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To: Personnel Committee **Date:** 18 May 2011

Subject: Lease car arrangements

Classification: Unrestricted

Summary: The approved budget requires savings to be achieved from changes to staff travel allowances. The Personnel Committee has previously concluded that the current criteria for essential users are not sustainable.

On 17th February the County Council agreed that essential user status should be abolished but there should be no financial detriment to those staff on KR10 or below. The Council delegated responsibility to Personnel Committee to agree appropriate mitigation.

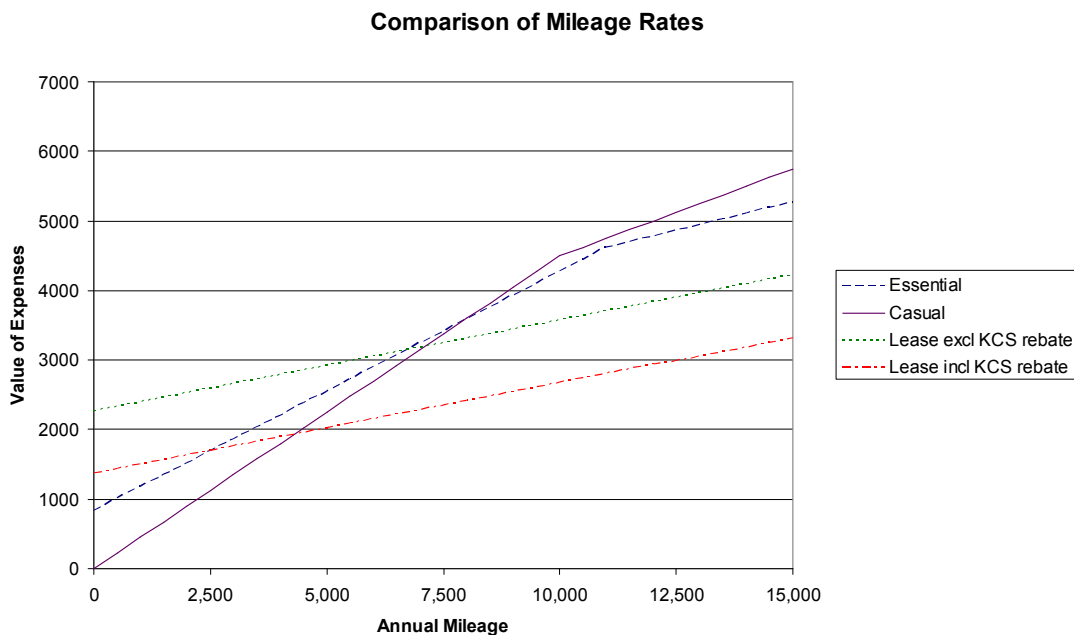
This report considers the alternative options based on the price of a Peugeot 107 3 DR 1.0 Urban as at 04th March 2011.

1. Background

- 1.1 Savings identified in the Budget Book for 2011/12 included £0.7m for travel. Consideration about this has already happened at both Personnel Committee and County Council with the decision that the essential user allowance is withdrawn albeit with a no detriment provision for staff on Grade KR10 or below and driving at least 2,500 business miles.
- 1.2 The subsidized lease car arrangements require individuals to meet the essential user criteria before the authorising manager can approve a lease car contract.
- 1.3 The key difference between the two categories is that lease car users do not have access to a car once their contract expires. However essential users who provide their own car and therefore still have access to personal transport if their allowance is withdrawn. This makes it more important for lease car users who are coming to the end of their contract to have options available.
- 1.4 The current KCC subsidy for lease cars is £2,269 per annum. Staff opting for a lease car pay a contribution based on the list price of the car and receive a much lower mileage rate, usually around 13p (the actual

rate depends on type of fuel and size of the engine). The lease car includes a number of other benefits including insurance, servicing, road tax, breakdown cover and a range of fleet management services. Commercial Services derive profit from the scheme of approximately £900 per vehicle.

- 1.5 There are currently approximately 978 lease car users (benefitting from employer contributions of £2.6m and mileage payments of £300k).
- 1.6 Essential users are classified as those staff required to travel more than 2,500 miles per annum in the course of their duties (or in the case of certain specified job groups more than 1,500 miles). Essential users receive a lump sum payment of £833 per annum and this contributes towards the cost of maintaining a car. They are reimbursed according to mileage rates agreed by the Council (34.4p up to 11,000 miles and 16.5p over 11,000 miles). This entitlement normally creates a taxable benefit and national insurance liability for the individual. Essential users are also entitled to apply for a car loan, a KCC subsidised lease car, or a KCC county car.
- 1.7 The net cost of the lease car scheme to an individual choosing the example Peugeot 107 is £2,345 per annum compared to the casual user rate (assuming 3,500 business miles) – this represents the cost of their contribution plus the higher mileage rate forgone. The cost of other cars would be more to the individual after allowing for higher list price and taxable benefit.
- 1.8 The graph below shows a comparison of the costs to KCC of casual, essential and lease cars.



