



# Part 1 – An Introduction to the fleet market

A Fleet Managers Guide

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## Introduction

**Most organisations have a need for business travel. There are many possible options, but it is a fact that the majority of business travel in the UK is undertaken in cars.**

Not all organisations recognise that by running cars and/or vans, they are actually part of the overall fleet market. That means they often overlook the benefits of thinking fleet, and fail to explore the best ways of keeping themselves legal and cost-effective. What is common to all businesses using motor vehicles within their business is the need to control and manage the process, to ensure that the organisation is properly served, complies with the whole raft of Road Traffic law, and provides a safe and effective solution to the travel demand. Because there is no single, clear requirement, there are many optional solutions. Throughout these guides we will go through many of those options.

## Every business is different

While the need to travel on business is fairly typical, the best way to meet these needs varies widely. Every business is different – size, geographical spread, age and nature of the employees and products, financial background. The market has developed to reflect these demands.

Some businesses use vehicles purely as a tool of trade, to move people and equipment quickly and easily. In some cases a company car is little more than one part of the overall remuneration package: designed to encourage and motivate the employees concerned. In the UK, the majority of company cars perform some mixture of these functions, with some job-need purpose allied to private use by the employee outside working hours.

In some cases, cars might not even be company-controlled. Many organisations fulfil their business travel needs through use of employee-owned cars. This may be by a structured arrangement (generally to gain driver taxation advantage), or a simple ad hoc mileage allowance process through the expenses system. Many of the issues addressed in this Guide will relate to these non-fleet cars – and in the case of the employer's Duty of Care, there should only be one standard for controlling the road safety aspects of all journeys on the organisation's business.



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## Duty of Care – core responsibilities

Regardless of the business vehicle, on one thing there should be no confusion: the need for the organisation, through the fleet manager or similar position, to make sure that all the legal requirements are met in full. It is now absolutely clear that an employer has to include “driving at work” within the overall Health & Safety scheme in place. There are many aspects to this and the root is an effective risk assessment/risk management policy to provide a framework for ensuring that a safe working culture is in place and that it is reinforced on a regular basis.

That’s where this web-based Guide to Fleet Management comes in. We intend to provide a good general background to the options, with pointers to best practice and hopefully, clear signals of major pitfalls. And there are potential pitfalls: making the wrong decision about funding or fuel choice can result in overall fleet costs becoming much higher than necessary to achieve the same results in terms of people and goods moved.

## Some definitions

A **fleet** is any collection of cars and/or vans being used and operated within a single business. It doesn’t need to be a huge number of vehicles: it’s much more about the state of mind that says that applying some common principles to all the vehicles being used generally makes more sense than running them all in isolation.

The vast majority of fleets exist to support the **main business of the operator**, whether that’s in the public, private or voluntary sector; local to one site or scattered across the country. Any temptation to leave the drivers and the vehicles to their own devices is dangerous: such businesses have legal obligations for any employee using a car or van on the roads, irrespective of company or fleet size.

A **pool car** is a car used by any of a group of employees for any legitimate business purpose. Private use by any employee is not allowed; cars are usually returned to a company base overnight. A **company car** is any car provided by the employer for use by one employee; and generally bringing entitlement to private use of the car for domestic travel. Any such private use is taxable under benefit-in-kind tax rules.

**Fleet Management** is the process to record, monitor and control what is happening with the vehicles and drivers. The main purpose is to control – and reduce – costs, but there are many other aspects too – like avoiding HR issues because one employee feels that a colleague has a much better car than another.



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**Fleet costs** come in many forms. Naturally, the types of cost are similar across all vehicle types and methods, but some processes can help reduce costs, while others can be positively wasteful. For any car or van, the main cost headings are:

- **Depreciation:** essentially the cost difference between what is paid for the vehicle at the start, less what is recovered when it is sold;
- **Funding:** the interest or finance cost associated with the capital expenditure to acquire the vehicle in the first place;
- **Maintenance:** money spent in garages and other aftermarket services or routine/scheduled services, plus replacement of worn parts plus any repairs not covered in full by the manufacturer's warranty;
- **Insurance:** the sum of the insurance premium plus any other costs relating to repair of accident damage;
- **Fuel:** the amount of money spent on the appropriate fuel (generally petrol or diesel). Ideally should capture the costs of all the fuel used but often limited to the fuel used for business journeys only;
- **Vehicle Excise Duty:** the annual charge by UK government for allowing the vehicle to be used on public roads;
- **Fleet Administration:** the costs of the administration needed to set up the systems to acquire the vehicles, then record and monitor all the other costs; together with other factors like a computer system to hold the records



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## The fleet market – a broad range of solutions

All vehicles generate some costs under the headings above, irrespective of who owns them or how they are used. In the UK the **fleet market** (collectively all the businesses supplying goods and services to fleet operators) has developed over the years a huge range of solutions to deliver different packages of these costs.

For example, some service providers wrap up depreciation, maintenance and funding, with much of the fleet administration, into a single package called **contract hire** or **leasing**. Specialist businesses – **Accident Management** companies - deal with all the repair actions needed as a consequence to a road accident. There are specialist credit/ charge card providers concentrating on making re-fuelling easier to manage by issue of **fuel cards**.

However, there are also many businesses using cars and vans which prefer to do everything inhouse, rather than outsource any of these areas to specialist agencies. Its fine in principle – but it is not a guarantee that it will reduce costs: it's not the administration that costs the most; it's the actual costs in depreciation, funding and fuel! "Saving money" is about overall delivered results, not focus on one small component part of the whole cost picture.

**The fact is that there just isn't any one simple way to run every fleet: different methods and approaches will yield very different results in different circumstances. The objective of the "fleet manager" is to get the best overall result for the main business, rather than run the best fleet.**



## Part 2 – Service, Maintenance & Repairs

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### Introduction

The modern fleet car or van is infinitely more complex and powerful than those of a few years ago. Mechanical reliability has increased substantially, despite the servicing schedules tending to reduce due to better design, build quality and more advanced lubricants. In some cases there can be an issue about getting everyone involved to remember that car or van is a potentially-lethal weapon, and must be kept in good order. There are very important safety issues, as well as cost and commercial issues at stake.

So what is “fleet maintenance”? Large fleets frequently break this down into different types of maintenance, but many smaller fleets would find this unnecessary. It is good practice to try to balance between recording as much detail as possible, and finding the resource to do it. But keeping an eye on the detail can occasionally pay handsome dividends.

### Key aspects of fleet maintenance

The major divisions most often used to record maintenance detail are:

- **Servicing:** This is the routine work scheduled by the vehicle manufacturer in the service booklet which comes with every vehicle. The modern trend appearing on most Volkswagen models, is for “smart” servicing intervals. The car monitors its own condition, and the type of use it has had, and will indicate through some form of dashboard message, when the driver should book a service. Other vehicles are set so that work is required on some form of time/ mileage combination
- **Repairs:** The need for attention to parts of the vehicle which malfunction. They can be minor (a rattle, or a blown side-light bulb) or major (failed engine or broken gearbox). Better build quality has reduced the frequency of mechanical repairs. Most minor repairs will not incapacitate the vehicle, while major ones will either bring it to an immediate halt, or make it obvious that attention is needed on a fairly urgent basis
- **Tyres:** As the only contact between vehicle and road surface, tyres have to be in good condition for safety. There are clear tread-depth and inflation pressure regulations. Good records of when tyres are replaced are an important part of demonstrating Duty of Care



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- **Downtime:** Any days off the road for mechanical failure should be monitored – for costs (especially of a rental car is provided at an extra charge). Useful to record as a trend for overall vehicle reliability.
- **Relief vehicles:** Related to the downtime issue above, but with much more important cost implications

Splitting out elements of the invoice costs to allocate the right cost code takes administrative time and effort. In some fleets, this could not be justified, especially if it is likely that no use will ever be made of this information. But it does represent good practice. And once collected, the data might be useful in all sorts of interesting and productive ways, especially in larger fleets. For example, it could show persistently high costs for one model, against another. It might “prove” driver abuse - or the fact that vehicles had been serviced according to requirements. So there could be quite significant financial gains from negotiations with manufacturers and other suppliers, simply because you have a clear record.

### Outsourcing Maintenance and Servicing reports

Where the fleet operation has been outsourced under contract hire with maintenance, or uses an external agency to manage the maintenance, these should be doing exactly the same kind of analysis for their own purposes. One thing that is important is to ensure that reports on key aspects of the underlying data about the fleet maintenance performance should be fully available to the fleet operator on demand. This is particularly important as one part of the audit trail of maintenance, making sure that vehicles are being serviced and kept fully roadworthy.

Something like half of all fleet vehicles have their maintenance controlled through an outside agency - either within a contract hire arrangement, or through some form of “fleet management” contract. Fleets in the UK have easy access to a wide choice of service providers, and so should be able to source a highly professional, ethical and safe service on a cost-effective basis.

The big difference between the two types of maintenance outsourcing lies in where the cost risk lies. Under a contract hire agreement, the external specialist will make their own projection of the amount of maintenance spend likely to be needed to keep the car or van on the road, for the full period and mileage of the contract. This sum is then “fixed”, and is usually charged in equal amounts across the full period of the agreement.



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Fleet maintenance management gives the same service - but without any cost guarantee from the supplier. Instead, they use their professional expertise to manage each maintenance event as it arises. So far as costing is concerned, the fleet customer is recharged for every maintenance item as it is incurred, together with a fixed management fee for doing the work and maintaining the records. Under this system, it is normal for the costings on a new vehicle to be very low, but get progressively higher month on month as the vehicle ages.

These different outsourcing arrangements are valuable, because they put the onus on some of the highly technical issues on to maintenance controllers who are trained to handle it properly. This saves the fleet manager dealing with high volumes of relatively low value work - and avoids the need to understand the mechanical intricacies of today's cars and vans.

### **Duty of Care**

But - and this is an important point - that does not absolve the fleet manager or the business from having a very clear eye on what is going on. Probably the hottest topic in the UK fleet industry (2007/8) is the whole issue of the Duty of Care owed by employers to employees in respect of driving on business.

Basically, what this means is that the fleet operator, through the "fleet manager", must be aware that maintenance is being done properly and regularly. Any feeling that drivers are failing to book vehicles into garages for service/repair work or inspection of safety-critical equipment must be followed through carefully and quickly. There is a commercial issue here: a vehicle with a poor maintenance history could end up being expensive, and/or difficult to sell at a fair price. But far more importantly, there are issues of general road safety for the driver; and significant legal issues which could hit the company hard in a worst-case scenario where the vehicle is involved in a serious accident.

Despite maintenance costs falling as a proportion of the overall fleet operating budget, it is something which must be considered very seriously indeed. Drivers need to be made fully aware that they are directly responsible for understanding the maintenance requirements of the vehicle they drive, and in making sure that service schedules are properly observed.



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In situations where there are pool cars or vans; or vehicles which are shared in some way between different employees, a named manager should have the responsibility to check vehicle maintenance requirement as a clear and unambiguous element of their job function. It may sound simple and obvious and possible excessive – but increasingly, people involved in road accidents are turning to the law to seek compensation. Any suggestion that one of your vehicles involved in an accident was not properly maintained could open up such a claim – and any civil judgement against the fleet operator is unlikely to be for trivial amounts of cash.

### **Warranty**

Another important issue is the warranty available on fleet cars. There are many different period and mileage limits and thresholds of warranty, and the details should be checked just in case there are any onerous conditions. One specific characteristic of fleet cars is that they may be based – and therefore need to be serviced – in a different part of the country from where they were bought. To take full advantage of the warranty, the repairing dealer must be told that the warranty does (or at least might) apply to the vehicle. Otherwise, the company will end up paying for work which is actually covered elsewhere. Where the vehicle is leased or contract hired, most suppliers will ensure these terms are fully understood by the garage before the work starts.



## Part 3 – Fuelling Fleet Vehicles

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### Introduction

Fuel is one of the biggest cost elements in the fleet budget, generally ranking second to depreciation, or the lease rentals. For a typical fleet car situation, the fuel for business mileage can be 15% - 20% of the total fleet cost. Fleets have faced significant increases in fuel costs, through a combination of higher prices for the raw material crude oil, and because of continuing escalation in UK taxation on road-fuels.

