

## Balancing business and the environment

### A structured approach to reducing CO<sub>2</sub> emissions for company car fleets



"If the UK Government implements the tax changes they suggested at the time of the 2007 Budget, we expect the fleet market to start changing along the following lines:

- Companies will bring tax into their calculations of whole life costs of cars.
- User chooser fleets will become more restricted as very high emission cars come off the fleet.
- Companies will move away from Employee Car Ownership schemes.
- 165g/km and 120g/km will become key benchmarks."

Alison Chapman  
Automotive tax partner

#### Introduction

If you have already embarked on your journey towards carbon neutrality, or want to make a positive contribution to reducing the carbon footprint of your organisation, perhaps you should examine your company car fleet.

Deloitte has been working with car fleet operators for the last 12 years and has some insight on how to reduce emissions whilst minimising operating costs.

If your organisation has a large car fleet and you are thinking, "How do I persuade the workforce to drive lower emission vehicles?" then read on.

#### Background

Fleet managers are under ever increasing pressure from many directions – to reduce costs for both employer and employee; increase vehicle choice to help retention; and to comply with ever evolving remuneration, duty of care and environmental policies.

Many organisations have, or are developing, a "Green" agenda – taking measures to reduce waste and minimise, or neutralise, their carbon footprint. Some include measures to reduce vehicle mileage through car sharing, video conferencing and increased use of public transport. However, a large proportion back away from asking people to swap their high CO<sub>2</sub> vehicles for low emitters. This may be driven by apprehension to the employee response – to surrender something that is still perceived by many, as a significant perk and status symbol.

So how do we balance corporate environmental values with pressures to reduce costs and attract and retain personnel?

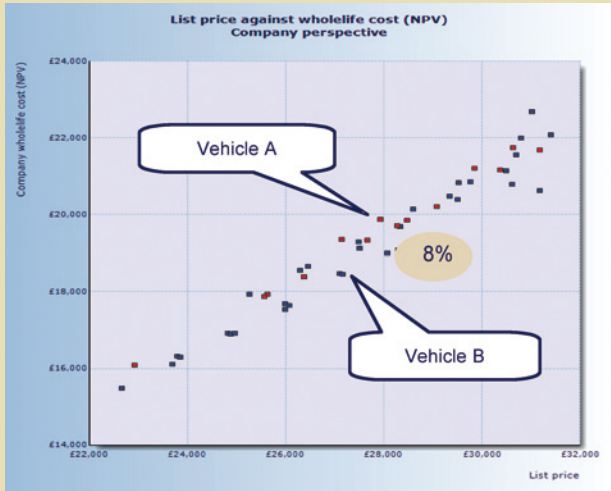
The answer to the question is not straightforward when you consider the following:

- Employees see car allowance schemes as a **selling point** when considering which organisation to join.
- Employees view the receipt of better cars as a **reward** for their hard work and ascendancy on the corporate ladder.
- Employees view company car schemes as providing them with freedom from the **hassles** attached to normal vehicle ownership.
- Employees view the type of car they drive linked to their **status** at work and in the home.
- Organisations are continually striving not only to **attract** talent but to **retain** that talent.

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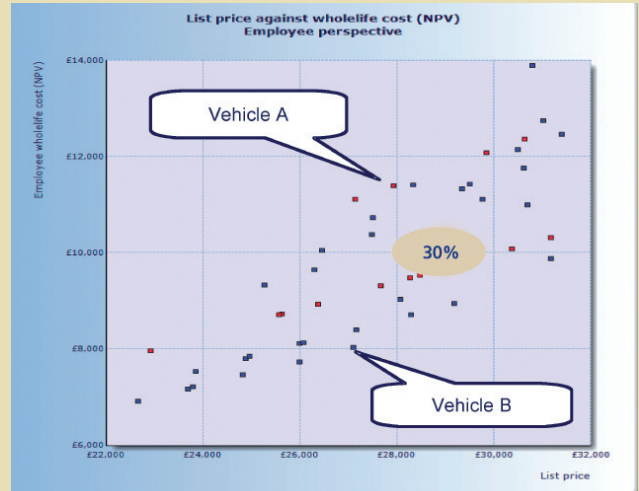
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**Figure 1**



Current **employer** whole life costs.

Sample data for selected Vehicle A and B cars shows a relatively linear relationship between list price and whole life cost.



Current **employee** whole life costs.

This shows an increase in the range of whole life costs for a given list price, mainly due to the effect of CO<sub>2</sub> based tax. If replicated for employers, the effects could be similar.

