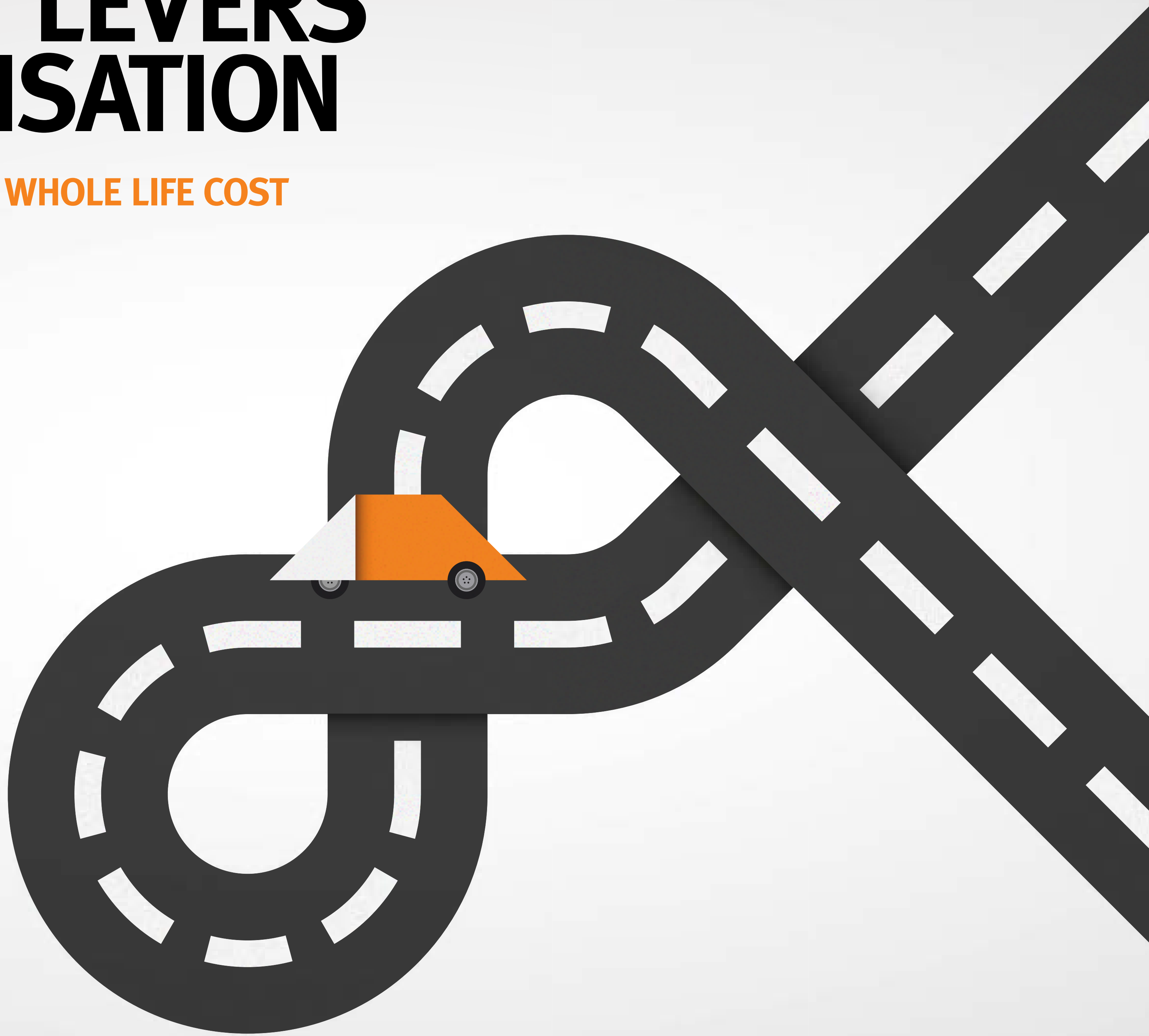
THE EIGHT LEVERS OF OPTIMISATION

HOW TO DRIVE DOWN YOUR WHOLE LIFE COST



INTRODUCTION

Running a fleet of vehicles is one of the biggest costs in your entire company. So any improvement in how you finance and manage your fleet can make a big impact on your bottom line.

You know what your fleet looks like today. But to make sure you've got the right fleet profile down the line, you need to do more than kick some virtual tyres.

