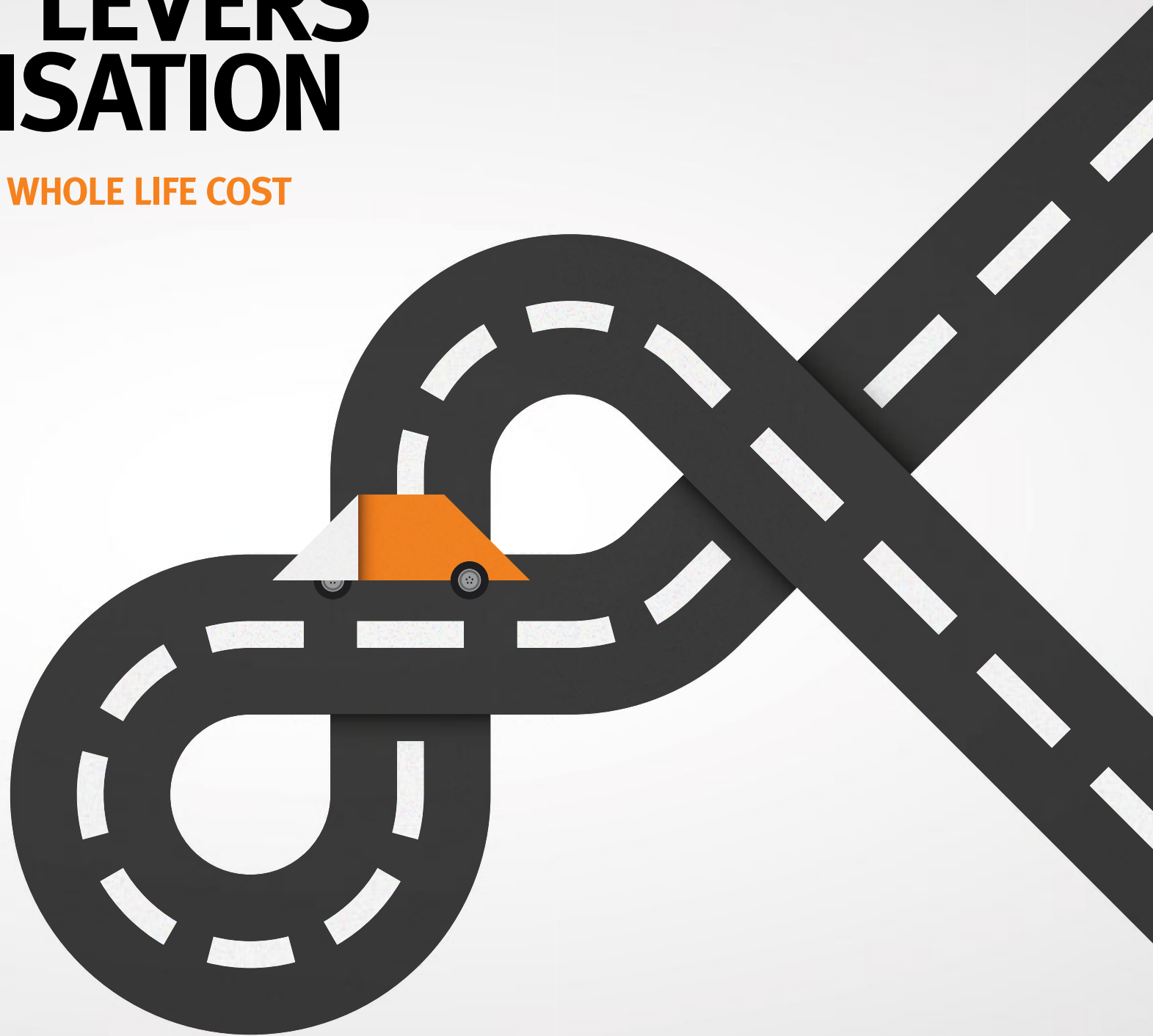


# THE EIGHT LEVERS OF OPTIMISATION

HOW TO DRIVE DOWN YOUR WHOLE LIFE COST



# INTRODUCTION

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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 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.

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## 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 Automated Consulting Tool (ACT).

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## WE'RE THE WORLD'S LEADING FLEET & VEHICLE MANAGEMENT COMPANY.

