

Cash fleet, grey fleet

An employer's guide to managing the compliance of employee-owned cars used for business



Key Solutions
Thought Leadership



Welcome

By some estimates, nearly half of the business miles covered by road in this country are by vehicles that are not actually owned, leased or hired by the business in question - they belong to the employees.

In almost all cases, these will fall into either of two categories; - they will be “grey fleet” vehicles that are the driver’s own private transport or they will be “cash fleet” cars, bought by employees who are entitled to a company car as part of their benefits package but have instead taken the cash allowance option.

Both bring with them particular issues that many managers find difficult to resolve effectively. This guide looks at how workable solutions can be found to help you identify the most suitable policies for your organisation. Part one examines the day-to-day operational management of grey and cash fleets, while part two covers the structure of cash-for-car schemes.

Throughout, we have included commentary from our Key Solutions fleet consultancy team. (See page 19 for details on Key Solutions).

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Part one

Running cash and grey fleet cars

From an employer's point of view, a traditional company car provides a high degree of control over almost all aspects of its operation. Cash and grey fleet cars loosen many of these controls considerably or even remove them altogether. These are the key areas to consider where difficulties may arise.



Is the employee's car the right tool for the job?

The first question to consider when utilising any employee-owned car on business is simply whether it is suitable for the purpose for which it will be used? As part of offering the cash option to employees, it may be possible to put a wide range of parameters in place for drivers but it is almost certainly impractical to expect the same of the grey fleet.

> Design

At the most basic level, you'll need to assess whether the car is the right type to be used for the job in hand? For example, if you are asking a driver to carry product samples, is the car large enough? Perhaps more difficult to answer, if they are undertaking a long motorway trip, is whether the car is really suitable for such a journey?

> The Environment

If you have a strong corporate environmental policy, you may also be concerned about the vehicle being used for business purposes. Cars that are only four or five years old can often have a CO₂ output that is twice that of their 2012 equivalents.

> Image

Does the employee's car present the right image for your organisation? To some extent, this is a question of whether the vehicle will be seen by customers or suppliers. It would almost certainly be perceived as inappropriate if an employee visited an account review meeting in, for example, a dated, rusty and unkempt vehicle.

> Risk Management

This is a crucial consideration and is examined in detail on page 7.

Key Solutions view

Look across your company car park and you will see that a large proportion of the vehicles driven to work and owned by employees are simply not suitable for business use for a number of varying reasons. It is important to have written policies in place that define basic parameters for cash and grey fleet eligibility.



How should you pay for vehicle use?

Reimbursing drivers for the actual use of their vehicle will differ markedly between cash and fuel elements of your fleet.

A cash taker has already received an amount not just for the cost of the vehicle but for fixed expenses such as insurance so, when they make a business trip, they are usually only being reimbursed for fuel. Careful recording of all journeys needs to be made and audited regularly to ensure that inaccuracies and fraud regarding fuel reimbursement are avoided as much as possible. However, even the best systems of this type are open to abuse. Use of a fuel card should be considered.

A grey fleet driver can reasonably expect to receive a higher amount that includes not just fuel but a variety of other vehicle costs such as depreciation, insurance and maintenance.

Many grey fleet drivers are reimbursed using the Government's Approved Mileage Allowance Payments (AMAP) rates, which are tax free. However, these are higher than the actual running costs of the vehicle in almost all grey fleet instances and can be a relatively expensive way of providing company transport, especially if a grey fleet driver is covering many miles. Again, inaccurate claiming can be an issue.

Key Solutions view

Reimbursement of running costs can be a minefield. Even with detailed journey recording and auditing, any kind of cost reclaiming system whether for fuel or for all vehicle costs, is open to error and abuse. Additionally, working out a fair rate for the use of a grey fleet car is often very difficult, especially bearing in mind the diverse nature of the vehicles that employees tend to own and their widely differing running cost profiles. To some extent, employers use the AMAP rates simply to sidestep these difficult issues but it is important to recognise that the grey fleet and cash fleet are not necessarily a cheap business transport option.



Can you stay on the right side of the law?

While the areas of cash and grey fleet management that we have examined so far present some managerial challenges, these pale into comparison with the issue of duty of care.