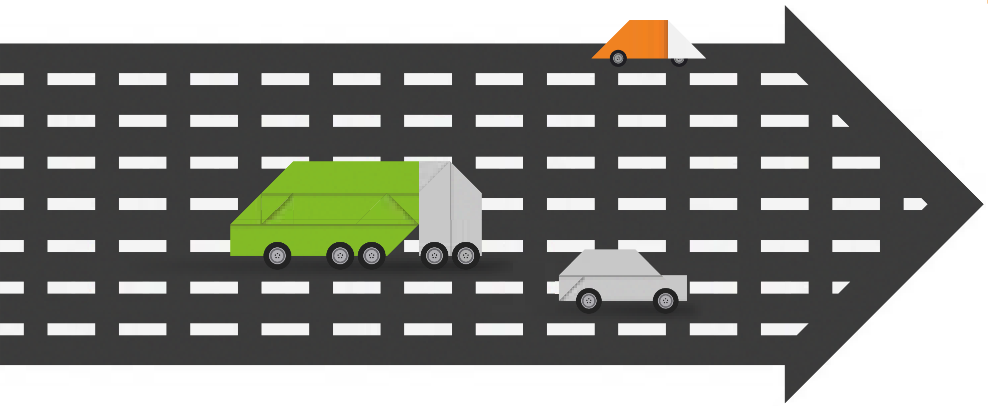
Start by asking yourself a simple question: Do you know exactly what your fleet costs your business? We don't just mean the price you pay for lease financing, or the upfront cost of the vehicles you've purchased. We're talking about the knock-on costs, potential hidden savings, tax efficiencies and penalties too. So, what price are you really paying?

At LeasePlan, we pride ourselves on our open-calculation approach to finding the best fleet solution for your business. So we'd like to share the eight variables that we've identified that directly affect the shape, cost and structure of your fleet.

Think of these variables as levers that you can pull and push. Pulling one can create a saving in one place – but generate a cost somewhere else. You're looking for the right trade-off between whole-of-life cost, compromises on car choice, cash allowances and so on – the 'sweet spot' that works for you.

It's only when you've got a clear view of all the variables that you can make a truly informed decision. And ultimately, that means getting the right fleet at the right cost for your whole organisation.

Let's get started.



THIS STUFF IS COMPLEX.

We worked with Deloitte to develop a modeling tool to make it easy to see the effect of your decisions for each lever/variable Talk to us about ACT.

WE'RE THE WORLD'S LEADING PROVIDER OF FLEET MANAGEMENT SERVICES.