1.9 As demonstrated in the graph, essential user costs the authority more than casual user rate at 45p per mile for staff doing less than 8,000 miles (very few staff claim above this level). Lease cars are more cost effective than casual for those doing more than 7,000 miles before taking into account any profit earned by KCS (the profit reduces the break even point to around 4,500 miles).

1.10 There were approx 2,000 essential users (receiving around £4.6m in lump sum and mileage payments) and approx 1,000 lease car users (benefitting from employer contributions of £2.2m and mileage payments of £400k). A number of these users are not claiming the necessary mileage and are being removed. Table 1 summarises the users by mileage & grade and the potential saving assuming those on KR10 & below who would still be eligible under the current essential user criteria are protected (see bold cells). Other staff would not be protected.

	Essential		Lease	
	not meeting criteria	meeting criteria	not meeting criteria	meeting criteria
KR10 & below	350 users £405k cost £273k saving	930 users £2,527k cost	237 users £559k cost £492k saving	297 users £863k cost
KR11 & above	140 users £174k cost £107k saving	416 users £1,040k cost £234k saving	174 users £417k cost £349k saving	233 users £654k cost £269k saving
Non Kent Scheme	38 users £52k cost £28k saving	161 users £459k cost £81k saving	9 users £22k cost £18k saving	28 users £84k cost £21k saving
Total	528 users £631k cost £409k saving	1,507 users £4,026k cost £315k saving	420 users £998k cost £860k saving	558 users £1,601k cost £290k saving

1.11 As demonstrated in table 1 the majority of the saving would come from removing allowances for staff not doing the necessary miles to meet the criteria. We know from past experience that removing eligibility for these staff is time consuming as there are a number of reasons why staff may appeal for exceptional circumstances to be taken into account.

1.12 The budget strategy assumed that we could make £600k saving in 2011/12 from removing essential user status and £100k per annum over 4 years from removing lease cars (after compensating for loss of KCS profit). These savings are achievable with some headroom.

2. Essential Users

2.1 Essential users have been formally notified of the withdrawal of this provision from 31 July. There are three scenarios, 1. Removal, 2. Move to no detriment provision or 3. Market supplement applies (only for specific criteria).

3. Protection arrangements for lease car users

- 3.1 The simplest solution would be to offer the 297 staff on KR10 & below who are claiming sufficient miles the same protection as the 930 essential users. This means instead of a lease car they would receive £833 lump sum and 34.4p per mile when their existing lease contracts expire. This would leave some staff worse-off than they are under the lease car scheme and overall would deliver an additional saving of £115k on the amounts identified in table 1.
- 3.2 It is difficult to be precise how much individual staff would lose due to the complexity of the combination of choice of car and mileage travelled. Basing the calculations on a small economical car e.g. Peugeot 107, should minimise the net cost of the lease car scheme to the individual (particularly as it produces no taxable benefit) and therefore is likely to produce the maximum protection compared to alternative schemes. For example an individual claiming 3,500 miles would be on average £300 per year worse-off under the protected essential user scheme (assuming the opted for the private lease alternative). It would be virtually impossible to undertake an exact calculation for each individual.
- 3.3 On discussing potential no detriment provisions, CMT has questioned the validity of paying a simple parachute payment to staff as compensation for KCC no longer providing a car (partly on principle and partly that a simple single sum is inequitable).

4. Alternative Options for Providing a Vehicle

a) *Private Market Lease*

- 4.1 A private market lease arrangement would involve an employee entering a personal lease arrangement with a lease company directly. KCC may be able to negotiate discounted schemes but it is essential that the contractual relationship is between the individual and the lease company to ensure that the employer is not providing the vehicle¹. Inevitably this lease would involve the individual in more work and lease companies would take more regard of the individual's circumstances (annual mileage, credit worthiness, insurance history, etc.) than KCC lease car scheme.
- 4.2 The estimated cost to the individual of a private 3 year lease for a Peugeot 107 would be an initial payment of £643 and 36 monthly payments of £199. This equates to an annual cost of £3,032 in the first year and £2,389 thereafter.

