



how australian organisations are responding to rising fuel prices

CSi – The Remuneration Specialists present a brand new report with the latest market intelligence for managing motor vehicle benefits during the fuel price crisis

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PARTICIPATING ORGANISATIONS

1. AAP Communications Services Pty Ltd
2. Abacus Diagnostics
3. Abbott Australasia Pty Ltd
4. ACON
5. A-dec Australia
6. Advanced Medical Optics Australia Pty Ltd
7. Advanced Surgical Technologies Pty Ltd
8. Airey Taylor Consulting (f. Airey Ryan and Hill)
9. Alinta Ltd (formerly Duke Energy International)
10. Alleasing
11. Allianz Australia Limited
12. Altiris Australia Pty Ltd
13. Amadeus Australia
14. Andrew Corporation (Australia) Pty Ltd
15. AngliCare Australia
16. APC Australia Pty Limited
17. Asteron Limited
18. Australian Associated Motor Insurers (AAMI)
19. Australian Laboratory Services Pty Ltd
20. Australian Wealth Management (Tower Australia Ltd)
21. Autodesk Australia Pty Limited
22. B Braun Australia Pty Ltd
23. Ball Solutions Group
24. Bank of China
25. Bausch & Lomb (Australia) Pty Ltd
26. Bayer Australia Limited
27. Black & Decker (Australia) Pty Ltd
28. BMC Software Pty Ltd
29. BOC Limited
30. Boehringer Ingelheim Pty Limited
31. Bravura Solutions Limited
32. BT Australasia Pty Ltd (British Telecom)
33. Cadbury Schweppes Pty Ltd
34. Canon Australia
35. CanTeen Australia
36. Cardinal Health Australia 200 Pty Ltd
37. Catholic Church Insurances Ltd
38. Centacare, Newcastle
39. Chamber of Commerce and Industry Western Australia
40. Chubb Insurance Company of Australia Limited
41. CITECT Pty Ltd
42. Coleman Brands
43. Coloplast Pty Ltd
44. Commonwealth and Reserve Bank Officers Amelioration Fund
45. Commonwealth Bank of Australia
46. Compuware Asia Pacific Pty Limited
47. Conmed Linvatec Australia
48. CP Ships (UK) Limited
49. Crown Castle Australia
50. Crown Equipment
51. Crown Limited (PBL)
52. CSC Australia Pty Ltd
53. CSL Limited
54. Cuscal
55. DADE Behring Diagnostics Pty Limited
56. DHL Express (Australia) Pty Ltd
57. Diabetes Australia - Victoria
58. Draeger Medical Australia Pty Ltd
59. Dun & Bradstreet (Aust) Pty Ltd
60. DuPont (Australia) Limited
61. Ecolab
62. Editure
63. EDS (Australia) Pty Ltd
64. Elders Limited
65. Energex
66. Epson Australia Pty Limited
67. Experian Asia Pacific
68. Factiva
69. FedEx Express (Australia) Pty Limited
70. First Data International (Cashcard Australia Ltd)
71. FISERV Australia Pty Ltd
72. FOXTEL
73. Fuji Xerox (Australia) Pty Limited
74. GHD Pty Ltd
75. GlaxoSmithKline
76. Good Beginnings Australia
77. GroPrep Ltd
78. Guidant Australia Pty Ltd
79. Hellmann Worldwide Logistics Pty Ltd
80. Hewlett Packard Australia Limited
81. Hudson Global Resources (Aust) Pty Ltd
82. Hunter Water Corporation
83. IAG - Insurance Australia Group

