

Press Release

'ECO Flexibility Key to Success' claims CBS.

The emotive nature of car provision in the workplace is a well recognised phenomenon on the radar of corporate HR professionals and fleet decision makers throughout the UK.

In the latest of a series of articles, Gerry O'Neill of Car Benefit Solutions (CBS) explains why structured car schemes can deliver the best of both worlds to the economic family (employer and employee) and highlights some of the key technical considerations that require careful navigation to ensure the resultant employee proposition does not have to necessitate an increased cost or operational burden for the employer.

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It is probably worthwhile stating from the outset that not everyone is a car enthusiast. For some, the provision of a motor vehicle as part of a total benefit package is no more exciting than placing an order for some stationery. Car entitlement is merely a facility that provides them with the ability to perform their duties by addressing a simple mobility requirement. In basic terms, it is a tin box with a wheel at each corner that gets them to where they need to be in relative safety and comfort.

For others, the value of this particular proposition is the physical manifestation of their position in society and an all-consuming representation of their accumulated successes to date. Investment rationale takes a proverbial back seat for these individuals as the prospect of accessing previously elusive vehicles appears on the horizon - a factor that normally precludes a series of frantic calculations to ascertain exactly what will fall within the boundaries of their particular fiscal restrictions to the universal delight of automotive finance providers everywhere.

Assuming these psychological states illustrate the two extremes, the population density across the spectrum normally differs depending on the organisation in my experience but with a general weighting towards the latter mindset albeit not quite as extreme as illustrated. Whilst accepting the general principle that employees will receive enhanced flexibility and choice well as part of a policy change, many employers find the prospect of defining eligibility criteria a little intimidating when trying to understand the financial and human resource impact of any such proposal in organisation terms.

For sound commercial reasons, lots of car schemes are designed with reference to the selection of vehicles that represent the lowest operating expense to the employer, whilst satisfying a 'fit for purpose' criteria when considering the nature of intended usage and the preferred image projection when interfacing with suppliers and customers alike. As previously articulated, individuals will (often incorrectly!) make socio-economic assumptions about the occupant and his/her employer. From a sales perspective, it is not unheard of for this to give rise to a more difficult set of commercial negotiations than had been originally anticipated!

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Employee Car Ownership (ECO) schemes have a distinct advantage when compared with traditional company car arrangements when it comes to considering the impact of eligible employees choosing to upgrade/downgrade. This arises from the fact that fixing the cost base to an amount of monthly allowance (based on a benchmark entitlement or typical vehicle) enables the corporate to pass the financial consequence of any deviation from this to the employees account.

The key advantage of ECO over company cars is in terms of the tax consequence on the employee who decides to migrate from the standard proposition. The punitive nature of Scale Charge mechanisms within the company car arena effectively makes this a far less attractive option when compared with the simplicity of differential whole life costs within ECO.

It would be irresponsible to touch on the issue of vehicle choice without reference to a couple of critical design considerations. There are a number of structured car schemes in the market designed to replace company cars with cash allowances whilst effecting an introduction to a preferred supplier from whom an eligible employee can order a vehicle and a package of services specifically designed to replicate previous arrangements. The option to independently source a vehicle by making their own arrangements through an alternative supplier must be part of the schemes architecture if the design is not to be interpreted as a sham by the Inland Revenue under the interpretation of 'substance over form'.

Of similar importance is the consideration from the outset of the downstream impact of a generous upgrade/downgrade entitlement, especially with schemes that feature corporate sponsorship of Early Termination costs. Employees who decide to contribute extra towards their preferred vehicle selection will often think twice about the financial commitment when faced with a policy that looks to recover the balance of upgrade contributions in an instance of them leaving the organisation prior to the vehicles scheduled termination date! Recent changes to National Insurance rates has meant that sponsored ECO schemes where employers settle these costs on behalf of exiting employees face an uplift of 90% on the equivalent cost of terminating such a vehicle within a business-to-business lease arrangement caused by secondary taxation or 'grossing-up'.

Only the most sophisticated ECO schemes have managed to make the employers cost comparable with the 'actual cost' calculations normally applied with company cars - a factor that is serving to increase the attractiveness of these arrangements with some of the UK's largest employers. Additionally, the historic issue of replicating 'mileage pooling' within the ECO arena is another issue that these latest generation schemes have overcome from the application of advanced technical structures. These enhancements have removed previously accepted barriers to entry and increased the appeal of such arrangements for companies who suffer high attrition rates and/or atypical mileage demographics that historically gave rise to bespoke contracts with individuals and a considerable HR challenge in explaining differential allowances between peers.

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I started this article with a statement of fact and as such would like to conclude it similarly. In April 2004 most company car drivers in the UK will face another increase in their Scale Charge Tax liabilities. As a consequence, simultaneous increases to Class 1A National Insurance contributions will be served on their employer whilst a darkening cloud (excuse the pun) continues to emerge over the long term viability of diesel vehicles as a tax-efficient alternative. If the passage of time has eventuated in the flexibility and efficiency originally afforded to employees under ECO extending into the employers arena through the systematic removal of administrative, financial and technical restrictions, I would suggest that the balance of power in workplace vehicle provision methods to the UK workplace could be on the move.

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