Given the global supply situation, with costs of crude oil constantly increasing, this situation is unlikely to improve. So it follows that exercising control over the fuel used, and the costs involved, is an essential part of the fleet management function.

Most company cars and vans have fuel used for business mileage paid for by the employer. About one-third of these also have private mileage paid for as well. So controlling the costs involved is just as important as any other aspect of fleet management.

A typical fleet car fuel cost calculation might look like this:

Business mileage (fuel paid for)	=	10,000 pa
Expected consumption (diesel)	=	45 mpg
Typical pump price of fuel	=	105 p per litre

On that basis, for its 10,000 annual business miles the vehicle will:

Use	1,010 litres	(222 gallons)
Cost	£1,061	(VAT inclusive)
	£903	(VAT exclusive)

These costs are likely to continue to increase significantly ahead of inflation over the coming years. Transport of all kinds is a major contributor to carbon dioxide (CO<sub>2</sub>) release into the atmosphere, and the UK government is committed to controlling this – through taxation. Most vehicle taxes are now based on, or have some component, relating to CO<sub>2</sub> production. Unless there is some reasonable system now, the fleet manager will have no idea how much is being spent, and will be unable to predict or control fleet fuel costs in future. That can be dangerous, in any business cost situation.



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### Environmental Issues

Increasingly, businesses are also addressing their response to the threat of climate change. There are many initiatives to encourage more responsible fleet vehicle use, through choosing more economical vehicles, reducing business mileage and improving fuel economy in use. All of these are matters of choice, but the trend is clear – it makes great sense for fleets to control their fuel budget.

Fortunately, the techniques required for both cost and environmental control are the same. This means that any normal management controls to monitor and reduce costs will almost certainly improve the “green” aspects of the fleet – and for little extra money.

### Managing Fuel Cost Data

There are just a few basic elements to good fuel management. Most of these are directly related to the fuel use itself – the volume purchased, the distance covered, and the cost. In a perfect system, all of these would be recorded, and everything you need to know about fuel control can then be calculated. The total cost to the business is an obvious advantage, while checking the fuel consumption by individual vehicle can identify areas of poor performance and possible mechanical problems with the vehicle.

Unfortunately in many cases fuel control is often seen as a “nuisance” or as “unnecessary”. Part of the problem is that there are so many “little” transactions. For example, a typical fleet car will generate one or two forecourt bills every week, and for some reason many fleets feel that this is too big a job to bother about. But as fuel costs increase, the costs of monitoring fuel expenses becomes more cost-effective.

The key to managing fuel costs is in collecting the data. If you can capture all three data items at every fill, then by definition you will have a complete picture of the fuel performance of the individual vehicle. Using a fuel card is the easiest way to do this. It provides the quickest, cleanest – and usually the cheapest and most accurate – method to capture, manipulate and report on fuel performance. A good fuel card system is one which is widely accepted, needs both forecourt and driver to provide input of the relevant data for each fill, and then provides periodic reports on the performance of the fleet, by individual vehicle, cost centre or other grouped levels.

### Use of Fuel Data

It is, of course, perfectly possible and practical to run a system in-house, but this generally requires more effort on the part of drivers (never a welcome move!), and administrative resources to do the analysis work.



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Either way, the big value is that once you have all the data, you can use it as you please. On the other hand, if you don't have the data, you have no choice - and you have no control.

Many businesses adopt a flat-rate reimbursement policy to repay drivers for the cost of fuel for business travel. Provided that the mileage claimed is accurate, this will at least provide some useful data: if the reimbursement rate is set to reflect the types of vehicle then it is up to the driver to control the fuel economy. However, this approach will hardly provide any valuable information towards any environmental improvement across the fleet – and that is becoming ever more urgent too.

### Alternative Fuels

As all parties try to reduce the impact of transport on the environment, there has been development of alternatives to the mainstream fuels (petrol and diesel). These can offer a range of advantages – but unless there is already some clear idea about fuel use in the fleet, just picking an alternative fuel could be counter-productive.

**Liquefied Petroleum Gas (LPG)** is a waste product that can be used to reduce the total need for petrol. Engines (always petrol) need to be modified to run on LPG, and a separate fuel tank and system must be fitted. There is fairly good access to refuelling, but now LPG is seen as a niche market product rather than as a good general-purpose solution.

**Hybrids** use a combination of a small, high-efficiency engine (usually petrol – though diesels are under development) and a battery-powered electric motor. Clever electronics balance the use of each power-source to suit roads conditions. The on-board batteries are charged when the engine is idling and when the brakes are applied – by converting the motion of the car into electric current. Performance is good when urban or other stop-start motoring is involved, but less attractive if the car is used mostly on faster open roads since there is less braking.

**Bio-fuels** are non-fossil fuels produced from crops, so have a reduced climate change impact. There are two forms – bio-ethanol which can replace petrol, and bio-diesel, which can be used in high concentrations, but is most commonly found as a simple additive and “extender” to ordinary fossil diesel. The bio-ethanol solution is only available in a few specific models, and (early 2008) has availability limited to just a few areas of the country. Bio-diesel as an extender is already in fairly wide-spread use across most of the UK.



## Part 4 – Fleet Allocation Policies

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#### The importance of an allocation policy

One of the fundamental factors in running a fleet is the issue of "who gets what". This is central to the efficiency of the fleet operation – and the costs. This question spans many different corporate functions including finance from the cost perspective; HR for the recruit/ retain/ motivate implications; CSR for the safety and environmental aspects, and Company Secretariat for the insurance. It is the area where individual employees are most likely to have an emotional impact – and unless carefully managed, that can cause disruption and aggravation well beyond any other business function!

The vehicle types must always meet "the needs of the business". It follows that the fleet manager must know and understand what these needs are – and how they might change in the coming months.

The vehicle allocation policy is the company's – and the fleet manager's – tool to ensure that suitable, cost effective vehicles are brought onto the fleet. The requirement is to look at two clear issues - "who" is entitled to "what". Every business will be different based on size, relative wealth, attitude and competitor activity.

The "who" part must be set out clearly in the employment policy, and may include employees who must travel around in order carry out their normal duties, and/or senior managers with a flexible remuneration arrangement that can provide a car as well as the salary and other benefits. It is quite usual to group employees into bands of job function and seniority to provide a grading structure or hierarchy, with different criteria applied to each bands. One of the main factors is whether a vehicle is a job-need car (vans fall into this category too), or "perk" or status-based car.

The "what" side of the equation needs to define what vehicles are considered suitable for the different roles or grades. Size, load capacity, fuel type – and usually costs – need to be examined to get the right mix for any one organisation.

#### **Job-Need (Also “tool of trade” cars and vans, and pool cars)**

Job need vehicles are focused on the core business activities. An example may be an engineer who does high mileage and needs to carry a lot of tools. Hence the vehicle's load space, fuel consumption, value for money and ability to cope with high mileage, are the main requirements to be considered. An estate car with a diesel engine and manual gearbox may be the most appropriate vehicle to meet this need.



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### The importance of an allocation policy

Similar conditions apply to the selection of pool cars, where these are being placed for the use of groups of employees, without any one-to-one allocation or entitlement. In this case, it is always the business case that is paramount, so that the cars are capable of doing all the tasks likely to be required. That list may only run to basic movement of staff from site to site – but there may be load-shifting needs as well. And load capacity (by weight, or by internal volume) is a major factor in the selection of the right van for the job.

Most job-need cars will be allocated to a job function, so that establishing the entitlement is pretty straightforward. Often this group is the most numerous part of the fleet, and in situations like this, cost is going to be one of the biggest influences. There are several ways to look at "vehicle costs":

- List Price limits - "Any car up to £15,000 P11d value"
- Invoice Price - "Any car which we can buy and get on the road for less than £14,500"
- Contract Hire Rental - "Any vehicle that meets the specification, for less than £300 per month"
- Whole Life Costs - "Any suitable vehicle that will cost us less than a total of 34 pence per mile to run"

Each of these methods has a place. However, the Whole Life Cost is far and away the most appropriate for a job need situation, because it will include all of the real-life cost factors over the whole life of the car or van. This will take account of front-end price, and projected residual value; maintenance, funding and insurance; Vehicle Excise Duty (road tax) and of course fuel costs. This is a much more exact way to budget for the total fleet costs as an on-going part of the total costs of doing business.

Contract Hire rentals obviously include many of these factors as well – especially the residual value projections – and these have a valuable place in businesses where contract hire is the method of choice to run the fleet. However rentals do not include the – increasingly important – impact of fuel costs to the business, and so do not reflect the quite wide variations in fuel consumption, as between models that are similarly sized.

### Perk of status cars

For the perk car it is important to appreciate that the vehicle should go a long way to meeting the employees' domestic and private-use needs. It should also address motivational requirements with regards to providing a desirable type and specification of car since its primary function is as a perk of employment (although it should still be suitable for any business requirements that it may need to fulfil).

Most commonly, entitlement to a perk company car is a function of seniority and length of service. Since specific car types are of lesser importance driver choice can be widened, often linked to some form of "monthly allowance". Typically, the allocation list will have several grades based on job title/ seniority, and any one employee will be entitled to any car within their grade limits.



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### The importance of an allocation policy

It is not necessary to provide a huge choice to drivers even where the car is not strictly a job need one. If the commercial policy is based on a solus deal with only one manufacturer, then choice will be limited in any event, and if there is likely to be some business requirement as well as the private use and benefit, the vehicle must be suitable for these requirements as well. For example a middle to senior Head Office manager may not do much business mileage – but may require to take visitors out to lunch, on a regular basis.

But more flexibility is normally provided to meet the employees domestic/ family requirements. And in many businesses, it is the level of car, as well as the flexibility to select what the drivers wants, that is such an extremely powerful motivational factor.

It is important to strike the right balance. On the one hand, if these vehicles are being provided as a motivational tool, and to help in the recruit/ retain function, a rigid and miserly policy will fail to meet the objectives. On the other hand, giving in to every whim of every driver would soon escalate costs to a very high level indeed!

### Common elements

There are issues which must be considered (even if they are considered in different ways) whatever vehicle type is being studied. Increasingly, there are Health & Safety/ Duty of Care implications. For job need cars, they must be able to fulfil the business requirement, and deal with issues such as the right number of seats, security, reasonable loading height (especially for heavy loads), adequate performance for high business mileages and similar business-context reasons.

One aspect to be considered very carefully is the extent of choice offered to individual drivers. Where the work-force is pretty stable, this is normally a minor issue, but in industries/ businesses where it is common for high levels of staff turnover, the potential difficulties of re-allocation can cause problems and high costs. Particularly in a business using leasing/ contract hire, the termination costs associated with having to return cars early can be significant.

For all selections – but especially in the case of perk vehicles – the overall performance potential of the vehicle needs to be considered. There is little point in tempting the brightest young graduates to join your business with the availability of a high performance car, if they are not capable of handling that performance properly and safely – and end up having performance-related accidents. This is not a good discharge of the employer's Duty of Care.

Another vital ingredient in the allocation process is the fuel type. There used to be driver resistance to a diesel-only policy, but the combination of CO<sub>2</sub>-driven taxation (where diesels have a very distinct advantage) and huge technical improvements in diesel technology (such as the TDI systems introduced throughout the Volkswagen range – including the environmentally-friendly BlueMotion models) has made diesels something of the smart choice now. For the employer, the lower fuel costs offer a major incentive to select diesel for most job-need cases, and indeed many status/ perk cases too.



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### The importance of an allocation policy

While the forecourt price relationship between petrol and diesel changed significantly during early 2008, the overall whole life cost advantage of diesels over equivalent petrols generally remains – especially at anything other than low-mileage applications. It is issues and dynamics like this that make the use of the whole life cost assessment process the edge when it comes to fleet-level budgeting.

Increasingly important are the environmental aspects – many companies are now including their fleet within the “green” sections of their overall Corporate Social Responsibility (CSR) policies, and actively want to select cars and vans with above-average performance in terms of emission levels and make-up. Diesel engined cars (and vans) score well here. The fact that a low CO<sub>2</sub> emitter will also have lower rates of Vehicle Excise Duty (VED), lower driver taxation (and therefore lower employer’s NIC) and better fuel consumption is something of a bonus!

