

CAR ALLOWANCES

2010 REPORT OF THE TECHNICAL ADVISERS

1 Introduction

This is the report of the Technical Advisers following their review of the costs of motoring in relation to the agreed formula.

2 The Standard Car

The vehicles chosen are set out in Appendix 1. It should be noted that cars have been chosen from the list of best selling cars where possible, with the exception noted below.

Group One cars comprise only 3.41% of the total market at 68,098 units. This is still a small proportion of the cars sold but has increased by 140% since last year. We have been able to select four cars for Group One, but as in recent years not all from the top twenty sellers. Only one of the vehicles is in the top twenty selling cars for 2009.

Group Two cars represent 37.2% of the total market with 742,153 units sold, this is an increase of 4.1% compared to 2008 in a reduced market, and this sector maintains its position as the most popular vehicle group in the UK market.

Group Three cars represent 26.61% of the total market with 530,849 sales, this is a decrease of 14.22% compared to 2008, although this sector still represents the second largest proportion of new cars sold in the UK by a significant margin.

Groups Two and Three continue to represent the bulk of vehicles sold in the UK at about 63.8% of the total although the total size of the new car market shrank by 6.4% compared to 2008. Whilst the percentage of private purchases has increased to 53.9% of the new car market, this is somewhat misleading as the taxation regime for company car users has resulted in many new "company cars" being treated as private purchases and the Government Scrappage Scheme resulted in approximately 280,000 new car sales to private buyers.

The private purchases, however, tend to mirror the vehicle types purchased by the fleet sector, and this would confirm that the top twenty selling vehicles still have a great relevance for the "local government" market.

As we predicted in recent years, the consistent drive by manufacturers to meet the increasing EU emissions regulations means that engine sizes are increasing and it will therefore become difficult to deal with both Groups One and Two in future years. (See future developments, paragraph 13 below).

The increase in engine size means that vehicles move between Groups making year on year comparisons more difficult.

Sales of diesel vehicles did not follow recent trends and reduced to a market share of 41.7% or 832,456 units. Motor Industry analysts predict market share to be sustained although at a reduced rate of increase due to the differential pricing of diesel and petrol. Although the majority of new sales are made to businesses in Vehicle Groups Three and above, significant increases in sales will result in substantial numbers appearing on the second hand market and being purchased by public sector employees.

Registrations of alternatively fuelled vehicles were reduced by 5.5% in 2009 to 14,963. This represents 0.8% of the total market for new cars.

3 Purchase and Selling Prices

The figures are set out in Appendix 2. The difference between the average purchase price and the average selling price (after five years, or 50,000 miles) is divided by 5 to give an annual depreciation.

4 Fuel Consumption

The data is set out in Appendix 3. The following rates result:

<u>Band</u>	<u>Miles Per Gallon</u>	
451 - 999cc	54	(previous – 53)
1000 - 1199cc	49	(previous – 48)
1200 - 1450cc	45	(previous - 44)

The five years of figures which are taken into account to determine the average of fuel consumption for each group, are derived entirely from the Official Fuel Consumption Test, based on EU Directive 1999/100/EC, which itself is based on the EU Directive 1993/116/EC. This Official Fuel Consumption Test is deemed to provide consumption figures that are more representative of “real world” motoring. Details of its basis are shown at Appendix 3.

The Miles per Gallon in all Groups has increased as a result of the greater efficiency of cars in the Group over the last five years as reflected in the moving averages.

5 Fuel Price

The petrol element is based on unleaded fuel at 111.74 per litre (507.95 per gallon) and using the fuel consumption figures would produce costs per mile as follows:-

<u>Band</u>	<u>Cost Per Mile (p)</u>	
451 - 999cc	9.406	(previous –7.433p)
1000 - 1199cc	10.366	(previous –8.207p)
1200 - 1450cc	11.288	(previous –8.953p)

Averages are based on actual pump prices in the first two weeks of January 2010 as surveyed by the Automobile Association on behalf of the Society of Motor Manufacturers and Traders.