We work in more than 32 countries, and have more than 136,000 fleet vehicles in the UK. Our promise is 'It's easier to LeasePlan' and we have 6,500 employees dedicated to making that happen.



# EVERY DECISION MATTERS

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Changing corporation tax rates. Decreasing CO2 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 up-front 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:

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## YOU'VE GOT...

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25 C-Suite suits currently driving E-Class Mercedes

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A car scheme only open to 10% of employees – although 75% use their own cars for work

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120 LCV drivers claiming actual cost of fuel

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A highly CO2 efficient fleet of low-spec, 'workhorse' cars

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## ...BUT DID YOU KNOW...

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They're over 5% more expensive to fund on a contract purchase basis than they were pre April 2013

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You're responsible for any car accidents whilst employees are on work business, even though you can't control the roadworthiness of their car

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Fuel prices have increased by 50% since 2009

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Offering a wider choice of company car is a great employee perk – win some serious brownie points by upgrading your offer

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## WHAT HAPPENS IF YOU...

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- Offer cars with a CO2 emission level of <110g/km
- Compare costs on a Contract Hire instead
- Make sure that you're optimising SMR costs

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- Introduce an ECO scheme
  - Offer a Salary Sacrifice scheme
  - Invest in a fleet of pooled vehicles

- 
- Give drivers fuel cards
  - Refund at the Advisory Fuel Rate (AFR) level
  - Look at providing car fuel benefit

- 
- Assess the cost of offering greater car choice, as a way to boost overall employee packages without increasing salaries
-

A stylized road intersection with a central orange sign. The intersection consists of a horizontal road, a vertical road, and two diagonal roads. Each road has a dashed white center line. In the center of the intersection, there is a circular orange sign with the text "THE EIGHT LEVERS" in white, bold, uppercase letters.

## 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<sub>2</sub> 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<sub>2</sub> level? Nope. You'll also have to factor in the monthly lease price, employee's car allowance, employer's National Insurance contributions, Service, Maintenance & Repair (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 (SMR)

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 of SMR 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 get 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. FUEL

Petrol and diesel is expensive. In 2014 we're paying over 50% more than we were in 2009. 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

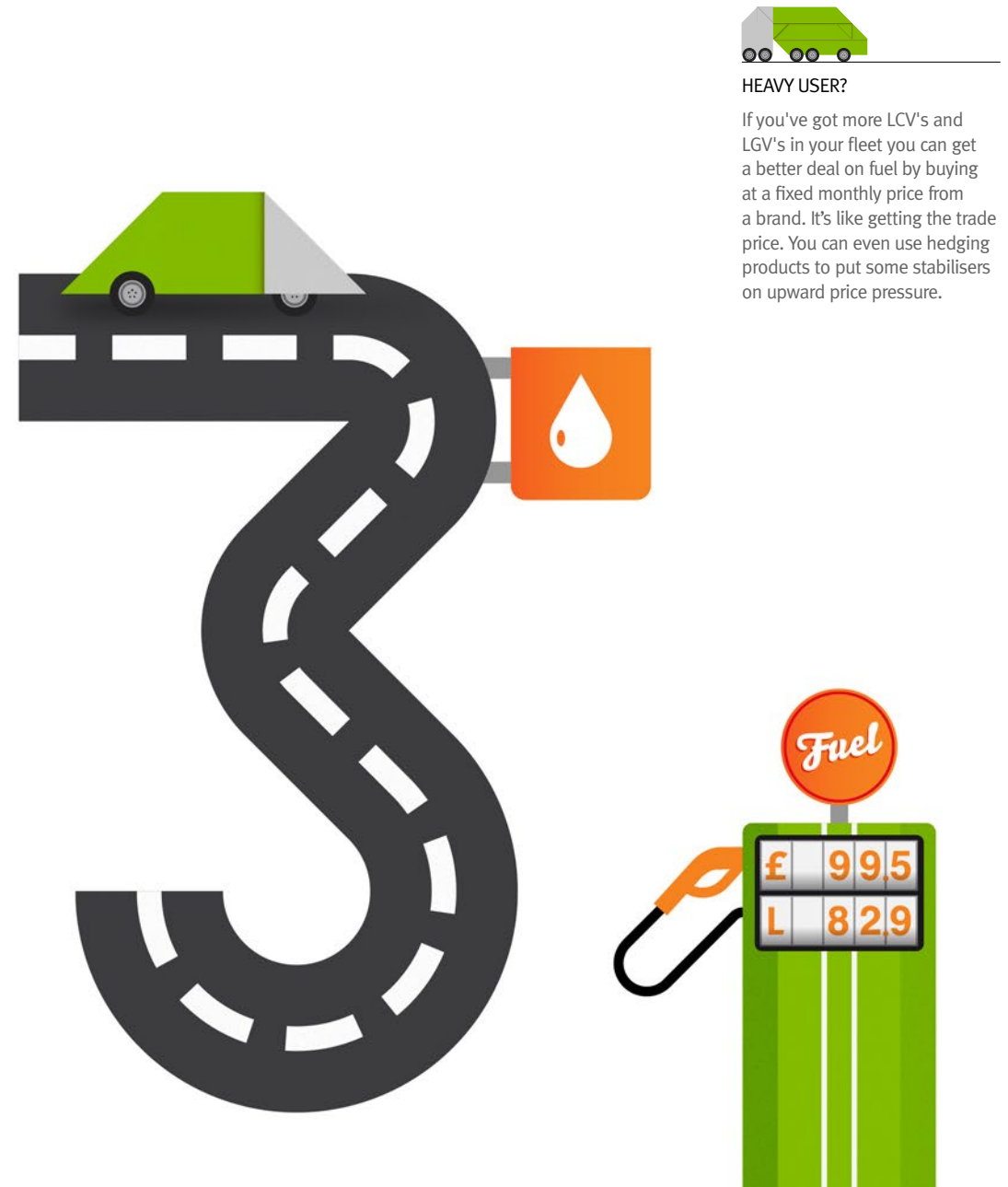
There's a few different ways to pay for fuel, but first off, make sure your fleet has the right mix of fuel-efficient cars. So there's an incentive here to get everyone who uses a car for work onto a car scheme, as that way you can veto any gas guzzlers.

