

# **BRECKLAND DISTRICT COUNCIL**

## **Report of the Asset Manager**

**To:** General Purposes 19 September 2012

**Author:** Ralph Burton

**Subject:** Lease Car Scheme – Savings Feasibility

**Purpose:** This report outlines the options for generating savings from the Lease Car Scheme at Breckland District Council

### **Recommendation(s):**

- 1) Authorise Option 3 and remove the Lease Car Scheme.
- 2) HR to initiate a review on all essential user staff plus those that will cease being lease car users (when their contracts end) to ensure the designation is correct for each post.
- 3) HR to investigate re-introducing the Council's assisted car purchase scheme, updating the scheme where appropriate.

## **1. BACKGROUND**

1.1 Breckland Council's Lease Car Scheme Policy for employees was last reviewed in 2007 and subsequently in 2011 to ensure that it continued to meet business and staffing needs. The Lease Car Scheme is currently administered by Asset Management with assistance from HR and Finance.

### **1.2 Facts**

Currently there are 96 staff who have 'Essential User' status. Where staff are deemed an 'Essential User' they may if eligible choose to hire a lease car through the Council's Lease Car Scheme. Currently 40 of the staff categorised as Essential Users have chosen to be lease car users. Staff that have Essential User status and choose not to lease a car (but use their own car for work purposes), are paid mileage at the higher rate of £0.505 per mile, for the first 8,500 miles (based on a vehicle over 1200cc) and are also paid £103.25 essential user allowance monthly. For comparative purposes staff who have 'Casual User' status are paid a mileage rate of £0.65 per mile for the first 8,500 miles (based on a vehicle over 1200cc) and do not have any monthly allowance. Currently there is 167 staff who are 'Casual Users'.

### **1.3 Scope**

In November 2011 the Finance team produced some financial reporting on the Lease Car Scheme and the Corporate Management Team and Members identified the opportunity for efficiency savings to be made by changing the scheme. This report provides information on the initial feasibility on the options with a targeted savings of £16,000 per annum in 2012/13, rising to saving of £61,000 in 2016/17.

### **1.4 Current Cost of Lease Car Scheme**

The total cost of the Lease Car Scheme to the Council currently is budgeted at £180,010 per annum. This includes annual insurance of £42,150 which equates to £1,053.75 per lease vehicle and fluctuates depending on how many vehicles we have insured which varies. Currently the standing charge (admin

fee/insurance recharge) within the lease car employee calculation is only £517.00 per vehicle which does not cover the insurance charge per vehicle.

### 1.7 **Lease Car Scheme Current Eligibility**

Current Essential Users can apply to join the Lease Car Scheme under two main methods of application as follows:

*Job Based: Posts identified for recruitment and retention reasons (including Chief Officers, Service Managers and certain specialist posts).*

*Work Based: Posts which have been designated by their Service Manager as workers whose essential workplace is 'in the field' i.e. workers whose essential duties could not be carried out without extensive and consistent activity in the community e.g. carrying out inspections of premises, home visits, enforcement activities. Field Workers must cover 2,500 business miles per annum.*

### 1.8 **Policy**

As well as reviewing the feasibility of savings from the scheme by reducing the eligibility it is also good practice to review the Lease Car Scheme policy overall to ensure it is still fit for purpose. The policy is attached at Appendix 2 with the highlighted changes. Only if Option 1 is taken would the Policy be recommended to be changed as highlighted.

**Contracted Mileage** - There are also some further changes highlighted giving the employer the ability to change the contracted mileages for Lease Car contracts where drivers have underestimated this. This creates increased management and administration time to deal with these as they occur and currently drivers can continue contracts on lower mileages than they are travelling causing excess mileage charges to occur in the future. Due to the way some Lease Car company's undertake pooled mileage this can be unfair for some drivers, mainly because currently drivers can choose the mileage they require. The mileage chosen affects the contributions drivers pay. The policy currently states that the excess mileage charge to be passed to any driver is a standard £0.05p. It is recommended that whatever the excess mileage charge that the Lease Car company passes on for that particular vehicle (known at the outset) is passed to the driver thus the Council does not subsidise any gap. The policy also states that the employer can at their discretion change the contracted mileage if it deems fit to do so to meet the driver's current projected mileage. This would mean that drivers contributions increase (or decrease) if they are undertaking more mileage than they have chosen at the start of the contract. Both of these changes make the scheme overall more equitable and fair for all users. Again this would only occur if Option 2 were chosen and the lease Car scheme remained in some format.

### 1.9 **Analysis**

An analysis has been undertaken using data from 2011/12 of all the lease car users and their mileage claims.