84. IBA Health Limited
85. IBM
86. Insurance Commission of WA
87. Intergraph Corporation Pty Ltd
88. Jones Lang LaSalle
89. Kellogg Brown & Root Pty Ltd (KBR)
90. Kelloggs Australia Pty Limited
91. Keycorp Limited
92. Kodak (Australasia) Pty Ltd
93. KPMG
94. Kyocera Mita Australia Pty Limited
95. Leader Community Newspapers
96. Luxottica Australia Pty Ltd
97. Macquarie Telecom
98. Mallesons Stephen Jaques Dabserv Pty Ltd
99. Manpower Services (Aust) Pty Ltd
100. Markinson Business Solutions Pty Ltd
101. Mincom Limited
102. Mobil Oil Australia Pty Ltd
103. Modular Mining Systems Pty Ltd
104. Munich Holdings of Australasia Pty Limited
105. NEC Business Solutions Limited
106. Norske Skog (Australasia) Pty Limited
107. NYK Line Australia Pty Ltd
108. Oce-Australia Limited
109. Open TV Australia Pty Ltd
110. P&C Technology
111. Panalpina World Transport Pty Ltd
112. PANBIO Limited
113. Parmalat Australia Ltd
114. Patrick Autocare
115. Pepper Australia Pty Ltd
116. Peptech Limited
117. Pfizer Pty Limited
118. Philips Medical Systems Australasia Pty Ltd
119. PMP Limited
120. Praxa Limited
121. Prixcar
122. Protherics Australasia Pty. Ltd.
123. QLD Baptist Care
124. QR (Queensland Rail)
125. Queensland Cancer Fund
126. Queensland Investment Corp. (QIC)
127. Queensland Treasury Corporation (QTC)
128. RACV Ltd
129. Reach Services Australia Pty Limited
130. Resi Mortgage Corporation Pty. Ltd
131. Ricoh Australia Pty Limited
132. Rio Tinto Limited
133. Roche Products Pty Ltd
134. Sabre Pacific Pty Limited
135. Scouts Australia NSW
136. SecurityMail Pty Ltd
137. Sensis Pty Ltd
138. Seventh-Day Adventist Church
139. Sharp Corporation of Australia Pty Limited
140. Shell Company of Australia
141. Siemens Ltd
142. Sinclair Knight Merz Pty Ltd
143. SingTel Optus Pty Ltd
144. SmartSalary Pty Limited
145. Smith & Nephew Surgical Pty Ltd
146. Smorgon Steel Group Ltd
147. Spirax Sarco Pty Ltd
148. Spiritus
149. Sumitomo Chemical Australia Pty Limited
150. Swire Shipping
151. Tenix Defence - Electronics Systems Division
152. Terumo Corporation
153. The Age
154. The Salvation Army Australia Eastern Territory
155. Thomson Grass Valley
156. Toshiba (Australia) Pty Limited
157. Tower Australia Ltd
158. Tyco Healthcare
159. Tyco Safety Products
160. Uecomm
161. Unisys Australia Limited
162. V Line Passenger Pty Ltd
163. Varian Medical Systems (Australasia) Pty Limited
164. Ventana Medical Systems Pty Ltd
165. Visa International Service Association
166. Vodafone Australia Pty Ltd
167. Wade Consulting Group Pty Ltd
168. Weir Services Australia Pty Ltd
169. Welch Allyn Australia Pty Ltd
170. Wesfarmers Limited
171. Westpac Banking Corporation - Remuneration Centre
172. Whirlwind
173. Worley Ltd
174. Yokogawa Australia Pty Ltd
175. Zurich Financial Services Australia Ltd

HOW AUSTRALIAN ORGANISATIONS ARE RESPONDING TO RISING FUEL PRICES

INTRODUCTION

The cost of fuel has recently been in the media on a daily basis. World oil prices are at record highs, and the affect is being passed onto individuals everywhere. Higher oil prices are being passed onto the end consumer, which has lead members of the Australian public to call on the Government to reduce excises on petrol to give them some relief.

As many Australians rely on a private vehicle for both personal and business use, the cost of running the vehicle continues to increase. Current inflation figures have been strongly influenced by the increasing petrol prices. In the year to June quarter 2006, automotive fuel increased by 24.6%.¹ This is in contrast to the median budgeted salary increase reported in the Australian General Industry Remuneration Report of 4% over the same period.²

This study looks at the impact higher petrol prices are having on organisations - whether or not they are receiving pressure from employees to receive 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 excel data capture sheet distributed via email by **CSi** to target organisations. Data was submitted to **CSi** by return email. The results were then accumulated and analysed.

