

The Audi Guide to controlling costs

How to streamline your fleet for efficiency

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Introduction

Making the most of every penny has seldom been more relevant to fleet operators, as recession follows credit crunch and trade becomes tougher.

For many fleets the need to reduce costs is paramount, and the tough economic climate offers an ideal opportunity for change. New ideas, the latest fleet management thinking, changes in legislation and rapidly advancing technology from manufacturers opens up new possibilities for fleets, while downsizing, alternative fuels and smart management practices are making their way to the top of everyone's agenda.

The Audi Guide to controlling costs offers advice, insight and help to fleet operators looking to streamline their operation, and offers a top ten check list for best practice.

Legislative change: spurring industry action

2009 introduced significant change in the way fleets need to manage themselves, centred around the Government's policy to reduce CO₂ emissions from cars and comply with ever-tighter EU regulations.

Coupled with the economic downturn, it has meant a wholesale shift in strategy for manufacturers and end-users alike, with technology leading the drive for lower emissions and improved fuel consumption.

Legislation introduced in April 2009 made it more expensive for fleets to run vehicles with CO₂ emissions of 160g/km or above, irrespective of whether they lease or buy, with costs increasing by as much as £30 a month or more for those emitting over 160g/km of CO₂. See the Audi Guide to Company Car Tax for further information on Capital Allowances.

It's a simple equation: the lower the emissions of a car, the lower will be its whole-life costs.

Specifically, the key number to remember going forward is 160, where it relates to CO₂ emissions in g/km from your company cars. Choose models with emissions at or below this level and not only will drivers pay less BIK tax – with correspondingly lower fuel bills – but employers save money because of the new rules on vehicle writing down allowances that now apply.

Set your 'rules of engagement'

A responsible way of introducing a programme of change to your fleet policy is to compile a simple checklist that can be circulated to all staff, constituting a reminder of your fleet policy and the expectations you have of drivers.

Rethinking drivers' car usage patterns and instilling a 'green' culture will give you the opportunity to cut costs. Not only will this reduce fuel bills but you will have a fleet that's less prone to excess mileage charges, while fewer miles means less wear and tear and a lower accident risk.

Encouraging drivers to shop around for their fuel, perhaps by introducing a monthly incentive and reward scheme for the driver who finds the cheapest fuel, will engender a sense of 'research reaps reward' – and it's surprising what a difference to monthly fuel spend even a 1p or 2p/litre saving makes spread across the fleet.

Finally, it should be possible to introduce flexibility to your car policy, for instance by allowing drivers to trade down in return for a higher specification. Trading down will often bring in models that are less expensive to acquire and run, and offer the driver enhanced specification and lower tax.

Further information

Act on CO₂

www.actonco2.co.uk

Developed by the DfT, the site offers advice on acquiring lower emitting cars with a vehicle CO₂ ranking put together with What Car? magazine. Also offers a CO₂-saving calculator and tips on efficient driving.

Energy Saving Trust

www.energysavingtrust.co.uk/fleet

An extensive resource for fleet managers needing advice and guidance on running a more efficient fleet. Includes a travel planning facility, fleet consultancy and savings calculator.



Minimising costs through choice list selection

In simple terms, the cars you run on-fleet will have a significant influence on your operating costs, which is why it is vital to control what choice your drivers have.

The theory goes that cars that are more expensive to buy are therefore more expensive to run. However, it is not always that simplistic because whole-life costs play a much more significant part than mere purchase or rental price.

Understand choice list criteria

While the majority of fleets have choice lists set up in monthly rental bandings by price for each level of employee, the fleet manager needs to look at the pre and post-tax costs of those vehicles as well.

Class 1A National Insurance Contributions, based on CO₂ emissions, overall fuel costs and insurance are all important, because without a full understanding two cars with the same monthly lease rental can have widely varying whole-life costs.