There are now many models available which have been designed to be particularly low emitters, with benefits in several areas of taxation. Such models – for example the Volkswagen BlueMotion versions of Golf, Passat, Touran and Polo – optimise environmental performance with on-road performance: there is very little compromise in terms of everyday driving.

### Reviewing the allocation policy

The whole business environment is dynamic, with demands and economic factors changing constantly. Vehicle specifications change too with regular improvements from manufacturers to all the attributes of their models. It is a fact that the version of just about any model on sale today is bigger, heavier, faster, cleaner – and probably more expensive – than its predecessor model of 5 – 7 years ago. It will have substantially more equipment as standard: items which were only available on a few luxury models in the past are now commonplace or standard on everyday fleet models – safety-related items like Electronic Stability Programme (ESP), multiple airbags; while creature comforts have advanced too – audio equipment and air conditioning to name just two features.

For all these reasons the fleet needs to review its underlying needs on a fairly regular basis – perhaps every 4 to 6 years. Ideally the review needs to start with the proverbial clean sheet of paper, and identify who “needs” cars; what size and level these cars should be to ensure fitness for the business purposes; and then work towards selecting the car models themselves based on the business need. In some cases downsizing from an upper-medium car like the Passat to a lower-medium class like Jetta or Golf might be highly appropriate.

Clever use of the range of specifications available can often mean that drivers do not feel disadvantaged: indeed the benefits of reducing benefit tax and private fuel costs might actually be appreciated. Similarly, different types of vehicle might be considered rather than the “standard” hatchback/ saloon options – estates, SUVs, MPVs and other styles might be considered – subject always to fitness for purpose and overall cost profiles.



## Part 4 – Fleet Allocation Policies

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### **The importance of an allocation policy**

Fleet costs - particularly fuel economy and environmental performance and resulting tax charges – will be a major factor in the decision. A review of the allocation policy offers the chance to right-size at least parts of the fleet, saving money, driver tax, and CO2 emissions. The dynamics of the market suggest that this kind of serious review should be made every 4 to 6 years, to ensure the fleet in place actually meets the needs of the business.



# Part 5 – A Guide to Good Fleet Management

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### Fleet Jargon explained

**This document briefly explains the meaning behind some commonly used jargon/phrases within the fleet industry, including contract hire and leasing. The explanations relate to their most commonly understood meanings. This is only a guide: many individual suppliers use the terms in slightly different ways.**

**Accident management** – The proactive management of all aspects of vehicle accidents, from minimising the time a vehicle takes to be repaired and returned to service, to ensuring the driver has continued mobility. Also involves managing repair and insurance costs, and any medical/ injury aspects. Can also include legal services such as recovery of uninsured losses. Third party specialist suppliers can be brought in to manage this area for a fixed monthly fee.

**Acquisition** – The actual process of acquiring the vehicle in the first instance. This may involve physically identifying and purchasing the appropriate vehicle, or utilising a third party to acquire/ supply the vehicle (eg. **Leasing** or **contract hire**).

**Administration** - All the clerical or organisational tasks involved in running fleet cars and vans. This includes the inventories of vehicle and driver listings, acquisition and disposal details etc. Some types of lease relieve the user-company (“lessee”) of most of this administration - but allocation policies and budgeting are just two of the tasks that must still be done internally.

**Agreement** – See **Contract**

**Allocation policy** – Defines the company hierarchy, and outlines what employee grades/sectors are able choose, or are given, regarding vehicle type, specification and costs. **Whole Life Cost** or **rental** figures are better than the **capital** value of a vehicle as the criterion for selection of models at different employee grades. This more exactly defines the overall cost of the car to the company, especially if the lease is contract hire.

**Bik** – Benefit in Kind Tax is the income tax that is paid by an employee for any benefit they receive from their employer by virtue of their employment. In fleet, this is normally for the private use of a company car and for the provision of free fuel for private use. These are commonly known as company car tax and the fuel scale charge respectively. There are parallel taxes for employees who have private use of a van.



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### Fleet Jargon explained

**This document briefly explains the meaning behind some commonly used jargon/phrases within the fleet industry, including contract hire and leasing. The explanations relate to their most commonly understood meanings. This is only a guide: many individual suppliers use the terms in slightly different ways.**

**Budgeting** – The forward planning of operational costs over the forthcoming period (usually the financial year). One advantage of leasing is the fixed rental costs which help in making forward budgets. Multiply the monthly rentals for each car by the months held, and there's the forward cost. Make separate provision for costs the lease rentals do not cover (insurance; and fuel). Outright purchased fleets run via Whole Life Costs also provides a much simplified way of estimating forward budgets.

**Balloon payments** - This is the final payment due under most finance leases, to liquidate the whole debt. Usually set to match the expected residual value, so rentals reflect actual depreciation. Beware of balloons that are set too high: they may give low rentals, but will usually leave a financial hole to be filled by you, if the car doesn't make enough on disposal.

**Capital** - The "cost" or financial value of an asset, at time of purchase or after periodic depreciation reductions. Used by prospective lenders (including banks) as a measure of the strength or otherwise of a company's balance sheet. Capital expenditure usually is more tightly controlled than revenue spending - even though this is sometimes not justified.

**Cash flow** - Leasing can really help match the costs of providing cars, with the income they help to generate. By spreading the costs over the period of use, leasing and other credit schemes can provide considerable flexibility. Make a whole-cost calculation, to ensure that the effective rate of interest is not too high. Also remember that for fleets of more than about 50, the average cash flows of purchase can be similar to leasing. If a lease only stacks up by doing a DCF (discounted cash flow) analysis, you probably don't need it. A smooth cash flow (ie £XX,XXX per month each month) is usually more desirable than no outlay for 11 months and then a massive cost outlay in a single month.

**Contract** – These are the legally binding documents relating to third party suppliers of vehicles and services. Read them carefully before signing, and check the small print. Consider situations such as early termination, excess mileage and dilapidation penalties when considering leasing contracts.

**Contract hire** - One of the most common types of lease. Usually totally fixed-cost: the lessor accepts responsibility for virtually all "normal" costs associated with providing the cars (depreciation, maintenance, funding, VED, administration), at his own risk. Details of cover vary widely, so check the agreement carefully. Contract hire is a service and therefore you do not own the cars. The quality and quantity of the backup and support are key areas, rather than price/ rentals.



## Part 5 – A Guide to Good Fleet Management

A Fleet Managers Guide

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### Fleet Jargon explained

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**Depreciation** - Loss of value of an asset or vehicle as it is used and ages. Different professions have different definitions. Beware the accountant's definition of depreciation, as they use accounting conventions, and therefore their figures may not reflect the vehicle's actual loss in value. The true depreciation of a vehicle is its purchase price less its current market value or sale price.

**Disposal** – The final sale or de-fleeting of a vehicle at the end of its life on the fleet. Taken care of by the supplier in contract hire, but is the user's responsibility for most other methods. Keep an open mind on any one method - consider and use auctions, traders and part-exchange as appropriate.

**Dilapidations** - Often an area of dispute in leasing scenarios. Can be defined as the repairs and refurbishment needed to bring the car back to a "reasonable" condition for age and mileage at end of lease. It is unrealistic for lessors to expect back a fleet car in showroom condition, and hence the industry term of "fair wear and tear". The British Vehicle Rental and Leasing Association (BVRLA) publish clear guidelines as to what should be regarded as fair.

**Duty of care** – a term which is often used in respect of occupational health and safety, although in law it's much wider than that. However, it is now very clear (from the Report of the Work-Related Road Safety Task Group, 2000/01) that employers owe a duty of care to their employees and to other road users for all situations where the employer requires employees to "use the roads" – including driving, walking (such as postal workers, roadwork contractors etc) and cycling. The duty of care extends to all aspects of the "working environment" and includes issues like the time employees have to spend driving in addition to other duties, providing vehicles which are suitable for the (business) purpose, specialist training if indicated and many more areas. The primary requirement for an employer to demonstrate concern for meeting its obligations is an appropriate risk assessment. See also Risk Management.

**Early termination** – If a lease agreement is ended by the lessee before its agreed contract term, then the lessor will usually require an early termination payment. This may be a penal charge, but many leasing companies base the charge on the actual losses they incurs due to the premature ending of the lease, in an open-book calculation.

**Excess mileage** - Most fixed-cost leasing contracts assume a "contract mileage". Any mileage over this will incur additional depreciation and maintenance, which the lessor will seek to recover by the excess mileage charge. Pooling arrangements to aggregate all vehicles returned in a 3- or 6-month period are common. Watch the actual rates, and keep a check yourself, as they can be penal.



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**Finance lease** - The simplest form of lease which is only concerned with funding the chosen vehicle. Usually involves writing the car off over the period of contract (2-5 years) with the lessee doing most of the work, eg finding the car, negotiating discounts, maintenance, residual value, etc. Disposal proceeds go to lessor because he is the owner: usually then rebated (95-100%) to lessee as a “rebate of rentals”. Rentals are classed as revenue expenditure, not capital, and attract VAT. Most rentals are paid monthly or quarterly. Since the lessee carries the actual risk and cost of depreciation as if it is owned, this type of lease is in fact treated (for the purpose of financial reporting) as if it were hire purchase.

**Fleet management services** - A range of technical support functions available from a specialist supplier - can include any of the cost areas such as purchasing, disposal, maintenance arrangements, funding, fuel monitoring, reporting etc. Usually available from lessors (because of similarities) but client carries all risks and costs. Fleet management company charges an agreed fee (usually per vehicle per month) to cover their administration.

**Fleet management software** – There are many suppliers of specialist software packages that, once primed with your fleet’s vehicle data, can be used proactively to monitor and manage your fleet and its costs. Many smaller fleets may merely use a standard spreadsheet application, which in many instances is perfectly adequate. Specialist software systems are especially beneficial when dealing with a high level of small transactions from different driver/ cars, such as fuel and maintenance costs. The most important aspects of running a computerised system is what you want to get out of it; and therefore what accurate data you need to collect as input.

**Fuel cards** – Fundamentally a corporate credit card that is specifically for buying fuel. Its main advantages are the provision of a simplified central billing system, and also management reports can be supplied providing information on fuel purchases (where, when, how much and who by), vehicle’s fuel economy, fuel pricing etc. Also cards can be restricted to only cover certain forecourt purchases ie diesel OR petrol, oil, screen wash, and exclude all other purchases.

**Funding** - Anything to do with providing the money to acquire fleet cars. Can include bank overdraft, hire purchase, conditional sale, block discounts, lease or contract hire. The choice of method or even mixture of methods depends on the needs of the user - overall cost, cash flow. Taxation (corporate and VAT), balance sheet and risk elements are all factors to be considered. Some care needed to ensure that effective interest rates are not excessive.



# Part 5 – A Guide to Good Fleet Management

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**Hire purchase** - An early form of credit funding. Lender provides a fixed cost, fixed period loan (of money) to user, to support purchase. User is effectively the owner but will not have title to car until loan is paid off. Instalments repay the capital and interest. If a residual value is built into the calculations, the scheme is usually called Contract or Lease Purchase.

**Lease** - A rental service to provide the “use” of a vehicle for an agreed monthly/ quarterly rental. In a lease there must never be any vehicle ownership by the lessee, hence an employee may be able to purchase a lease car at the end of its time on the fleet, but the company leasing the vehicle cannot.

**Lease purchase – See hire purchase**

**Lessor** - The owner of the asset, who sees ownership as an investment, not as a purpose. Implicitly needs to have financial and administrative strength.

**Lessee** - The user of the asset, who has unrestricted access to the asset as if he owned it, but who never obtains legal title.

**Management** - Often seriously underestimated, especially by smaller fleets. Effective management of a fleet of cars can save considerable sums of money, but itself costs money and a level of skilled resource. Can be delegated to external experts - fleet management or contract hire companies.

**Mileage pooling** - Can be used to avoid potentially punitive excess mileage costs. Mileage Pooling is available in many leasing scenarios, where vehicles returned to the lessor with mileage exceeding the contract mileage can be pooled with lower mileage vehicle returns, to offset those with high mileage.

