

Employee Car Benefit Strategy Research 2004

Covered in this survey report:

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Company Funded Car Benefits are here to stay but at what cost to employers?

Car Benefit Solutions Limited (CBS) recently carried out a national Car Benefit Survey. Throughout the UK, 550 car fleet operators were surveyed and the results have given an insightful perspective into the state of fleet provision in the UK's major companies. The results have also highlighted the key concerns and issues facing both employees and employers.

The immediate message from the survey is that company funded car benefits are here to stay! Over 50% of respondents felt that the provision of a car benefit is an essential tool for recruitment and retention of staff and that it would always be considered part of the remuneration package. The respondents concern with fleet provision however lies in the actual efficient delivery of the benefit.

Fleet Review Objectives

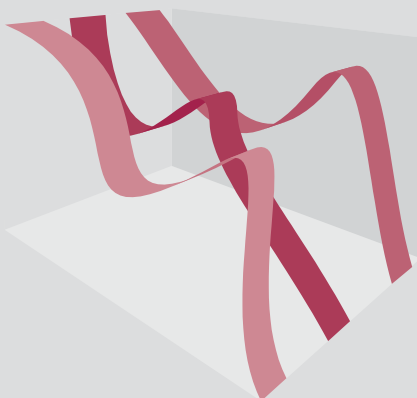
The survey results show that employers believe that reducing the overall costs of operating their car arrangements will be the primary driving force behind any changes they will make to their fleet in 2005.

Other key drivers (in ranking order) include:

- Reducing the time and cost involved in the administration of the car fleet.
- Ensuring tax and legal compliance with all aspects of car benefit provision.
- Ensuring health and safety compliance.

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The introduction of CO2 emission based company car tax in 2002 increased the complexity of administering company car fleets, in addition the new tax rules also provided a significant challenge to employers when communicating the impact of the changes to employees. The survey results show that 55% of respondents felt that their employees did not fully understand the financial make-up of their company car benefit. This supports a recent survey by a leading car manufacturer which showed that 53% of employees receiving a company car did not know how the benefit was calculated or the amount of tax they paid on the benefit.



The calculations of company car tax could become increasingly complex in the future as the Treasury may seek to introduce measures to turn around the decrease in the tax take from company cars. The total tax collected from company cars has reduced over the last two years (the Revenue are predicting a shortfall of £75 million in 2004/5) as a result of the following two factors:

- The increase in employees selecting diesel powered cars - it is predicted that approximately 60% of new company cars delivered in 2005 will be diesel powered and most of these will be EURO IV compliant and therefore not subject to the 3% diesel surcharge.
- The number of company cars has reduced by 250,000 since 2002. This is due to a general decrease in the size of company car fleets (over half of the survey respondents stated that their car fleet had reduced over the last three years) resulting primarily from an increase in the number of employees who have switched to a cash alternative and an increase in the number of Employee Car Ownership (ECO) schemes that have been implemented.

The survey results showed that health and safety compliance is becoming increasingly more important and as an objective ranks higher than both enhancing the level of benefit to employees and ensuring that employees do not have any benefit-in-kind issues. CBS believe that this trend will increase with the planned introduction of corporate killing legislation (the government has recently announced that a draft bill will be issued before Christmas this year).

Existing health and safety legislation requires employers to conduct and document an assessment of risks and to ensure sufficient documented arrangements are in place to manage those risks. However a recent survey conducted by a major UK fleet services company showed that 79% of companies have not compiled a car fleet risk management review primarily because they do not identify company car operations as a strategic risk. This is despite the most likely death in service and serious injury scenario for most companies continuing to be employees being involved in car accidents whilst on company business.

In an attempt to mitigate this risk some companies are moving to cash options in the belief that their obligations under these

regulations will no longer apply. However this is not the case.

In considering other fleet objectives the survey results also indicated that a significant percentage of respondents had a desire to increase the level of the car benefit provided to employees and also to increase the choice of vehicles available to employees. Nearly half of the respondents believed that it was possible to enhance the current level of benefit to employees at no cost to the employer.

Methods of Fleet Funding

To meet the objectives of reducing costs and/or increasing employee benefits, many respondents have looked at the various methods available to source and fund cars provided to employees as a benefit.

The research finds that half of respondents source and fund their fleets via multiple options. Still the most popular choice for procuring company car fleets is contract hire. Outright purchase is also still popular although this is likely to reduce as companies introduce performance measurement criteria which will ultimately force car fleets off the balance sheet. The results also show that 10% of respondents fund their vehicles via ECOs,

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a percentage that is ever increasing. The fleet industry believes that up to 70,000 cars will be provided under an ECO scheme in 2004 compared with 25,000 in 2002. However, the fleet industry uses the term

"ECO" very loosely and applies this term to both basic Personal Contract Purchase (PCP) arrangements as well as highly tax efficient structured schemes which are usually implemented by blue chip organisations.