One hundred and seventy five (**175**) organisations took part in this study. The following reflects the answers collected by **CSi**.

¹ Australian Bureau of Statistics (ABS) (2006) "6401.0 - Consumer Price Index, Australia, Jun 2006", ABS website. <http://www.abs.gov.au/ausstats/abs%40.nsf/mf/6401.0>. Accessed August 18, 2006.

² CSi's Australian General Industry Remuneration Report, June 2006.

RESULTS

Q1. Are you receiving pressure from employees to compensate for the rise in fuel prices?

Four options were provided to answer this question. Ninety nine percent (**99%**) 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 NOT receiving pressure from employees as we do not offer motor vehicle benefits	16%
B – We are NOT receiving pressure from employees; we do offer motor vehicle benefits but we are not receiving pressure from employees	48%
C – 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	2%
D – We ARE receiving pressure from employees; and more specifically we are receiving pressure on motor vehicle benefits	34%

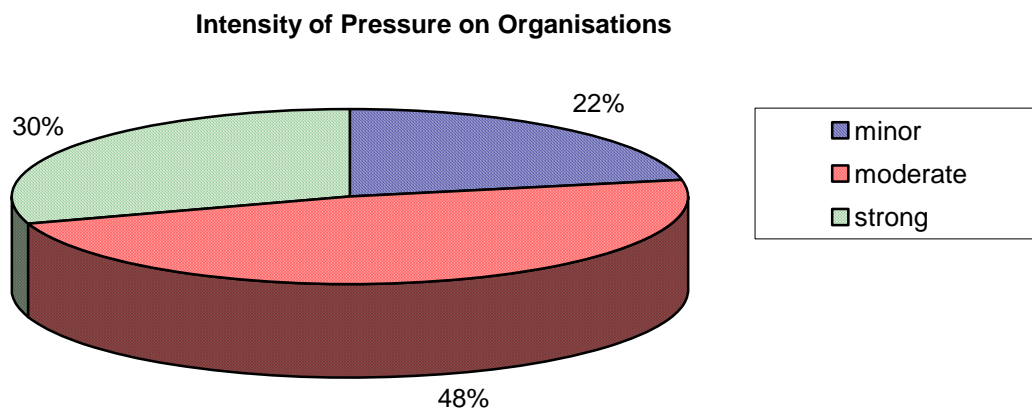
Approximately one third (**34%**) of responding organisations reported being under pressure from employees to review their motor vehicle benefits as a result of rising fuel prices; this has decreased from forty five percent (**45%**) in November 2005³. [It is useful to note that over half of the responding organisations (**56%**) in November 2005 reported being in the process of reviewing and/ or changing their motor vehicle benefits policies, which may have led to this decrease]. A further two percent (**2%**) of organisations are under pressure from employees to provide an increase in overall remuneration due to the rise in fuel prices as these organisation report not providing motor vehicle benefits. Almost half the responding organisations (**48%**) are not receiving pressure from employees despite providing motor vehicle benefits. [This has increased from thirty-six percent (**36%**) in November 2005]. A further sixteen percent (**16%**) of organisations are not receiving pressure from employees on this issue, as they do not offer motor vehicle benefits.

Q2. If you are 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. Twenty-two percent (**22%**) of responding organisations reported the pressure to be *minor*, this decreased from thirty-two percent (**32%**) in November 2005. Those organisations considering the pressure to be *moderate* increased slightly from forty-seven percent (**47%**) in November 2005, to forty-eight percent (**48%**). The intensity was considered to be *strong* by thirty percent (**30%**) of responding organisations, increasing from twenty-one percent (**21%**) in November 2005. Therefore, more than two-thirds of organisations that are under pressure categorise themselves in the moderate-strong range.

