CSi - The Remuneration Specialists present the

Fuel Impact Report

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FUEL IMPACT REPORT

Introduction

Many individuals will have breathed a sigh of relief as the cost of fuel became a less prominent topic of news. Prices at the bowser appear to have stabilised considerably in comparison to the steady growth of 6 months ago.

The fact that fuel costs have remained high is a concern as many Australians rely on motor vehicles for both personal and business use. Continuing unrest in the Middle East is no doubt contributing to the high cost of fuel, as are the decreasing petroleum reserves as cost effective alternatives continue to be sought.

This study looks at the impact petrol prices are having on organisations - whether or not they are receiving pressure from employees for additional compensation and/or if they are proactively adjusting remuneration benefits to reduce the financial burden on the employee.

Method

This remuneration study was based upon an online questionnaire, containing a mix of both multiple-choice and open-ended questions, requiring contributors to specify policy details or comments. Submitted results were accumulated electronically and then analysed.

Sixty-seven (**67**) organisations took part in this study. The following reflects the answers collected by CSi.

CSi first published a study on the impact of fuel prices in November 2005, with a follow-up study in August 2006. CSi will continue to monitor the impact of fuel prices as long as they remain high or begin to rise again.

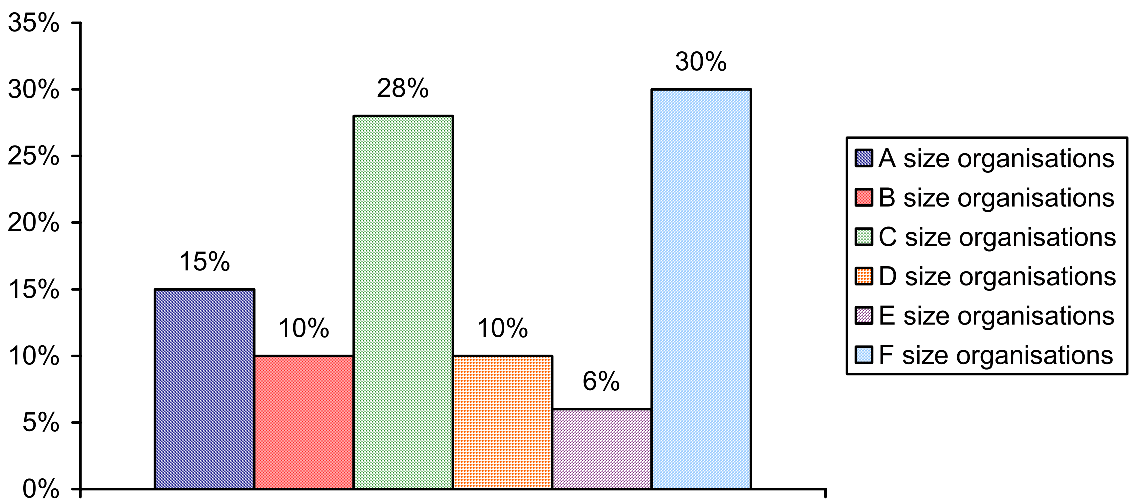
RESULTS

Responding Organisation Sizes

The size of an organisation can affect the way it makes remuneration decisions. To give an indication of the variety of organisational sizes that have contributed to the Fuel Impact Report, organisations were sized based on the revenue and number of employees they reported, using the following grid.

Number of employees	Annual Revenue (AUD Million)					
	Up to 25	26 - 100	101 - 250	251 - 500	501 – 1,000	1,001+
Up to 150	A	B	C	D	E	F
151 – 300	B	B	C	D	E	F
301 – 1,000	C	C	C	D	E	F
1,001 – 10,000	D	D	D	D	E	F
10,001 – 25,000	E	E	E	E	E	F
25,001+	F	F	F	F	F	F

Thirty percent (**30%**) of organisations fall into the F size category, **28%** fall into the C size category and a further **15%** fall into the A size category of organisations. Ten percent (**10%**) of organisations fall into both the B size and the D size categories, with the final **6%** of organisations reportedly falling in the E size category.