Basically, the legal position over the last few years has developed to the point where an employer is responsible for the duty of care of any driver using a vehicle for business purposes - **whoever** owns the vehicle in question. This responsibility also extends to a duty of care for other road users.

This means that the driver must have the right skills to get behind the wheel of that vehicle and that risk factors such as his or her licence and even general health are regularly checked to assess the ongoing risk.

It also means that the vehicle needs to be suitable for the purpose for which it is being used, is maintained properly (which generally means in line with manufacturer servicing recommendations) and undergoes regular basic checks covering areas such as tyre pressures and washer bottle levels. It is also imperative that the employee has adequate insurance cover for business travel, not just social and domestic

An audit trail needs to be put in place so that the employer could potentially prove in a court of law that they have followed all of these measures because, if a cash or grey vehicle and driver are involved in an accident and the competence of company management is found wanting, large fines and even imprisonment may result.

Clearly, it continues to be quite difficult to ensure that these guidelines are followed for vehicles that are part of the mainstream company car scheme. The problems soon multiply when the employer tries to implement the same measures at arm's

length for the cash fleet and, especially, the grey fleet.

As a fleet manager, for example, how do you ensure that an employee who uses their six year old hatchback for business purposes four times a year has a clean licence, a current MOT, a solid servicing record and has not decided to put off replacing their illegal front nearside tyre until the next pay day? At an even more fundamental level, how do you know whether they have the skills necessary to assess the legality of a tyre?

Some of these issues can be solved for cash takers by putting policies in place that cover the kind of vehicles that must be bought by employees and used on company business. However, resolving them for grey fleets is not easily done and can only really be achieved through a thorough process of driver education, regular driver and vehicle auditing, and a sophisticated records system.

Key Solutions view

Today's duty of care responsibilities are so numerous and detailed that applying them to the cash fleet is very difficult and for the grey fleet even more so. More and more employers are concluding that doing so is simply not feasible. However, if you do go ahead, you may need expert help to write a watertight risk management policy and to implement it to a satisfactory level.



Are there alternatives to the grey fleet?

From the last few pages, you will be able to see that the management of running a grey fleet is, in many ways, much more difficult than a conventional company car scheme.

The question is whether the difficulties surrounding the operation of grey fleet policies are sufficiently serious that employers should consider abandoning this transport solution altogether. The legal issues alone are extremely difficult to overcome.

Of course, there are other options available. At the lower mileage end of the spectrum, we are seeing the return of the pool car in some larger fleets. Having vehicles that can be used just on an “as-needed” basis for occasional journeys may make perfect sense for your fleet profile, if a high degree of utilisation is likely to be achieved.

Similarly, hire cars are another option and, given the relatively high costs that can be associated with paying AMAP rates, make perfect sense in many situations. For example, a basic car could be hired for the same amount as reimbursing the driver of a grey fleet car making a journey of perhaps as little as 60 miles in a day.

However, it is at the middle and higher end of the mileage spectrum that the credibility of the grey fleet really needs to be considered. The cost of reimbursement will be high and the duty of care