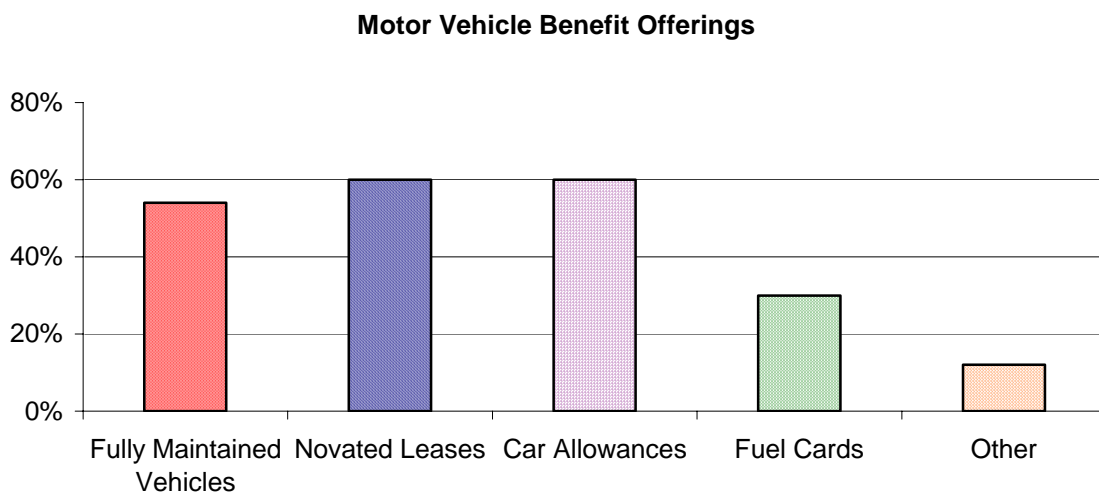
³ CSi's November 2005 Fuel Report, <http://www.csirem.com.au/downloads/knowledge/fuelPrices2005.pdf>

This information is displayed in the following sector graph.



Q3.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 and Car Allowances [provided by sixty percent (60%) of organisations], followed by Fully Maintained Vehicles [provided by fifty four percent (54%) of organisations].



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

Thirty percent (**30%**) 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 fuel reimbursement (ranging from the current average ATO rate of 55c/km to reimbursement rates of 61c/km, with many organisations having reviewed their reimbursement rates in recognition of rising fuel prices), parking allowances, fuel allowances, discounted servicing products, and use of a business owned vehicle for client visits during business hours.

Q4. If you are experiencing pressure from employees, where is the pressure coming from?

Sixteen percent (16%) of organisations reported receiving pressure from Senior Executives, thirteen percent (13%) reported pressure coming from Marketing, and seventeen percent (17%) of organisations reported receiving pressure from Engineers. By far, the majority (75%) of organisations reported receiving pressure from Sales. A quarter of organisations (25%) reported experiencing pressure from specific employee areas other than those specified. Some of those other areas under pressure included managers of the listed areas, Administration/ Clerical, Clinical Application Specialists, Finance, IT, Merchandisers, Pre & Post Sales Analysts, Professional Services Consultants, Technical, Training, Service Delivery, Support, Software Consultants, those with large amounts of business travel, and those with tool-of-trade vehicles.