Q1. Has your organisation been receiving pressure to increase compensation as a result of increasing fuel prices?

Four options were provided to answer this question. All (**100%**) of organisations were able to answer within the parameters of these four choices. The distribution of responses is displayed in the following table.

Responses	% organisations
A – We ARE receiving pressure from employees; and more specifically we are receiving pressure on motor vehicle benefits.	33%
B – We ARE receiving pressure from employees; although we don't offer motor vehicle benefits, this is the basis for requests for an overall increase in remuneration.	6%
C – We are NOT receiving pressure from employees despite the fact that we do offer motor vehicle benefits.	57%
D – We are NOT receiving pressure from employees as we do not offer motor vehicle benefits.	4%

The majority (**57%**) of responding organisations reported that despite offering motor vehicle benefits, they are not receiving pressure from employees in relation to fuel costs. This has increased from 48% in August 2006[1]. One third (**33%**) of organisations reported being under pressure in relation to their provision of motor vehicle benefits, a further **6%** reported receiving pressure due to fuel costs despite not offering motor vehicle benefits. It is interesting to note that similar percentages were reported in August 2006, with 34% reporting specific pressure and 2% reporting pressure despite no motor vehicle provisions being made[2]. The remaining **4%** of organisations reported not receiving pressure and not providing motor vehicle benefits.

Q2. If your organisation has not been receiving pressure, is this attributable to any pre-emptive action that has been taken by your organisation in response to increasing fuel prices?

The organisations that reported that they are not receiving pressure in this area reported their behaviour surrounding motor vehicle benefits. These responses are displayed in the following table.

Responses	% organisations
A – Yes, we have been covering the rise in fuel prices by increasing motor vehicle benefits	20%
B – Yes, we have been covering the rise in fuel prices by increasing overall remuneration	0%
C – No, we have not taken any pre-emptive action in response to increasing fuel prices	68%
D – Other (Please specify)	10%

[1] CSi – The Remuneration Specialists (August 2006), "How Australian Organisations are Responding to Rising Fuel Prices", http://www.csirem.com.au/downloads/knowledge/fuelPrices2006Aus.pdf

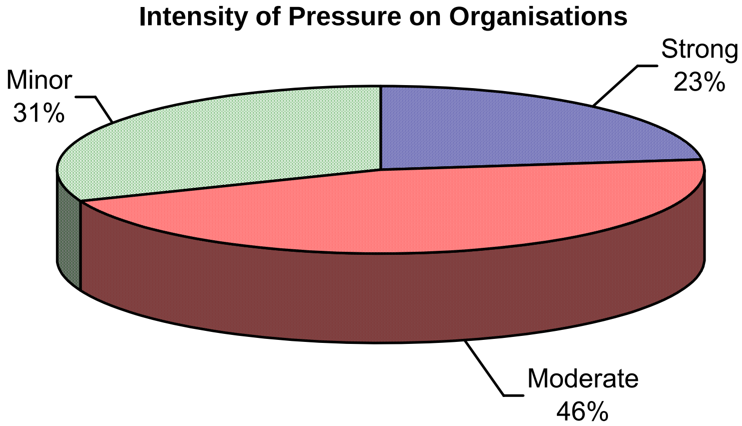
[2] CSi – The Remuneration Specialists (August 2006), "How Australian Organisations are Responding to Rising Fuel Prices", http://www.csirem.com.au/downloads/knowledge/fuelPrices2006Aus.pdf

The majority (**68%**) of organisations that have not been receiving pressure to increase compensation as a result of increasing fuel prices have also not taken any pre-emptive action in response to increasing fuel prices. Twenty percent (**20%**) have responded by increasing motor vehicle benefits in order to cover the rise in fuel prices. The remaining **10%** of organisations have responded in 'other' ways to the rise in fuel prices, including an application of the ATO kilometre reimbursement rates[3], the provision of fuel cards, annual reviews of motor vehicle benefits and increases to motor vehicle benefits.

