

TITLE	: Employee Car Loan Scheme – Members’ Update		
TO / ON	: Audit Sub-Committee	12 March 2003	
FROM	: Director of Finance & E-Government		
STATUS	: FOR PUBLICATION		

1.0 TYPE OF DECISION

1.1 What type of decision is to be taken:-

EXECUTIVE DECISION				COUNCIL DECISION	
Key		Non Key	✓		

1.2 If a key decision, has it been included in the Forward Plan

Inclusion in Forward Plan		Date of Plan	

2.0 SUMMARY

2.1	This report updates Members on the performance of the Authority’s car loan scheme and responds to specific queries raised by them at previous meetings of the Sub-Committee.
2.2	The report also presents a case to consider if a major review of the scheme is necessary at this time.

3.0 OPTIONS AND RECOMMENDED OPTIONS (with reasons)

3.1	To recommend that a major review of the Employee Car Loans scheme be undertaken taking into consideration the issues raised in this report.
3.2	To note the contents of this report and indicate any further action or information required.
3.3	Reject the report.

4.0 THIS REPORT HAS THE FOLLOWING IMPLICATIONS

Corporate Aims

The Car Loans scheme supports all the Corporate Aims but specifically the Aim of Improving the Quality and Availability of Council Services

Policy Framework

The Car Loan scheme supports the achievement of all the Council's Policy Objectives

Statement by Monitoring Officer

Statement by Director of Finance and E-Government

Key financial statistics relating to the operation of the scheme are set out in the report

Human Resource IT/Land and Property Implications

The HR implications are set out in the report

Wards/Area Boards affected

All

Scrutiny Panel's Interest

Resource Scrutiny Panel

Consultations

None at this stage

Call-in

Not applicable at this stage

Briefings

Executive Members/ Chair	✓	Chief Executive	
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5.0 INTRODUCTION

- 5.1 This report provides a current update of the car loan scheme and attempts to address the ongoing concerns raised by Members at the Audit Sub-Committee on 25th September 2002, regarding its operation.
- 5.2 Members have specifically been concerned with the absence of any form of credit checking prior to the approval of a car loan and the levels of write-offs that are being put forward in respect of defaulted loans.

6.0 BACKGROUND

- 6.1 Conditions relating to the operation of the employee car loan scheme fall under section 152 of the Local Conditions of Service, "Assisted Car Purchase Scheme" (NC63 'c' and Appendix F).
- 6.2 The management and administration of the employee car loan scheme is delegated to the Director of Finance & E-Government.
- 6.3 As the terms & conditions of the employee car loan scheme are embodied in the Terms & Conditions of Employment, any amendment of the terms & conditions of the scheme are subject to consultation and agreement with the various Unions and elected Members. There is, therefore, no general power to amend them, however, the Director of Finance & E-Government does have delegated authority to recommend changes.
- 6.4 The scheme was widened to include all permanent employees of the authority in 1992, in an attempt to increase take-up of car loans when volumes were at a low level.
- 6.5 A comprehensive review of the car loan scheme was implemented in September 1995, when extensive consultation was carried out between the Management, Unions and elected Members. At that time Members felt that the proposal to conduct 'credit checks' was not conducive to good employee / employer relations. A management proposal to introduce a scheme of insurance, to cover defaulting in payment of the car loan, was also dismissed for the same reasons.
- 6.6 Various minor amendments to the scheme were made in March 1996 and the scheme has operated in its current format since that time.
- 6.7 A comparison exercise in respect of the operation of in-house car loan schemes was undertaken with the ten other Greater Manchester Authorities in September 2001 and the following conclusions were drawn:
 - 6.7.1 Bury MBC does not undertake any form of credit checking prior to, or during the consideration for a car loan, this is also the case for the other ten Greater Manchester Authorities.
 - 6.7.2 Bury MBC does not have an insurance policy in place to minimise losses incurred in any defaulted loans. There is a policy in place, where staff can voluntarily pay 0.5% of the value of the loan as a one-off premium to re-pay the loan in the event of death in-service. Of the ten other Greater Manchester Authorities, Oldham and Tameside Councils both have mandatory insurance policies, whilst Wigan has a mandatory death in-service bond applied to all loans.

6.7.3 All permanent employees of Bury MBC are eligible for the employee car loan scheme and Bury is the only Greater Manchester Authority whose scheme is applied so widely. Of the ten other Authorities, eight restrict the scheme to designated essential and casual users, whilst two Authorities restrict it further to just designated essential users.