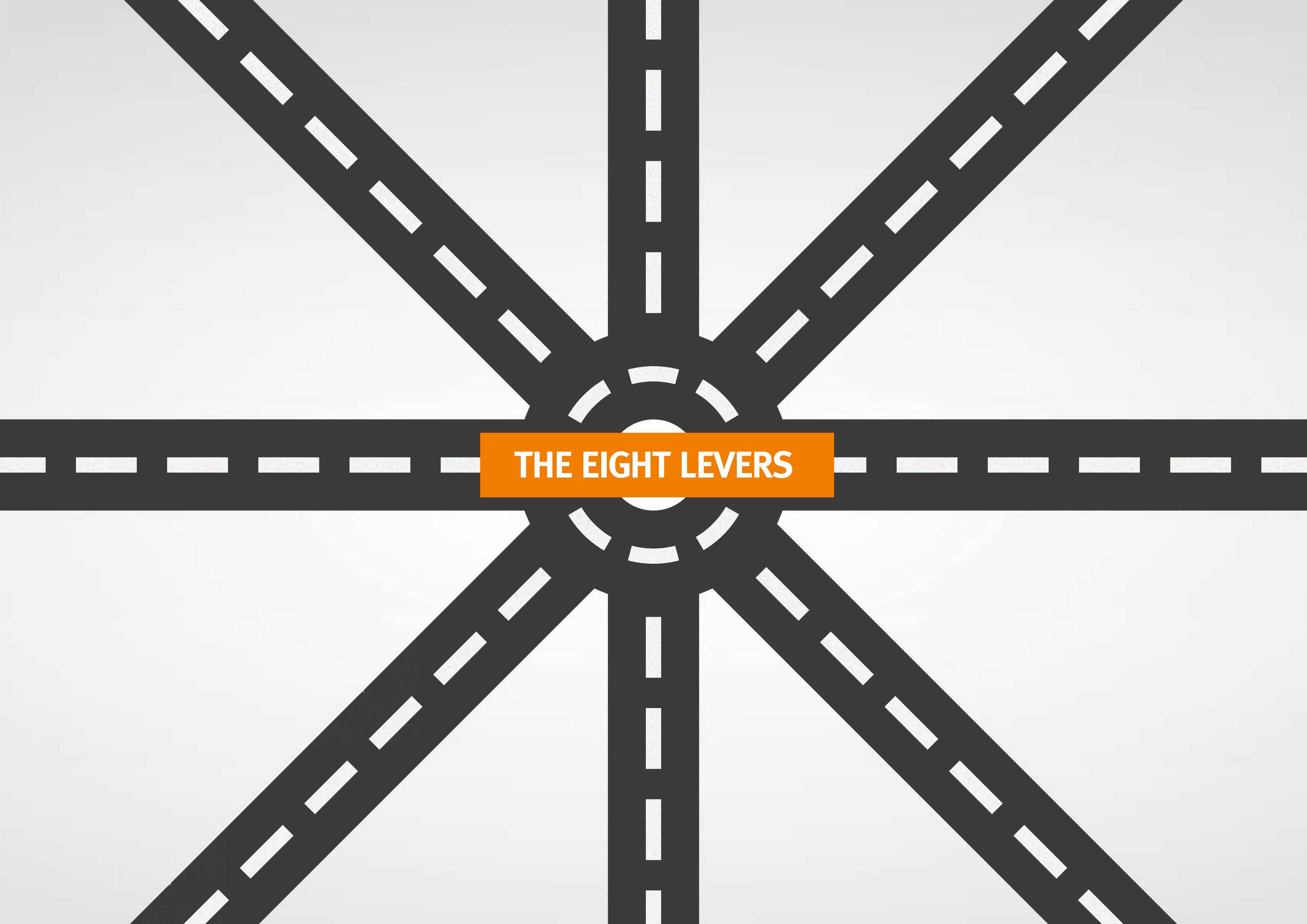
We work in more than 30 countries, and have more than 135,000 fleet vehicles in the UK. Our promise is 'It's easier to LeasePlan' and we have 6,000 employees dedicated to making that happen.

EVERY DECISION MATTERS

Changing corporation tax rates. Decreasing CO_2 emission thresholds. Looking at a whole-life, rather than an up-front, cost. Or simply not specifying big fancy alloy wheels on your fleet.

Adjusting these factors will not only affect the upfront cost of renewing your fleet, it'll have wide-ranging implications across your business, on everything from HR packages to corporation tax. A few examples:

YOU'VE GOT...	...BUT DID YOU KNOW...	WHAT HAPPENS IF YOU...
25 C-Suite suits currently driving E-Class Mercedes	They're over 5% more expensive to fund on a contract purchase basis than they were pre April 2013	• Offer cars with a CO_2 emission level of ‹110g/km • Compare costs on a contract hire instead • Make sure that you're optimizing SMR costs
A car scheme only open to 10% of employees – although 75% use their own cars for work	You're responsible for any car accidents whilst employees are on work business, even though you can't control the roadworthiness of their car	• Introduce an ECO scheme • Offer salary sacrifice car ownership • Invest in a fleet of pooled vehicles
120 LCV drivers claiming actual cost of fuel	Fuel prices have increased by 50% since 2009	• Give drivers fuel cards • Refund at the AFR level • Look at providing car fuel benefit
A highly Co_2 efficient fleet of low-spec, 'workhorse' cars	Offering a wider choice of company car is a great employee perk – win some serious brownie points by upgrading your offer	• Assess the cost of offering greater car choice, as a way to boost overall employee packages without increasing salaries


THE EIGHT LEVERS

1. DEPRECIATION

We all know that a car loses value as soon as it leaves the showroom, even if you resell it 24 hours later. That's depreciation for you. But get your lease financing and fleet mix right, and you can make some serious savings.

Money first. Do you want to own your fleet, or look into leasing? Own it and the cost goes straight onto your corporate balance sheet as an expenditure. You can't claim any VAT back either.