¹ If HMRC deem the employer is providing the vehicle it could create a taxable benefit and national insurance liability, and under the interpretation of the current regulations we could only reimburse mileage at the equivalent of the current lease car rates (this would significantly reduce the £2,170 net cost to the individual calculation and therefore increase the compensation KCC would have to pay to meet members' "no detriment" objective)

- 4.3 The lease would not provide insurance for the member of staff (or named family members) or many of the other Kent Fleet benefits. It is difficult to quantify these benefits but we have assumed a notional £500. We have already included the mileage differential in the net cost of the current KCC lease scheme and thus the loss to the individual from removal of the lease scheme is £1,362 in the first year and £719 in subsequent years.
- 4.4 The gross saving to KCC as a result of paying casual user rather than providing a lease car (assuming 3,500 business miles per annum) is £1,324 per annum.

b) Extended Lease Car Scheme

- 4.5 KCS already offers a full cost lease alternative to staff (but take-up is low). This is not a viable alternative for many individuals as they can only be reimbursed for business miles at the current lease car rates.

c) Salary Sacrifice

- 4.6 A salary sacrifice scheme is a more tax efficient alternative. This involves the employee sacrificing an element of their pay before tax and NI is taken, in return for the lease of a car over a three year period. The employee saves tax and NI on the amount sacrificed and Kent County Council saves NI on the sacrificed amount. The type of car leased would have to meet environmental impact criteria for there to be much of a tax/NI saving (the example Peugeot 107 would meet the emissions requirements).
- 4.7 The savings achieved through a salary sacrifice scheme depend upon the marginal rate of tax paid by the individual, choice of car and business miles travelled. The individual would only be able to claim the lower lease car mileage rate of approx 13p (as once again a lease under a salary sacrifice scheme would be deemed a company car).
- 4.8 The tax benefits are unlikely to offset this additional cost for staff on KR10 and below and therefore a salary sacrifice scheme would end up costing KCC more than other alternatives (a combination of the tax benefit and the benefit to KCS continuing to run a vehicle fleet is likely to be the most viable approach). There are also complex implications on pensions arising from salary sacrifice which could result in staff receiving a lower pension.
- 4.9 A salary sacrifice scheme would be more appealing to staff above KR10 or those with low mileage. These are outside the scope of the member "no detriment" policy as low mileage users on KR10 or below would in any case lose their essential user status and thus we would not have renewed the lease anyway.

d) Private Purchase

- 4.10 The costs of private purchase are little different from a private lease other than the individual would also have to meet cost of servicing, road

tax etc., and the individual is likely to need to find a larger up front deposit. It is not really feasible to extend the current loan scheme and if we offered staff a competitive loan there would be complex tax implications as well as additional cost of administering the loans.

- 4.11 The most viable options for the 297 lease car users on KR10 and below who would have continued to meet the criteria for a lease car would be to transfer to Essential User no detriment provision.
- 4.12 The 444 staff on KR11 & above/non Kent scheme and the 237 staff on KR10 & below who do not meet the eligibility criteria would not have their leases renewed when the current contract expires and would revert to casual user rates.

e) Car Loans

- 4.13 The current car loan criteria enable us to consider applications in exceptional circumstances from casual users. This would still allow existing essential users to apply for a loan (albeit they would have to meet these exceptional criteria). The loans themselves are not especially advantageous (other than to individuals who would otherwise not be able to access finance).
- 4.14 As already identified in paragraph 4.10 it is not really feasible to extend the car loan scheme to offer employees a competitive loan for tax reasons.

5. Conclusions

- 5.1 If KCC were to continue to provide a car to existing users on KR10 and below then we would need criteria to enable new staff on these grades access to a car in order to make running a fleet viable. Previous advice is that no such criteria could be applied consistently and therefore providing a car is not an option. Paying the same protection as essential users is the simplest solution but would leave some staff worse off.
- 5.2 Of the compensation alternatives a cash settlement could be made but is not favoured by CMT.
- 5.3 Salary sacrifice has some merits if KCC is still to offer a fleet of vehicles at full cost. KCC would make savings on employer NI contributions and could benefit from maintaining a large fleet of vehicles (albeit with a more limited choice). A salary sacrifice scheme could be offered to all staff (without financial compensation for existing lease car users above KR10). A salary sacrifice scheme is likely to have a negative impact on an individual's final pension should they leave employment when a member of the scheme. KCC could not offer any compensation for loss of pension. It is also of greatest benefit to higher rate tax payers.
- 5.4 Alternative approaches will continue to be considered, however a clear decision on the removal of the lease car arrangements and no detriment

provision is needed in order to communicate the position to current lease car users.

6. Recommendations

- 6.1 No new lease car arrangements are entered into from 1 July 2011.
- 6.2 No detriment provisions for subsidised lease car users are consistent with those for essential users, ie if a lease car user claims over 2,500 business miles and is on grade KR10 or below, at the end of their subsidised lease contract they will be able to transfer to the essential user no detriment list. Reimbursement is £833 lump sum with 34.4p per mile.
- 6.3 People who are on the no detriment list will move to casual user status as their role alters, such as a promotion or regrade. Changes which do not alter the nature of the job such as transferring to another location would not constitute a reason for removal of the no detriment provisions.

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