

**By:** Roger Gough – Cabinet Member for Corporate Support and Performance Management  
Director of Personnel & Development

**To:** Personnel Committee

Date: 9 September 2010

**Subject:** Travel savings

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**SUMMARY** Generation of cost savings from travel expenditure by proposed removal of Essential User and Lease Car provisions.

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## **1. Background**

1.1 KCC has 3 categories of payments for car provision:

- a. Casual user for individuals who use their own car for business mileage. The mileage rate is 40p per mile (25ppm after 10,000 miles) where approximately 30% of this covers fuel and the remainder is for maintenance and running costs. The rate is set by the Treasury and paying an amount higher than this would result in a tax liability.
- b. Essential User. This category is for individuals who use their own car for business journeys and satisfy eligibility criteria. A minimum of 2,500 miles need to be driven or individuals are within defined professional groups driving more than 1,500 business miles per annum. A taxable annual payment of £833 is made. Mileage rate is 34.4p per mile decreasing to 16.5p per mile once 11,000 miles have been driven.
- c. Essential users also have the option to lease a car at a subsidised rate. The mileage rate is only intended to cover fuel which, dependant on engine capacity is in the range of 12-15p per mile. This is reviewed and set by the HMRC. The cost of the lease arrangement is funded by both the employee and KCC. The employer contribution for most cars equates to £2,269 per annum.

1.2 During 2008, KCC undertook analysis of Essential Users to review the actual mileage claimed by each individual as a way of auditing compliance.

1.3 This resulted in the removal of approximately 1000 users. Directorates were also concerned about individuals in key roles requiring frequent use of a car but not meeting the 2,500 mile criteria. This resulted in agreeing the jobs which were allowed to retain the essential user status so long as business mileage was in excess of 1,500 miles. This includes social worker roles and Education Psychologists.

1.4 An up to date mileage report for each category of user is shown in Appendix 1.

## **2. Comparative costs**

- 2.1 The break even point where it becomes cheaper for the authority to offer essential user status compared to casual is 15,000 miles. The break even point for lease cars compared to casual user is 8,000 miles due to the lower mileage rates.

## **3. Implications**

- 3.1 There are a number of factors which need to be considered, which include effective date of change, contractual arrangements, consultation and communication requirements along with notice and transition periods. Whilst we are confident in our legal ability to remove and alter such allowances, this needs to be with suitable notice and transitional protection (Court of Appeal case concerning Birmingham City Council).
- 3.2 Reducing the number of lease cars will negatively impact the income generation for KCC delivered by Commercial Services although there is still an overall cost saving to the authority is still generated.
- 3.3 Employee relations implications – Staff and TUs likely to see this as a diminution of their employment package. Likely resistance both individually and collectively, in such forms as appeals, grievances, informal TU action / pressure and potentially legal / contractual challenge.

## **4. Costs, savings and being competitive**

- 4.1 Remove essential user status generates approximately £1.5m saving  
Remove subsidised lease car provision generates approximately £1.5m saving, however, this would potentially have an impact on turnover within Commercial Services which would in turn reduce the contribution made back to KCC by approximately £900k.
- 4.2 The costs of each scheme are shown in Appendix 2.
- 4.3 The income from lease cars could be increased if the employer contribution was decreased with a corresponding increase in employee contribution. However this would make the lease car option considerably less appealing to employees.
- 4.4 If the essential user status was removed there may be a proportion of essential users who would wish to transfer to lease car status, however the actual numbers will be influenced by any changes to lease car eligibility rules. Under the current rules, no employee would be eligible for a lease car as the criteria are the same. Currently there are more than twice the number of essential users than lease car users.
- 4.5 We know from previous experience that it is much simpler when there are clear rules and guidance when changing provisions. Removing the essential user allowance without reference to the lease car scheme will cause confusion and extra expense as more lease cars are requested. Altering the eligibility criteria or employer contribution would only be making marginal changes around lease car eligibility. In order to deliver the most consistent and robust approach both provisions should be removed.

- 4.6 Should there be local recruitment or retention difficulties as a result, there is provision for payments to be made under the Market Premium Policy. This enables managers to make payments following a robust authorisation process.
- 4.7 The removal of the subsidised lease scheme would not leave employees without options. Commercial Services can make lease cars available to employees on a voluntary basis therefore not requiring the authority to pay for employer contributions. The range of cars is also broader under this scheme.