Following the turbulence of 2007 and the first half of 2008, fuel prices started to soften immediately after the completion of the Olympic Games in China, and with economic recession gripping North America, the biggest consumer of oil products, prices fell to their lowest level for 21 months by the end of December 2008. Since that date however, fuel prices have been subject to steady increases.

Although the OPEC Nations have tried to agree to a reduction in production of oil, unwillingness from the Russian Oil producers has limited the effectiveness of this. Oil Industry Analysts do not expect significant changes in oil prices during the current economic downturn.

The Chancellor has reinstated the 2.5% VAT reduction as from 1 January 2010. The Petrol Retailers Association believes that fuel could be faced with increases in duty during 2010.

6 Tyres

Prices have increased by an average of 8.00% across the range of standard fitment tyres, lower than last year's increase of 15%. This is the seventh year in which tyre costs have increased. The basis of the formula in historic costing could however be reviewed. (See paragraph 13, below.)

<u>Band</u>	<u>Percentage Increase</u>	<u>Previous Base</u>	<u>Present Cost</u>
	%	P	P
451 – 999cc	8%	1.068	1.153
1000 - 1199cc	8%	1.268	1.369
1200 - 1450cc	8%	1.432	1.547

7 Servicing, Repairs, Renewals and Oils

The same methodology has been used as for previous years i.e. the average cost per mile for each Group is determined for 2009 and then brought into a 5 year rolling average, with earlier years repriced using the relevant retail price index.

<u>Band</u>	<u>Pence Per mile</u>	
451 – 999cc	3.143	(previous – 3.215p)
1000 – 1199cc	2.702	(previous – 2.768p)
1200 – 1450cc	3.591	(previous – 3.839p)

The background data is set out in Appendix 4.

This area remains difficult to deal with, and new models coming on to the market have longer service intervals and reduced servicing costs. New vehicles introduced into Groups One Two and Three for 2010 have reduced the average service costs of those groups

Although manufacturers continue to increase the interval between services on a mileage basis, a feature of the newest models introduced is a computerised access to engine management systems which allows faults to be called up electronically, and as a consequence servicing time and costs are being reduced further.

The increase in servicing prices, as measured by the Retail Price Index (RPI), tend to be offset by reducing real costs over the five years used in the moving average adopted in the formula.

8 Insurances

The agreed approach to calculating insurance costs has been to uprate the previous year's figures by the relevant element of the RPI (note reference to future developments on items based on historic costing in paragraph 13). The insurance element has increased from 446.8 to 512.4 over the last year, which is an increase of 14.7%. Applying this percentage to the previous amounts gives the following:

<u>Band</u>	<u>£</u>	
451 - 999cc	1,553	(Previous 1,354)
1100 - 1199cc	1,672	(Previous 1,458)
1200 - 1450cc	1,995	(Previous 1,739)

9 Depreciation

Until the introduction of the Government Scrappage Scheme in July, new car sales had fallen for fifteen consecutive months. Prior to the introduction of the Scheme new car sales in 2009 were 26% lower than the corresponding period for 2008 whilst after the Scheme's introduction, sales increased by some 21% compared to the same period in 2008. .

The stability of new car prices has continued to hold, with many new car prices remaining around their 2001/2002 level, although there are signs that this may change in 2010 as Ford have announced significant increases across their range. Previous stability has been achieved in the main by reduced specifications and lower dealer margins as a consequence of the move to parallel imports in the late 1990's. The current policy for the pricing of new cars continues to depress the residual values of second hand vehicles

Depreciation is also, however, affected when cars become obsolete. When new models are introduced into groups the depreciation of the five year old and obsolete design can increase significantly. During 2009 new models of the Citroen C1, Ford Fiesta, VW Golf, VW Polo and Peugeot 308 were introduced

Motor Industry sources are predicting a number of new cars from seven major companies are to be introduced during 2010 in Groups Two and Three. If these vehicles become top sellers, as we anticipate some of them will become, this could have a major impact on the residual values of the obsolete models.

Having said that the major impact on the residual values of second hand cars at the time of this report is the economic downturn, which has had a significant effect upon consumer confidence and resulted in a sharp downward trend in second hand values. Trends are very difficult to predict but from a low point in January 2009 second hand car values increased as the number of vehicles coming on to the market reduced, and then after July when the Scrappage Scheme was launched second-hand values once again decreased as people who may have been in the market for a second hand vehicle were instead able to trade up to a new but smaller car.