7.0 ISSUES

- 7.1 Analysis over the last three years, shown at APPENDIX A, demonstrates that the number of car loans is falling quite significantly, from 590 in 2000 to the current number of 426 in 2003. From employee feedback it is suspected that the reason for this decline is connected to the high interest rates being charged (8 ½% to 9 ½%) in the Authority scheme, combined with low interest deals available in the market place, particularly associated with the purchase of new cars.
- 7.2 Appendix A also shows that the levels of write-offs that are being submitted to Council are in an upward trend. These write-offs are mainly in respect of former employees that have absconded without trace or are subject to a bankruptcy order. The notes to the appendix report 3 bankruptcies that have been written off and a further bankruptcy that is about to be submitted.
- 7.3 Despite the downturn in demand for the scheme and upturn in amounts being written off, the scheme contributes an estimated £237,500 to General Fund balances over the three year period.
- 7.4 It is now some 7 years since the last major review of the scheme and there are several indicators suggesting that a further major review is now needed. These are:
- a) To address the decline in participation in the scheme;
 - b) To address the upturn in accounts being written-off in the scheme;
 - c) To address elected Members' concern over the absence of any kind of 'credit checking' prior to advancement of a loan under the scheme.
 - d) To incorporate the terms of lending under the Consumer Credit Act 1974 into the scheme;
 - e) To incorporate lending against the purchase of Motor Cycles into the scheme.

8.0 CONCLUSIONS

- 8.1 It can be concluded that participation in the Car Loan scheme is dwindling, as it was in 1992 which prompted a major review of the scheme and levels of write-offs within the scheme are approaching levels that are giving cause for concern. These two issues in themselves make a good case to prompt a major review of the scheme.
- 8.2 In a review, consideration can be given towards reviewing the levels of interest charged (to make the scheme more competitive and attractive).
- 8.3 The scope of the scheme can be considered, balancing the issues of dwindling numbers and also the level of write-offs being experienced.
- 8.4 Pre-loan credit checking and mandatory loan repayment insurance can also be considered.
- 8.5 The financial analysis within the report shows that the scheme is making a significant contribution to General Fund balances and any effects on this must be borne in mind in any proposed changes to the scheme.

- 8.6 A review must be undertaken to incorporate compliance with the Consumer Credit Act 1974 into the scheme, and it is an aspiration to widen the scheme to encompass loans for the purchase of motor cycles, which could be achieved in the same review.
- 8.7 As the scheme is embodied in the Terms and Conditions of employment any major review of the scheme must encompass a full consultation exercise with employees, trade unions and elected Members.

Mike Owen
Director of Finance & E-Government

Background documents:

Notes held within the Revenues Files

Report to Policy & Resources Committee 19/09/95 'Employee Car Loan Scheme'

Report to Personnel Sub-Committee 5/12/95 'Employee Car Loan Scheme'

Report to Personnel Sub-Committee 19/3/96 'Employee Car Loan Scheme'

For further information on the details of this report, please contact:

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Employee Car Loan Scheme - Members Update

Financial Information

	2000/01	2001/2	2002/3	Overall
Number of loans	590	528	426	
Value of loans	£2.81M	£2.43M	£1.89M	
Interest Received	£267,291	£236,008	£173,468	£676,767
Admin Fees	£4,455	£3,700	£2,385	£10,540
Bond Fees	<u>£2,642</u>	<u>£2,107</u>	<u>£1,383</u>	<u>£6,132</u>
	£274,388	£241,815	£177,236	£693,439
Less				
Interest if invested	£165,644	£124,538	£89,775	£379,957
Staff costs	£8,200	£9,000	£10,000	£27,200
Other costs	<u>£2,300</u>	<u>£2,500</u>	<u>£2,700</u>	<u>£7,500</u>
Gross profit	£98,244	£105,777	£74,761	£278,782
Less Write Offs	<u>£6,971</u>	<u>£3,102</u>	<u>£31,240</u>	<u>£41,313</u>
Net profit	£91,273	£102,675	£43,521	£237,469

NOTES:

Bankruptcies included in the above write-off figures

2000/1	1 case	£6,971
2001/2	1 case	£3,102
2002/3	1 case	£5,470 (a further case about to be submitted - £6,920)