**Operating lease** - Any lease which transfers most of the risks of ownership to the lessor. This is important under accounting conventions as it determines if the assets will appear on the lessee’s balance sheet. Fixed-cost contract hire (with or without maintenance) is clearly an operating lease and hence off balance sheet.

**Outright Purchase** - The simplest form of vehicle acquisition, where the company requiring the vehicles buys them from cash reserves or via a business overdraft facility. This provides the most flexibility for the company operationally, but also carries the highest administration levels and potentially the highest risk/reward from residual value fluctuations.



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**Rentals** - Periodic payments (usually monthly/ quarterly) by lessee (user) to lessor (owner) to cover all the cost factors including the lease agreement. Usually they are fixed for the agreement period, and always attract VAT.

**Relief cars** - Most contract hire agreements which include maintenance, also provide use of a relief or temporary replacement car if the subject car is off the road beyond a specified period (eg 24 or 48 hours). Many such provisions are made through rental companies appointed by lessor.

**Replacement cycles** – The period of time a vehicle will remain on a fleet before being replaced with a new or newer vehicle. Decisions should be based on valid criteria whether under ownership or leasing, and usually defined as a combination of annual time and mileage such as 3 years and/or 60,000 miles. Length of replacement cycle usually based on vehicle type, reliability, cost and employee status.

**Residual value** – This is the final value of the vehicle when it comes to the end of its life on the fleet. It reflects the second hand worth of the vehicle in the often volatile used car market. The purchase price of the vehicle less the residual value provides the vehicle's actual depreciation cost, which is typically the largest single operating cost of a vehicle.

**Risk management** – Minimising the company's exposure to risk, typically from an accident/ health and safety view point. Should always start from a proper risk assessment of the actual "at work driving activities" found in the business. Management options may include driver training programmes, or reviewing company procedures regarding the length of a working day and hours spent behind the wheel. Again within the fleet market there are specialist suppliers of these services.

**Sale and leaseback** - If a decision is made to move into leasing from outright purchase it is usually best to change as quickly as possible. Sale and leaseback is available from most lessors and involves them buying existing car fleets at agreed value (eg Glass's Guide/ CAP; or similar). Each unit is allocated a "remaining life" to end of "normal" replacement cycle, with rentals calculated accordingly. When they are finally defleeted new leased vehicles are introduced.

This system provides rapid, easily managed transition into leasing/ contract hire - usually provides a cash surplus as well, from sale of owned assets. Watch terms for very old or very young units in the deal



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**Service maintenance and repair (SMR)** - Blanket term for all the mechanical and technical attention needed by any fleet car. Includes routine servicing, unexpected repairs, replacement tyres etc. Overall is considered as the user's responsibility, especially from a legal/ safety viewpoint, but cost and administration can be included in a lease or contract hire agreement.

**Ved** – Vehicle Excise Duty is more commonly known as the “tax disk” which must be displayed on the windscreen of all vehicles. It is essentially the road tax that must be paid annually to the Treasury for the use of the country's road network. Since 2001 has been based on the CO2 emissions level of the car according to its official fuel tests.

**Wear and tear** - This is an important point of negotiation with fixed-cost leases and guaranteed buybacks. The standard of condition of a vehicle on return to a lessor must be agreed between the parties to avoid aggravation on completion. Wear and tear is notoriously difficult to define, but it should be considered right from the start: some dilapidations charges change the economics of leasing completely. The British Vehicle Rental and Leasing Association (BVRLA) and RAC provide fair wear and tear guidelines.

**Whole life cost** – The most effective way of operating and managing a fleet/ allocation policy. Whole Life Cost (WLC) driven allocation lists take into consideration all the actual costs associated with operating the vehicle, including depreciation, SMR, insurance, fuel, various taxes, insurance etc. Can be shown as a cost per annum, month, or mile.



## Part 6 – Green Fleet Issues

A Fleet Managers Guide

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### Introduction

This section of the Volkswagen Fleet Managers' Guide looks at the whole environmental area of the fleet manager's job. There can be no doubt that this is absolutely central to the successful operation of any fleet, because so much of the cost profile of all cars now has CO<sub>2</sub> and other "green" factors embedded.

Steadily since 2001, we have had:

- March 2001 All new cars have CO<sub>2</sub> value as basis of Vehicle Excise Duty (VED)
- April 2002 All company car drivers now taxed by reference to car's CO<sub>2</sub>
- April 2004 Fuel for private use based on car's CO<sub>2</sub> 3% diesel supplement waived for Euro IV compliant diesels 100% first-year writing down allowance on cars with 120 or less g/km CO<sub>2</sub>
- April 2008 100% first-year writing down allowance only available on cars with 110 or less g/km CO<sub>2</sub>
- April 2009 New corporation tax structure with key threshold for purchase and leasing based on CO<sub>2</sub> instead of cost New VED structure to apply "showroom tax" to high emitting models

That list covers only the key **fiscal** impacts on the car market in general and the fleet sector in particular. It is immediately obvious that this is a persistent and long-term trend in fiscal policy. There have been many other impacts as well:

- Big increases in oil costs have hit larger, poor fuel performance cars through much higher fuel costs
- High fuel costs coupled with higher VED rates have increased costs directly, and have also:
- Hit residual values of larger, less fuel-efficient cars

All of these factors indicate clearly that the only rational direction for controlling fleet costs is to recognise the need to change – to bring about a reduction in the fuel bill and in the other major costs. And that way must start with a serious look at the whole fleet policy. The days when the allocation policy could be allowed to let any driver to have any car within their grade bracket are probably over – unless that allocation policy has been framed with the environmental impact on costs clearly in mind.

Put simply, green fleet management must be the way to go, simply because it is going to be cheaper. The reverse is also true: a well-run, cost-efficient fleet is almost certainly going to be very green! These positions follow quite simply, because the cost of fuel is now an even larger component of the total whole-life cost that it was just a year or so ago.



## Part 6 – Green Fleet Issues

A Fleet Managers Guide

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### The Green (Fleet) Agenda

A green fleet needs more than just a few “alternative fuel” cars or vans. These have a place, but to meet wider corporate objectives and to make a real difference, a more far-reaching strategy is needed. “Green” needs to be at the heart of the policy, not just an add-on.

There are wider corporate issues too. Many companies have grasped the importance of a strong Corporate Social Responsibility (CSR) approach to business. Reporting on HR policies, recycling, trading and other areas of the core business, against targets for continuous improvement, is now commonplace. More recently, the overall commitments to Health & Safety standards has spread to many corporate fleets, with big improvements in the management of on-road risks. Total environmental policy is an important part of CSR – and for most organisations that has to include the on-road activities of business travel as well as office and factory performance.

The policy must be thought through carefully, to ensure that the fleet maximises the cost reduction potential, while still fulfilling its core range of jobs moving employees to interface with clients. It really does need careful consideration, with input from the relevant parts of the business, but the objective must be clear: to design a fleet policy that will meet the needs of the business at a reasonable cost; provide clean and efficient vehicles; and produce the lowest practical amount of CO<sub>2</sub> through good fuel economy.

That way, costs are reduced, driver tax is reduced, and the impact of the fleet – and therefore the business – is reduced. It really is a win/win situation.

### Designing the Policy

There are many examples of fleets already meeting these objectives through improved policies. The classic approach is to start with a reappraisal of where the fleet is, and where it needs to be. There is an easy standard process to follow for this, based on the 4 key areas of fleet operation.

The various techniques for achieving improvement can be grouped under 4 categories:

- “The Journey” – identifying necessary and unnecessary mileage or use of vehicles
- “The Vehicle” – setting criteria to provide the right vehicle for the job; at the right time, and at the right price
- “The Driver” – as user, as performance reporter and as a remote colleague who needs guidance, support – and control
- “The System” – the overall administrative, management and reporting structure needed to ensure the safe and legal operation of the fleet, accounting for the needs and aspirations of drivers, senior management and other stakeholders



## Part 6 – Green Fleet Issues

A Fleet Managers Guide

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### The Journey

It is obvious that any unnecessary mileage is a waste of cost, time, and generates needless and excessive carbon emissions. It is also an issue on overall productivity: employees at the wheel are essentially unable to undertake productive work while driving, unless the basis of their job is to drive – couriers and delivery services as an example.

Mileage reduction potential has to be a high priority for greening the fleet. The main techniques available for reducing business demand for travel include:

- Reducing need for “meetings” through increased use of office or home-based telephony and increased tele- and video-conferencing
- Journey sharing through better visibility of planned journeys within any one office/ group of employees
- Consideration of use of public transport
- Promotion of walking and/ or cycling for some shorter journeys

The needs of every business are different, so the possible solutions have to be different. The key point is that demand for business travel needs to be studied seriously as a topic in its own right, and examined within the business to identify any and all opportunities to reduce it.

### The Vehicle

It is vital to select the right cars and vans for fleet use, to strike the right balance between fitness for purpose and environmental impact.

This is not just a matter of downsizing body and engine size, although these have a place. It's much more a process to look at “best in class” across the fleet market, to identify models that will meet the physical size requirements (small hatchback/ MPV/ estate car etc) with low CO<sub>2</sub> values, good build quality, high residuals, combined with driver acceptability.

There are very clear differences between the models on offer from different manufacturers. The Volkswagen brand brings the reputation, high residuals and excellent build quality to a range has been designed for driver and fleet manager appeal. And behind that is a history of strong environmental leadership in engine technologies, up to and including Volkswagen's BlueMotion range. With contenders in every market sector, this range should be considered seriously as a part of any green fleet strategy.

Part of this element of the policy should include the way the allocation system is structured, with upper limits of CO<sub>2</sub> emissions forming part of the decision process. The thresholds for VED, driver tax and (from April 2009) the corporation tax threshold (at 160g/km) should be included with whole-life cost data to build the choice-list in a way that offers attractive choice to drivers, within a responsible framework that is going to provide the right set of tools for good environmental policy.



## Part 6 – Green Fleet Issues

A Fleet Managers Guide

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To complete the picture, an insurance grouping limit, and a Euro NCAP performance requirement can also be factored in. Many fleets have already moved to this type of multi-faceted approach, with good results for costs and reduced fuel use.

All major leasing companies have the capacity to offer their clients allocation/ availability lists with these levels of detail, since they already hold all the necessary background information within their overall quotation systems. All that's needed is for the client to request this facility.

### Alternative Fuels

The UK fleet market has had a great deal of exposure to “alternative fuels” (anything other than petrol or diesel) over recent years. As pressure increases to reduce reliance on fossil fuels the technology of a range of alternative fuels is improving.

Aside from the numbers of prototypes and evaluation models, the alternative fuels normally available are:

- LPG
- CNG
- Electric (various forms of battery)
- Hybrid (petrol/ electric combinations)
- Bio-mass (bio-diesel and bio-ethanol)

While there is scope for many businesses to consider these options, careful evaluation is needed before any wholesale adoption, as experimentation in new technologies can be expensive, complex and potentially unreliable during early uptake. In particular, the territorial setup of any fleet may limit any value. For example, petrol/electric hybrids offer good driving characteristics in urban situations, but can be relatively inefficient for long-distance motorway journeys. LPG can also offer some advantages, but only if there are refuelling sites where the fleet needs them to be. Having to travel extra miles just to refuel is obviously counterproductive.

Any assessment of alternative fuels should consider the following:

- What is the availability of the fuel in everyday situations?
- Are special driving techniques required?
- Are special maintenance techniques required?
- Is the fuel type produced under a quality framework which will not compromise reliability?
- Is the fuel competitively priced?
- Is the whole-life cost projection for the vehicles actually in use competitive?

A useful guide to the features and implications of alternative fuels for fleets is available on the web-site of the Energy Saving Trust – [www.energysavingtrust.org](http://www.energysavingtrust.org)



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### The Drivers

Drivers have the most important role in achieving good results and improving the environmental performance of the fleet. Even the most frugal cars or vans will give poor cost and emissions results if badly driven. Employees who drive as even just a small part of their job functions need to be motivated and directed to consider and implement good driving techniques at least during their time driving on company business.

A common complaint is that drivers are poor at returning mileage and fuel reports. Any good policy needs a constant feed of real data to ensure that the performance delivered is meeting expectations. The reporting system to get this information from all drivers on a regular basis is a key part of a green fleet policy.

