LeasePlan

The eight levers of vehicle optimisation

For a business that's going places

What's next?

Introduction

When you're a growing business, running a fleet of vehicles can be one of your biggest costs. So any improvement in how those vehicles are financed and managed can make a big impact on your bottom line.

You know what your company cars and vans look like today. But to make sure you've got the right vehicle mix down the line, you need to do more than kick some virtual tyres. Start by asking yourself a simple question:

Do you know exactly how much your vehicles cost your business?

We don't just mean the price you pay for finance, or the upfront cost of the vehicles you 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 ability to find the best fleet solution for our customers. So we'd like to share the eight variables that we've identified that directly affect the shape, cost and structure of your vehicle 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-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 mix of vehicles, at the right cost for your business.

Let's get started.

We're the world's leading provider of fleet management services.
We work in more than 30 countries, and have more than 1.7million vehicles.

Every decision matters

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

Adjusting these factors will not only affect the upfront cost of renewing your vehicles, it'll have wide-ranging implications across your business.

Understanding whole-life cost:

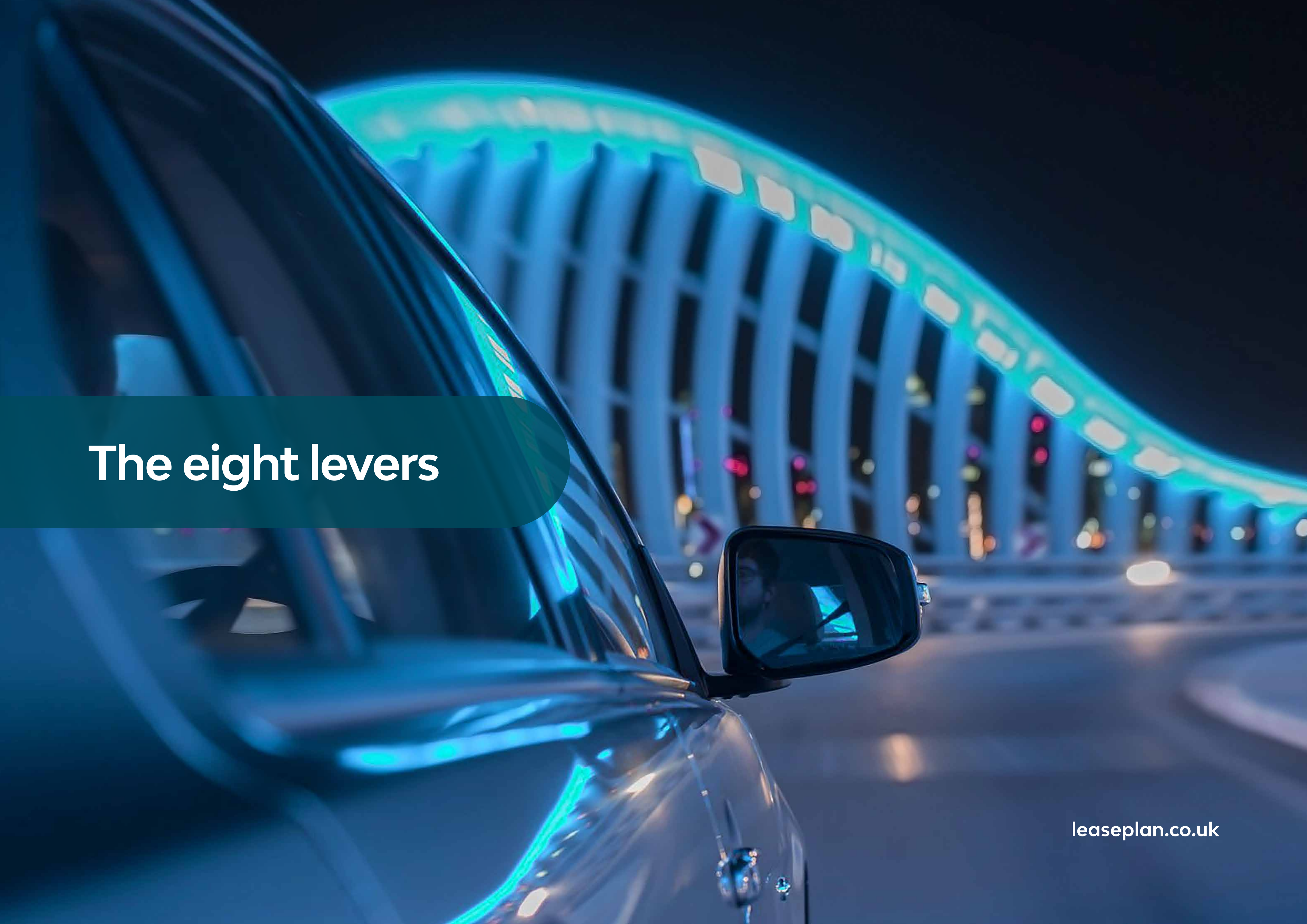
When sourcing the vehicles your business needs, depreciation, tax rates (including NI), fuel, maintenance and repair costs, disposal and insurance all need to be considered – not just the 'on the road' prices of your purchases or monthly rentals.