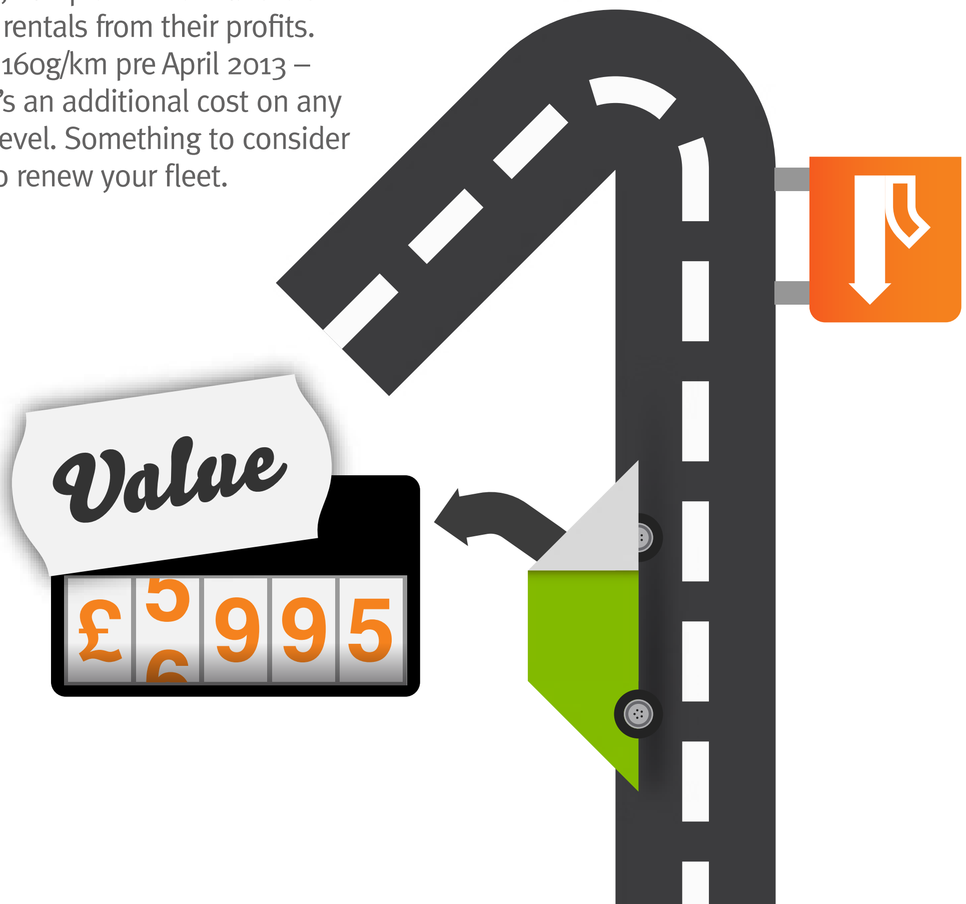
Lease your fleet, and you'll only need to pay the cost of financing (and there's lots of ways to do that – your LeasePlan contact can walk you through the options using our nifty ACT). You can offset some of the costs against your VAT bill too.

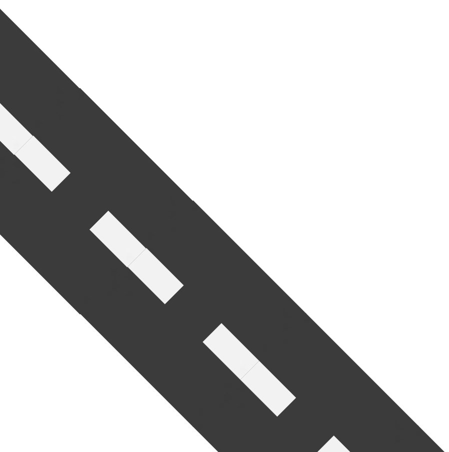
But hang on – your organisation might have a 0% VAT recovery rate. In which case, you'll be keen to do the maths on your purchase and payment options.

Then there's the vehicles you choose. CO_2 emission levels can make all the difference here. The current threshold is 130g/km. At this level or under, companies can subtract the costs of lease rentals from their profits. That's down from 160g/km pre April 2013 – so overnight, that's an additional cost on any vehicle over that level. Something to consider when you come to renew your fleet.

VARIABLES WITHIN VARIABLES:

So, it's all about the CO_2 level? Nope. You'll also have to factor in the monthly lease price, employee's car allowance, employer's National Insurance contributions, SMR costs, and the rest. But never fear, that sweet spot is in there somewhere – we'll help you find it.