**Calculation 1 Remove Job Based Criteria:** In reducing the eligibility, i.e. by removing the Job Based eligibility, currently 12 existing drivers would no longer be eligible to renew (and would revert to essential user when their contracts finished). The cumulative savings of this analysis are:

£2,350 in 12/13

£3,260 in 13/14

£10,330 in 14/15

Therefore the total savings rise to £10,330 in year 3 (2014/15). This falls short of the targeted savings. This would however mean the scheme remains in operation for work based users.

**Calculation 2 Remove Job Based Criteria and Increase Mileage Threshold:**

In addition to removing the job based eligibility outlined in Calculation 1 above, the remaining lease car users (work based) were assessed against a new mileage threshold. This mileage threshold (See Appendix 1) would be 6,250 (instead of 2,500). This threshold is the financial break even where it would be less expensive for the Council to provide a lease car to the employee rather than the Essential User allowance and associated mileage rate. This would effect a further 23 drivers which would no longer be eligible to renew (and would revert to essential user when their contracts finished). The cumulative savings of this analysis are:

£13,980 in 12/13

£32,370 in 13/14

£37,840 in 14/15

Whilst this does meet the targeted savings, it is significantly more than calculation 1. As this calculation affects 35 drivers there are then only 5 drivers remaining on the scheme.

**Calculation 3 Remove the Lease Car Scheme:** In this calculation the whole scheme is removed. The cumulative savings of this analysis are:

£12,030 in 12/13

£26,150 in 13/14

£31,330 in 14/15

The reason that these savings are not as great as Calculation 2 is because there are some drivers that area travelling high mileages (shared managers) meaning they will get paid higher mileage amounts which outweighs the lease car saving.

The calculations above are the cashable saving i.e. they do not include savings from the non-processing of invoices, reduced time for PAYE deductions, reduced contract administration and vehicle management which are non cashable savings.

## **2. OPTIONS**

### **2.1 Option 1: Remove the Job Based Criteria**

This creates savings of £10,330 by year 3. This does not meet the targeted savings. The scheme remains in operation and the mileage threshold remains at 2,500 for work based users. The policy will need to be amended as per Appendix 2.

This option assumes all lease car users who are no longer eligible; revert to essential users at the end of the term of the lease. The savings calculated include off-setting the cost of reverting those drivers to Essential User status. This would affect approximately 12 drivers/staff.

Some of the drivers may renew on 'work based' criteria, currently with the mileage threshold of 2,500. Therefore there is a risk that the targeted savings may not be realised in full.

## **2.2 Option 2: Remove the Job Based Criteria and Increase the Mileage Threshold to 6,250 (or appropriate to the grade and break even point)**

This creates savings of £37,330 by year 3. This option goes some way to making the targeted savings. However only 5 existing lease car users would remain on the scheme and it is felt that it is not worth continuing a scheme (administration etc) for only 5 drivers. If this option is taken the policy will need to be amended as per Appendix 2.

## **2.3 Option 3: Remove the Lease Car Scheme.**

This is a fair option as no staff are favoured. All 40 drivers would not renew on expiry of their leases. This creates savings of £31,330 by year 3. If this option is taken there should be no lease car contract extensions. Also those drivers who are currently in extension or where the contracts are due to end within 6 months they are given 6 months notice before their lease car is returned. All other drivers will exit the scheme when their contracts naturally end.

## **2.4 Option 4: Undertake further feasibility work on alternative options**

The scope of this report is to meet a financial saving. Adjusting/removing the criteria for the lease car scheme has been reviewed to meet that aim. However other options exist that could still be explored which could create greater savings although these have not been worked up and would take further time:

- a) Removal of Lease Car Scheme Immediately
- b) Pool Car scheme
- c) Car loan from the Council
- d) Car Sharing
- e) Review the mileage threshold eligibility to be classed as an essential user

## **3. REASONS FOR RECOMMENDATION**

3.1 OPTION 3 is recommended because it makes a significant impact on the savings to be created. Whilst Option 2 may create more savings, the administration of the scheme, although non-cashable, to run a scheme for c.5 drivers would more than outweigh the difference in Option 2 and Option 3. Therefore complete removal of the scheme with the cashable and non-cashable savings is overall recommended. Also it is a fair option where no staff are favoured.

3.2 With this or any of the other options it is also recommended for HR/Finance to investigate re-introducing the Council's assisted car purchase scheme, updating the scheme where appropriate and to initiate a review of all the essential user criteria for all posts across the Council including those posts on the lease car scheme.