#### 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 Advisory Fuel Rate (AFR).

#### 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.

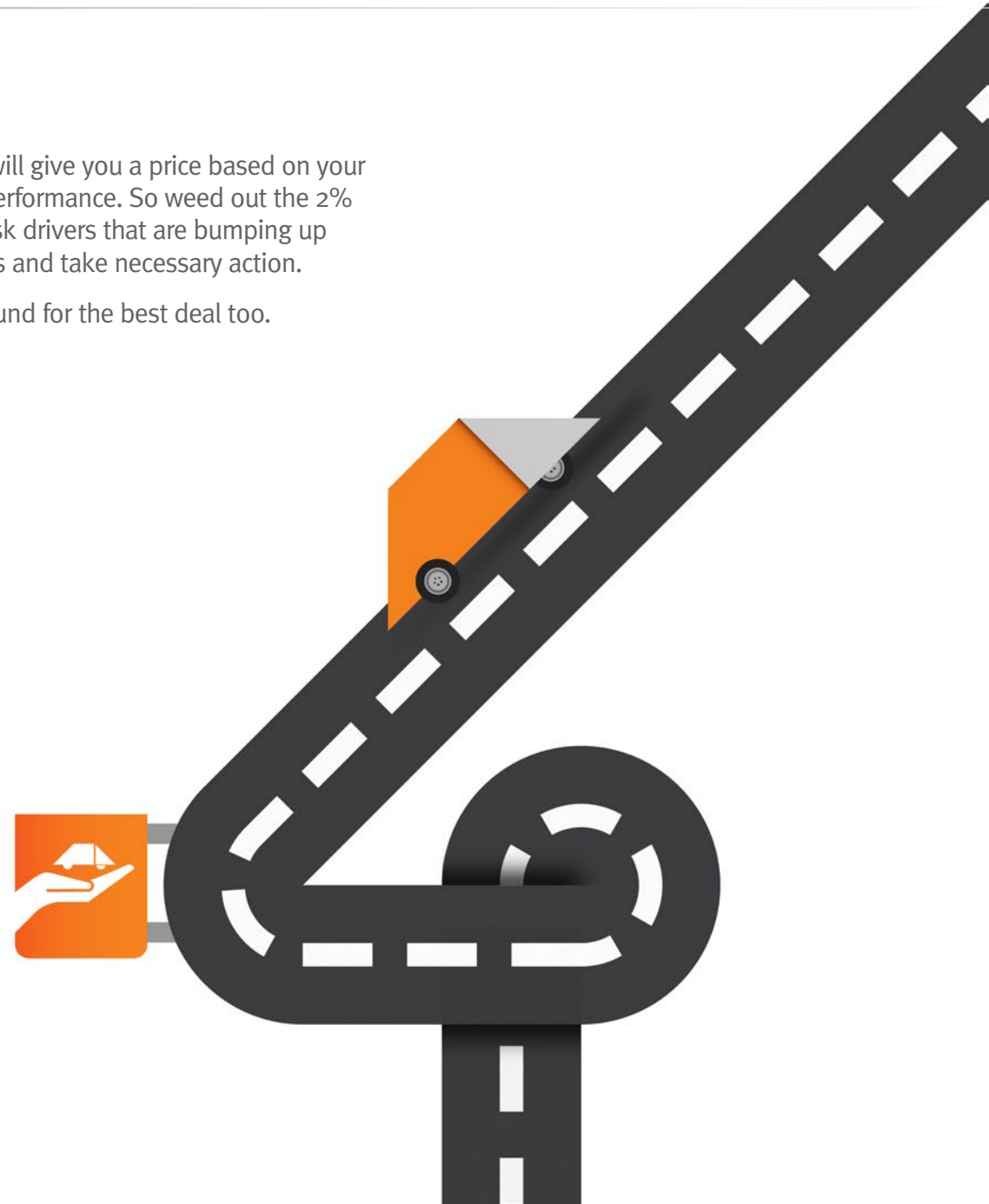
## 4. INSURANCE

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 and take necessary action.

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<sub>2</sub> 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.)

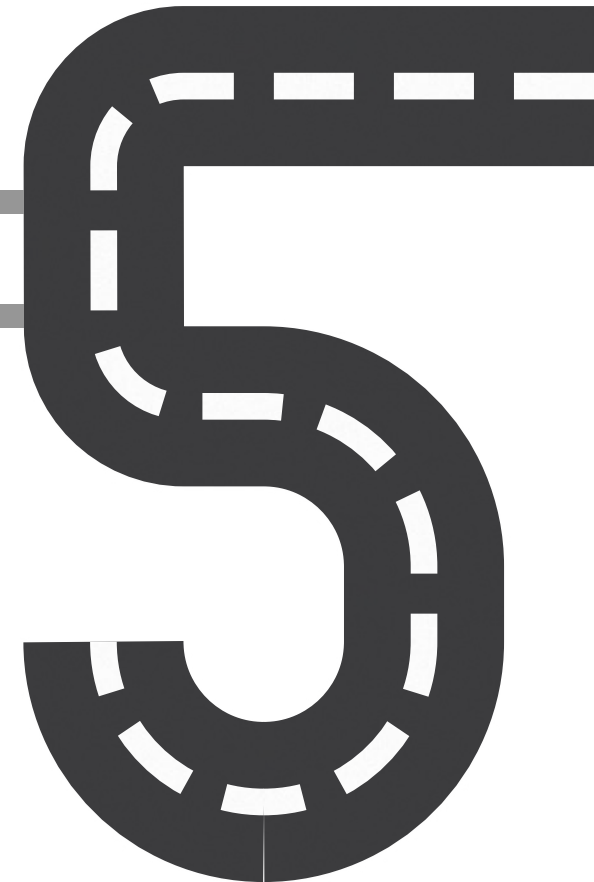
2. Cash costs. Instead of getting the benefit of a car, employees might rather take the bus and pocket the cash equivalent instead. Or, they might use the cash to fund a car that's more to their liking, but not available through your workplace scheme.

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 can make a car scheme more expensive....



### LOOKED INTO THE FUTURE?

Don't forget that the key CO<sub>2</sub> 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.



