

CBS perspective

Does your ECO deliver?

Employee Car Ownership (ECO) schemes are firmly established in the UK workplace and are the method of choice of providing car benefit to eligible employees for many high profile employers.

As is the case with most facets of modern business life, it is unusual that anything stands still for very long. The continuous improvement programmes embraced by many organisations is symptomatic of a fundamental desire to both challenge and improve on the status quo. With the need to effectively manage costs to the forefront of any sound business strategy, it is inevitable that a retrospective view only serves to remind us that historic choices don't have infinite shelf lives. We only need to look to technology markets to be reminded that the pace of change can very often leave the uninformed standing and consequently disadvantaged as a result.

Car provision in the employee benefit arena has been the subject of a substantial amount of work undertaken by CBS on behalf of our client base over recent months. Many of our clients have been keen to understand how their particular flavour of ECO compares with others in the market and the benefits that change in structure could bring to both the organisation and its eligible employees. Notwithstanding their corporate responsibility to keep abreast of changing legislation, many of these organisations were simply intrigued to learn of options currently available to them that may not have applied when their original arrangements were implemented.

Such organisations normally take the anniversary of implementing ECO arrangements as a suitable juncture to examine programme performance compared with original projections and, in the majority of instances, at the same time conduct a best practice



benchmarking exercise that looks to compare their situation with their peer group who may have chosen a different structure and/or supplier. With these two key issues of scheme structure and supplier competency to the fore, CBS has already implemented the latest bespoke ECO structures into previous vanilla schemes for a number of clients.

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Managing Directors Viewpoint



Martin Maguire
Managing Director

On 1st July 2005 Car Benefit Solutions Limited (CBS) celebrated its third anniversary. This represented a significant milestone for all of our team and it is fair to say that I have been amazed at how quickly the time has passed.

In this time, CBS has grown substantially and has met the objectives that we as a team set ourselves back in July 2002. The foremost of these objectives was to establish an organisation dedicated to providing automotive benefit solutions in the UK workplace, combining technical expertise with unrivalled service etiquette. The greatest testament to the quality of the platform we have created is the level of satisfaction expressed by our clients with regard to the services they receive from CBS.

One of the best ways to celebrate such a milestone is to look to the future. It is to this end I am delighted to announce that CBS have signed agreements with

leading UK financial institutions that allow us to fund client automotive requirements. These agreements are in addition to the significant facilities CBS has already secured and applied to date in funding existing client requirements.

CBS continue to facilitate and present ECO Workshops, the details of the latest workshop are contained within this issue of Perspective and I would invite all interested parties to attend or contact us to gain access to the presentation material.

Finally, on behalf of the CBS team, I would like to take this opportunity to thank all who have made the past three years a success. CBS remain focussed on client and corporate requirements in an evolving and challenging market. We welcome all enquiries and look forward to the opportunity of meeting you and working with you in the future.

Topical Issues *in Focus*

CBS

In each issue of the CBS Perspective question and asking for your opinion

Diesel Cars

Since the major reform of company car tax in April 2002 many company car drivers have switched from petrol to diesel powered vehicles. The motivation behind this change has been the generally lower CO₂ emissions of diesel vehicles and corresponding lower company car tax liabilities.

The introduction of Euro IV diesel engines only served to increase the demand by company car drivers for diesel vehicles over their petrol equivalents, as drivers were able to enjoy the waiver of the 3% diesel surcharge. However from April 2006 this waiver is being withdrawn for vehicles registered on or after 1st January 2006, the result being that company car tax in relation to equivalent new diesel powered vehicles will, in almost all cases, increase from its current levels.

Interestingly, at the same time that this waiver is being withdrawn for diesel vehicles, the CO₂ emission scale used in the calculation of company car tax due in respect of petrol vehicles has been frozen for a further year (until at least the end of 2007/08).

Whether any of this leads to a dampening in the demand for diesel vehicles remains to be seen. However, with a typical delivery lead time being in the region of 60 to 90 days, any company car driver who is currently looking to order their next vehicle needs to be aware of the withdrawal of the waiver to ensure they fully understand the tax liabilities they are committing themselves to over the next few years. ■■■

Fuel Prices

Much has been written in the press recently about soaring fuel prices and the greater financial burden this is placing on today's motorists. Those hit the hardest include essential business users who use their vehicle mainly for the purpose of carrying out their duties.