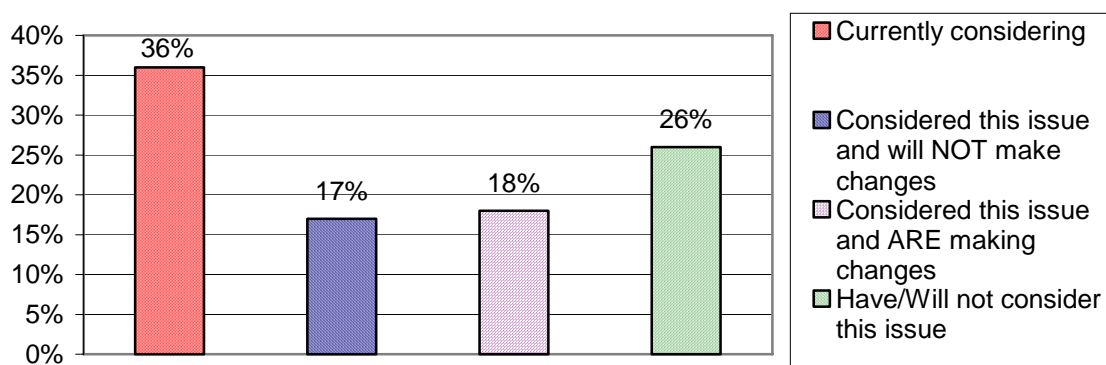
Responses	% organisations
Pressure is coming from specific employee areas: - Senior Executives	16%
- Marketing	13%
- Sales	75%
- Engineers	17%
- Other (please specify)	25%
Pressure is coming from employees as a whole	19%
Pressure is coming from another area (please specify)	6%

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

Pressure was reported to be coming from employees as a whole by nineteen percent (19%) of organisations. Six percent (6%) of organisations reported 'other' sources of pressure on this issue. These 'other' areas include casuals, low paid staff not utilising public transport, regionally located staff, middle level employees, Field staff, Sales Managers seeking to utilise a healthy motor vehicle benefits package as a recruitment tool and Novated Lease holders doing higher than expected business kilometres.

Q5. 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 that the majority of organisations (**71%**) have or are taking the rising fuel prices into account when considering current motor vehicle policies. Over a third (**36%**) of the surveyed organisations are currently reviewing their policies, while seventeen percent (**17%**) have reviewed their policies and decided not to make any changes. Amongst the organisations that have already reviewed the impact of petrol prices, eighteen percent (**18%**) of organisations will make changes to incorporate the higher costs of fuel, only **1%** more than those who decided not to make changes after their review.

Organisations that have considered the impact of fuel prices and decided to make changes (**18%** 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 despite employee reluctance; while other organisations are increasing their nominal after tax contribution to the provision of a company vehicle; other organisations are no longer offering fully maintained vehicles, preferring to offer Car Allowances and Novated Leases, or in some cases move to fixed remuneration; and still others are changing their company vehicles from 6 cylinder to 4 cylinder vehicles.

Other organisations appear driven more by the effect of rising fuel prices on their employees. This group of organisations have made changes such as: increasing the motor vehicle allowance by \$3,000 and removing it from superable pay; increasing the motor vehicle allowance by between \$1,000 and \$4,000, dependant upon things like employee positions and the price of fuel not dropping below \$1.00/L for a consistent month; increasing the motor vehicle allowance by 4% on average; lowering the motor vehicle allowance and introducing a fuel card to remove variable costs for employees; increasing the notional fuel allowance by \$3,000 for Sales Executives; introducing more frequent reviews of motor vehicle benefits either annually or biannually; increasing the kilometre reimbursement rate they offer to their staff, either meeting or in some cases exceeding the latest ATO rates of \$0.55/km for small (1600cc) vehicles travelling less than 5,000 business kilometres per year⁴.

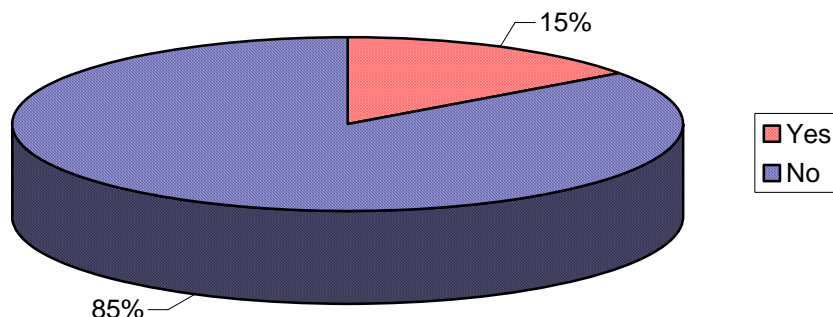
Some organisations that reported having made changes, reported that these changes were not due directly to the rise in fuel prices, but rather due to their regular review periods or other factors.

