

**momentum** >>>



LOOK AT THINGS DIFFERENTLY



➤ **HOW TO:**

**REVIEW YOUR  
CAR POLICY**



## HOW TO: REVIEW YOUR CAR POLICY

This is a short guide aimed at companies with small to medium sized fleets. It is intended to provide easy to understand and practical advice to managers and directors who have a stake in their company vehicle fleet.





## REWARDING COMPANY CAR BENEFITS

Company car benefits, or structured schemes that resemble them (such as employee car ownership schemes), are a very popular element of reward in the UK.

Around 3.15 million company cars exist\* and the backdrop against which employers provide them is constantly changing. For instance, Lex Momentum considers 2008 and 2009 will see more change than for many years in terms of political, economic, social, technological, environmental and legal (collectively known as PESTEL) developments that will impact company car benefits and related areas.

Recent developments, together with these forecast future changes means that, unless you have reviewed car policy recently, your organisation should consider reviewing its current scheme.

For instance, how is your policy aligned to employee reward objectives? How is it supporting risk management? How does it align to environmental strategy? Is it operating at the lowest achievable cost?

The stakes are high if you don't conduct such a review. Car benefit costs are major (up there with pensions if viewed through an employee benefits prism), and the car benefit itself is very emotive and represents a valued part of the reward package. Additionally, company cars can play a major role in helping to manage risks to employees driving on business.

Finally, policy is important, but only if it is adhered to. It ensures consistency, fairness and best practice to be deployed in your organisation. In an area as tangible and visible as company cars, this is especially important.

\* Source: The UK Fleet Services Market Development (November 2007) published by Market & Business Development (MBD)





# THERE ARE SEVEN STEPS TO POLICY REVIEW

## Step 1

### Clarify the purpose of car benefits and the right set of stakeholders to shape policy

Are company cars or cash allowances provided as a perk, for job need or for both? Are there some categories of employee where such distinction is blurred? Perhaps they receive a car or cash for both reasons? The diagram below may help you think about the current car eligible employee base and thus who the key influencers over policy should be within your company.

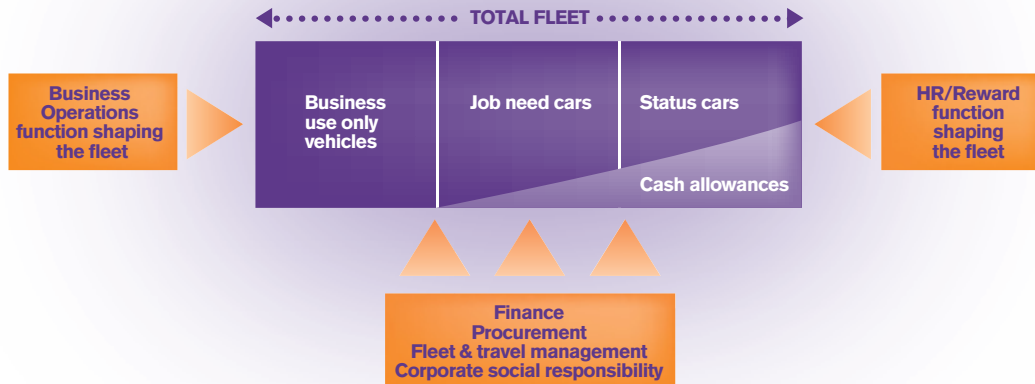
In practice, this set of stakeholders may not be getting involved – maybe due to other commitments, lack of interest in cars or historical ownership of the car scheme. Maybe now is the time to try and engage the stakeholders in a discussion – their role in the organisation means they should have some type of input to the policy.

## Step 2

### Examine the external marketplace

What key trends are emerging? Either company trends (blue chip employers or direct labour market competitors) or PESTEL related. What do you need to take account of? How do you turn these trends to your company's advantage?

What messages are new starters (or candidates turning down offers) or leavers giving you over car benefits? What aspects of a car policy would differentiate your employment proposition versus your competitors? All too often we see companies looking to copy other companies' practices as opposed to try and make their scheme different and better.





### Step 3

## Develop both a set of clear overarching principles and a set of objectives for the car policy

### Overarching principles

These should reinforce your company objectives, needs and corporate values. By defining and agreeing such principles, the key stakeholders are creating a solid base on which policy can be designed.