The UK Government, whilst criticised in the main for not doing enough in this area, has announced a number of measures that may affect company cars in the future. Whilst the headline-grabbing measure in the 2007 Budget was an increase in Vehicle Excise Duty (VED) for the highest emitters, there were a number of other measures (see comment panel, front page) that could increase the whole life cost to employers for high CO<sub>2</sub> emitting cars in the future. Figure 1 above shows that an individual can save money by choosing the right car. The Government, by making changes to company car taxation, is likely to force companies to do the same.

**The Deloitte approach to reducing fleet CO<sub>2</sub> and whole life costs**

**Step 1 – Where are you today?**

There are two things that need to be considered before formulating your action plan:

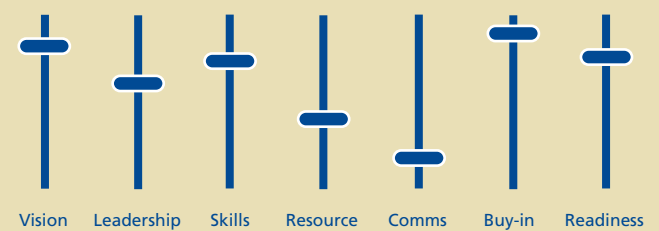
- How ready are your employees to embrace change?

It is important at this stage to engage with car fleet drivers and identify their readiness to embrace the “Green” agenda. Deloitte examine the entire organisation’s readiness to drive the change. This will also help the team to understand the different levers that can be changed and to what level, to drive the change. An example is shown in figure 2.

- What is the carbon footprint and whole life cost of your existing fleet?

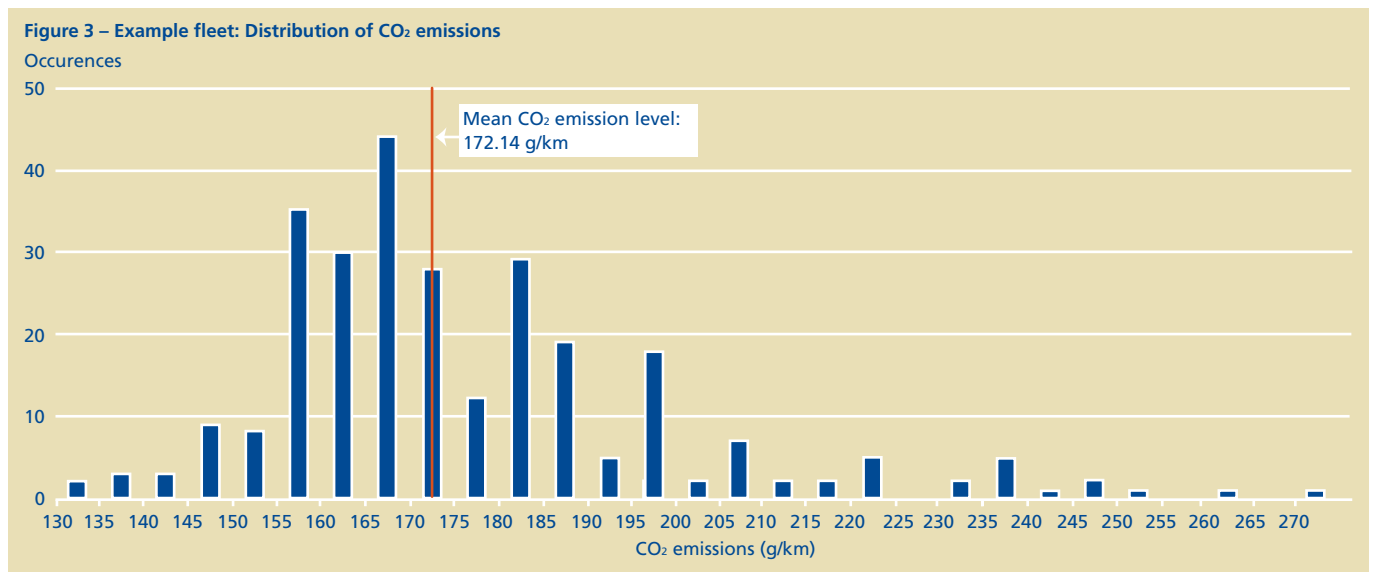
Deloitte uses tools like our market leading fleet software to map the current CO<sub>2</sub> footprint and cost of ownership of your fleet. This will form the basis for assessing the size of the gap between your current and future CO<sub>2</sub> emissions and potential for savings.

**Figure 2 – Change Management Equaliser**



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### Step 2 – Develop the future fleet operating guidelines

Your organisation may have already established a vision and some corresponding targets for fleet CO<sub>2</sub> reduction. However, it is important to understand the relationship between your targets and the level of pain associated with achieving them. This will depend on employee attitudes as well as how “Green” you want to become. It is likely that the “Greener” you want to go, the greater the pain of change.