CO_2 emission levels can also affect costs, as these will determine how much Benefit-in-kind tax is payable by the employee, and how much Class 1A National Insurance is payable by the employer – and then, the weighted average cost of capital (WACC) rate needs to be factored in too.

All this means that over the course of its life, a vehicle with a higher purchase or rental price can actually cost significantly less than a 'cheaper' model.

Here's a full breakdown of what makes up a vehicle's whole-life cost:

- Purchase Price
- Finance and Maintenance
- Manufacturer Discounts
- VAT Recovery
- Corporation Tax Relief
- Weighted Average Cost of Capital (WACC)
- Insurance
- Road Tax
- Fuel Costs and MPG
- CO_2 Emissions
- Class 1A National Insurance
- Benefit in Kind Tax


The eight levers
leaseplan.co.uk

1.

Depreciation

1. Depreciation

We all know that a vehicle 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 finance and vehicle mix right, and you can make some serious savings.

Money first. Do you want to own your cars and vans, or look into leasing? Own them and the cost goes straight onto your balance sheet as an expenditure. You can't claim any VAT back either. Unless it's 100% business use.

Lease your vehicles, and you'll only need to pay the cost of financing (and there's lots of ways to do that). You can claim a portion of the VAT back. You can off-set some of the finance rental against corporation tax profits..

Then there's the vehicles you choose. CO_2 emission levels can make all the difference here. The current threshold is 110g/km. At this level or under, companies do not suffer the permanent disallowance for off-setting costs against coportation tax. Something to consider when you next order company cars.

2.

Service, maintenance and repair (SMR)

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Keeping your cars or vans in shipshape condition makes sense for a whole lot of reasons. You'll reduce off-road time.

Sleep easier knowing that all your vehicles are roadworthy. And it makes financial sense to keep costs for service, maintenance and repair under your jurisdiction too.

Say all your van drivers are in company owned Ford Transits, and they're all using their local garages for services and repairs. They book their vans in when it suits them (which won't necessarily be when the service is due), and weeks often pass before they remember to file their expenses. This kind of ad-hoc system will naturally result in 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 contract 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 services 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."

Fleet Manager Skanska

3.

Fuel

3. Fuel

Despite falling pump prices, the UK's petrol and diesel prices are still some of the most expensive in the world. So if you don't look closely at fuel costs, 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 business has the right mix of fuel-efficient cars and vans, and switch gas guzzlers to green machines.

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 HMRC recommended rate.

Put your cards on the table
Give your employees fuel cards – for use at selected fuel networks only. You'll also be able to keep tabs on mileage, spot inefficient vehicles and drivers – i.e. those who are using more fuel by driving less 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.

4.

Insurance

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 identifying high mileage drivers and providing them with driver risk courses, looking at age profiles of drivers in certain cars, or 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

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Apart from the vehicles you use to transport goods, your may also want to offer cars to employees. There's a variety of ways to do this – like offering a company car or a salary sacrifice for car scheme.

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. So you can choose between offering a nice, 'perk' car that will cost the business 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...

Whatever vehicles your people are driving, if they're driving them on your time, you still have a duty of care.

Known as the 'grey fleet' it can leave you open to greater risk (since you can't guarantee the condition of the vehicles your business is running on), and higher costs. Plus, your employee's cars might not make quite the impression you want for your brand. Read Grey Fleet Rant.

"Proving how popular Salary Plan 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."

Fleet Manager Skanska

6. Mileage

6. Mileage

Do you know your AMAP from your elbow? AMAP or Approved Mileage Allowance Payments are payments made to employees for the use of their own vehicle, and are designed to include fuel, insurance, servicing and maintenance.

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.

You can pay employees up to the approved amount of MAPs each year, without having to report them to HM Revenue and Customs, or pay any tax on them. Employees get personal tax relief on the difference between AMAPs and the (lower) business mileage allowance they get from their employer.

7.

VAT

7. VAT

If you're deciding whether to lease or purchase company cars, then you need to understand the impact of VAT.

As with tax relief, the VAT impact will depend on a number of factors. There's a difference between leasing and buying. It also matters whether a car is used exclusively for business purposes. These seemingly small details can add up to a pretty hefty difference.

The first step in understanding the VAT treatment for car leasing is to separate out the cost of funding the car (the lease rentals) from any other expenses related to the car (such maintenance, repairs etc).

Once you've got this distinction you can start to understand your real VAT position.).

Get more information.

For a full account of VAT and how it impacts your business, check out our company car tax guide written with our friends at Deloitte

8.

Corporation tax relief

8. Corporation Tax relief

Did you know you can offset some of the value of your business vehicles against your corporation tax bill? (Which, at time of writing, is 19% of your company's profits.)

Keen to go green? The CO_2 emissions threshold for the main rate of capital allowances for company cars will be reduced from 130g/km to 110g/km from April 2018 (applies to purchased cars).

CO_2 emissions threshold where cars are eligible for a 100% First Year Allowance (FYA) will be reduced from 75g/km to 50g/km.

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

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So those are the eight levers that you can pull or push to affect your vehicle 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 legislation are changing all the time.

There's no 'right' answer. But there is a best answer for your business. To find it, you need the whole picture – and ideally a consultancy team that really know their stuff.

Get in touch with our expert team on 01753 802448 or email newbusiness@leaseplan.co.uk.

We're here to help.