### The System

In the widest sense any fleet administration system must be able to all or most of the following:

- Advise senior management on all aspects of fleet and business travel performance
- Ensure the **right vehicles** are provided to the **right users** at the **right time** – and at the **right price**
- Collect, record then check all costs accurately
- Record vehicle allocations:
  - As between departments/ functions; for internal costings
  - As between drivers (where relevant); for tracking liabilities for Fixed Penalty Notices etc
- Track fuel card issue (where fuel card arrangements are in place)
- Assume full responsibility for “driver authorisation” – licence checks/ driver training programmes; entitlements to drive different classes (by weight, trailer attachments and by seating capacity) for Duty of Care purposes
- **Monitor fuel use and cost performance for company and cash allowance fleets**
- Advise senior management of compliance with policy objectives
- Monitor “accident”/ on-road incidents to seek trends and recommend appropriate actions
- Maintain policy and guidance documentation (fleet policy/ driver handbooks etc) up to date and in line with all relevant regulation/ legislation

The detail of how these are achieved must relate to the other systems in the business, to provide the easiest way to integrate the data collection and interpretation as simply as possible. Many fleets use specialist software and most of these have good facilities to record mileage and fuel used.

A good green fleet policy can only be achieved with this information: simply putting a few “clean cars” into the fleet system will never be anything other than a token gesture. To be serious about reducing the environmental impact of the fleet – and of course reduce costs as well – needs a fuel performance analysis on an on-going basis.



## Part 6 – Green Fleet Issues

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### **The Benefits**

The most important benefit from an active green fleet policy is lower costs. Running the cleanest cars in any class brings low whole-life costs and taxes. The same vehicles, with good monitoring of driver behaviour, will also provide the lowest running costs and fuel bills. So the big driver is a lower-cost fleet – and the environmental benefits are then a very fortuitous bonus.



## Part 7 – Managing on-road risk

A Fleet Managers Guide

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### Introduction

One of the worst things that can happen to any fleet manager must be to hear that one of his or her vehicles has been involved in a serious accident, and that a colleague has been killed or seriously injured as a result. Forget blame and costs: it is suffering and loss that must be considered.

Although the road network in the UK is among the very safest in the world, fatal accidents still account for too many deaths each year – and inevitably some of these cases involve fleet vehicles in the course of their normal everyday activities. Employee deaths as a result of using the roads on employers' business outnumber all other causes of at-work death.

This section of the Volkswagen Guide to good Fleet Management looks at how to set up the fleet system to minimise the possibility of one of your vehicles – your colleagues – becoming part of these chilling statistics.

### Legal background

Dealing with road safety is unlike most other aspects of fleet management on two main grounds. First, there is a strong legal and regulatory background to road safety that fleets simply cannot ignore. Secondly, this is an area where the main focus is not on cutting costs. There are of course very significant cost implications around any accident, but the primary concern must be to avoid injury or death to employees and other road users, through a road traffic accident.

This has been widely recognised as one of the major long-term issues facing fleet operators for several years. There are huge numbers of articles in the specialist fleet press, the general motoring press and the national papers. A wide range of businesses have been set up to service fleets in respect of this issue. Many existing suppliers have added services to address the demand. Much of this has been driven by new legislation – in particular the introduction (from April 2008) of the Corporate Manslaughter and Corporate Homicide Act, which permits prosecution of business, not just individuals, which have failed to adopt and follow reasonable standards of safety and risk management.

There are other, older regulations as well. The standard list cited by many in this field includes the Road Traffic Acts, Construction & Use Regulations, Health & Safety at Work etc Act, Provision & Use of Work Equipment Regulations (PUWER) and many more, including the advice given in the Highway Code.

Then there are the impacts of the ACPO (Association of Chief Police Officers) publication "Road Deaths Investigation Manual" which standardises the approach all police forces should adopt when a major – and particularly fatal – road accident is reported. Any such incidents are now recognised as potential scenes of a crime – and the approach recommended is to investigate and resource to the same level as a reported homicide.



## Part 7 – Managing on-road risk

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### The Action Plan

The key to a successful policy is to understand the need to manage on-road risk at an appropriate level. That means that the fleet needs to understand its obligations and its own risk profile. The Health & Safety background should be the main starting point, since “driving at work” is now fully recognised within the Duty of Care obligations of employers to employees and other road users.

In summary the process involves:

- 1 An appropriate risk assessment
- 2 Written arrangements to deal with any material risks identified
- 3 Audit trail of follow-up
- 4 Regular reviews and further risk assessments at reasonable intervals

This process and all the related activities must be documented to form an audit trail – and the policy must be seen to be an active part of the business’s management.

HR might not like it – but the Company Secretary and other top management must insist that there is a policy applicable to any employee – including Directors – when using the roads on business. And this must apply as far and as fairly as possible to all driving on business, whether in a company car, an ECOS or any other car “owned” by the employee, a rental or pool car – and of course all vans used on business.

Only one standard of road-risk management can apply in any one organisation. The only safe course is to identify all the risks of employees using the roads for business purposes and managing on from there.

### Starting Point

Government’s own guidelines provides the starting framework. The basics of this are set out in clear terms, with case studies and examples, in the publication **“Driving at work – managing work-related road safety”**, which is downloadable from the HSE website (<http://www.hse.gov.uk/pubns/indg382.pdf>) . Since this is the main government-backed guidance for this area, it must be considered essential reading for anyone (including top management) involved in the “fleet policy”. This publication confirms that any road risk management policy starts with a risk assessment undertaken under the terms of the Health & Safety regulations. This must be authorised by the top management of the organisation to demonstrate that the policies are “live” and kept up to date.

The exact nature of any risk assessment will of course vary with the nature, size and style of the fleet in question, which is why it is so important that the assessment is undertaken as a fully documented project, visibly being taken seriously by the company; and with clear recording and monitoring process. This means that an be audit trail is maintained, to demonstrate the “normal” levels of good practice in this area.



## Part 7 – Managing on-road risk

A Fleet Managers Guide

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Although the main purpose of the risk management policy must be to make the roads safer, there is an important secondary purpose – to reduce or eliminate the risk of the organisation being prosecuted for a management failure; or to suffer a large civil claim for compensation. As in so much of fleet management, the commercial and the general objectives work together to make “good practice” a more effective way to run the fleet.

The specific approaches to this vary from organisation to organisation – but there is a basic checklist to be used as a starting point. One of the major elements common to all such lists is the need for written policies and documentation to be in place, and to be reviewed regularly (say every 18 – 24 months). This is a management role and while the whole policy should be “owned” by the top management, the fleet manager should be actively involved in designing, reviewing and operating the policy.

Employees driving on business should also be made aware that they too have absolute responsibilities under general road traffic laws that they must observe – anything from observing speed limits to checking tyre pressures – and that the law recognises that the employer cannot be looking over the shoulder of every driver. So it is vital that employees are told or reminded that they are drivers first/ employees second when they are on the road.

A list (not intended as totally definitive) of the key points of a road risk management policy is set out as <Callout 1>.

### Callout 1

- Appointment of a top manager to be the Board champion of occupational road risk, to demonstrate the importance of this area
- Ready availability of the HSE/ DfT guide “Driving at work – managing work-related road safety” as a starting point of reference
- A clear written policy statement about who is entitled to use company-controlled cars or vans
- A clear written policy about the need for employees to submit whatever travel returns the employer deems necessary – especially mileage returns to identify high-risk cases
- Clear statement requiring all employees to observe all normal rules of the road (eg as set out in Highway Code). Specific issues which should be mentioned include:
  - Policy on ban/ restricted use of mobile phones (including hands-free kits)
  - Policy on drinks &/or drugs
  - Policy of maximum driving time behind the wheel; at any one stretch, and overall within any one working day
- A process to ensure that anyone driving on employers’ business is properly licensed for the types of vehicles to be used (cars, vans of different weights, towed trailers, minibuses etc)
- Confirmation of an effective policy of insurance for employees’ own cars
- Process to ensure all vehicles serviced at least in line with manufacturers’ recommendations (or check for employees’ own cars)
- Process to study all accident reports (in conjunction with underwriters/ brokers/ accident management service providers) to identify any patterns indicating particular problems



## Part 7 – Managing on-road risk

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- Facilities to provide employees with relevant information, training where necessary and supervision to be safe on the road
- Summary of the risk assessment documentation, pointers to file locations; timetable for all future steps in the process
- Targets set to improve at-work road safety on a continuous-improvement process, benchmarked against peer fleets

To be fully effective, this policy list should be published and distributed to all employees using – or likely to use – the roads on employers' business irrespective of the ownership status of the vehicle.

Many of these issues should also be included within the driver handbook, as an immediately-available reference for drivers. This also serves as part of the audit trail showing that road risks are being addressed fully. A requirement for drivers to sign not only for receipt of the handbook – but that they have read it – is certainly part of best practice.

The policy must recognise the need to identify all the hazards involved in driving at work; the need to undertake a risk assessment of how likely any such hazard can occur in that environment; and the need to assess the harm that might follow. Typical hazards and the basic solutions and safeguards to deal with them are set out in <Callout 2>.



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### Callout 2

Hazard	Possible Management Actions
Drivers not properly or fully licensed	Regular licence checks, and signed declarations that employees will report driving prosecutions
Drivers not experienced enough to cope with powerful cars	Restricted allocation entitlements for young/ inexperienced drivers; mandatory driver training appropriate to the need for control. Induction walk-through for all new car hand-overs.
Casual approach to driving, building up a poor accident history	Regular review of ALL damage/ injury incidents: collating to assess patterns of failures: consider appropriate driver training: in extreme cases suspend high-risk employee from driving duties.
Lone/ vulnerable driver risks	Careful review of all drivers/ journey patterns to minimise time at risk in remote/ isolated/ high-risk situations; issue of mobile phone (with reminder about regulations on use!); selection of vehicles with good security features.
Drivers becoming fatigued from extensive driving	Review work schedules: impose break periods on longer journeys; adequate route planning.
Driving while under influence of drink or drugs	Strict policy on avoiding alcohol and all form of drug (including many over-the-counter medications) when driving for work is likely.
Using a mobile phone	Clear statement that using a hand-held phone is illegal: discouraging use of even hands-free calls.
Getting lost	Route planning; standard fitting of a Satellite Navigation system.
Driving without insurance	Regular checks with fleet insurer: requirement to scrutinise any private policy for employees' own cars.
Breakdown on the road	Adequate maintenance arrangements and possible provision of roadside assistance scheme.
Hazardous/ Dangerous loads	Full consideration of loading/ unloading; load security; spillage risks/ cleanup measures etc.

These points are for illustration only. They identify many of the general points that should be considered – but every fleet should use something like this as a starting-point for its own risk assessment process.

The outcome of the risk assessment will be a schedule of the risks, with a priority rating. True success in minimising the risks of prosecution or claim is in how the identified risks are managed out (or down) and the frequency of review. A process which looks as if it was designed only to tick the box that says “done fleet risk” will be no defence at all!



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As well as helping to protect all employees and improve overall road safety levels, a driver management background like this will reduce the likelihood of potential prosecution of the company or organisation – and will also significantly reduce the likelihood of a major civil claim for damages, if the company can demonstrate a consistent and fair approach to high standards of driving, driver and vehicle control.

This is much more than just a “we must put all our employees through a driver training course” approach. Driver training is obviously one important aspect of a Health & Safety policy in a fleet, but any course provided must be relevant to the requirements, as identified in the risk assessment. Being let loose on a skid-pan in a specially-adapted car, under expert supervision can be great fun – but hardly relevant in a fleet where 65% of all the damage claims are for rear-end damage to the cars caused by poor parking performance. Full hazard consideration/ risk assessment/ risk management says that the concrete bollard that the driver didn’t see last week could, quite easily, be a child that isn’t seen next week! So a course dedicated to slow-speed manoeuvring/ parking techniques might be what is indicated. It all depends on the risk profile as identified from the risk assessment!

### Summary

Unlike several other aspects of fleet management, the potential for risk exposure to turn into serious trouble is considerable – and in this respect, the business should address its responsibilities seriously, too.

