

BRECKLAND DISTRICT COUNCIL

Report of the Assistant Director of Commissioning

To: General Purposes Committee - 27 February 2013

(Author: Neil Fordham, Payroll & Reward Manager)

Subject: Assisted Car Purchase Scheme

Purpose: To seek approval for re-introduction of a revised Assisted Car Purchase Scheme.

Recommendation(s):

To approve the re-introduction and launch of a revised Assisted Car Purchase Scheme as attached at Appendix A.

1. INTRODUCTION

1.1 Background

Breckland Council previously had an Assisted Car Purchase scheme in operation (pre-2006) but over time became less attractive due to in part to uncompetitive interest rates charged to employees. The scheme was effectively phased out.

With the recent phasing out of the Council's car leasing scheme and a drive to improve/expand the wider staff non-cash benefits options, HR have investigated options to re-introduce a modern and attractive Assisted Car Purchase (Car Loan) Scheme. The draft policy is shown at Appendix A to this report.

1.2 Issues

1.2.1 Having compared the policies of several Local Authorities, including that of South Holland, there are some key features which form the basis of any successful scheme. These include:

- Eligibility of staff
- Interest Rate payable
- Maximum/minimum amount to be loaned
- Repayment period

1.2.2 Eligibility of staff

The primary purpose of the re-introduction of a car loan scheme was to provide an alternative to the lease car scheme i.e. provided to those staff deemed to be Essential Car Users. This scheme is therefore aimed at these staff. In exceptional circumstances where CMT deem a particular post to be a 'Key Post' for recruitment and/or retention purposes the facility can be accessed by Casual Car users.

Applications for loans will also be checked to ensure the contractual status of the officer is appropriate to the loan being applied for. Staff on Fixed-Term contracts will not be treated any differently to staff on permanent contracts however the principal loan repayment period must not exceed the currently anticipated contract length e.g. an Officer on a 12 month fixed-term contract cannot be approved for a loan to be repaid over a 2 year period. In any case the Officer must have completed their prescribed probationary period before being eligible under the scheme.

Finally, staff whose service area is under review (as part of restructuring) are ineligible to apply until the review is complete which covers those staff who may be under notice of redundancy. For the purpose of this policy 'under official review' is defined as General Purposes committee having agreed to a review of the service area.

1.2.3 Interest Rate Payable

To be able to promote a beneficial scheme to staff the interest rate chargeable must be attractive.

Having compared other local authorities' policies, including that of South Holland DC, the following formula will be used to calculate the interest rate to be used and fixed for the duration of the loan repayment period:

- $(\text{Base rate} + 1.0\%) / 2$.

The interest rate to be used, at the report date, would therefore be 0.75% using the 'simple interest rate' methodology. An example of such a calculation can be seen at Appendix G.

Comparative chargeable interest rates at other LA's can be seen below:

Local Authority	Interest Rate	Notes
South Holland DC	0.75%	$(\text{Base rate} + 1.0\%) / 2$
South Norfolk	0.75%	$(\text{Base rate} + 1.0\%) / 2$
Broadland DC	1.5%	Base rate + 1.0%
Baburgh DC	3.75%	
Broxbourne BC	0.25%	Base rate less 0.25%

Under HMRC rules any loan which has a balance of over £5,000 at any point in that tax year, where the interest rate chargeable is less than the 'official rate' (currently 4.00%), a taxable benefit in kind will exist; the value of the benefit being the difference in annual interest charge between the scheme/policy rate and the Official rate of interest. Such a benefit will need reporting on form P11D, in a similar fashion to taxable mileage/car allowances and company (lease) cars. Any taxable benefit figure will be subject to Class 1A National Insurance payable by the employer.

1.2.4 Maximum/Minimum Loan Amounts

Maximum loan values need to be realistically high enough to allow staff to buy a good quality vehicle, whilst ensuring that the Council does not 'over-lend' to individuals who could find themselves borrowing too much; loans therefore

should be set as either a monetary maximum or as a percentage of annual salary, whichever the lower.

The policy recommends a maximum loan amount of £10,000.

Additionally it is recommended to impose a minimum loan value set at £1,500 to take into account the administrative burden involved in processing each loan.

1.2.5 Repayment Period

A maximum repayment period must be specified to ensure any loan is cleared in a reasonable timeframe. Comparative policies generally impose a maximum of 4 years; for vehicles less than 3 years at date of purchase a maximum repayment period of 5 years is sometimes permitted.