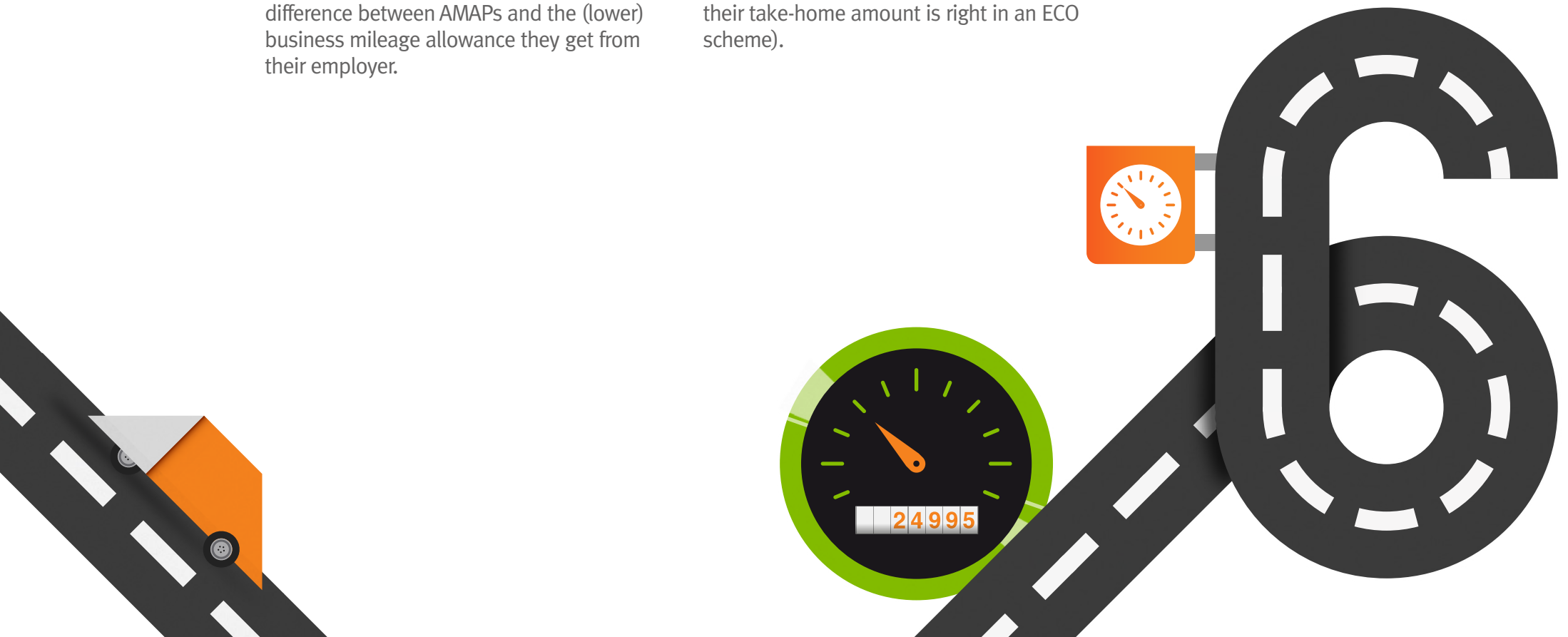
## 6. MILEAGE

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 leased fleet, up to 50% of the finance rental 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 costs 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 optimise other levers to get the best solution for you. We can help.



## 8. CORPORATION TAX RELIEF

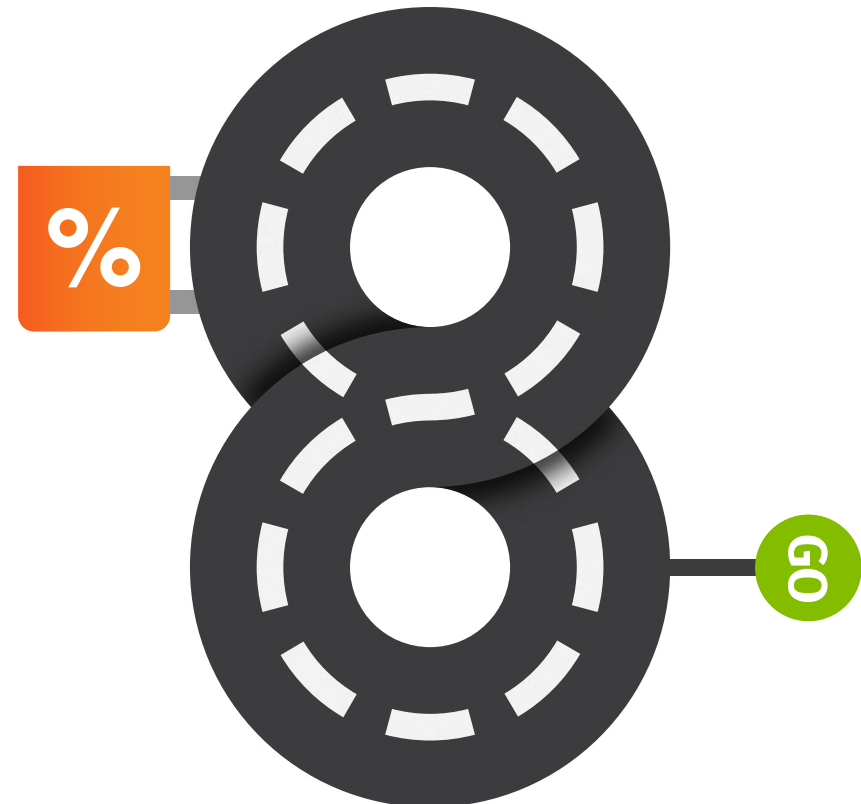
You can offset some of the value of your fleet against your corporation tax bill. Cars with a low (<160g/km) CO<sub>2</sub> emission level can be offset at more than double the rate of a high-emissions car (>160g/km).