The sales of Group One cars, at 3.4% of the total market, are not represented by the volume sellers during 2009 and this figure has been increased on a one-off basis by the Scrappage Scheme. The continued trend of manufacturers to fit slightly larger engines to vehicles in order to meet EU requirements is likely to prevent large sales within this sector. The predicted uptake of alternately fuelled vehicles has not taken place and it remains to be seen whether new vehicles from Honda and Toyota can make inroads into the market place as anything but niche players.

The use of the figures of purchase and resale prices set out in Appendix 2 gives the following figures:

<u>Band</u>	<u>Depreciation</u>		<u>Percentage</u> <u>Change</u>
	£		%
451 - 999cc	1,206	(previous - £1,247)	-3.2
1000 - 1199cc	1,431	(previous - £1,372)	4.3
1200 - 1450cc	<u>2,032</u>	(previous - £2,058)	<u>-1.3</u>
	<u>4,669</u>	(previous - £4,677)	<u>-0.2</u>

The calculations produce variations in the level of depreciation from 2009 i.e. a reduction of 3.2% for Band 1, plus 4.3% for Band 2 and minus 1.3% for Band 3. The formula is based on real historical depreciation figures, whereas all other motoring organisations base their calculations on predicted future depreciation estimates. To smooth out variations from year to year, in previous reviews, an average depreciation percentage has been applied across all three groups.

Your advisers remain concerned at potential variations arising between bands for reasons set out in the report. It is therefore recommended that previous practise is continued and the band results be aggregated. This would give a reduction in depreciation of 0.17% which, if applied to the bands, would give:

	2009 £		2010 £
Band 1	1,219)		1,217
Band 2	1,439)	X 0.9983.	1,437
Band 3	<u>2,020)</u>		<u>2,017</u>
	<u>4,678</u>		<u>4,671</u>

10 Vehicle Excise Duty

The formula assumes local government officers drive cars up to five years old. From 2006 therefore, the duties payable on cars registered before 1 March 2001 are not relevant to the calculation.

The Chancellor in his Pre-Budget Statement in October 2008 confirmed that the planned reform of Vehicle Excise Duty (VED) had been delayed from 2009 to 2010. The revised proposals are set out below and the information is restricted to that applicable to the Standard Cars that have been selected for 2010.

Vehicles relevant to this report registered after 1.3.2001

<u>Band</u>	<u>CO₂ Emission (g/km)</u>	<u>2009/10 (£)</u>	<u>2010/11 (£)</u>
A	Up to 100	-	-
B	101 to 110	35	20
C	111 to 120	35	30
D	121 to 130	120	90
E	131 to 140	120	110
F	141 to 150	125	125
G	151 to 165	150	155

These figures may be varied by the Chancellor's March 2010 Budget Statement

The bandings of the standard cars are shown at Appendix 5. The Group averages are £48 for Group 1; £100 for Group 2 and £120 for Group 3.

The separate duty for alternative fuelled cars and diesel cars, are ignored for the purpose of this review, although the revised bandings in 2006 and 2007 were introduced to encourage the use of alternative fuelled vehicles as well as discourage the use of vehicles with higher exhaust pollutions.

11 Environmental Issues Impact

Average new car CO₂ emissions showed their fastest rate of decline in 2009 with a 5.4% reduction to 149.5g/km. This was assisted by the Scrappage Scheme with the average CO₂ value of vehicles through this scheme being 133.3g/km.

The market bore witness to a number of new low CO₂ emitting models with manufacturers offering eco versions of many of their mainstream models.

The shift to diesel and alternatively fuelled cars was not sustained in 2009 but this is thought to be as a consequence of the Scrappage Scheme rather than a long term trend.

At the end of 2007 the EU published the Directive detailing European-wide mandatory emissions targets for new cars to achieve 130g/km by 2012. The Directive also indicated the very high fees for non-compliance with the targets.