But understanding the tax position of your vehicles is not necessarily simple, especially if you outright purchase, because under current rules offsetting a proportion of the depreciation against corporation tax could take decades, especially for higher-emitting cars. These figures can be complicated to work out, and it is best to speak to an accountant for clarification.

Choose cars according to their emissions of CO₂

Unravelling the detail of each car's tax position aside, there is still a relatively simple approach that will set you on the right path: choose lower emitting cars.

The Government's company car tax systems, including Class 1A NIC, BIK tax, capital allowances and VED, are formulated to incentivise the move to lower CO₂ vehicles. For many fleets, that means setting choice lists that limit CO₂ emissions of the majority of cars to 160g/km or less.

Whole-life costs central to fleet cost calculation

Whole-life costs – the total projected operational costs of a particular make and model over a set period – form the cornerstone of any company car equation. They may comprise many facets of operation such as depreciation, fuel costs and servicing, as well as funding charges, insurance and employers' NIC.

Whole-life costs enable you to build a picture of a vehicle's operating costs which can be used to compare with other models. In turn, these comparisons will help set the criteria to establish the most cost-effective options for your choice list.

Spreading the risk

Ensuring a fleet remains cost-effective in the long term needs constant review, especially if you are taking on the residual value risk of your vehicles: as one vehicle type becomes less popular on the used market and its value drops, another's profile might improve helping to offset any potential losses.

By ensuring a mix of vehicles rather than a fleet comprising one particular make and model you will reduce your exposure to disposal value fluctuations.

Diesel or petrol?

It is well-known that diesel traditionally has offered the best choice for fleets with its blend of economy and low emissions. Audi's renowned TDI units are a case in point with A3, A4 and A6 models now offering combined economy of up to 68.9mpg and CO₂ emissions from just 109g/km.

But with enhancements in the efficiency of petrol engines, for example Audi's technologically advanced TFSI direct injection petrol units, and the closure of the fuel price differential between petrol and diesel, fleets doing lower business mileage may well find that a petrol car offers an increasingly attractive option with generally lower front-end pricing and much-improved economy and emissions.

Further information

EurotaxGlass's

www.eurotaxglass.co.uk

Independent provider of vehicle operating costs, as well as new and used vehicle price and specification information.

Carcost

www.carcost.co.uk

Independent provider of vehicle operating costs as well as new and used vehicle price and specification information.

TopCalc

www.topcalc.co.uk

Independent provider of vehicle operating costs as well as new and used vehicle price and specification information.

CAP Motor Research

www.cap.co.uk

Independent provider of vehicle operating costs as well as new and used vehicle price and specification information.

Vehicle recalls

www.vosa.gov.uk/vosa/apps/recalls/default.asp

Check the latest and historical manufacturer recalls for mechanical or safety-related issues.

Vehicle Certification Agency car fuel data

www.vcacarfueldata.org.uk

The official resource allowing you to search for specific vehicles by type, CO₂ emissions, VED liability, fuel type, fuel consumption, running costs and company car Benefit in Kind tax banding.

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Purchase or lease?

The way in which your fleet is funded can have a major impact on operating costs, and different funding options offer varying solutions dependent on usage patterns.

The vast majority of cars used for business are acquired either through outright purchase, leasing or some form of opt-out/cash allowance system. Choosing the right method is essential to help minimise your costs.

Outright purchase

Outright purchase, where a company uses its own cash to fund the fleet, historically has been the predominant funding method.

For an organisation with the cash to do this, and a fleet manager with the expertise to negotiate, purchase, maintain and insure the fleet, as well as oversee effective disposal, this can still work well. The benefits for larger fleets include substantial buying power, complete flexibility on acquisition and disposal and, in some cases, enhanced asset value.

But it can be a costly exercise – you have numerous depreciating assets on the balance sheet, and you are exposed to residual value fluctuations at resale. Added to that, of course, is that outright purchase demands that you must be secure financially, with the liquidity to tie large amounts of capital up in the purchase of cars.