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 trade off.



### 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

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

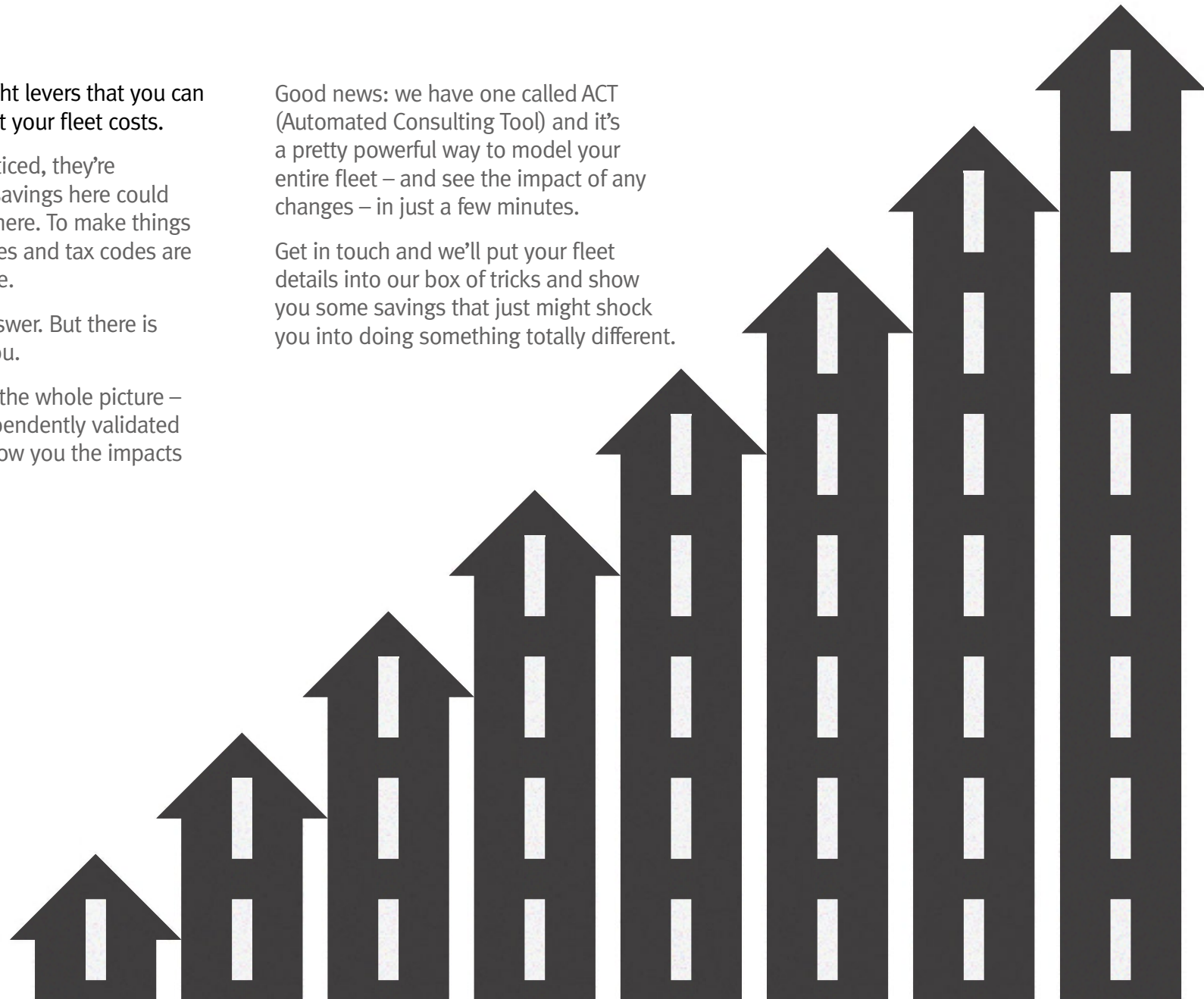
As you probably noticed, they're interconnected – a savings here could trigger a cost over there. To make things even trickier, the rules and tax codes are changing all the time.