In the UK, to achieve the targets by 2012, will require a reduction of some 10.0g/km reduction a year over the next two years.

12 Summary

The above items are summarised in Appendix 6 together with the formula based allowances that would result.

13 Future Developments

The major areas for review have not changed for a number of years and include:

- As manufacturers strive to meet ever tightening emission regulations, new engines with slightly larger capacities are being introduced, generally around 1250cc. This has the effect of moving Group Two cars into Group Three and leads to distortions of operating costs and residual values. A good example of this is the Ford Fiesta which, although being in Group 3 for engine capacity, has the size and running costs of a typical Group Two car. **The capacity classes for Groups Two and Three should be the subject of a review.**
- The number of diesel-engined cars being sold has reached a significant level and is expected to reach in excess of 42% in 2010. The average diesel engined vehicle is generally more fuel efficient than its petrol powered counterpart, and as an example the best selling diesel engined car, the Ford Focus has a fuel cost per mile of **8.23 pence**, compared to a fuel cost per mile of **11.66 pence** for the petrol engined equivalent. **The cost of operating diesel engined vehicles should be researched for possible factoring into future reviews.**
- The formula used has a number of areas based on historic costing, an example of this is the element for tyres which updates previous year figures for inflation but does not take account of technical or other changes that have increased the service life of tyres in recent years. This could reduce the cost element of tyres per mile by up to 50%. **The formula in respect of issues of this nature should be reviewed.**

K Dixon and P Gregory, Technical Advisers
March 2010

STANDARD CAR ANALYSIS

1 SMMT - Top Twenty Sellers 2009

BMW 3 Series	Peugeot 308	V/W Golf
Ford Fiesta	BMW Mini	Toyota Yaris
Honda Jazz	Vauxhall Astra	Nissan Qashqai
Ford Mondeo	BMW 1 Series	Audi A3
Honda Civic	Vauxhall Corsa	Ford Focus
Peugeot 207	V/W Passat	Vauxhall Insignia
Renault Clio	V/W Polo	

2 Standard Cars Related to Bands

451 - 999cc (3/5 door)

Citroen C1 VT (3); Vauxhall Agila 1.0i 12v ecoFLEX (5);
Toyota Yaris 1.0VVT-i T2 (3); Chevrolet Matiz 1.0SE (5).

1000 - 1199cc (3/5 door)

Volkswagen Polo 1.2 60 Moda; Honda Jazz 1.2SE (5); Renault Clio 1.2
Expression (5); Vauxhall Corsa 1.2 16v Life (3).

1200 - 1450cc (5 door)

Ford Focus 1.4 Studio; Volkswagen Golf 1.4 80 S, Vauxhall Astra 1.4 100
Exclusive; Ford Fiesta 1.25i 82 Edge.

Note: The Nissan Micra has been replaced by the Honda Jazz in Group 2.
Apart from minor model changes the remaining standard cars remain
unchanged from last year.

PURCHASE PRICE AND RESIDUAL VALUE (RESALE VALUE)

JANUARY 2010

<u>Car Type</u>	<u>Purchase Price</u> £	<u>Average Selling Price 5 Years Old</u> <u>50,000 Miles</u> £	<u>Difference</u> ÷ 5 £
<u>Band 1: 451 – 999cc</u>			
Citroen C1	8,095	3,230	
Vauxhall Agila	9,495	2,143	
Chevrolet Matiz	7,495	2,280	
Toyota Yaris	9,905	3,215	
Average Band 1	8,748	2,717	1,206
<u>Band 2 : 1000cc to 1199cc</u>			
V/W Polo	10,785	3,408	
Honda Jazz	11,365	3,860	
Renault Clio Expression	11,085	2,920	
Vauxhall Corsa Life	8,690	3,119	
Average Band 2	10,481	3,327	1,431
<u>Band 3 : 1199cc to 1450cc</u>			
Ford Focus	14,945	3,873	
V/W Golf	14,660	6,113	
Ford Fiesta	12,445	3,388	
Vauxhall Astra	16,010	4,043	
Average Band 3	14,515	4,354	2,032