The trick is to be ahead – genuinely and structurally ahead – of any rational definition of the general terms of the Health & Safety guidelines, which require all employers:

- “to ensure, **as far is reasonably practicable**, the health, safety and welfare at work of all employees and others who may be affected by their actions”

It is not difficult. It need not be expensive. It does take a little management resource and on-going attention.

But applying the points and guidance offered above, and reviewing them periodically in the light of experience, will go a long way to making the company and its drivers and other road users, safe – in more ways than one!



## Part 8 – Grey Fleet Issues

A Fleet Managers Guide

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### Introduction

This section of the Volkswagen Guide to good Fleet Management looks at the issues of managing the grey fleet – generally accepted as those vehicles (almost always cars rather than vans) owned by employees and used for business travel on behalf of their employer, in exchange for some level of reimbursement.

There are no really accurate definitions, since the scope of employees' car use is even wider than in what we think of as the normal company car model. "Grey fleet" is a term that's almost uniquely British: across the world the vast majority of business travel by motor car is done in employees' own cars.

In the UK, the long-term dominant position of the company car as a taxable benefit has tended to overshadow the size and importance of the grey fleet. In fact, the statistics provided by HMRC suggest that around 4 million employees use their own cars for business and make formal mileage claims under schemes registered with tax offices. That compares to around 2 million company cars.

There are significant differences in average mileage patterns: the national average for a company car is around 8,000 business miles pa, while for the whole grey fleet, the average is just about 2,000 claimed business miles pa. Around 2.5 million cover less than 4,000 business miles pa.

A number of factors have been acting recently to bring this form of business travel under much greater scrutiny. The increasing attention to Health & Safety/ Duty of Care, and concerns over total greenhouse gas emissions, coupled with the development of many schemes which seek to combine the best of grey and conventional fleet elements have raised awareness to the level when it is even a hot topic for HMRC.

Just as there are many different types of company car scheme, so there are many faces to the grey fleet:

- Where business mileage is relatively small and often on an infrequent basis
- Employees of businesses (often global/ multi-national groups) who do not subscribe to the UK company car culture
- Businesses using mostly part-time workers with relatively modest business mileage patterns
- Where employers are anxious to provide the most flexible package of remuneration to their employees
- Public sector employers where any private use supported from public monies is inappropriate
- Employee/ employer groups who have identified that this offers a more tax-efficient solution than a conventional company car scheme (these are usually in structured schemes such as Employee Car Ownership Schemes <ECOS> where the employer provides a formal system)

These – and many other circumstances – are perfectly legitimate reasons for not providing company cars in the normal way. As we have seen running a fleet requires significant budgets which need to be committed over periods of years. A grey fleet operation is often a much more flexible and cost-effective route.



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### Commercial Issues

There are no hard and fast rules about how to compute the best financial solution for any group of employees except to say that the comparisons must be balanced.

Where the employee is essentially replacing a company car with a new car under a cash allowance or ECOS arrangement, the total whole-life cost of the fleet car, including all the fuel and insurance the company pays for, together with the Class 1a NIC and other costs must be gathered for the company car, while the total mileage payments and any cash allowance (at the gross/ untaxed level) paid by the company must be calculated for the employee's own car.

In cases where business use is modest, irregular and infrequent, the comparison would be made against the costs of supplying a rental car for each individual journey – or perhaps using public transport where this is available. In some urban situations, it might even be that using a taxi could be more flexible and less expensive!

To make an effective assessment, the employer needs to have a clear picture of the overall mileage patterns. Ideally this should be down to individual employee level – for employees' own cars at least, this data must exist somewhere in the system otherwise there can be no justification for any reimbursements made on a mileage basis.

For many years, Inland Revenue/ HMRC has provided an easy option to minimise the issue of fair recompense for mileage payments. The system is based on a broad averaging basis to produce a simple schedule of "Authorised Mileage Allowance Payments" (AMAPs). The schedule which has been in place since 2002 has only 3 elements: a higher and a lower mileage rate, with a mileage threshold for the rate change.

These are shown in Table 1:

Table 1 – HMRC AMAPs schedule

Mileage threshold	10,000 business miles pa
For business mileage up to threshold	40 p/ml
For business mileage over threshold	25 p/ml

These rates apply to all cars, irrespective of fuel type, engine size or age.

These rates represent the values that HMRC consider "non-profit yielding" to the employee. The actual rates paid by an employer can be anything agreed between the parties, but any rate paid over the annual amount calculated under AMAPs is taxable on the employee: conversely if the rate paid is less, the employee can claim tax relief on the shortfall.

It is widely accepted that these rates are probably inadequate to recompense an employee in a newer, larger, thirstier car; but are more than adequate for an older, smaller more fuel-efficient model. So far (to Q3 2008) HMRC have been happy to maintain a simple system with little requirement for employer resource to manage.



## Part 8 – Grey Fleet Issues

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### **Management/ Duty of Care issues**

The implications of the Health & Safety and Duty of Care concerns have highlighted one significant issue: employers must consider all journeys made for business purposes as an at-work road risk, irrespective of the ownership status of the vehicle being used. This point is made in Part 9 of this series as part of the overall approach to effective management of road risks.

These Health & Safety elements have been interpreted in many different ways across businesses. Some regard the risks of employees using their own cars to be so high that such use is forbidden: all business journeys must be made in a company controlled or rental car.

Other employers (including very many public sector bodies and government departments) rely almost totally on use of employees' own cars for business travel. Provided there is an appropriate risk assessment carried out, there is no reason why this could not be an effective solution.

The process of the risk assessment is described in Part 9. For grey fleet circumstances there needs to be a focus on the legal status of the employees' own cars – checks and balances to ensure that all cars used are properly roadworthy and well maintained, have full and appropriate insurance cover (including cover for business use), and are “fit for purpose”. Part of the overall assessment in addition to the road-risk aspects may be the suitability of the employee's car from the commercial point of view, such as the use of a small hot hatch where taking clients to sites may be part of the employee's job.



## Part 9 – Fleet Operational Methods

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**In the UK fleet market there is a huge – to the point of being bewildering – choice of ways to run a fleet. Some organisations do literally everything in-house, while others outsource almost every aspect of the fleet operation to external contractors or service providers. None of these approaches is intrinsically right or wrong: everything depends on how the organisation itself wants to organise its affairs.**

Although only a small percentage of fleet managers are directly involved in deciding which method to adopt, it is of course vital that they have a fair level of understanding of the underlying principles. This section of the Volkswagen Guide to good Fleet Management will support this.

### The Basics of Fleet Operations

It is always valuable to review just what the fleet is actually for, before trying to change it. For a small organisation the fleet is a core part of the basic business – couriers, chauffeur-drive/ rental and the like. In some cases, the fleet exists almost purely as a “remuneration enhancement” – a way to provide a form of non-cash payment, with virtually no business requirement to use the car at all.

However, for the majority of cases the fleet is used for a mix of these two extremes: an easy way to provide mobility for necessary business travel, conveniently packaged with the benefit of private use for the employee and often members of their household. These aspects have been touched on in the Part 4 of this on-line series “The Importance of an Allocation Policy”.

Knowing why the organisation has decided to run a fleet helps to focus on the best way to deal with the basic elements. Whatever the blend of reasons, ALL vehicles need “management” in a number of areas, including:

- Acquisition
- Disposal
- Service & Maintenance
- Fuel
- Insurance

For the private buyer of new cars, these different areas are dealt with as they arise, with varying degrees of intensity and sophistication. In this retail market, personal sentiment, affluence and aptitude will drive most of the decisions about how to achieve “reasonable” results. Each area (except possibly the part-exchange process to sell an old/ buy a new car) will be dealt with individually, as conveniently and as cheaply as possible.



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Most fleet new-vehicle acquisitions come through franchised dealers, such as the Volkswagen network. Similarly most disposals of ex-fleet vehicles go through auctions. Although many organisations used to run their own workshops/ garages, the vast majority of fleet cars are maintained through the franchised dealer network or independents who have achieved appropriate training and credentials to deal safely and efficiently with the complexities of the modern car or van.

In fleet terms, there is a major cost justification for dealing with all of these matters in a professional and thorough manner, not least to control costs. Because the UK fleet market has been so important for so many years, there are many different packages available to do just that, and to deal with the added dimension of many different makes, models and types of vehicle.

### Doing it yourself

Many fleets still do almost everything in-house. A Fleet Manager, Purchasing Manager or Decision Maker identifies the cars and vans that need to be acquired, arranges the orders with the dealer and makes sure there's enough money (or finance stream) to pay for them. Drivers make the necessary arrangements to have vehicles maintained; the Company Secretary will insure them, and someone will deal with the Vehicle Excise Duty reminders when they come in from DVLA.

Most of these actions take little more than a reasonable amount of common sense and basic business acumen to deal with. Experience soon builds. The key thing is to ensure that the necessary tasks are, in fact done on time. Drivers are generally quite good at reminding Head Office when they think they might be due a new car: once the action is agreed the order should be placed with the right dealership, since many cars and vans have lead-times of 3 – 6 months, especially if the policy allows for drivers to specify down to fine detail.

Similarly, maintenance has to be kept up to date. For one thing, while modern cars and vans are remarkably reliable, they are also extremely complex and need proper attention by qualified technicians from time to time. Oil changes and brake wear are just two of the key areas where “forgetting” to take action can be expensive – and possibly dangerous. To back this up, the employers’ Duty of Care obligations mean that if there is a fleet-related accident which causes serious injury or death, the employer could be held responsible.

Where large numbers of vehicles are involved, it will almost certainly be economically viable to employ someone with appropriate skills as “fleet manager”. For an owned fleet some technical/mechanical knowledge is useful, though not essential. The key attributes are attention to detail, good organisational skills, numeracy, and (usually) IT capabilities to help keep track of all the major events on all the vehicles.

It also helps to be able to relate upwards to senior managers for direction and reporting; across to colleagues in other drivers?, and to the major suppliers; and of course to drivers. Keeping on top of the job is important: like many other corporate functions this is a task where falling behind is not a good idea!



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A good clear system helps, based on a “fleet policy” agreed by the senior management of the organisation. Generally it is better to have management of the policy in one area: where different people in different departments deal with individual areas of the fleet operation, there is a real danger that the information will not be brought together to give an accurate overview of all that’s happening across all aspects of the fleet.

One classic example is where one department looks after the acquisition, disposal and allocation policy, while a different department deals exclusively with fuel reimbursement. Unless the actual fuel consumption and mileage patterns across the fleet are brought into the equation, there is no opportunity to try to move towards more fuel-efficient cars such as the BlueMotion options across much of the Volkswagen range. There is also reduced capacity to identify vehicles (and their drivers) who consistently fail to achieve reasonable fuel consumption levels.

Clearly these are matters that fleet managers may not be able to influence or change within their organisation – but an awareness at least provides the stimulus to try to bring and keep all parts of the fleet operation – or at least all the operational data – in one place.

In reality each fleet has to develop and maintain its own policies – but there are templates and examples around. Although every fleet is different in the detail, many of the basics are pretty universal. Bodies like ACFO (the Association of Car Fleet Operators: [www.acfo.org](http://www.acfo.org)) offer networking opportunities so that groups of people performing a similar job role, facing the same kinds of issues and problems, can come together and share experience and techniques in a non-competitive setting.

Many dealers offer the occasional get-together for groups of customers (often at the launch of a new model) and these offer similar networking opportunities to meet people from other businesses.

### **Outsourcing**

There is nothing new about outsourcing. It is not unique to the UK fleet market. For example, many staff canteens/ restaurants have been run by specialist catering businesses for many years. The principle of outsourcing leapt to prominence in the fleet market in the early 90’s, with one or two fairly spectacular deals. But in reality, the term “outsourcing” refers to a philosophy which has been used by fleet managers for many different parts of the fleet operation, for a long time.

The concept is simple. You, the fleet operator customer, pass the complete responsibility for a set of management functions to an outside Agency which has expertise and resource to deal with it. The process can involve full risk transfer, for a fee which reflects all the probable costs; or a management-only basis, where the charges are based on the actual costs incurred by the outside Agency, plus their fee.

For vehicle acquisition, there are brokers: businesses who have lots of connections with dealerships for different brands, and who can provide a tailored service across many makes and models. There is a charge for this, either as a direct fee per vehicle or as a percentage of the discounted price.