Q3. If you were receiving pressure from employees, how would you rate that pressure?

Those organisations that reported being under pressure from employees were then asked to evaluate the strength of the employee pressure related to this issue. Thirty-one percent (**31%**) of responding organisations reported the pressure to be *minor*, this increased from 22% August 2006[4]. Those organisations considering the pressure to be *moderate* declined slightly from 48% in August 2006, to **46%**. The intensity was considered to be *strong* by **23%** of responding organisations, decreasing from **30%** in August 2006. Therefore, more than two-thirds of organisations that are under pressure categorise themselves in the moderate-strong range but the pressure is not as strong as 6 months ago.

This information is displayed in the following sector graph.



Q4. If you provide motor vehicle benefits, what form do they take?

Those organisations that reported providing motor vehicle benefits to their employees were then requested to advise what types of motor vehicle benefits they provided. The most common types were novated leases (**75%**), car allowances (**67%**) and fully maintained vehicles (**63%**). Forty-three (**43%**) of the responding organisations reported providing fuel cards, either in conjunction with fully maintained vehicles, with novated leases, or as a separate benefit for employees who utilise their personal vehicles for business use. Twelve percent (**12%**) of the responding organisations reported providing motor vehicle benefits in 'other' forms. These 'other' forms of motor vehicle benefits included providing kilometre reimbursements, tool of trade vehicles and a fuel levy provision.

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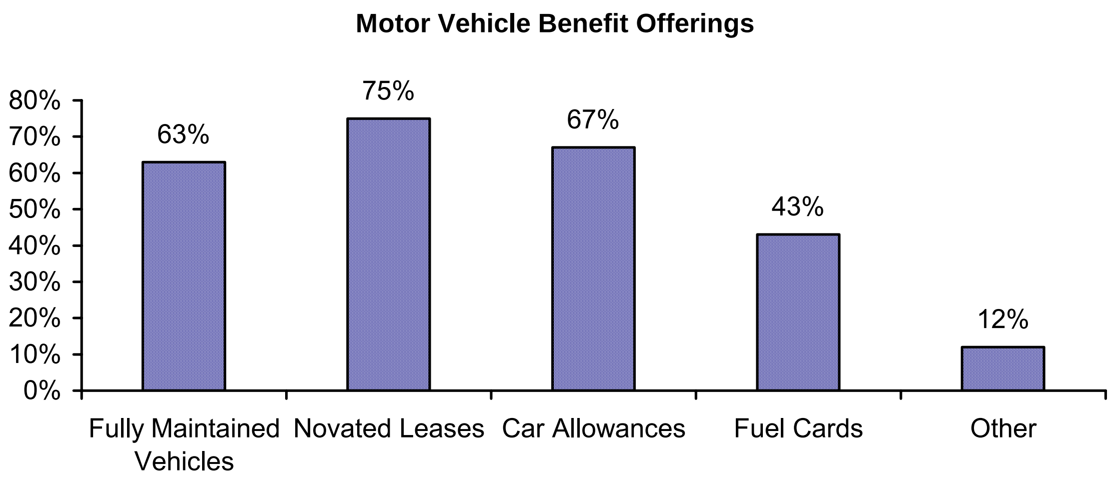
[3] Australian Taxation Office (ATO), www.ato.gov.au

[4] CSi – The Remuneration Specialists (August 2006), "How Australian Organisations are Responding to Rising Fuel Prices", http://www.csirem.com.au/downloads/knowledge/fuelPrices2006Aus.pdf



** Please note that respondents were able to select more than one option for this question.*

Q5. If you are experiencing pressure from employees, where is the pressure coming from?