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.

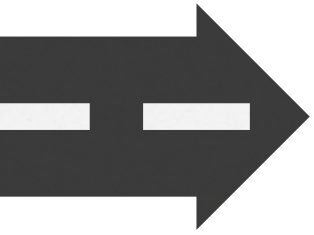
Good news: we have one called ACT (Automated Consulting Tool) and it's a pretty powerful way to model your entire fleet – and see the impact of any changes – in just a few minutes.

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

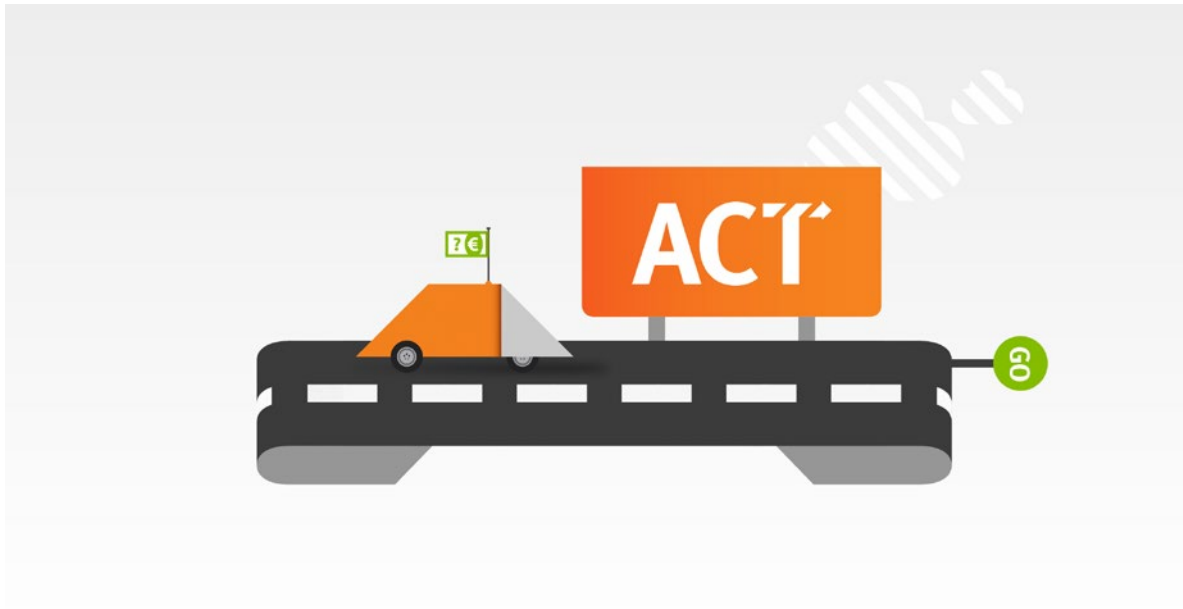


## NEXT STEPS

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# GET THE ACT DEMO »



Life is wonderful but it has this tendency to move on, taking world and statistics along. Please rest assured all the numbers presented in this eBook were true at the time of writing in early 2014.

# ABOUT LEASEPLAN

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We are LeasePlan and we know that as a business you've got loads of things to figure out on your own. Your fleet doesn't have to be one of them.

We help organisations plan, run and maintain professional, compliant and cost-efficient fleets that get the job done and save them money.

We do it from tender to termination of contract, from paper push to petrol pump. And we know that it's all about making individual requirements and sector-specific regulations come together in a whole-life picture they're comfortable with.

Want to know more? Talk to us:

[newbusiness@leaseplan.co.uk](mailto:newbusiness@leaseplan.co.uk)  
0344 371 8032

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