## Part 9 – Fleet Operational Methods

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Maintenance can be handled by external service providers, who are generally larger specialist businesses with many garage accounts across the country, technically-qualified maintenance controllers and large capacity IT resources. Such organisations can bring vehicle maintenance down to a fine art, dealing with many hundreds or thousands of cars and vans for their clients. Generally work is controlled by purchase orders, and invoices carefully checked for unnecessary work or charges.

Together with the purchasing muscle of a large number of transactions, this can bring down the costs of maintenance including replacement tyres, roadside breakdown services and other functions that are less frequently required – and which may therefore be outside the scope of the in-house manager of a smaller fleet.

Accident repairs can similarly be outsourced to specialist operators who focus on just this function – and have the time and resources to make this an efficient process.

### Common Packages

Although the UK fleet supply chain provides this enormous range of individual packages, they can generally be broken down into major product groups:

**“Fleet Management”** – is the concentration of a range of vehicle-based skills into packages of ‘expertise and assistance’ which is sold to businesses using vehicles. There is no direct involvement of the funding for the vehicles, since the fleet management company manages various forms of expenditure on vehicles using its accumulated expertise and purchasing muscle, and passes these actual costs on to its clients, with the service fee.

While the professional techniques of large-scale vehicle management are available externally, the risks always stay with the Fleet operator. So do many of the decisions rest there, as a factor of the risks. The statistics on the cost breakdown and the performance of the fleet are summarised on computer reports – often now available through on-line facilities. These reports need to be studied by the operator to ensure that the information being provided by the external Fleet Management company is actually applied to control and contain costs.

Many Fleet Management companies provide other support such as customised (from templates) policies and handbooks.

**“Contract Hire”** – this is a comprehensive package which outsources most of the operational aspects – and risks to the service provider. The process is based on a specialised form of lease funding, but with many additional facilities.



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Under Contract Hire the supplier will normally provide the complete interface with the whole of the motor industry: buying the car or van from preferred dealerships; projecting – and taking the risks and rewards of – future residual value; arranging the lease package; arranging the full maintenance package and budget for the contracted period and mileage; supplying Vehicle Excise Duty for the full period; and monitoring the performance of the vehicles with large-scale IT – all in exchange for a fixed rental.

Contract terms are usually fixed (unlike Fleet Management) with 36 months/ 60,000 miles being one of the most common cycles. So long as the car or van is operated “reasonably” by the client (and the drivers) within the contracted terms; and the rentals are paid on time, the costs to the client are fixed, and all at the supplier’s risk.

If the contract terms are breached, then additional costs may become due. If the mileage limit is exceeded, an excess mileage charge (usually in pence-per-mile) may be applied. If the vehicle is returned before the end of the contract period, then an early termination charge may be imposed. A clear understanding of these potential costs is an essential pre-requisite of signing up for such an agreement.

Both Fleet Management and Contract Hire can be taken as relatively basic packages relating only to the vehicles. However, they can also be extended into other areas such as fuel and accident management. The major difference in these packages is in flexibility versus fixed costs, and where the cost risks fall.

Generally there are few facilities to outsource just the necessary administration – but both Fleet Management and Contract Hire should include comprehensive administration processes to supply as much data as the fleet manager and senior management want, as a fundamental part of the whole package.

The ability to pass “fleet management” across to an external expert, who knows all the angles, is clearly attractive – at least in principle. However the outsourcing concept changes several things. Some of the risk, most of the administration, and virtually all of the management reporting are delegated to the outside Agency for the range of fleet areas handed over to them. Their high-volume efficiencies in all these areas should produce cost reductions. For most driver contact, there is a 24 hour access, able to deal direct with virtually all types of fleet enquiry. So far, so good.

These benefits are real enough. But they need to be considered along with other factors. The whole nature of “managing the fleet” shifts - and becomes “managing the contract”. This requires very different skills, and these need to be understood. So instead of understanding how dealers work and how best to get the deal you need; or how to get a good price at auction, you need to understand the service delivery contract and how to ensure the service provider meets – or ideally exceeds – all the contracted terms and conditions of the deal.



## Part 9 – Fleet Operational Methods

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And the one thing that **cannot** be allowed to happen is for the fleet operator to assume that signing any level of outsourcing deal simply gets rid of all the fleet problems. For sure it transfers the operational aspects to where they can be managed - but the overall responsibility always comes back in one way or another to the fleet operator.

One key area where this is essential is in the periodic reviews. Unless there are clear objectives set out first, and careful study of the review reports, the outsourcing agency can become judge, jury and executioner all in one. In the vast majority of cases, the suppliers are ethical and the risks of abuse or increasing costs are tiny. But this cannot be taken for granted.

An essential part of any good outsourcing arrangement is a set of clear service level agreements. Not only will these say what is to be done, when and for how much: they should also provide for some form of financial penalty if the supplier fails to meet them (under reasonable circumstances). There should also be a clear intention to seek “continuous improvement” so that there is no real opportunity for the service provider to rest on their laurels.

### Costing

So far the issues have been about the nature of the options for dealing with the business of running a fleet. It is important to consider the relative costs of these options.

For both cases the only thing that matters is making certain that all the costs of each option are included. Otherwise the comparison is invalid and could lead to some excessive costs. It is essential that all the options are measured carefully, to make the best and most sustainable case for the business decision.

For the in-house option, the true costs of all the factors being considered should be known. To take one example, if consideration is being given to outsourcing fuel management to a fuel card provider, the total volume of fuel (at least for the business mileage) needs to be known. The number of vehicles, and the mileage patterns, needs to be known as well. This dataset is, after all, what will be provided by the fuel card.

The total cost of the in-house solution – including a realistic assessment of the labour costs of the internal administration – then needs to be compared with the total costs of fuel provided by the card. This will automatically net off any volume discounts available from the card, and any costs for the card service. The same pump prices for petrol and diesel (and any other fuels in use) should be used so that it is truly the service that’s being compared, and not “old” fuel prices against “new” ones.

To the financial result, add any non-cost benefits, such as the better reporting and monitoring facilities that should be available from the card service. Any operational limitations – such as restricted numbers and locations of fuel forecourts where the drivers out on the road, can refuel – also need to be added. In this area, as in most aspects of business, it is commercially necessary for the fleet operator to understand the process before signing for the commitment.



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Fleet outsourcing has seen solid growth as businesses try to control their costs, and limit their exposure to unbudgeted expense. This is all part of “the needs of the business” and is plainly the right thing for many organisations to do. Conversely, it is plainly not a universal solution, to be applied regardless of other factors. And fleet managers should be part of the process, to make sure that good practical experience of the way the fleet actually runs, is considered before any contracts are signed.



# Part 10 – Fleet Funding & Taxation

A Fleet Managers Guide

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## Introduction

This section of the Volkswagen Fleet Managers' Guide looks at two areas that are completely linked within the UK system, simply because there are different tax treatments for different funding methods. And there are many methods available to meet different situations of the businesses that want to run fleets.

The business buyer generally has plenty of other uses for large blocks of capital funds, and over many years the UK fleet market has developed a whole range of general purpose and specialist funding arrangements to deal more effectively with capital expenditure – as well as those fleets that still elect to use their own cash to buy their cars and vans outright.

It is probably fair to say that there is a funding package available to suit everyone, depending on their business circumstances and requirements. Volkswagen Financial Services is an obvious starting point for the options.

The range of funding methods used in any one fleet needs to be considered carefully. It is quite unusual for fleet managers to decide which funding method should be used – more often this is a matter for the Finance Director. But of course it is important for the fleet manager to understand the implications of getting it right – or getting it wrong.

## Health Warning!

This article can only be an outline introduction. Fleet funding is a very complex and important area, with potentially serious and expensive consequences for the wrong decision. The senior management of the business must be consulted about any changes which are proposed. And it follows that there needs to be a careful evaluation of any sales proposals made by suppliers, to ensure that all the implications of what they are offering, are fully understood in relation to your particular fleet.

If all of that makes fleet funding sound complicated, the good news is that at the broad level, it really is quite simple to understand. There are in fact only three basic approaches. All the individual derivatives which are available in the market fall into one of these three categories:

- “Ownership”
- “Leasing”
- “Driver Funding”

The last item - driver funding - is important to employers as there is a large body of business travel done through employees' own cars, against some form of allowance and rates. In fact there are more employees using their own cars (around 4 million) than there are company cars (around 2.2 million). However, many of these are only covering and claiming for small amounts of business mileage each year, where supplying a fleet car just would not make sense. But this deserves to be considered as a valid option in many cases.



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### Ownership

There are several choices here. Some businesses with cash liquidity simply pay for every car as they need it, and buy outright. The car is treated as an ordinary business asset, and when sold, all the residual value goes back into the company's general funding pool.

For those who want to own the vehicles, but can't (or don't want) to pay outright, there are hire purchase arrangements. The client pays a deposit (typically 10 – 30%), followed by the regular, and fixed payments over the agreed contract period. If all the conditions are met, full title and ownership passes to the client once the final instalment is paid. This way each car or van is paid for over its working life.

Then, as with outright purchase, all the sales proceeds go back to the client on disposal. The regular payments can be reduced by building in an allowance for the projected residual value at the end of the agreement period. This lowers the payments, but of course there's no final pay-out on sale.

Different schemes allow for the future residual value to be set by the fleet operator (at their own risk of profit or loss, depending on the actual residual value); or by the supplier at their own risk. This provides a firm budget over the whole life of the vehicle, but might be set too conservatively to ensure a no-loss/ certain profit for the supplier (especially if it's a Volkswagen, given their strong residual value reputation).

### Leasing

As with purchase, "leasing" is not a single product but a whole family of related schemes.

The simplest form is finance leasing, which is very similar in principle to the basic hire purchase scheme described above, where the full cost of the car or van is paid off over an agreed period of years. Then there are schemes which give options to build in a projected residual value to yield lower rental payments across the period. The residual value can be set at the fleet's risk or the supplier's risk.

The appearance might be similar, but there is one big and important difference: under a lease the customer never owns the vehicle: they simply pay the owner for its use (so it's a very long rental agreement). This means that it is not part of capital expenditure or the fixed assets (although in most cases it still has to appear on the balance sheet). It also defines the system as a service – which attracts VAT on the rentals. (There's more explanation about the tax implications later in this article).

Contract Hire is one specialist form of lease, highly developed in the UK, where the expert supplier has the system and power to acquire the vehicles, fund them through large-scale borrowing deals, and predict an expert view of residual values – at their own risk – 3 or 4 years ahead. Together with a maintenance package, Vehicle Excise Duty (VED) and some administration, the total projected costs are recovered in the form of fixed, regular rentals from the client.



## Part 10 – Fleet Funding & Taxation

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### Driver Funding

For the majority of the 4 million own-car users in the grey fleet, the funding arrangements are simply part of their ownership obligations for having and running the car. Some might be bought outright out of savings, or a specific loan, or hire purchase. Generally these will not be of specific interest to the employer.

But the increasingly sophisticated group of employees who have given up their company cars in favour of some form of structured plan may have some form of support from their employers. For example, a Personal Contract Plan (PCP) scheme might be arranged by the employer to give the employee all the benefits of a company car, but funded by the individual using a conditional sale agreement (the retail version of hire purchase) with an in-built residual value usually at the supplier's risk.

An Employee Car Ownership Scheme (ECOS) takes this principle and tailors it much more precisely to specific circumstances. Because there are very complex interactions between the funding and tax allowances this is something that needs to be explored with experts: there isn't an off-the-shelf form of ECOS.

### Common issues

There are 2 big variables that need to be considered before any firm decision on funding is made. The first is the matter of a projected residual value and who is carrying the risk. This needs to be understood very clearly: it may be attractive to have low instalment or rental payments because of a high residual value built into the calculations, but if this figure is not realised when the vehicle is finally sold – who carries the loss?

As we have seen in the used car market of mid- to late 2008, a depressed market means lower residuals and actual losses result. If the supplier is carrying the risk, will he be able to meet all reasonable results? If the fleet operator is carrying the risk, has this been properly assessed and allowances made?

Clearly there is a difficult scenario where the fleet thinks there is no risk, but on disposal is faced with a large bill from the funder to make up the difference between the projected residuals and the actual results.