The Policy recommends maximum repayment periods of:

- 48 months for cars less than 3 years old at date of purchase;
- 36 months for cars '3 years old +' at date of purchase

Consideration will be given to shorter repayment periods on a case by case basis. The HR Manager will, where appropriate recommend, a minimum repayment period if it is felt that a shorter period could result in the officer falling into financial difficulty (on account of affordability by the individual).

1.2.6 Internal Resource

Increased internal workload in administering the scheme is seen to be acceptable and can be absorbed in light of the phasing out of the Lease Car scheme and the burden its administration diminishes.

1.2.7 Council Bank cash flow

As stated in the Proforma B (Appendix B) cash flow is not considered a risk based on anticipated take-up when compared to other local authorities who run similar schemes. With the scheme limited to Essential Car Users (plus Key Posts) this also reduces the exposure to potential cash flow issues.

1.3 Options

Upon consideration of the aforementioned aims & objectives and issues, the following options are put forward:

- 1.3.1 a) Introduce Assisted Car Purchase Scheme as per Appendix A
- b) Do nothing i.e. do not re-introduce a revised Assisted Car Purchase Scheme

1.4 Reasons for recommendations

- 1.4.1 With the phasing out of the council lease car scheme there are staff who for the purpose of them carrying out their official duties (as an Essential user) could find themselves without a car from March 2013 onwards. As part of the Council's decision there was a commitment to reintroduce the car loan facility.

- 1.4.2 With an objective to improve the Council's benefit package whilst keeping costs low, the introduction of such a facility would undoubtedly provide an attractive benefit to eligible staff. The facility could also aid with recruitment and retention difficulties where staff in key posts may not qualify under the initial 'Essential user' criteria.
- 1.4.3 With one of the key features of such a scheme the interest rate chargeable needs to be low enough to be an attractive proposal for staff and for the scheme to be seen as a valuable benefit. To use the same rate and calculation formula as SHDC, amongst others, will demonstrate and reinforce the sense of sharing and harmonisation of key policies across the two authorities. Additionally applying the same interest rate across all eligible staff will avoid any potential 'grade bias' accusations treating all eligible staff the same.

2 IMPLICATIONS

2.1 Risk

- 2.1.1 Formal 'Loan Agreements' will be completed for each loan taken out ensuring a legal right to collect all monies owed to the Council.
- 2.1.2 Consideration must be given to how to deal with scenarios such as employees leaving the council before repayment, redundancy and other non-voluntary termination of employment, as well as death in service; this is covered in section 2 of the formal loan agreement. A degree of Director discretion will be present for scenarios unforeseen not covered by this policy.

2.2 Financial

- 2.2.1 The Council forecasts to receive an average credit bank interest rate of 2.04% for 2013/14. If the scheme charges an interest rate less than this then there is a slight cost in lost revenue; this is mentioned in the Proforma B. Additionally the Class 1A NIC liability is an employer cost; currently this would be 13.8% of any taxable benefit value.
- 2.2.2 To enable accurate year-end HMRC reporting some development of SAP will be required. Any cost will be met from existing budget.

2.2.3 Proforma B attached

2.3 Legal

Employee undertaking to repay any loan must be legally enforceable. A Loan Agreement document has been created and reviewed by NP Law on behalf of the Council. Before any loan funds are released this agreement must be signed by the applicant, and witnessed, and countersigned by S151 Officer and witnessed.

2.4 Equality and Diversity

Ensure fairness of accessibility to any such scheme based on eligibility criteria.

3. Alignment to Council Priorities

3.1 Yes

4. Wards/Communities Affected

4.1 n/a

Background papers:-

Lead Contact Officer

Name/Post: Neil Fordham, Payroll & Reward Manager

Telephone Number: 01362 656828

Email: neil.fordham@breckland.gov.uk

Key Decision

no

Appendices attached to this report:

Appendix A: Assisted Car Purchase Scheme - Policy & Procedure

Appendix B: Pro forma B

Appendix C: Car Loan Application form (ACP1)

Appendix D: Car Loan Application form (pre-approval) (ACP2)

Appendix E: Loan Agreement form (ACP4)

Appendix F: Proof of sale pro forma (ACP3)

Appendix G: Loan repayment schedule template