3.3 It is good practice to review the Lease Car Scheme policy when other changes are being recommended, if the scheme remains. Therefore if Option 1 or 2 or are taken the Lease Car Scheme policy has been updated in Appendix 2 with the recommended changes highlighted.

## **4. EXPECTED BENEFITS**

Targeted savings.

## **5. IMPLICATIONS**

- 5.1 **Legal** - The Information and Consultation of Employees Regulations should be noted.
- 5.2 **Risks** – The key risk is employee relations issues, if staff feel that their terms and conditions are being eroded. The organisation may experience a reduction in performance, an increase in turnover and loss of talent. Meaningful consultation will mitigate against this risk, as well as clear business justification for the proposals.
- 5.3 **Financial** – Profoma B attached.
- 5.4 **Timescales**
- 5.5 **Equality and Diversity** – implicit within process.
- 5.6 **Stakeholders / Consultation** - Altering the Lease Car Scheme provision will mean making changes to staff terms and conditions. The organisation has a duty to consult with staff and staff representatives (trade unions), and the recommended minimum period of consultation should be 30 days. This should be factored into any agreed timetable for implementation.
- 5.7 **Contracts** – not applicable.
- 5.8 **Section 17, Crime & Disorder Act 1998** – not applicable.
- 6. WARDS/COMMUNITIES AFFECTED**  
N/A
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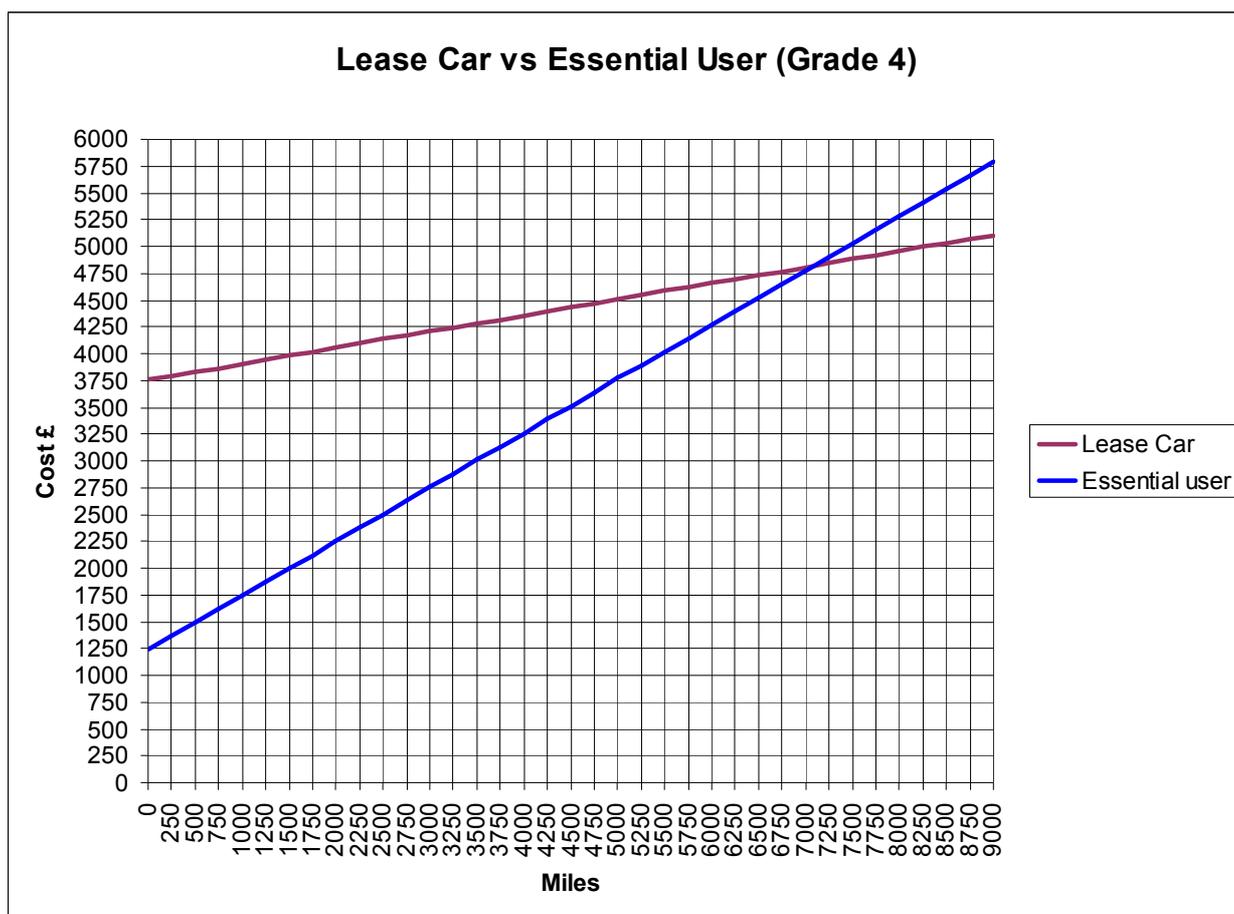
**Appendices attached to this report:**