2. SERVICE, MAINTENANCE AND REPAIR

Keeping your fleet shipshape makes sense for a whole lot of reasons. You'll reduce off-road time. Sleep easier knowing that all your vehicles are in roadworthy condition. And it makes financial sense to keep costs for service, maintenance and repair under your jurisdiction too.

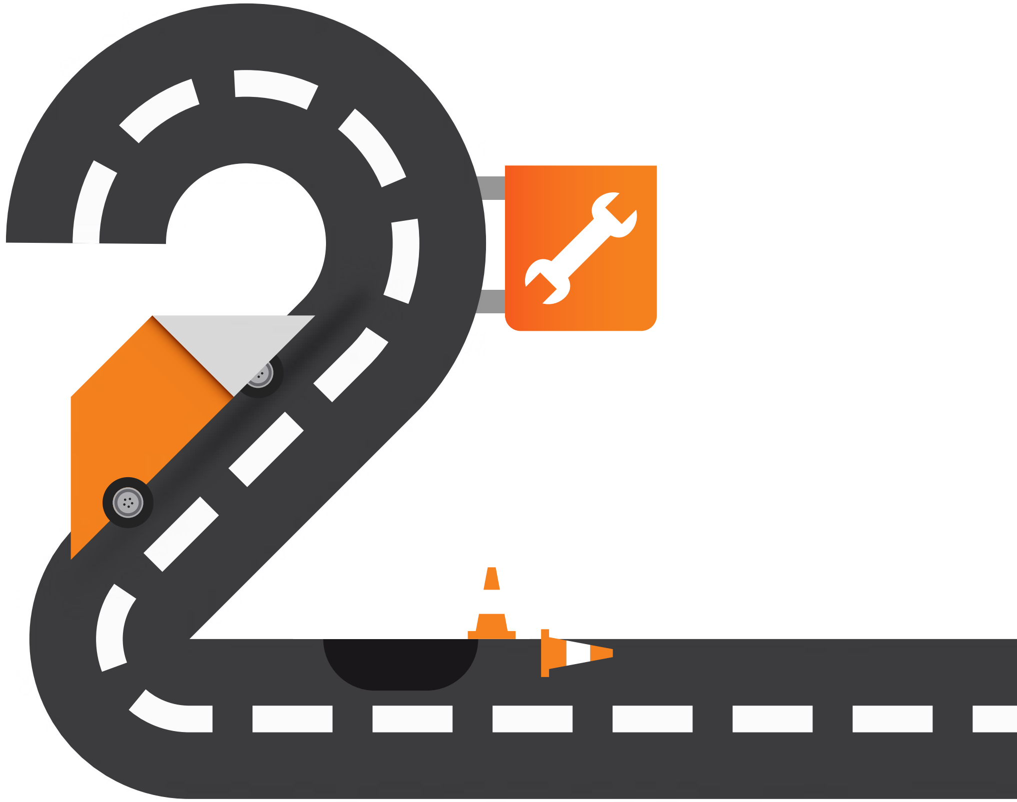
Say your 80 Ford Focus-driving salespeople are all using their local garages (so that's up to 80 garages) to do necessary SMR work. They book in as and when it suits them, then put their expenses through whenever they remember to. It's an ad-hoc system, with big fluctuations in price.

But if you only get work done from selected, pre-vetted garages and service centres, you've got the buying power to negotiate lower fixed prices. You can also stipulate mandatory services, tyre checks, MOTs and so on.

For lease-purchase fleets, SMR costs are partially reclaimable against VAT too. There's a limit to this – so it makes sense to keep your costs low.

"LeasePlan's proactive maintenance solution (UPtime) anticipates when vehicles need to be repaired or serviced and ensures they are taken off the road at optimal times for Skanska. The result is that we're able to save a considerable amount of money that otherwise would have needed to be spent on hire vehicles."

Paul Bellamy, Fleet Manager at Skanska



3. COMPANY CAR FUEL

Petrol and diesel is expensive. We're paying over 50% more than four years ago. So if you don't investigate the most efficient way to pay for this necessary cost, you could be shelling out far more than you need to.

Swap slurpers for sippers

There's a few different ways to pay for fuel, but first off, make sure your fleet has the right mix of fuel-efficient cars. So there's an incentive here to get everyone who uses a car for work onto a car scheme, as that way you can veto any gas guzzlers.