Contract hire

The advantages of contract hire mean it has overtaken outright purchase as the most popular funding method because it poses significantly less operational risk to the operator. Residual value and disposal risks are eliminated as both are taken on by the leasing company and packaged as part of the monthly rental.

Contract hire is also highly tax-efficient, particularly for cars with CO₂ emissions of 160g/km or less: since April 2009, new rules mean that for these vehicles 100% of lease rental costs can be offset against corporation tax. Also, most companies can claim back a proportion of the VAT charged on the finance element of the monthly rentals as well as all the VAT on the service and maintenance part of the rental, if you choose to include this in the monthly charge.

A further advantage is that because vehicles do not appear on the balance sheet, financial ratios can be improved and working capital freed up for other purposes.

Cash for car: calling in a troublesome policy

Paying employees a cash allowance in lieu of a company car has become popular in recent years, but such calculations generally have been made when the economy looked rosier.

Drivers often saw flexibility and personal choice as more important than a rigid company car policy, but so-called ‘grey fleet’ vehicles have presented new problems: in tougher times, how many drivers will have their cars repossessed, fail to be properly insured for business use or ignore important maintenance schedules? Worse still, duty of care obligations mean that, when these cars are used by drivers on company business, it is the fleet, rather than the individual, that bears full responsibility.

The recession presents a strong opportunity for you to bring these vehicles under your control, so satisfying duty of care issues and eliminating cash for car payments and replacing them with more tightly controlled costs negotiated under your company car policy.

Further information

Finance & Leasing Association

www.fla.org.uk

The body which represents organisations offering credit and leasing. The site also gives customers impartial advice and sets out financial codes of practice.

Company car tax

www.direct.gov.uk/en/MoneyTaxAndBenefits/Taxes/WorkingAndPayingTax/DG_10021716

Government information on Benefit in Kind company car taxation and fuel benefit, with advice on who is liable and how the calculations are made. Includes a tax calculator and advice on vehicle CO₂ bandings.

Making a tender

An effective tender process is vital to ensure you get the most cost-effective supply solution from a supplier.

Putting your requirements out to tender will help you ascertain which suppliers offer the best solution, and will often help you identify alternative ways of solving a problem. A tender is also guaranteed to help you cut your costs as suppliers will know and understand they are in competition with others to win your contract.

And don't be surprised if tenders come in at widely varying rates: the best solution may not necessarily be the cheapest, but such tenders can often work out as the more cost-effective choice in the longer term.



Achieving the most from a tender:

- ▶ **Take your time:** be realistic about the time it will take to review fleet requirements, draw up the tender document, select candidates, evaluate responses and make a selection.
- ▶ **Consult widely:** ensure all stakeholder departments in your company are involved and are given the opportunity to have their say on requirements.
- ▶ **Talk to other fleets:** lessons learned from other fleets during tenders are invaluable in putting your own together. Try to find out what has and hasn't worked for others.
- ▶ **Clarity is key:** obtaining the answers you need requires clear, unambiguous questions. And don't let suppliers confuse you with jargon.
- ▶ **Start wide and narrow down:** issue a Request for Information (RFI) questionnaire to potential suppliers and narrow your selection down from that.
- ▶ **Meet with your shortlisted suppliers:** you will have to work with your chosen supplier, and they have to comply with your company culture, so make sure you meet them face-to-face.
- ▶ **Offer a level playing field:** give all suppliers an even chance. If one supplier asks for additional information, ensure the other suppliers receive it too.
- ▶ **Add value rather than cut the price:** the lowest price need not always offer the best value. What other services are available from the tenderers and what can they offer?
- ▶ **Visit tenderers:** ensure you visit tenderers and see their operation. They should be forthcoming with references so check they fit with your outlook.
- ▶ **Present and appoint:** you may need to ask for final presentations to make a final choice between favourites before appointing. Historically, fleets have opted to lease vehicles for three years because in years four and five the costs of maintenance start to increase due to mileage and age.