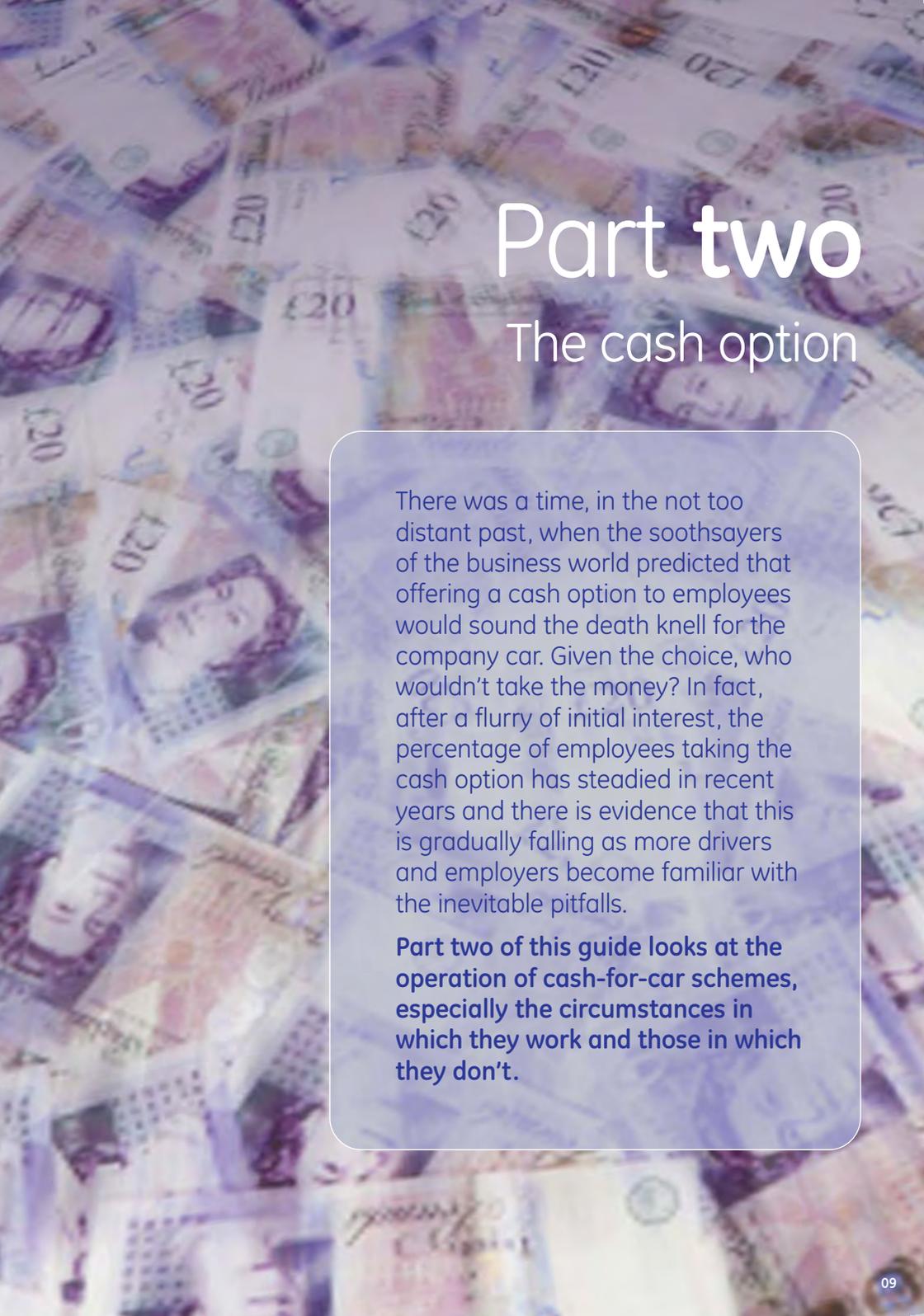
question becomes even more acute at higher mileages. In these instances, you should seriously consider offering company cars to these drivers.

In part two of this guide, we will look in detail at the picture regarding cash fleets.

Key Solutions view

Many employers tend to view the grey fleet as a cheap and easy option. They believe they can simply ask an employee to make a business journey in their own vehicle and pay them a mileage rate for the cost. However, any structured approach to the issue will reveal a whole range of extremely difficult managerial issues that may easily lead to abandonment of the grey fleet altogether.





Part two

The cash option

There was a time, in the not too distant past, when the soothsayers of the business world predicted that offering a cash option to employees would sound the death knell for the company car. Given the choice, who wouldn't take the money? In fact, after a flurry of initial interest, the percentage of employees taking the cash option has steadied in recent years and there is evidence that this is gradually falling as more drivers and employers become familiar with the inevitable pitfalls.

Part two of this guide looks at the operation of cash-for-car schemes, especially the circumstances in which they work and those in which they don't.



What's the appeal of cash?

In most organisations, the cash option appears to be a simple decision. The employee opts not to take a company car and instead receives an extra cash amount every month.

Depending on the detail of the agreement implicit in taking cash, the driver may commit to acquire a suitable vehicle of their own for business purposes and be reimbursed for its use, usually being paid a mileage rate for fuel.

Key Solutions view

It is worth taking a moment to consider the fundamental appeal of the cash option.