It therefore seems surprising that there have been calls from some quarters to reduce AMAP rates when the fundamental economic facts suggest that if anything the rates should be increased. Not only does this argument apply to AMAP rates (the amount an employer can pay an employee tax free for using their own car for business purposes, commonly used within ECO schemes to create financial efficiencies) but it also justifies an increase in the government's advisory company car fuel reimbursement rates.

Although many commentators view AMAP capacity as a critical necessity within the structure of an ECO, here at CBS we do not necessarily agree with this view. We do not believe that the high fuel prices which are absorbed by available AMAP should deter employers from operating an ECO or prevent them from enjoying the benefits such an arrangement can bring. Instead, CBS has strived to develop a range of complementary solutions that achieve the same tax efficiencies provided by AMAP and work either with or without its presence.

When considering the current excessive fuel prices in a different environment, today's company car driver who is entitled to a fully expensed vehicle is also more likely to retain a taxable private fuel benefit as the CO₂ emission based tax charge does not reference actual fuel prices. This is likely to lead to an increase in costs borne by employers. However, it should be acknowledged that an equivalent benefit can usually be delivered at a lower cost to both employee and employer through an ECO style arrangement. ■■■

Results from previous CBS Perspective's topical question

In the last edition of CBS Perspective, the Poll question asked fleet and benefit decision makers, "Which of the following potential services from your provider would you value most?". The options were:

- proactive review of your company car benefit
- tax and legal compliance advice and management
- health and safety compliance
- insurance advice and solutions
- flexible funding arrangements

The most popular responses by far were proactive review of your company car benefit and flexible funding arrangements. This reflects the increasing expectations of those responsible for vehicle fleets from their providers. The providers are expected to have the expert knowledge regarding the



ask the expert

If you have a question you would like to ask our experts, please send your questions to:-
mail@carbeneftsolutions.co.uk,
alternatively visit our website.

Poll

we will be posing a topical question. This issue's question...

provision of car benefits and provide best advice to clients. Furthermore, providers are now expected to be able to provide a range of solutions to meet client's objectives.

There certainly appears to have been an increase in blended solutions, i.e. a mix of company car, some form of ECO and cash. Whilst this may potentially result in maximum savings the additional administration costs and policy complexity need to be borne in mind. Such a blended solution needs careful consideration to ensure that the policy delivers an equitable benefit under each option and that it does not allow the employee to select against the company which can result in an increase in costs, a scenario that CBS has encountered a number of times when asked to carry out a Health-Check service.

The next most popular response was health and safety compliance. With an increase in awareness of health and safety

Register your opinion by submitting your vote on our website www.carbenefitsolutions.co.uk. The results of this poll will feature in the next edition of CBS Perspective. Remember, your opinion counts!

From a HR perspective what aspect of car benefit provision delivers the most value to your organisation?

- Staff recruitment
- Staff retention
- Performance incentive
- Corporate image projection
- Reinforcement of employee status

issues relating the use of cars for business travel, companies are looking at service provider for guidance for best practice to ensure compliance with meeting ever demanding regulations.

Companies appear to rely on internal resources and standard software packages for tax and legal advice for company cars. This service only appears to become relevant if a company is operating an ECO. Likewise companies do not appear to look to their fleet provider for insurance advice again relying on internal or retained resources. ■■■

This issue's question is;

My company is currently in the process of making the move from company cars to a structured ECO and wondered how we can make sure we replicate Private Fuel arrangements for our senior managers, who currently enjoy this benefit, without a cost rise for the company?

As a benefit, Private Fuel is assessed very differently under company car and ECO arrangements. With a company car, employees are liable for a tax charge of £14,400 multiplied by the relevant CO₂ emission linked percentage for their company car. In addition to the employee paying tax on this benefit, the employer providing the benefit not only pays the cost of all fuel used for private motoring but also Class 1A NIC and a VAT Scale Charge adjustment to HM Revenue and Customs.

Under ECO, because the car is no longer assessable for tax, the Private Fuel benefit is quantified with reference to the cost to the employer of providing it. Normal practice is to ask the employee in question to contribute an amount (up to 100%) of the tax on Private Fuel that they previously paid that no longer applies once they have successfully made the transition to ECO. This has the effect of dramatically reducing the employers cost as the amount paid by the employee is now being redirected to reduce the cost of Private Fuel provision.

Under a sponsored ECO, tax on the benefit arising where the cost of the private fuel exceeds the contribution made by the employee is usually settled by the employer on the employee's behalf but even with this arrangement, ECO Private Fuel costs will usually be substantially less than those under company car arrangements. ■■■

Does your ECO deliver? ... Cont.