Further information

Association of Car Fleet Operators
www.acfo.org

The website of the fleet managers' association offers news, fleet management advice, contact information for key personnel and details of resources for members.

British Vehicle Rental and Leasing Association
www.bvrla.co.uk

The BVRLA website carries a vast amount of useful information on all aspects of rental, leasing and fleet management for passenger and commercial vehicles.

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Driving down insurance premiums

Many insurance companies claim that the cost of cover is rising, and to an extent that may be true as cars generally get more expensive and complex to repair.

But this does not necessarily need to have a knock-on effect to you: a fleet's insurance premium reflects its ability to manage and minimise risk. If you are controlling and improving your risk profile then you could see premiums fall.

Insurance companies look for evidence of a business's commitment to reducing accidents and costs, and managing risk. Many ask for internal fleet policy details and information on your risk management strategy. Recognising areas of actual or potential loss and implementing programmes to reduce those losses is the obvious response.

Minimising risk will lower premiums

This might be as simple as implementing driver licence checks or boosting security on vehicles deemed most vulnerable. Or it could be as comprehensive as adopting a full risk improvement programme with a third party supplier, or fitting telematics

systems to all vehicles with action taken on the data provided. Other ways to reduce the fleet's risk profile might include making drivers more responsible for at-fault accidents, perhaps by making them liable for part of the insurance excess, although this approach should be set out contractually.

Some fleets cut costs by self-insuring – effectively paying for their own repairs with insurance covering only third party costs. In this case, however, economies of scale are essential to keep costs down, and fleets who choose this route are generally larger with, of course, the wherewithall to pay for repairs.

Even more important is a strict risk management programme. Without one, and without knowing exactly what your main risks are and where your principle expenditure is occurring, self insurance will almost certainly fail to deliver a reduction in costs.

Residual values

It goes without saying that models with higher predicted residual values will cost less to run. To a large extent, contract-hired fleets do not need to worry about residual value fluctuations as this risk is absorbed into the monthly rental, although pragmatism in vehicle selection will reduce rentals.

On the other hand, fleets choosing outright purchase, and some other funding options where the residual risk remains with the lessor, are exposed to this risk and the effects of used market fluctuations.

In their own right, predicting residual values can be tricky, particularly in a volatile used market, and it pays to be aware of what is happening to values and which vehicles bought now will achieve the best prices at resale time. Equally, a feel for the market will single out those makes, models and genres of car to be avoided on account of their higher depreciation.

With the vast majority of fleet car disposals being handled via auction, auction houses such as BCA and Mannheim know what is selling well and what is not, and useful advice is always forthcoming. After all, it is in their interests as a business to obtain the best prices and the most cost-effective sale process.

Further information

Association of British Insurers
www.abi.org.uk

Website of the association representing British insurance companies and a useful contact point for help with insurance issues.

Motor Insurers Information Centre
www.mib.org.uk

Links to the Motor Insurance Database allowing fleets to register their cars on the system, and offers help with claims against uninsured drivers.

Roadsafe
www.roadsafe.com

A partnership of leading companies in the motor and transport Industries aiming to increase awareness of the risks of driving for work.

Think!
www.dft.gov.uk/think/

The DFT's Think! Road Safety Campaign includes resources and advice on how to deal with drugs, tiredness, speed and drink driving.

SAFED
www.safed.org.uk

Safe and fuel-efficient driving organisation set up by the DFT to offer advice and training to van drivers and fleets.



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Educating for efficiency will cut costs

It's plain that company car drivers present one of the biggest costs to a business, not simply because of the cars they choose but because of the accidents they have and the unnecessary fuel they use. But putting a figure on these notional costs is hardly practical: accidents will always happen, and drivers will always use fuel.

By analysing accident history you may find patterns emerging – some drivers making the same mistakes over and over again, or certain branches or depots suffering high numbers of incidents in the car park due to poor signage or traffic flow, for example. Simple rules and incentives are often all that are required to improve behaviour or minimise risks, while driver training will enlighten the worst offenders.