To the employee, it looks like they are receiving more money. Surely, many assume, they can run a suitable car of their own for less than the additional sum they are receiving? Plus, of course, they will not incur company car tax.

For the employer, offering cash has similar appeal. Having to run one less company car appears to be an incremental reduction in managerial effort in a non-core function. Simply adding a figure to that employee's pay packet every month must surely be much simpler?



When the cash option doesn't work for drivers

The truth is that many employers and employees don't properly consider all the issues that surround taking the cash option. It is quite a complicated decision that involves a wide variety of lifestyle choices, operational decisions, suitability for use, taxation and even legal factors. It is not just simply a question of taking the money.

In most cases, the employee has to provide their own car. This involves choosing and acquiring a vehicle, taxing it, insuring it, maintaining it, covering it for breakdown recovery and, of course, paying for it, whether through purchase or lease. Many employees, used to the convenience of a company car scheme, fail to appreciate how much leg-work is involved in all of these tasks or what it will cost.

Owning a vehicle also unavoidably brings a series of financial risk factors. A car that is being bought is one where the residual risk is suddenly being borne by the employee; maintenance, tyres, glass and breakdown are often unknown costs; insurance premiums for individuals are frequently expensive, especially for employees with points on their licences. Few employees price any of these into the decision making.

The list of financial implications doesn't end there. If the driver needs to buy or lease a vehicle, will they need to find a substantial deposit? If they lease a vehicle, how will they cover the cost of any excess mileage or other recharges? If their job role means that they cover a lot of miles, how will this impact on the value of the vehicle?

Beyond finance, there are other factors to consider. For example, a lone driver buying or leasing a vehicle clearly has nothing like the buying power of a major fleet or a leasing company, so the vehicle they can afford under their cash option will probably be a lesser model than available under a company car scheme. The employee should also consider the implications of their car being off the road for any reason - how will they provide alternative transport, and at what additional cost?

Key Solutions view

The employee taking the cash option often fails to simply look at the maths behind their decision, especially how difficult-to-anticipate risk factors may impact on them. Surprisingly few even consider that, having made a saving in Benefit-in-Kind taxation by handing back their company car, they will pay tax and National Insurance on the additional cash they receive.

Making the right decision

A guide designed to take employees through the decision making process of choosing the cash option called Cash or Car? is produced by GE Capital and is available for free download at gedrivertoolbox.co.uk



When the cash option doesn't work for employers

In many cases, decision making by employers regarding the cash option is as haphazard as their employees.

The business case for offering a cash option is that the employer can largely wash their hands of the issues surrounding the provision of a company car by simply paying an additional amount to the employee.

The problems start with deciding what that amount should be. Simply handing the employee the amount that you currently pay your leasing company for a car at their grade every month, plus an allowance for insurance, is unlikely to allow them to fund a similar vehicle to the one that they would be able to drive under the company car scheme. Does this mean that you therefore offer more and, if so, how much? Do you share with them some of the savings that you believe will be made in managerial and administrative costs, and, if so, how do you calculate this?

As mentioned in part one of this guide, there is the question of vehicle suitability. Clearly, you do not want employees to arrive for appointments with customers in old, dented, heavily polluting vehicles. There needs to be parameters put in place surrounding vehicle choice, age, condition and CO₂ output. However, what do you do if an employee acquires and uses a vehicle that does not meet these requirements?

Finally, all of the issues surrounding duty of care detailed in part one of this guide apply equally to

the cash fleet. Without the direct managerial controls that are available for traditional company cars when it comes to areas such as maintenance, you are likely to have a whole raft of new managerial issues with which to deal.

Key Solutions view

Employers offering the cash option are often as guilty as drivers of failing to properly consider the financial and operational factors behind their decision. In many cases, they are simply swapping one set of managerial issues for others that may be even more difficult to resolve.

Making the right cash calculation

In calculating suitable cash allowances, the aim should be that the cost of the benefit is broadly similar irrespective of the employee's election (you may have a preference for an employee to choose either cash or car, but any additional cost should be in context).



When the cash option is the right choice

There are employers and employees for whom the cash option is a simple decision and they tend to fit very particular profiles.

Firstly, if you are an employee who is entitled to a company car but doesn't actually need one for either business or personal transportation (e.g. they commute using public transport), this is a simple decision.