**Appendix 1 - Adjusted Mileage Thresholds**

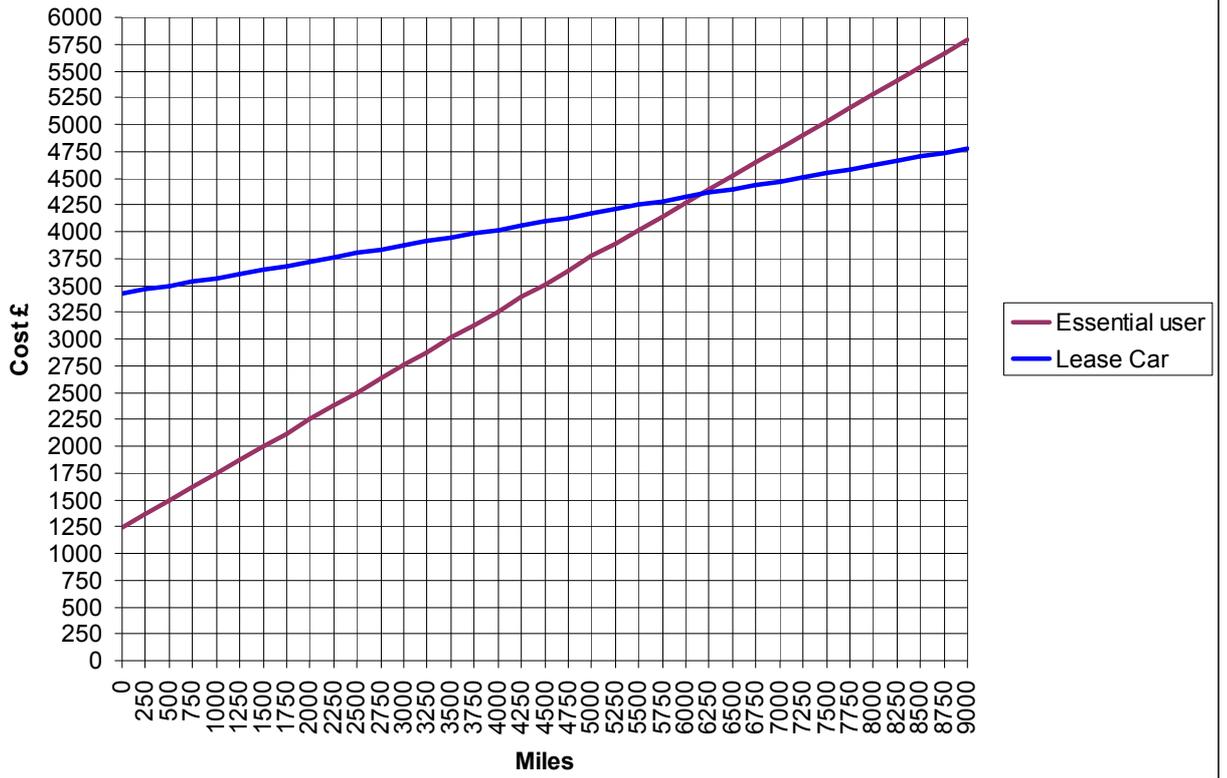
**Appendix 2 – Amended Lease Car Scheme Policy**

## Appendix 2 – Adjusted Mileage Thresholds

The graphs below depicts the 'break even' points at which it becomes less expensive for the Council to provide a lease car to the employee rather than the Essential User allowance and mileage rate, based on the number of miles they are completing. For clarification this is a financial model only. This has been undertaken for a Grade 4 and Grade 8 as examples. The graphs show that for a Grade 4 it becomes more cost effective for the Council to allow an employee at this grade to become a Lease Car User when they are covering in excess of 7,000 business miles per annum and likewise for a Grade 8 the threshold is 6,250 business miles. This is due to the current payment structures for Essential User mileage and monthly lump sum and Lease Car mileage and annual allowance. In comparison the current Lease Car Scheme requests 2,500 business miles for all grades as the threshold.



### Lease Car vs Essential User (Grade 8)



## **Appendix 2 – Amended Lease Car Scheme Policy**