How vehicle care can reduce costs

Drivers who look after their cars are generally less costly – engines are less prone to serious damage if fluid levels are checked, services are completed on time and tyre pressures and condition are checked.

A recent survey found 60% of all car tyres were underinflated, giving rise to an increase in fuel consumption of as much as 15% in some cases, as well as a dramatic increase in wear rate.

Structure your driver handbook to set out an expected level of care and ensure drivers read it and respond.



Further information

General safety

www.safermotoring.co.uk

Offers tips and advice on safety, such as how to deal with aggressive road users, vehicle safety features and what they mean, guidance on parking and safety advice when returning to your car.

Motorways: safety and use

www.safermotorways.co.uk

Focuses on key issues that affect safety and congestion on UK motorways and major roads, with features discussing motorway-related safety. Includes live traffic information and a journey planner.

In summary: ten constituents of an efficient fleet

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1. Understand your choice list: introduce an informed selection process for your fleet vehicles and base your choices on whole-life costs. Desirability in the used market is a key influencer to residual values, and will in turn reduce your whole-life cost profile. Desirable cars on the choice list will act as a major staff incentive and keep your drivers happy.

2. Consider switching to diesel: despite the virtual elimination of the price disparity between unleaded petrol and diesel fuel, fleets will benefit from diesel's greater economy and lower emissions, especially when higher mileages are involved. The latest common-rail technology and the introduction of technology such as automatic engine start-stop make for an even more compelling case.

3. Choose cars with CO₂ emissions of 160g/km or less: significant manufacturing advances mean that many popular models can be chosen with CO₂ emissions of 160g/km or less, so complying with the latest capital allowance legislation. By ensuring your main fleet complies with the legislation, you will cut acquisition costs and ensure optimal tax-efficiency. Drivers will also benefit from lower BIK tax liabilities.

4. Investigate the advantages of contract hire: new emissions-based rules affecting leased cars mean that 100% of lease costs can be offset against tax for cars with emissions of 160g/km or less. For vehicles above this threshold, only 85% can be offset. There are significant VAT advantages, too, for contract hired cars with emissions below 160g/km.

5. Introduce a driver training programme: research has shown time and again that well-run fleets that employ an element of third-party driver training enjoy lower accident rates and greater efficiency. Demonstrating best-practice techniques will reap benefits in lower costs and greater fuel-efficiency, while implementing tyre pressure/condition checks will also help minimise the need and cost of replacement.

6. Instil a 'green' culture among drivers: educating drivers to be more environmentally aware by choosing lower-emitting cars will improve your fuel efficiency and reduce your company's

carbon footprint. Introduce an incentive into the choice list that offers a higher trim level if a cleaner, greener model is chosen. Downsizing could also be actively encouraged – many modern 'superminis' are actually as big, or even bigger, than older 'lower medium' models but are less expensive to run.

7. Consider your mileage patterns: question the validity of journeys made by company car drivers and ask if the mileage really is necessary. Cutting mileage is a sure-fire way of reducing costs, not simply on fuel but also on wear and tear, servicing and tyre replacement.

8. Review fleet insurance options: evaluate your insurance arrangements and consider alternatives, including self-insurance. If your accident rate is low this can present cost-savings, particularly for larger fleets. Positive actions such as introducing regular driver licence checks and driver training can also lower premiums.

9. Phase out 'grey fleet' cars: as fleet manager, you will be responsible for drivers making business journeys in their own cars, or cars chosen by drivers who have opted out of your company car scheme. As you have no direct control over insurance, maintenance and suitability for purpose, the hidden costs these vehicles may present represent a risk that can be eliminated.

10. Be aware of disposal procedures: if you purchase cars, choosing vehicles with a strong residual value prediction will mean you will retain more of your acquisition cost at disposal time. Educating drivers to look after their cars will help disposal: an incentive scheme could well be the way forward.