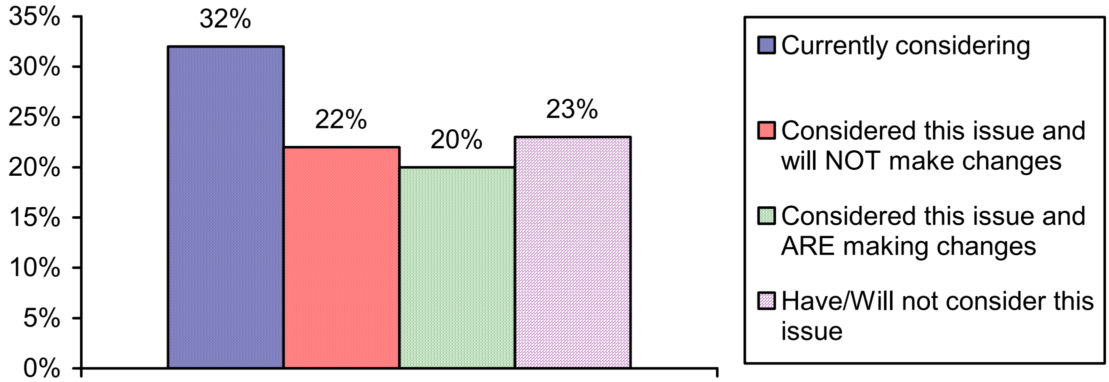
Over half (**54%**) of organisations receiving pressure reported the pressure to be coming from a specific group of employees. Of this group, the specific areas pressure is originating from are Senior Executives (**36%**), Marketing (**7%**), Sales (**100%**), Engineers (**7%**), and 'other' (**29%**), including: circulation employees, professional services and project managers. Thirty-eight percent (**38%**) of organisations are receiving pressure equally from all employees groups. The remaining **8%** reported receiving pressure from 'other' areas including: manufacturing staff and the Board. These results are displayed in the following table:

Responses	% organisations
Pressure is coming from specific group of employees:	54%
- Senior Executives	36%
- Marketing	7%
- Sales	100%
- Engineers	7%
- Other (please specify)	29%
Pressure is coming from employees as a whole	38%
Pressure is coming from another area (please specify)	8%

** Please note that respondents were able to select more than one option for this question.*

Q6. Have you considered changes to your organisation's motor vehicle policy as a result of the rising fuel prices and/or employee pressure?

Respondents were given four options to answer this question. If one of these four options was not selected by an organisation, it is assumed that organisations are not considering changes to motor vehicle policies. The proportion of organisations responding to each option is displayed in the following graph.



From the above chart it is evident the majority (**74%**) of organisations have or are taking the rising fuel prices into account when considering current motor vehicle policies. Thirty-two percent (**32%**) of organisations are currently reviewing their policies, while **22%** have reviewed their policies and decided not to make any changes. Twenty percent (**20%**) are making changes to incorporate higher fuel costs. The remaining **23%** of organisations have/will not consider the issue of increased fuel costs.

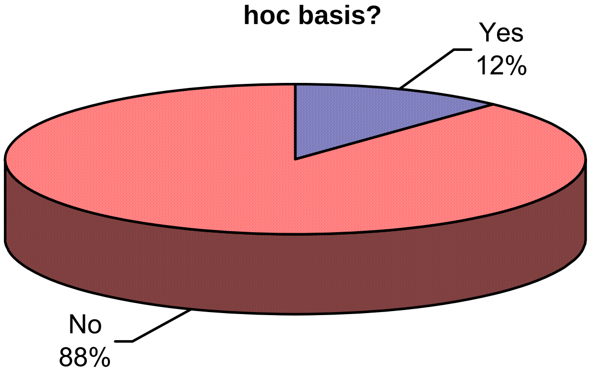
Organisations that have considered the impact of fuel prices and decided to make changes (**20%** of organisations) have reacted in various ways. Some organisations are focusing on their bottom line, and are consequently looking to cash out their fully maintained vehicles, or replace them with novated leases; while other organisations are wearing the increase by increasing their kilometre reimbursement rates (up to $0.65 in some cases), or increasing the value of motor vehicle allowances. Some organisations are improving communication of the review policies in the event that employees opt out of fully maintained vehicles.