In terms of the typical subject matter involved, the pertinent issues which would normally feature as focal points for close examination include such topics as:

- Savings Realisation
- Compliance Issues
- Perceived Scheme Complexity
- Communication Strategies
- Secondary Taxation
- PAYE Settlement Agreements
- Payroll Burden
- Scheme Administration
- Early Terminations & Vehicle Reallocations
- Excess Mileage Treatment
- Private Fuel Benefit

The agenda for action that results can vary from minor structural enhancements that address a small selection of these concerns to a full blown transition project focused on upgrading to the latest ECO technical features coupled with a change of provider. From a supply status perspective, it would appear the previously cited analogy that compared ECO schemes with lobster pots has been proved inappropriate with the passage of time. As the number of potential providers has increased, so too has the importance of credibility and proven competency in the technical subject matter. Simply put, ECO isn't all about the car. This myopic view can only result in a partial or inappropriate solution.

In order to assist companies who have an appetite to improve on their current ECO design, structure and policies, CBS is hosting a dedicated workshop on Tuesday 15th November 2005. Key personnel from CBS will be there to share the benefit of their experience on how best to extract value from this increasingly popular benefit methodology when considering key Finance and Human Resource objectives. We would welcome the opportunity to discuss your individual requirements in this forum.

For more information on how to register for this event, please see the contact information on the back page of this issue of Perspective. Alternatively, you can contact us via our website at www.carbenefitsolutions.co.uk/eco ■■■

Workshop Overview

Employee Car Ownership (ECO) Workshop 15 November 2005

As part of the ongoing workshop programme, CBS is hosting a free of charge ECO workshop aimed at organisations that have implemented an ECO and who now wish to maximise the value they derive from their scheme and resolve any operational issues that they may be experiencing.

The workshop will be held in London at the Marriot Hotel, Bath Road, Heathrow on 15th November 2005. It will start at 10am and consist of two sessions in the morning followed by a further two sessions in the afternoon before continuing with a short summary of the day. A buffet lunch will be provided.

To ensure that we address those issues that most concern organisations, we are asking delegates to indicate which of the following subject areas are of most interest to them. The four areas which delegates select as being the most important will form the basis of the workshop sessions.

Subject Area	Important	Of Interest	Not Important
Maximise your ECO savings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ensure your ECO is prepared for likely changes to legislation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduce the level of payroll administration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduce scheme complexity and improve clarity of communication	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase operational flexibility within your ECO	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduce secondary tax costs on Early Terminations and Excess Mileage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ensure compliance with new legislation and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduce potential for benefit creep and keep employee costs under control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase control over fleet costs and risks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase control over employee choice and behaviour	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduce the level of HR and support administration of your ECO	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Use your ECO to improve your financial reporting position	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ensure ECO compliance with Health and Safety regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If you wish to attend the workshop please complete and submit both the above ECO Questionnaire and a registration form by going to www.carbenefitsolutions.co.uk/ECO or alternatively by calling us on 0870 751 9872.

We look forward to meeting you and having the opportunity to demonstrate how CBS can help your organisation.

Company Cars - The Chancellor's "Sitting Duck"?

In September the International Monetary Fund ("IMF") warned that the UK's Gross Domestic Product ("GDP") was expected to expand by only 1.9% in 2005, well below the 3.5% expected by the Treasury, and has therefore called on the Chancellor to curb spending and trim the budget deficit.

Furthermore, Mr Brown has been accused of getting his maths wrong and of having no choice but to increase taxes by more than £10bn to finance existing spending plans.

If the Chancellor does need to raise taxes, he is likely, based on past precedent, to use stealth taxes as the means to generate incremental revenue. Cars in general but particularly company cars, have been an easy target in the past and are likely to continue to be as they are not perceived as fitting into the "green" agenda and are increasingly relied upon for social and business transport.

The 3% waiver for Euro IV diesel company cars will be removed in January 2006 and this may well be followed by other measures in the next budget. CBS, through Perspective, will keep you informed of any changes to relevant tax costs and continue to develop ways of reducing the cost of operating vehicle fleets. ■■■

Next Edition

The next edition of the CBS Perspective will be available in January 2006.

If you would like to submit a question or discussion topic please send it to us at mail@carbenefitsolutions.co.uk.

You will find the result of our CBS Poll in the next edition and on our website at www.carbenefitsolutions.co.uk

If you would like to receive the next CBS Perspective via email please contact mail@carbenefitsolutions.co.uk