Although 78% of respondents believe there are potential benefits to be had by implementing an ECO and 78% also believe that increasing company car tax on employees is a growing concern for employers, relatively few have to date implemented an ECO although the results show that many would consider doing so as they recognise the significant benefit such a scheme could provide.

The legislation surrounding ECOs has become more complex with the introduction of new tax and consumer credit legislation and Financial Services Authority (FSA) regulations making responsible compliance increasingly difficult and failure to comply resulting in increasing penalties. However with the right structures it is quite possible to comply with these regulations whilst keeping administration at a minimum and still generating maximum tax efficiencies.

As expected the most popular contract term is 36 months (61%) with 48 months the second most popular term (34%).

Employee Choice

The feedback from respondents is that 59% of companies still restrict choice of vehicles to certain manufacturers. This is in order to increase purchasing power and levels of discount with the manufacturers.

Employers also typically restrict choice to reduce insurance costs and comply with health and safety standards.

Further to this, 23% of respondents stated that employees have a free choice of vehicles. This may reflect the increase in ECO schemes although it is possible to operate a structured ECO whilst still restricting employee choice to maximise manufacturer discounts. Only 4% of respondents stated that their employees had no choice in the vehicles that they receive.

Other key findings within the survey showed that 78% of respondents have a policy of reallocating cars if staff leave implying that, for new starters at least, employees do not necessarily have a choice of vehicles.

A significant number of respondents (14%) restrict choice of cars to certain fuel types, i.e. diesel and LPG, in order to reduce operating costs.

Although half of respondents have said their fleet size has decreased over the last three years, 50% do expect the number of eligible employees to receive a company funded car benefit to increase in 2005.

A surprising response was that 78% of respondents still offer private fuel as a benefit. This benefit has practically been taxed out of existence under company car arrangements with an employee typically having to travel at least 12,000 private miles in order for the benefit to be worth while. Whilst conducting financial analysis of client fleets CBS has often found employees receiving private fuel as a taxable benefit despite the tax payable being more than the cost of the private fuel used! Again this is due to employees not understanding the calculation of their tax liability and the fact that the amount of tax paid is not transparent due to it being collected via the employee's tax code.

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Insurance

The survey revealed that 78% of respondents source their insurance externally and that over a quarter (28%) of respondents have said their insurance costs have risen in the last three years. The number of externally insured fleets was higher than expected as self insurance, provided the fleet is sufficiently large to spread the risk, is generally more cost efficient. However companies may operate policies with high excess arrangements.

Another interesting point was that 66% of respondents stated that the number of insurance claims had not increased which seems to reflect the fact that 78% of respondents had considered driver training to help manage the number of claims.

Fleet Management

The research also finds that 61% of respondents manage their fleet in-house, however over half of respondents would like to outsource fleet administration.

Administration of fleets is becoming ever more complex especially with the introduction of new regulations covering

insurance, health and safety, tax and accounting compliance. Fleet management is an area that covers several specialist functions and so the future options for companies to ensure compliance are either to employ fleet professionals or to outsource some or all of the fleet managers responsibilities to professional fleet management service companies.

Worryingly over half of respondents are not happy with their current service providers and rated their overall satisfaction with their providers as average and below. A third felt that their service provider did not offer value for money and 52% felt that their current providers did not measure up to their expectations. These results send a strong message to the industry providers.

Nearly half of respondents admitted to only conducting a fleet review in response to a specific problem. With the introduction of new compliance issues, such as those mentioned above, it is imperative to be pro-active rather than reactive as it is very easy to either be operating a fleet in a non-compliant manner or miss opportunities to operate the fleet more efficiently from an administrative or savings perspective.

Over half of respondents cited the function that has the responsibility of managing the car benefit is Human Resources. In

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the past ultimate decision makers relating to fleet matters tended to be the heads of the Finance or Procurement function. However due to the recent move towards valuing employees as assets of the business there has been an increase in the number of

companies which have introduced the role of Rewards and Benefits Manager who now appear to own the policy and budget for the provision of company funded cars to employees.

Although implementing a successful company provided car strategy through the maze of options available is not an easy task, if it is done properly, it can be tremendously beneficial for both the employee and employer. Careful navigation through the mass of compliance issues and prudent monitoring of all health and safety rulings over the next twelve months will ensure your fleet and employees are well serviced and well protected.

Respondents to our survey

- 550 car fleet operators were surveyed in November 2004.
- 5% of employers had 500 employees or less, 11% had 501 - 1,000 employees, 33% had 1,001 - 5,000 employees, 17% had 5,001 - 10,000 employees and a third of employers had 10,000+ employees.
- 39% of respondent's job function was fleet management, 28% human resources, 17% procurement / purchasing, 11% finance / tax and 5% compensation and benefits.