⁴ CCH Australia (2006) "FBT: car rates for 2005/2006", *CCH Australia website*. <http://www.cch.com.au>. March 22, 2006.

Q6. If you are NOT considering changes to your motor vehicle policy, are you doing anything on an ad hoc basis to address this issue?

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 5. (i.e. 43% of the total sample responded to this question.)

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



The above graph shows that the vast majority (**85%**) 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 fifteen percent (**15%**) of organisations where ad hoc activities are being implemented, organisations are making specialist motor vehicle benefit consultants available to their staff, and are monitoring the changing cost of fuel and amending their motor vehicle or fuel allowances accordingly. Some organisations have considered increases to individual's base salaries due to the rising fuel prices.

CASE STUDY – CP SHIPS (UK) LIMITED

CP Ships is an organisation operating in the shipping industry that has a policy in place in order to address fluctuations in fuel prices. John Kairuz, the National HR Manager gave us the run down on the workings of their policy.

CP Ships instituted the following measures by which to calculate a Fuel Allowance that they provided to their staff on top of the car allowances provided in order to absorb the fluctuating fuel costs. At the inception of the policy, CP Ships employed about 220 staff. The Sales staff that received allowances for tool-of-trade vehicles were the only ones covered by this policy.

CP Ships provide car allowances to their Sales staff in the order of \$16,800 per annum, as well as a parking allowance that varies from \$75 to \$150 per month depending on the state in which the employee is based. Their motor vehicle policy had written into it a clause, which required car allowance rates to be reviewed should the price of fuel rise above \$1.10/L. When Petrol prices exceeded this amount they introduced a Fuel Allowance based on a Fuel Adjustment Figure.

Similar to the car allowance, the fuel allowance is given as an after tax allowance. It is readjusted quarterly, and contingent on fuel prices remaining above \$1.10/L on average across the previous 3-month period. The Fuel Adjustment Factor (FAF) was calculated utilising the Australian Automobile Associations Fuel Track information⁵, basing their employees Australia wide on Sydney prices. The V6 Commodore is utilised as the standard vehicle for calculations to be based upon, with the fuel efficiency sourced from the manufacturer, Holden. The typical mileage of a member of the Sales staff was assessed by the Sales Director. Utilising this information, the following formula was created to define the Fuel Allowance for the following quarter.

$$\text{FAF} = \text{Avg. km per year} \div \text{L per Km (Fuel efficiency)} \div 12 \text{ (months in the year)} \times \text{Avg. fuel price increase}$$

According to John Kairuz, Sales employees at CP Ships found the Fuel Allowance provided by CP Ships and the policy surrounding it to be a fair and satisfying solution to the fluctuating fuel prices.

John Kairuz of CP Ships provided this information. Please note that CP Ships has been bought out by Hapag-Lloyd and is currently running on a skeletal staff to wind down operation by the end of the year. I am advised that Hapag-Lloyd do not intend to adopt the CP Ships policy.

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 **36%** of organisations that are under some form of pressure, the majority of organisations feel they are under *moderate* (**49%**) to *strong* (**30%**) pressure to make changes. Thus indicating that although the percentage of organisations receiving pressure in this area has declined since November 2005, the percentage of organisations reporting the pressure to be *moderate* to *strong* has increased. Of those organisations that are experiencing pressure, the job family applying the greatest amount of pressure is Sales, with **75%** of organisations reporting pressure from this area. Of the **82%** of responding organisations who do provide motor vehicle benefits, the most commonly provided form of motor vehicle benefits were Novated Leases (**60%**) and Car Allowances (**60%**). Of the organisations that have previously considered making changes (**36%**), organisations are just as likely to not make any changes (**17%** of organisations) as they are to make changes (**18%** 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 (**15%**) 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 Australian Automobile Association – Fuel Trac - <http://www.aaa.asn.au/issues/petrol.htm> Viewed on August 18, 2006.