Secondly, if you are someone who has a very strong desire to drive a particular kind of vehicle and this fits in with your employer's policy surrounding the cars that are suitable for business use, then this could also be the right option even if it isn't strictly financially rational.

From an employer point of view, there are companies who might have to offer a company car in order to attract staff in their industry but whose employees are entirely office-bound. For them, the option of offering a cash option can make sense.

However, for almost all others, the cash option is a compromise that should only be entered into following a very thorough decision making process.

Key Solutions view

When we sit down and work through all the factors involved with drivers and their employers, it is clear that the choice of taking cash is a clear cut decision in only a very few cases.

Where an employee is required to travel regularly on business, it is nearly always best for both parties to provide a company car, both from a financial and managerial point of view. If there is little or no requirement for business travel, it seems logical to provide the employee with the choice to receive cash in lieu of the car.



How Personal Car Ownership Plans can be used to solve cash option issues

One potential way to solve the many issues that surround the cash option is to offer your employees a Personal Car Ownership Plan (PCOP) with the help of your leasing company. This is a scheme where employees enter into an agreement on a personal level with a leasing company, usually nominated by the employer.

PCOPs tend to have the look and feel of a company car scheme – depending on the structure, the vehicles on offer may be similar to your company car grades and there may be similar restrictions over choice.

The key advantage for the employee is that the PCOP tends to be structured to make the operation of the vehicle as easy as possible because the lease payment can include virtually all vehicle operating costs.

From an employer point of view, issues surrounding vehicle suitability and duty of care can be largely removed because similar parameters as for the mainstream company car scheme can be put in place.

However, the structure of PCOPs have come under scrutiny from HMRC in recent years and, given the changes to guidelines made as a result, they have become an increasingly specialised product that only offer worthwhile savings for drivers in a few instances.

Key Solutions view

Improvements in vehicle technologies have resulted in reduced CO₂ emissions for new cars. In turn, this means that the Company Car has become a more tax efficient benefit to receive. In addition, some of the tax benefits of PCOP schemes have been eroded by increasing fuel costs which have not been reflected in improved AMAP rates. PCOPs are therefore generally a much less attractive option for employers and employees than was the case even a few years ago, and the savings on offer need to be substantial to make the setting up of such a scheme worthwhile.



Offering a route from cash to car

Many managers reading this guide will already have started to come to the conclusion that offering a cash option is not suitable for their company. They will also have had to deal, probably on numerous occasions, with employees who want to return to the company car scheme.

In both these eventualities, it is important to provide a structured route for making the journey back from cash to car.

The question of whether to withdraw the cash option altogether may be as much a human resources consideration as a financial and operational one. Your HR department may believe that giving the choice of a cash option is an important factor in recruitment and retention, even if it is not taken up by many employees, it may be perceived as important within a flexible benefits context.

However, there are undoubtedly a whole series of reasons why ending the cash option might be the right decision. In these instances, it is crucial to present the arguments to employees and other staff as clearly as possible, generally focusing on the complications created by the employer's duty of care.

Key Solutions view

Employees who want to move back into the company car scheme – or are being made to move by the withdrawal of the cash option – will have often already made financial commitments

regarding their own vehicle. Being able to offer help and advice to ease them through the process of disposal is an important human resources and operational factor.

Where you do decide to continue to offer cash, you must have strong policies in place regarding vehicle choice and operation, and you may need to call on external help in order to put the right solution in place.





Summary

The issues surrounding cash and grey fleets are not easily solved and should be the subject of serious management consideration in any organisation.

However, every fleet situation has at least some unique aspects and if you need any further advice, please get in touch. Our Key Solutions consultancy team has helped many companies and would be very pleased to discuss your needs.

About Key Solutions

Key Solutions is GE Capital's comprehensive consultancy service that will transform the way your fleet operates. Visit gecapital.co.uk/keysolutions to see how we have helped customers improve safety, reduce CO₂ and manage fleet costs.



Your online Toolbox for essential driver support

Whether you manage your company's fleet or are a driver, Toolbox by GE Capital is packed with essential information, latest guides and tips for the journey ahead. Simply visit gedrivertoolbox.co.uk to find out more.



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