They are likely to be statements such as “We will ensure that our policy minimises the risk to our employees and others when colleagues drive on business” or “We will embrace all of the latest technological and fuel developments that are available that will assist XYZ plc in minimising CO<sub>2</sub> emissions”. Keep the statements high level; they are there to provide a steer to your working group and to remind both management and employees of the principles that underpin future policy. Get buy-in from the Board on these principles.

In the future, you can use the existence of such principles to make decisions and test whether the car scheme is heading in the right direction. You may be able to short cut decision-making processes in some areas of fleet given you already have a clear direction provided from the leaders in your business.

### Objectives

Developing short-term to medium-term objectives is about asking what your company specifically needs over the next 12 or 18 months from the car policy. These objectives should flow from the principles but be more practical and could embrace such areas such as:

- › CO<sub>2</sub> emission targets
- › Duty of care measures that can be incorporated into the policy
- › Cost targets (e.g. maintain current costs over the next 18 months or maybe reduce them)
- › Fuel management (e.g. removal of free fuel benefits, fuel management/monitoring)
- › Feedback from employees (e.g. from any employee surveys conducted)
- › External stance versus key labour market competitors (e.g. more generous or innovative scheme versus the top four labour market competitors)
- › Manufacturers (e.g. move to different badges or different number of badges)



Try and ensure your policy objectives cover the key elements of policy – as shown in the diagram above. The purple segments show the ‘content’, with the orange ring indicating that you need to ensure that the policy is well communicated (many good policies are poorly communicated thus losing much of the value they could deliver – employees may view the car policy as unexciting and may not fully realise the value of this employee benefit. How does your company communicate pensions, healthcare or flexible benefits? The car scheme communication should take account of this).

At this stage it would be worth checking whether there are any aspects of car policy that maybe cannot be changed due to past agreements formed with employees (e.g. as a result of company acquisitions or employment contracts).



### Step 4

## Assess your current policy against your car policy objectives – the gap analysis

What objectives can you place a tick by? Be tough here – too many policies simply roll over from years ago and if the current policy does not directly do what it should, take note.

Are some relatively minor tweaks needed? Or does it feel like the policy needs to radically change? The latter could have fairly major cost and manufacturer implications so ensure that your stakeholder group (e.g. finance director and procurement) are fully on board and supportive.

If you feel there are no gaps, then no change is needed – you have proved that your car policy is aligned to business needs.

### Step 5

## Treat the gaps/issues and document the new policy

Some issues you identify will have obvious answers. However, others may be tougher nuts to crack. You are in the midst of policy re-design here and need to evaluate the impact of any possible changes – costs, employee impact, environmental implication, duty of care implication. This may require specialist knowledge or skills, especially if there are tax or finance considerations. Therefore, external help may be needed.

If you feel there are many issues and you're unable to make wholesale change, rectify those with the greatest return... or those with low return but that require little effort to change.

Get sign-off on the changes from whoever you need to. This of course could include unions.





## Step 6 Understand any implementation/ process issues

Who is involved in managing the policy or related areas? These parties need to be involved prior to the new policy being launched. This could include payroll, your leasing company, expenses/finance, HR/recruitment. Are there any process or technology issues that need to be examined?

## Step 7 Implement and measure value delivered

Once you are happy that everything will run smoothly, you will need to communicate the changes to employees and management. If major change is being announced you may need to give employees some advance notice.

### Your new policy is now live.

Whilst your new car policy should now meet your business needs, you will need to keep abreast of any internal or external changes and developments that impact it. Changes to fiscal policy (via the Budget) can create major opportunities (and risks) to car benefits. In addition, the employment market evolves; your competitors may change their employment propositions and this type of development needs to be kept close to. Lastly, any change made by your organisation to objectives in the area of reward, costs, Health and Safety and the environment could also have ramifications for the value the car scheme is delivering. A review every 12 to 18 months is best practice.





For more information on any issues covered in this **HOW TO:** guide, please contact your Account Manager.

## About Lex Momentum

Lex Momentum is a strategic consulting team that works with board directors and senior managers to identify how fleet can better impact key business objectives. Our consultancy covers cost reduction, policy, tax, the environment, duty of care and fleet delivery strategy. In addition to core fleet issues, we consult on related areas such as fuel and cash schemes.

Since the team was created in early 2004 we have advised over 250 companies – both clients and non-clients of Lex.

Our consultants have depth and breadth of knowledge in a range of technical areas and have prior experience in major advisory firms or industry. We combine leading edge thinking with the operational experiences that come from being part of Lex, the UK's largest fleet provider.

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