006/7	151	£312,000
2007/8	278	£601,000
2008/9	59	£304,000
	649	£1,389,000

The impact of any change to the scheme would have an increasing effect over the time to 2008/09 as existing leases terminate and the new arrangements are introduced.

4.3 The Council is currently harmonising a variety of its Terms and Conditions of Employment including a review of the Car Mileage Reimbursement Scheme. The proposal is to adopt the Inland Revenue rate for reimbursement of 40p per mile and introduce a designated user allowance for employees whose annual business mileage exceeds 2,500, receiving a payment of £250.

#### 5 Proposal

5.1 The present systems for Car Leasing and Car Mileage Reimbursement operate on various different criteria for eligibility. This can be bewildering for both the employee and employer considering the options available.

5.2 In framing an updated Car Leasing Scheme it would be sensible to have a consistency between this scheme and the Mileage Reimbursement which would make the selection cost-neutral to the employee with the choice dependant solely on their personal preference.

5.3 The IR regulations allow an employee to claim a tax code allowance adjustment for mileage reimbursed. This allows an employee to claim the difference between the actual amount paid for mileage and the IR rate if higher. To continue to allow employees to benefit from this there requires to be an actual mileage reimbursement within the Car Leasing Scheme.

5.4 The proposed Car Leasing Scheme would operate with the Council contributing an amount to the cost of the car lease equivalent to the monetary value of the annual mileage reimbursement less the fuel element (ie, 40p – 7.11p = 32.89p) plus designated user amount of £250 where appropriate.

5.5 The payment towards the applicant's car lease would be as below:

Annual Mileage	1,500	2,000	2,500	3,000	3,500
Mileage Reimbursement (32.89p)	493.35	657.80	822.25	986.70	1,151.15
Designated User			250	250	250
Council Contribution To Lease	£493.35	£657.80	£1,072.25	£1,236.70	£1,401.15

As detailed in paragraph 3.1 the majority of car lease holders undertake small annual mileage. The Council is involved in a sizeable degree of work to service each car lease and such low mileage claims should more properly be managed through mileage reimbursement, particularly as there would be no financial benefit from the Car Lease Scheme as proposed. In these circumstances it is proposed that eligibility for the Car Lease Scheme would be for those employees who undertake over 1,500 business miles per annum.

Chief Officers would continue to have access to the Car Leasing Scheme if they conduct over 1,500 business miles per annum and would get a zero contribution by the Council to their Car Lease but be entitled to mileage reimbursement at 7.11p per mile as per the present arrangement.

5.6 The operation of the above would mean that employee's options dependant on their mileage would be:-

Miles per Annum	Car Lease		Mileage Reimbursement
0 – 1,499	Not available		✓
1,500 – 2,499	✓	or	✓
2,500+ (Including Designated User Allowance)	✓	or	✓

5.7 The operation of the current scheme incurs a cost of £1.624m, including on-costs (eg employers NI). The proposed scheme would incur a projected cost of £0.539m resulting in an annual saving of £1.085m.

Mileage Conversion	363,000
Designated User Allowance	<u>44,000</u>
Lease Cost – Council Contribution	407,000
Mileage Reimbursement	78,000
National Insurance Contribution	<u>54,000</u>
	539,000

5.8 The realisation of the £1.085m savings would accrue over the years 2006/07 – 2008/09 assuming an effective date for implementation of 1 April 2006. The savings would be realised as current leases terminate, the existing leases transfer to the new scheme as appropriate.

## 6 Transitional/Support Arrangements

- 6.1 Any changes in the scheme would have an effect upon those employees currently benefiting from the Car Lease Scheme. As detailed above there would be a change to the rate of mileage reimbursement and a removal/reduction in the level of Council contribution, if any, to their leased costs. Recognition would need to be given to the time needed for an employee to prepare for the change in the scheme and it is proposed that the change to the scheme take effect from 1 April 2006.
- 6.2 To facilitate the transition in the scheme and enable departments to consider new work practices there may be opportunities to consider.
- Provision of Pooled Cars:- Various sites within the Council may be appropriate to provide and operate a car pool to provide business travel for employees.
  - Car Hire Contract:- Arrange a call-off contract to provide hire cars for employees business use.
  - Financing:- Consider access to 'reduced rate' bank finance provided to Council employees to assist in their financing of any replacement car for business use.

## 7 Summary

The proposed Car Leasing Scheme:-

- Provides a graduated Council contribution to the cost of the employee's lease dependant on the level of annual business mileage.
- Aligns the Car Leasing and Car Mileage Reimbursement Schemes so that it is cost neutral for the employee.
- Would reduce the cost to the Council for the scheme by £1.085m per annum from 2009/10 onwards. During 2006/07 – 2008/09, the saving will increase annually as existing leases terminate.
- Standardise the treatment of all lease applicants such, that only those with an annual mileage in excess of 1,500 miles would be eligible for the scheme.

## 8 Recommendation

The Committee is asked to:-

- 8.1 Approve the scheme as outlined above.
- 8.2 Authorise for the Director of Finance and Director of Administration to prepare the detailed terms of the proposed Car Leasing Scheme.
- 8.3 Agree that budgets be adjusted to reflect these changes.



**Director of Finance**

Members wishing further information please contact Brian Cook, Head of Revenue Services, Tel:- 01698 – 302801.