Consideration could also be given to alternative ways of achieving your targets – for example, you could create an upper CO<sub>2</sub> limit above which cars are no longer allowed on the scheme, or you could set out to move everyone into a car with 10% lower CO<sub>2</sub> emissions.

You also need to decide how innovative you would like to be. We have had some thoughts as to how you may wish to incentivise and inform your personnel to choose lower emitting vehicles. These ideas include:

- **Informed choice.** Deloitte could help you develop your web enabled car selection tool. For example, by examining the car driver’s needs and requirements, the cars with the lowest emissions could be displayed first. The corresponding incentives or other benefits associated with choosing this car and key corporate messages on the “Green” agenda can also be incorporated.
- **Passing on the incentive.** By structuring the scheme around whole life vehicle costs to the employer and employee, the driver is incentivised to choose a car with a lower whole life cost, as the saving can be passed on to the employee. Deloitte software is the only set of applications that takes all forms of taxation and running costs into account for both employer and employee.

Using this data, savings in whole life cost for the employer can be passed on to the employee as an incentive. In addition, employees have full visibility of their own personal costs for any particular vehicle (see fig 1). For example, our modelling shows that if employees switched from a particular 1.4 litre petrol hatchback to the equivalent diesel variant, they could receive an extra £2000 over three years and reduce their CO<sub>2</sub> emissions by 25 g/km. Clearly, these savings will differ by model.

- **Occasional use vehicles.** Many people choose a large car but only use its full capacity a few times a year, for example, for holidays and breaks. By establishing a partnership with a rental company, cars can be offered at very attractive rates for these events, allowing the user to choose a smaller, cheaper, and more environmentally friendly car for every day.
- **Buy one, get one free?** Well almost! Employees could use their entitlement to acquire two cars – one for themselves, and one for a family member’s use – replacing one high emitter with two lower ones.
- **Carbon trading.** This is a way of rewarding or penalising the car driver based on true CO<sub>2</sub> output. A target number is agreed and any employee choosing a car below this target receives a carbon credit; anyone choosing a car above the target goes into carbon debt. Carbon credits can be exchanged for rewards (cash, holidays, vouchers for rental cars – for example) and debits can be cleared by funding a carbon reduction scheme, or by taking other personal measures to reduce carbon output.

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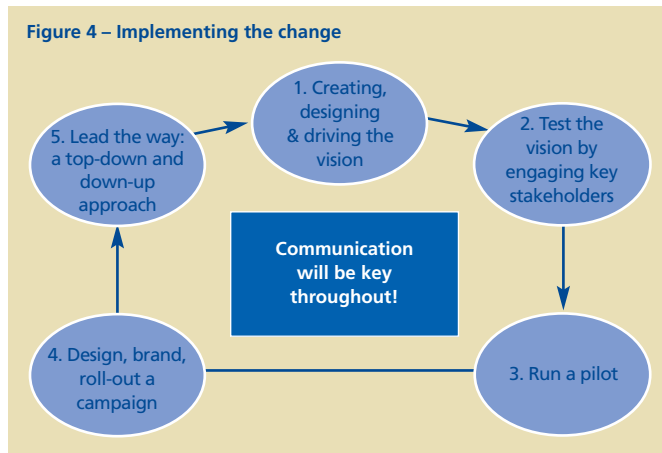
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### Step 3 – Implement the change

Our tailored implementation approach will contain two core elements:

- The change management and communication element to ensure a good employee take-up.
- The physical implementation of the changes to the scheme.

Deloitte's approach to change management should ensure maximum buy-in by the employee community and visible leadership of the organisation's executive management.



This support could include your Finance, HR, and your leading company, with the implementation. Providing the necessary models to calculate costs, incentives and CO<sub>2</sub> values. Deloitte can also help by developing a web based user chooser portal that integrates with employer and employee whole life costs.

We can help you design a scheme that can be “Green”, whilst reducing costs (or being cost neutral) and meeting your employees requirements.

### Frequently asked questions

At Deloitte, we are often asked questions about this subject:

**Q: Surely we can impose changes by just removing high polluters from our fleet?**

**A:** Without incentives and a “Green” campaign, this is likely to result in troubled and demotivated employees. It may be viewed as a cynical cost cutting campaign.

**Q: How could we implement a scheme as you suggest? There would be a mutiny – many people might leave!**

**A:** This is why our three-step approach assesses an organisation's readiness for change by gauging employee attitudes and culture with respect to company cars and the environment. This ensures the level of change is compatible with the desired objectives. We would support you in mounting a thorough change management and communications plan to ensure employee buy-in.