## **5. Conclusions**

- 5.1 We know from experience of the review of essential users that allowing exceptions causes difficulty, confusion and inconsistency.
- 5.2 Removal of essential user provision alone would deliver savings however this could result in more lease cars being requested which would ultimately increase costs for the authority.
- 5.3 If the eligibility criteria were raised for lease cars in a way which restricts access too much then there becomes a point where there is no real case to retain the provision, be it essential user or lease car provision.
- 5.4 The cleanest approach is to remove essential user and lease cars in a consistent manner.
- 5.5 The employment relations fallout from the removal of essential user and lease car arrangements is harder to cost but was disproportionately high when reviewing essential user mileage 18 months ago.
- 5.6 If a clear and unambiguous approach is to be taken, which delivers the greatest savings and removes scope for exceptions and grey areas, then removal of both the essential user and lease car provision should be considered.
- 5.7 The full savings from lease cars will take up to 4 years to be realised as lease arrangements come to an end.

## **6. Recommendation**

- 6.1 No new members to subsidised lease cars or allocation of essential user allowance with immediate effect and withdrawal of essential user allowance to current recipients from 1 April 2011.
- 6.2 Existing lease car users whose contracts come to an end before 1 April 2011 would not be renewed.

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## Mileage Report

Data extracted from Oracle 19<sup>th</sup> April 2010. Data is for the period 1 April 2009 – 31 March 2010.

### Number of Individuals by User-Type by Mileage Category

Mileage Range	Casual Car User	Essential Car User	Lease Car User	Grand Total
<b>1 - 499</b>	2,669	155	91	2,915
<b>500 - 999</b>	894	171	111	1,176
<b>1,000 - 1,499</b>	550	191	108	849
<b>1,500 - 1,999</b>	370	204	105	679
<b>2,000 - 2,499</b>	256	233	104	593
<b>2,500 - 2,999</b>	151	205	130	486
<b>3,000 - 3,499</b>	127	226	88	441
<b>3,500 - 3,999</b>	74	166	81	321
<b>4,000 - 4,499</b>	73	142	39	254
<b>4,500 - 4,999</b>	50	123	57	230
<b>&gt;= 5,000</b>	202	607	202	1,011
<b>Grand Total</b>	<b>5,416</b>	<b>2,423</b>	<b>1,116</b>	<b>8,955</b>
<b>Max Individual Mileage</b>	18,945	17,414	37,395	

### Proportion by User-Type by Mileage Category

Mileage Range	Casual Car User	Essential Car User	Lease Car User	Grand Total
<b>1 - 499</b>	49%	6%	8%	33%
<b>500 - 999</b>	17%	7%	10%	13%
<b>1,000 - 1,499</b>	10%	8%	10%	9%
<b>1,500 - 1,999</b>	7%	8%	9%	8%
<b>2,000 - 2,499</b>	5%	10%	9%	7%
<b>2,500 - 2,999</b>	3%	8%	12%	5%
<b>3,000 - 3,499</b>	2%	9%	8%	5%
<b>3,500 - 3,999</b>	1%	7%	7%	4%
<b>4,000 - 4,499</b>	1%	6%	3%	3%
<b>4,500 - 4,999</b>	1%	5%	5%	3%
<b>&gt;= 5,000</b>	4%	25%	18%	11%
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Appendix 2.

### 1. Essential user - Conversion of all essential users to casual user status

#### Factors:-

Users - 2400

Lump Sum - £833

Average mileage - 3680

Essential user pence per mile – 34.4

Casual user pence per mile – 40

Total lump sum	= 2400 x £833	= £1,999k
Mileage costs	= 3680 x 2400 x £0.344	= £3,038k
Total		= £5,037k

Cost if all on casual user status

$$2400 \times 3680 \times £0.40 = £3,533k$$

$$\text{Saving} = £1,504k$$

### 2. Lease Car - Conversion of all lease users to casual user status

Users – 1116

Employer contribution (annual) - £2,269

Average mileage - 3242

Lease car pence per mile – 12

Casual user pence per mile – 40

Employer contribution	= 1116 x £2,269	= £2,532k
Income returned to KCC		= -£ 900k

$$\text{Mileage costs} = 1116 \times 3242 \times 0.12 = £ 434k$$

$$\text{Cost if all on casual user} = 1116 \times 3242 \times 0.40 = £1,447k$$

$$\text{Increased mileage cost} = £1,013k$$

$$\text{Net saving} = £ 619k$$

Potential combined annual saving achieved within 4years = £2,123k