Say bye-bye to Pay and Reclaim

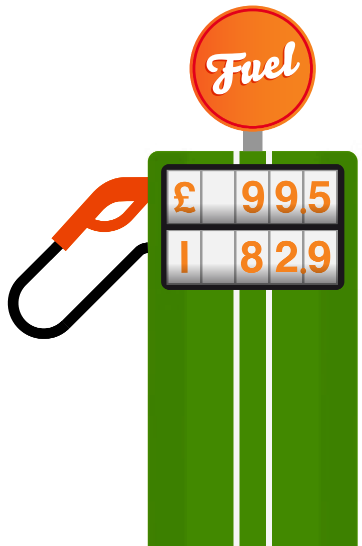
Is somebody, somewhere in your organisation totting up receipts from hundreds of fuel transactions at 'pump prices'? Swap to only reimbursing employees at the AFR rate.

Put your cards on the table

Give your employees fuel cards – for use at selected petrol networks only. You'll also be able to keep tabs on mileage, spot inefficient car models and drivers that aren't driving 'green' – ie using less fuel by driving well. Make sure that you structure your scheme so that private fuel is not paid for, or you could end up paying the earth in National Insurance.

HEAVY USER?

If you've got more LCV's and LGV's in your fleet you can get a better deal on fuel by buying at a fixed monthly price from a brand. It's like getting the trade price. You can even use hedging products to put some stabilisers on upward price pressure.