**Q: Will this cost us money?**

**A:** Unlikely. There are two factors to be carefully considered. The whole life cost of many low CO<sub>2</sub> car emitting cars is typically less than that of equivalent high emitting CO<sub>2</sub> cars; and secondly, doing nothing could lead to increased costs due to the possible changes in tax – see panel.

**Q: We already have help from our leasing company – why should we engage Deloitte?**

**A:** We can provide the right team to work with your own personnel and leasing company to ensure that your whole life costs are optimised using our bespoke modelling software. This software takes into account employer and employee tax. We also believe for such a sensitive issue, there is a need for specialist change management support to develop the right change management campaign.



**Our Fleet Choice & Car Selector Software**

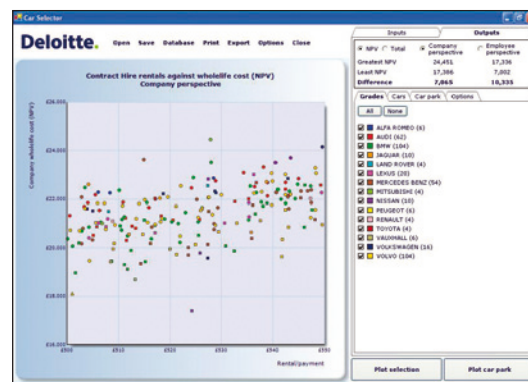
The multiplicity of fleet funding solutions in today's marketplace coupled with the need to take account of individual employee lifestyle choices mean that the off the shelf, one size fits all approach with the aim of achieving optimum value for money, efficiency and effectiveness leads businesses up a cul-de-sac.

That is why Deloitte has developed Fleet Choice, the market leading fleet analysis software, that treats companies and employees as individual entities to provide the optimum solution every time, whatever the situation. Interactive, flexible and graphical, Fleet Choice provides the most cost effective vehicle funding solution for both company and employee. With the ability to analyse numerous options and the ability to 'slice and dice' all possible variables, the 21st century technology puts businesses and their workforce in the best practice funding fast lane.

Fleet Choice has three key facets and displays results in easy to understand graphical and numerical formats.

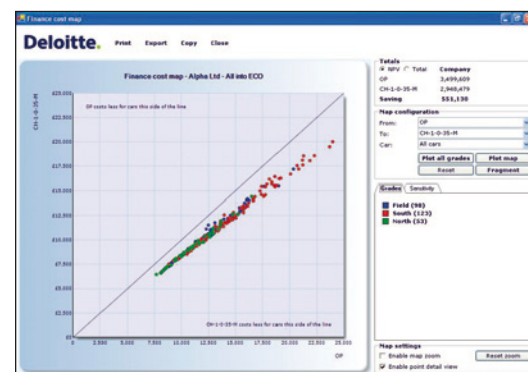
**Car Selector**

The vehicle choice list for every company should be based on complete whole-life costs from both the company and the drivers' perspectives. Companies frequently leave benefit in kind tax out of the equation because they view it as a driver and not a corporate matter. This can leave the Finance Director on the receiving end of an unexpectedly large Class 1A National Insurance bill despite believing that employees of a similar grade were choosing a similar value of vehicle. Feeding every aspect of vehicle related data into Fleet Choice enables the company to build the perfect fleet.



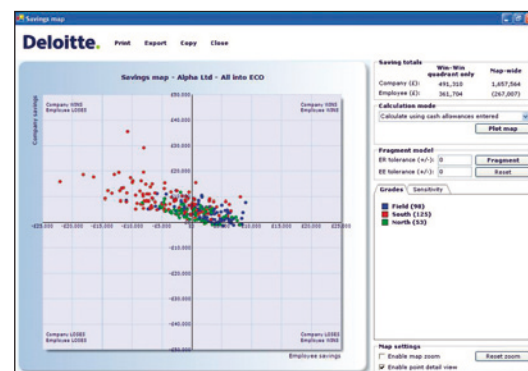
**Lease or Buy**

Outright purchase, contract hire and finance lease are just three of many available fleet funding solutions. But the optimum solution for one company may be the antithesis of another. Making the wrong choice can lock both the company and the employee into an expensive mistake for several years. Fleet Choice takes every aspect of the fleet as well as the financial position of the business into account to deliver the definitive cost effective answer for the company.



**Cash or Car**

Providing a range of flexible benefits to staff and giving them the choice of a cash alternative to a company car has become a fashionable trend in recent years. But following fashion without detailed analysis frequently results in major headaches for companies and their staff. Fleet Choice calculates both the cost to the company and the driver of cash or car, it highlights potential problems and delivers the right funding solution to keep both employer and employee focused on the road ahead.



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For more details on how Deloitte can help you develop a structured approach to reducing CO<sub>2</sub> emissions, please contact:

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