FUEL CONSUMPTION ANALYSIS

Weighted Average (EC116-93)	<u>Miles Per Gallon</u>		
	Band 1 450 to 999cc	Band 2 1000cc to 1199cc	Band 3 1200cc to 1450cc
Five Year Average	Band 1	Band 2	Band 3
2010	56.55	50.33	46.98
2009	55.15	48.30	44.53
2008	53.20	48.30	44.30
2007	53.20	47.90	43.63
2006	53.20	49.25	43.40
Average	54.26	48.82	44.57

Weighted Average for the Official Fuel Consumption Test

Urban Cycle: From a cold start, the cycle consists of a series of accelerations, steady speeds, decelerations and idling, maximum speed 31 mph, average 12 mph and distance 2.5 miles.

Extra Urban Cycle: This follows the urban cycle and consists of half steady speed driving, and the remainder accelerations, decelerations and some idling. Maximum speed is 75mph, average 39 mph and distance 4.3 miles.

Combined Fuel Consumption: This figure is a weighted average of the two cycles, 48% for Urban Cycle and 52% for Extra Urban and has now been used for all calculations.

SERVICE, REPAIRS, RENEWALS, AND OILS ANALYSIS (pence per mile)

2010 Costs

Car Type	Source Fleet Management Services P
Band 1 : 451-999cc Average Band 1	2.663
Band 2 : 1000cc - 1199cc Average Band 2	2.330
Band 3 : 1200cc to 1450cc Average Band 3	2.753

Five Year Moving Average

	Band 1		Band 2		Band 3	
	Oct 2008 Cost p	Repriced p	Oct 2008 cost p	Repriced p	Oct 2008 Cost p	Repriced p
2010		2.663		2.330		2.753
2009	2.745	2.830	2.573	2.652	3.108	3.204
2008	3.342	3.445	2.668	2.750	3.783	3.900
2007	3.222	3.321	2.749	2.834	3.806	3.924
2006	3.354	3.458	2.855	2.943	4.050	4.175
		15.717		13.509		17.956
5 year average		÷5		÷5		÷5
		3.143		2.702		3.591

Note

The repricing is achieved by applying the maintenance of motor vehicles index within the Motoring Expenditure element of the Index of Retail Prices. There is no completely accurate index that would reflect these costs but the RPI is generally understood.

2009	(Oct)	343.9
2008	(Oct)	333.6

VEHICLE EXCISE DUTY

	<u>Excise Band</u>	<u>Duty</u> £	<u>Average</u> £
Band 1			
Chevrolet Matiz	E	110	
Vauxhall Agila	C	30	
Citroen C1	B	20	
Toyota Yaris	C	30	48
Band 2			
Honda Jazz	D	90	
Renault Clio	E	110	
Vauxhall Corsa	E	110	
V/W Polo	D	90	100
Band 3			
Ford Fiesta	E	110	
Ford Focus	G	155	
Vauxhall Astra	D	90	
V/W Golf	F	125	120

MOTOR CAR ALLOWANCES

	451 - 999cc £	1000 - 1199cc £	1200 - 1450cc £
Standing Charges (per annum)			
Depreciation	1,217	1,437	2,017
Tax	48	100	120
Insurance	1,553	1,672	1,995
	2,818	3,209	4,132
Lump sum allowance for essential users based on 30% of standing charges (rounded to nearest multiple of £3)	£846	£963	£1,239
Remainder of standing charge to be paid at a mileage rate over 8,500 miles	23.200p	26.424p	34.035p
Running Expenses (per mile)	P	P	P
Petrol (unleaded) – 111.74p per litre	9.406	10.366	11.288
Tyres	1.153	1.369	1.547
Servicing, repairs, renewals, oil	3.143	2.702	3.591
	13.702	14.437	16.426
Allowances			
<u>Essential Users</u>			
Lump sum per annum	£846	£963	£1,239
Per mile first 8,500 miles	36.9p	40.9p	50.5p
Per mile - after 8,500 miles	13.7p	14.4p	16.4p
<u>Casual Users</u>			
Per mile first 8,500 miles	46.9p	52.2p	65.0p
Per mile - after 8,500 miles	13.7p	14.4p	16.4p