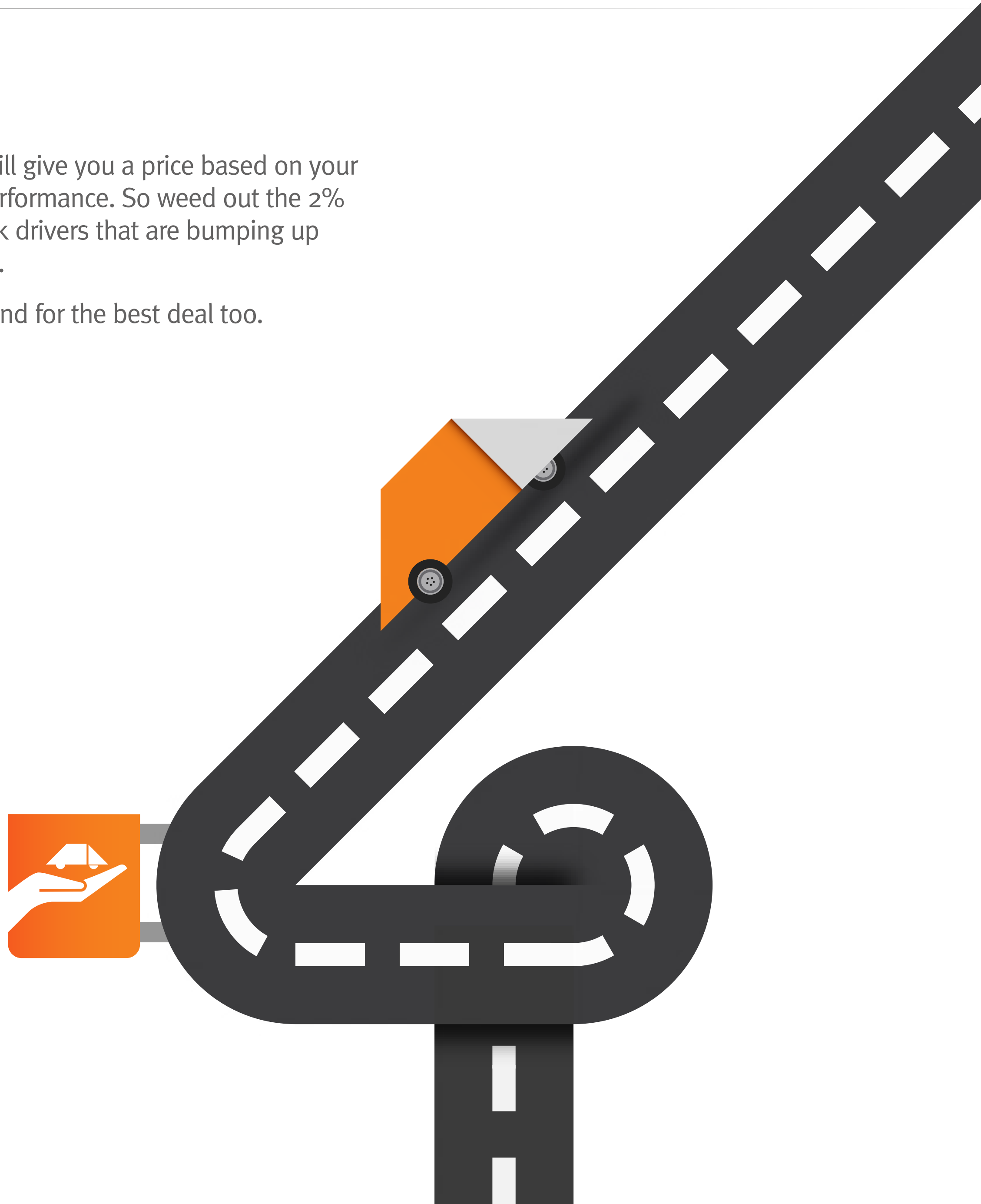
4. INSURANCE

News just in – bigger or faster cars cost more to insure than smaller, slower ones. So of course, making sure that you're insuring cars that are more fit-for-your purposes than for Formula 1 makes sense. You'll also want to:

- Keep an eye on average mileage – who's taking the long way round?
- Ensure that your drivers are low-risk. This can mean anything from ruling out off-road shortcuts, looking at age profiles of drivers in certain cars to restricting any potentially dangerous goods that they are carrying.

Insurers will give you a price based on your drivers' performance. So weed out the 2% of high-risk drivers that are bumping up your costs.

Shop around for the best deal too.



5. EMPLOYEE BENEFITS

"Proving how popular SalaryPlan has been with employees; even our payroll manager has joined! The scheme was also promoted during the recruitment process and actually helped to fill positions."

Steven Ball,
Administration Services Supervisor and Salary Sacrifice Lead, Royal Devon and Exeter NHS Trust

Apart from the vehicles you use to transport goods, your fleet also offers cars to employees. There's a variety of ways to do this – like Employee Car Ownership (ECO) or salary sacrifice schemes.

The costs to your business mount up in two main ways:

1. Benefit-in-kind costs. Even if they're absolutely necessary for work, your employees get the 'benefit' of a company car available for private use. They pay tax on this benefit, based on the CO_2 emissions of the car. The employer pays National Insurance Contributions on the tax paid by employees. (Still following?)

So you can choose between offering a nice, 'perk' car that will cost the company more in NIC payments or looking at overall benefits packages for employees. (Basically, the more senior you are, the better the car you'll expect.)

2. Cash costs. Instead of getting the benefit of a car, employees might rather take the bus and pocket the cash equivalent instead. Or, they might use the cash to fund a car that's more to their liking, but not available through your workplace scheme.

This is often more expensive for employers. Ideally, the cash allowance would work out to be 'cost neutral' in comparison to the costs associated with car-takers. But this puts a downward pressure on the car allowance figure. Which makes a car scheme more expensive....

LOOKED INTO THE FUTURE?

Don't forget that the key CO_2 emission levels are reducing every year. That's why it's really important to do a whole-life assessment on what the real costs are. What looks good today might look decidedly on the dear side in two years time.

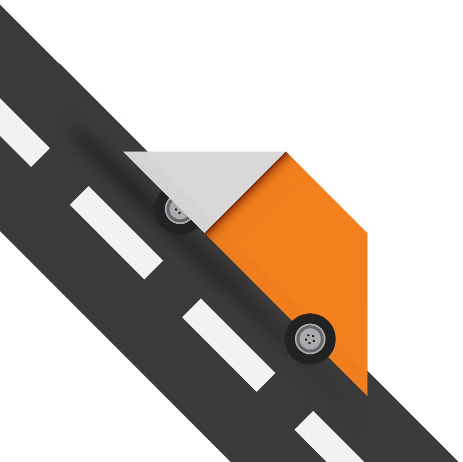
6. MILEAGE

Do you know your AMAP from your elbow? AMAP allowances are the levels at which an employer pays business mileage allowances. They're free of Tax and NIC levies and paid at up to 45 pence per mile for the first 10,000 miles each year. It's 25 pence per mile above 10,000 miles.

Employees get personal tax relief on the difference between AMAPs and the (lower) business mileage allowance they get from their employer.

The see-saw to balance is this: you can lower your Cash Allowance Figure (more on this next) by making sure you're offering the commensurate amount in AMAP allowances.