Some organisations that reported having made changes, reported that these changes were not due directly to the rise in fuel prices, but rather due to their regular review periods or other factors.

Q7. Are you considering/already implementing any other compensatory measures as a result of increasing fuel prices?

There were two options available to answer this question - Yes and No. Organisations that answered, “Yes” were then asked to provide details of their activities. Please note this question was answered by those organisations that responded, “We have considered this issue and will not make changes” or “We have/will not consider this issue” in Question 6.

Are organisations who are not making changes doing anything on an ad hoc basis?



The above graph shows that the vast majority (**88%**) of organisations, who are not making changes to their motor vehicle policies to adapt to higher fuel prices, are also not making any adjustments on an ad hoc basis.

In relation to the twelve percent (**12%**) of organisations where ad hoc activities are being implemented, organisations are increasing the allowance amount, considering entire remuneration reviews, benchmarking against the market, introducing a fuel levy, providing a reduced allowance with fuel card option.

Case Study – CSC Australia

CSC is an IT services provider with a defined policy in place which addresses fluctuations in fuel prices. The Remuneration and Benefits Director, Maria Cardamone, gave us a run down on the workings of their policy.

CSC provides kilometre reimbursement for business travel to all employees. Kilometre reimbursement expenses are dealt with according to the organisations regular expense reimbursement process. CSC does not cap the dollar figure, or number of kilometres an employee is able to claim reimbursement for.

Following employee requests for a rate review and an explanation of the old rationale, CSC recently reviewed their reimbursement rates and means for updating such. They now consider price increases, the organisations capacity to pay the required rates and best practice as a part of their ongoing review framework. CSC now indexes their reimbursement rate annually in order to ensure it remains competitive. This is viewed favourably as a fair and balanced review process. Their new framework links to ATO reimbursement rates, averaging between the highest and lowest engine levels.

CSC would advise other organisations developing a means of dealing with fuel costs to ensure the focus is practical and that the implementation is sensible. They would advise data modelling and stress the critical nature of research in the development process.

CONCLUSION

The results of this survey show that organisations are divided in whether or not they are receiving pressure from employees to compensate for the rise in fuel prices. Of the **61%** of organisations that are not under any form of pressure, the majority (**68%**) reported having taken no pre-emptive action. Of the **39%** of organisations that are under some form of pressure, the majority of organisations feel they are under *moderate* (**46%**) to *strong* (**31%**) pressure to make changes. Thus indicating that although the percentage of organisations receiving pressure in this area has declined since August 2006 (36% of organisations were experiencing some form of pressure[5]), the percentage of organisations reporting the pressure to be *moderate* to *strong* has remained relatively stable. Of those organisations that are experiencing pressure, the job family applying the greatest amount of pressure is Sales, with **100%** of organisations reporting pressure from this area.

Of the **90%** of responding organisations who do provide motor vehicle benefits, the most commonly provided form of motor vehicle benefits were novated leases (**75%**) and car allowances (**67%**). Of the organisations that have previously considered making changes (**42%**), organisations are just as likely to not make any changes (**22%** of organisations) as they are to make changes (**20%** of organisations). Organisations that have made changes have responded in a wide variety of ways, some focusing on the organisations bottom line, and others concerned with reducing the impact on their employees. Very few (**12%**) organisations that have decided not to make any changes to their motor vehicle policies are undertaking ad hoc activities to address this issue.

CSi will continue to track the fluctuations in fuel prices and report on these trends based on market pressures. Please continue to check the CSi website for future fuel report releases.

[5] CSi – The Remuneration Specialists (August 2006), “How Australian Organisations are Responding to Rising Fuel Prices”, http://www.csirem.com.au/downloads/knowledge/fuelPrices2006Aus.pdf

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