The second major point is the effective interest rate charged in the agreement. This is the difference between the actual vehicle costs of depreciation (original cost less actual sales proceeds) and the instalments or rentals. Of course the total costs are what matters, but the calculation of the effective interest rate will give some measure of the actual competitiveness of the whole deal – and is therefore useful when comparing suppliers.

As set out in Section 6 (Operations) in this series, the UK fleet supply chain provides a range of services such as maintenance, fuel and accident management packages to support the basic funding arrangements. So there are many options to deliver just the car or van; or the whole system, depending on requirements and preferences.



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### Which one for you?

Every main group, and all their derivatives, has a place somewhere in the fleet market. All of them come with a range of features, advantages and disadvantages. Although all of them try to deal with the serious issue of funding some very expensive assets, they do it in a whole range of different ways which can have significant implications on the business.

The list of the main factors which need to be considered when you are looking at any particular funding method includes:

- 1 Overall Cost of the method, as set within the full whole-life cost computation
- 2 Cash Flow Implications
- 3 Balance Sheet Effects
- 4 Taxation on employer – Corporation Tax
- 5 Taxation on employer – VAT
- 6 Taxation on employee – Driver company car tax (as shown on an P11D)
- 7 Flexibility to the business
- 8 HR/ Personnel implications
- 9 Risk profile
- 10 Internal administration and resource costs and implications

These represent the broad issues, and most of them relate not just to the vehicles and the fleet choices themselves, but also how the business operates. The fleet needs to be run to meet the needs of the business, even if that means that some parts of the fleet policy are less than optimum.

Looking at the list, it is obvious that many of the points which need to be considered are to do with accountancy, finance and taxation. These are big and important topics which need to be handled by the responsible experts within the organisation. However it is important that the fleet manager has at least some understanding of these issues, to help build expertise through experience, and bring better fleet management into play.



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### Evaluation of the funding factors

The key aspects of each of the factors can be summarised as follows:

- 1 Overall Cost** - This seems so obvious, yet often has to play second fiddle to other factors. For example, if it can be shown that outright purchase gives the lowest overall cost for any given situation, but the company has no cash to buy its vehicles outright, then it is always going to have to settle for second best.
- 2 Cash Flow Implications** - In many organisations, cash flow is considered to be more important than actual cost. Matching overall income to expenditure is critical. Any of the funding methods will generally offer some cash flow benefits for each individual vehicle. However, what really matters to the business is the overall cash flow **within the fleet**. Here, the evaluation has to look at the differences between buying and selling one or two vehicles a month, and paying a rental/ instalment on every vehicle, every month.
- 3 Balance Sheet Effects** - This can be extremely important to some businesses, and completely unimportant to others. Usually, when a business wants to look as attractive as possible, particularly when measured on the Return On Capital Employed, there will be a major effort to keep the vehicles off the balance sheet. This is a complex area, and the fleet manager should always seek expert guidance.
- 4 Taxation on employer – Corporation Tax** - Naturally, this only matters where the fleet operator is liable for Corporation Tax. Many types of public sector organisation fall outside this range. The key factors are set out in the <Callout 1> on page 7.
- 5 Taxation on employer – VAT** - There are two VAT issues concerning fleet vehicles. One relates to whether or not vehicles have private use. If there is no private use, such as pool cars, then in most cases VAT-registered fleet operators (and leasing companies) can recover the VAT on purchase of a new car, but then have to account for VAT within the disposal price, when they sell it. The other issue is in purchase versus lease: all the forms of purchase including hire purchase, contract purchase etc, effectively fall outside the scope of the VAT; all forms of leasing attract VAT on the rentals. Where the vehicle is used for any amount of private use, only half this VAT on the rentals is recoverable by the fleet operator. Plainly, any fleet operator which is not VAT registered faces a significant financial penalty if they cannot recover any of the VAT on leasing rentals. However, leasing companies base all their rental calculations on the VAT-exclusive price (for both purchase and disposal), and this lowers the amount of depreciation they have to include in their rental calculations.
- 6 Taxation on employee – Driver company car tax** – Where an employee has the benefit of private use of a car “by virtue of employment”, that benefit is taxable. It might sound complicated but it’s really quite simple. Please see <Callout 2 >on page 7 and 8.
- 7 Flexibility To The Business** - Anything which is based round a contract - hire purchase, contract hire, finance leasing etc - will almost certainly impose constraints about what the fleet operator can do to dispose of the vehicle. So if your business has a high turnover of drivers, and your HR policies give every new driver the option of a new car, you are likely to be faced with a significant administration burden and cost, as you deflect vehicles before the end of the agreement. As a separate issue, different funding arrangements bring different assumptions about the range of services which are included, or can be added as extras. The supply side of the industry has worked hard to increase flexibility, and provide plenty of choice in this area.



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**8 HR/ Personnel Implications** - The fleet must always be run to suit the needs of the business, so there is no point in trying to run the cheapest possible cars (such as 3 door diesel Polo) when the type of employee you need to attract and retain for your business can expect large MPV or estate models from competing employers. This is another example where the “cheapest” option is not necessarily the one you can adopt. The reasonable and realistic expectations of drivers and an understanding of the competitive environment, is necessary to get the right balance between cost of employment and driver delight.

**9 Risk Management** - There are many more risks running a fleet, than just the insurance/ road traffic accident ones. New car prices can vary significantly over a short space of time. Residual values can be strong in one period for one type of car and dramatically weaker in another period. There are risks associated with interest rates, and the type of agreement. Particularly for higher mileage vehicles, maintenance risk can be significant. And of course, road risks fall into this category.

Different packages offer to take on more and more of these risks, by “experts” who may be better equipped to deal with them than the fleet operator. But risk transfer normally involves additional cost.

**10 Internal Administration Factors** - If you elect to do everything yourself, you may well stop paying other people a profit, but you may not maximise the direct costs – and doing the job properly in-house will always require a time and management resource. Some funding arrangements build in a high level of administrative support. For example, contract hire should provide the majority of the fleet administration, leaving the fleet manager to concentrate on higher-level management issues. Plainly, if you choose this route, you need to make certain that the promises are actually delivered under Service Level Agreements within the contract terms.

These points have only been covered at a relatively simplistic level. But it is clear that to optimise the fleet funding, you as fleet manager and other managers in the business, need to know what the business actually needs from the fleet, and what range of funding methods are acceptable - and which are completely unacceptable. There is a huge choice in the market, and it can be confusing. Using the pointers given above, evaluated for the circumstances of the individual business, you should be able to narrow down the choice quite quickly.

This is not an area to be treated casually, and the whole management team has to be extremely careful about making changes in the businesses. You may think that switching to a new system makes perfect sense - your Managing Director, Finance Director or HR Director might see things quite differently.



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### Ranges of CO2 emission ratings of current Volkswagen models.

It makes sense to know what model ranges offer tax-efficient options. Volkswagen's model range starts with CO2 emissions of 99 k/gm of CO2 in the efficient Polo BlueMotion up to 348 k/gm in the luxury Phaeton.

Because most of the tax regimes in the UK are now based on CO2, these ranges are not only beneficial for corporation tax, but for Vehicle Excise Duty and driver company car tax as well.

#### Callout 1 – Corporation Tax

Where corporation tax is payable, the main point is that for tax relief benefits, all forms of “purchase” are treated under one tax system, while all forms of leasing are treated under a different system. The overall rates of this tax relief were reduced (for all asset types) from April 2008, and from April 2009 there will be different and less favourable treatment of cars with a rated CO2 level of over 160 g/km. This will cause potentially large relative differences in the way the rentals are calculated.

Full details are outside the scope of this Guide, but these are important issues that need to be considered at the Finance Director level. The main point to make is just this: the after-tax whole-life costs of typical mainstream fleet cars could be different by around £700 each, depending on the CO2 value. The forthcoming (April 2009) changes see a major threshold of treatment right at the centre of many fleet choice lists.

Employers should consider their allocation policies very carefully (see Section 4 in this series; The Importance of a Fleet Allocation Policy) to avoid significant and unexpected after-tax costs. Expertise and powerful calculators are needed to establish the “best” solution – although using Volkswagen models across the policy can help significantly (see Table 1 below)

#### Callout box 2 – Driver benefit in kind tax

To calculate the benefit charge on which the driver will pay company car tax, there are 2 key figures and 1 condition. The figures needed are: official list price of the specific car (undiscounted/ retail price as per published price list, plus delivery charges plus the full retail cost of any accessories) and the CO2 rating (as fixed in the car's V5 registration document). The condition is the fuel type (petrol/ diesel/ hybrid/ dual-fuel etc).

The simplest way to explain is to look initially at petrol-engined cars. The system starts with the list price, and multiplies this with the relevant percentage value from a scale of 22, based on the CO2 figure. These percentage figures range from a low of just 10% for the very cleanest/ lowest emitting cars to 35% for any car with a CO2 of 235 g/km or over. For any car with a CO2 of less than 121 g/km the percentage rate is just 10% of the list price. Anything with a CO2 rating between 131 and 139 (inclusive) has a tax liability of 15% of the list price; then for every 5 g/km band over 140 the figure increases by 1% of list price, up to 235 g/km, when it is capped at 35% of the list price.



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Where the fuel type is diesel, there is a 3% surcharge applied to the scale (although still capped at 35% maximum). There are also discounts of 1 or 2 percentage points for other fuel types such as LPG or hybrids, as defined by HMRC. Full details can be found on the Revenue & Customs web-site at [www.hmrc.gov.uk/cars](http://www.hmrc.gov.uk/cars).

These scales can change at Budget times, with the new rates applying to all vehicles and not just new registrations. The fleet industry has secured something of an undertaking that government will provide the rates 3 years ahead, to ensure that fleet selection can be made with a degree of certainty about the tax liability for most of the car's life.

A copy of the latest Company Car Tax Guide 2008/9 can be downloaded from [www.volkswagen.co.uk/fleet/cars/tax-calculator](http://www.volkswagen.co.uk/fleet/cars/tax-calculator).

### Fuel for Private Use

The government has made it clear that it wants to discourage the provision of fuel for private use. Where an employee has this benefit, a separate tax charge is due. This is calculated by multiplying the fixed Fuel Charge value (2008/9 = £16,900 pa) by the same CO<sub>2</sub>-driven percentage as for the main benefit charge.

This Table illustrates all the benefit tax calculations for a new Golf (Mk 6) SE TDI 140ps 6-speed:

<b>Benefit tax on Private use:</b>		
On the car		
List Price + Delivery	£18,571	<18,086 + 485>
CO <sub>2</sub>	129	g/km
Tax %age	18%	Basic 15% charge for CO <sub>2</sub> <139; plus 3% diesel supplement
Tax Charge	£3,343	"Salary equivalent" of benefit
Driver tax @ 20%	£669	
Driver tax @ 40%	£1,337	
<b>On Fuel for Private use</b>		
Fuel Scale Charge	£16,900	
Tax %age	18%	Same CO <sub>2</sub> -based percentage as for private use
Tax Charge	£3,042	"Salary equivalent" of benefit
Driver tax @ 20%	£608	
Driver tax @ 40%	£1,217	



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### Vans

The rules for taxing private use of company vans (including pick-ups) were changed in 2005/6, with the result that a large number of employees were relieved of tax liability altogether. Where the non-business use is restricted to commuting to and from work-sites; and otherwise is only a small percentage of the overall use, no taxable benefit applies.

Where the van can be, and is in fact used extensively for private use which is considered as non-incidental, a flat-rate tax charge applies at £3,000 pa. If fuel for private use is also provided, a further tax charge of £500 pa is applied.

To ensure that tax is only paid for “substantial” private use it is necessary to demonstrate a policy-level commitment to restrict this. Journey-logging and mileage records, clear policy statements acknowledged by the drivers’ signatures, or even withdrawing insurance cover for everything except business and commuting can all be used to show that no tax liability applies. In some cases tracking device records can also be used as evidence if it is already fitted to the vans – but it is clear that HMRC do not require this level of detailed proof as a matter of course.

### Class 1A NIC

For cars and vans, the system provides a “tax charge” The driver pays tax on the total tax charge – and the employer pays Class 1A NIC on that charge as well.