Chances are, your employees aren't too worried about what elements of personal allowance relief versus gross cash allowance go into making up their salary, (as long as their take-home amount is right in an ECO scheme).



7. VAT

The good thing about VAT – that extra 20% – is that it's reclaimable. So that's potentially a big cost saving. If you've got a lease-purchase fleet, up to 50% of the 'basic rental rate' is reclaimable. (Got a contract-purchase fleet? You can't claim any VAT on the purchase price, but you'll be looking at making the most of capital allowance).

The VAT bone is connected to the SMR bone, as the song nearly goes. So it's really important to get the right deal on your SMR costs, as these cost are fully VAT recoverable, for both owned and leased fleets.

READY TO RECOVER?

If your company doesn't claim VAT at the full rate, the numbers will be different. So you'll need to optimize other levers to get the best solution for you. We can help.

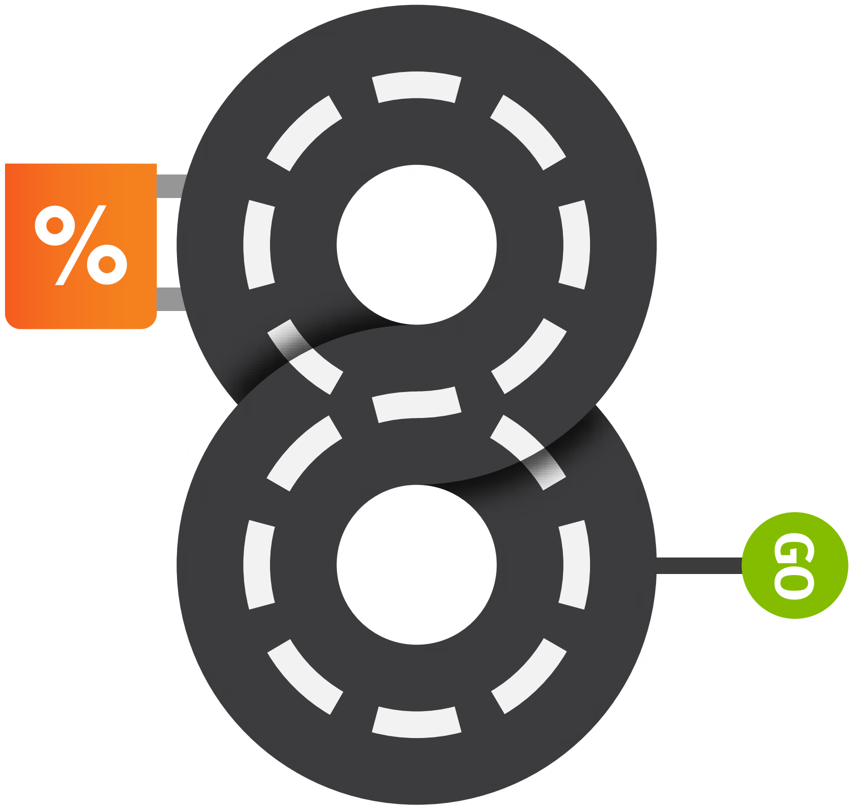
8. CORPORATION TAX RELIEF

You can offset some of the value of your fleet against your corporation tax bill. Cars with a low (<160g/km) CO_2 emission level can be offset at double the amount of a high-emissions car (>160g/km).

But the CT rate is falling from 24% to 20%. That means a lower amount that can be offset against depreciation costs. So, you might feel that offering a superior choice of cars – albeit with a higher depreciation cost – is a worthwhile tradeoff.

SET TO OFFSET?

Working for a bank, a charity or a government department? Some organisations don't qualify for corporation tax relief. You'll want to make the most of the other variables then, and find your savings elsewhere.



CONCLUSION

So those are the eight levers that you can pull or push to affect your fleet costs.

As you probably noticed, they're interconnected – a savings here could trigger a cost over there. To make things even trickier, the rules and tax codes are changing all the time.

There's no 'right' answer. But there is a best answer for you.

To find it, you need the whole picture – and ideally an independently validated modeling tool to show you the impacts of your choices.

Good news: we have one called ACT (Automated Consulting Tool) and it's a pretty powerful way to model your entire fleet – and see the impact of any changes – in just a few minutes.

Get in touch and we'll put your fleet details into our box of tricks and show you some savings that just might shock your into doing something totally differen

GET THE ACT DEMO »

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