FLEET & FINES PART 2

INSIDE

DAMAGE CHARGES: UNDERSTANDING FAIR WEAR & TEAR

Leasing companies usually base end-of-contract charge decisions on the BVRLA's guide, but interpretations can differ. *Andrew Ryan* looks at areas where fleets may fall foul of the standards – and incur a heavy toll

NEED TO KNOW

- **Standard range of BVRLA guide prices used**
- **Some damage not repaired by leasing companies**
- **Grading levels from NAMA also used**

Damaged vehicles are worth less than pristine examples. This truism is the basis for leasing companies charging fleets for damage when cars or vans are defleeted.

The latest FN50 research found that 35% of cars returned to the UK's 100 largest leasing companies incurred damage recharges, at an average of £274.

Some leasing companies use a matrix to assess vehicle damage charges while others base their costs on actual charges. Ogilvie Fleet, for example, operates a standard fixed cost end-of-contract damage recharge matrix that customers sign up to in their master hire agreement.

In November last year, its end of-contract damage recharge costs to return a vehicle with damage outside the British Vehicle Rental and Leasing Association's (BVRLA) fair wear and tear standard were £75 for a door panel, front wings and rear quarter panels; £120 for a bonnet, boot lid, tailgate, bumper or roof.

Other charges included £35 for alloy wheel refurbishment, £40 for a full valet and £40 for windscreen chips (maximum three).

Sample recharge prices for LCVs included £75 for door panels and front wings, £120 for side sliding doors, large side panels or bonnet, tailgate and bumpers, and the sum of £250 for a roof.

> *"While sales price is positively impacted by reconditioning, we found that there are three other areas where it has a positive impact: buyer engagement, conversion rate and days in stock"*
>
> *Paul Hill, Manheim*

More on wear and tear charges at: fleetnews.co.uk/damagecharges

Some damage, often due to its type and extent, may not be repaired by a leasing company before a car or van is put up for sale, but not refurbishing a vehicle has wider implications than just the resale price, says Paul Hill, director of logistics and inspection services at Manheim.

The National Association of Motor Auctions (NAMA) grades vehicles from one (needing minor repairs, for example, small dent without paint damage or touch in-type repair) to five (needing more than two major repairs) when they are sold.

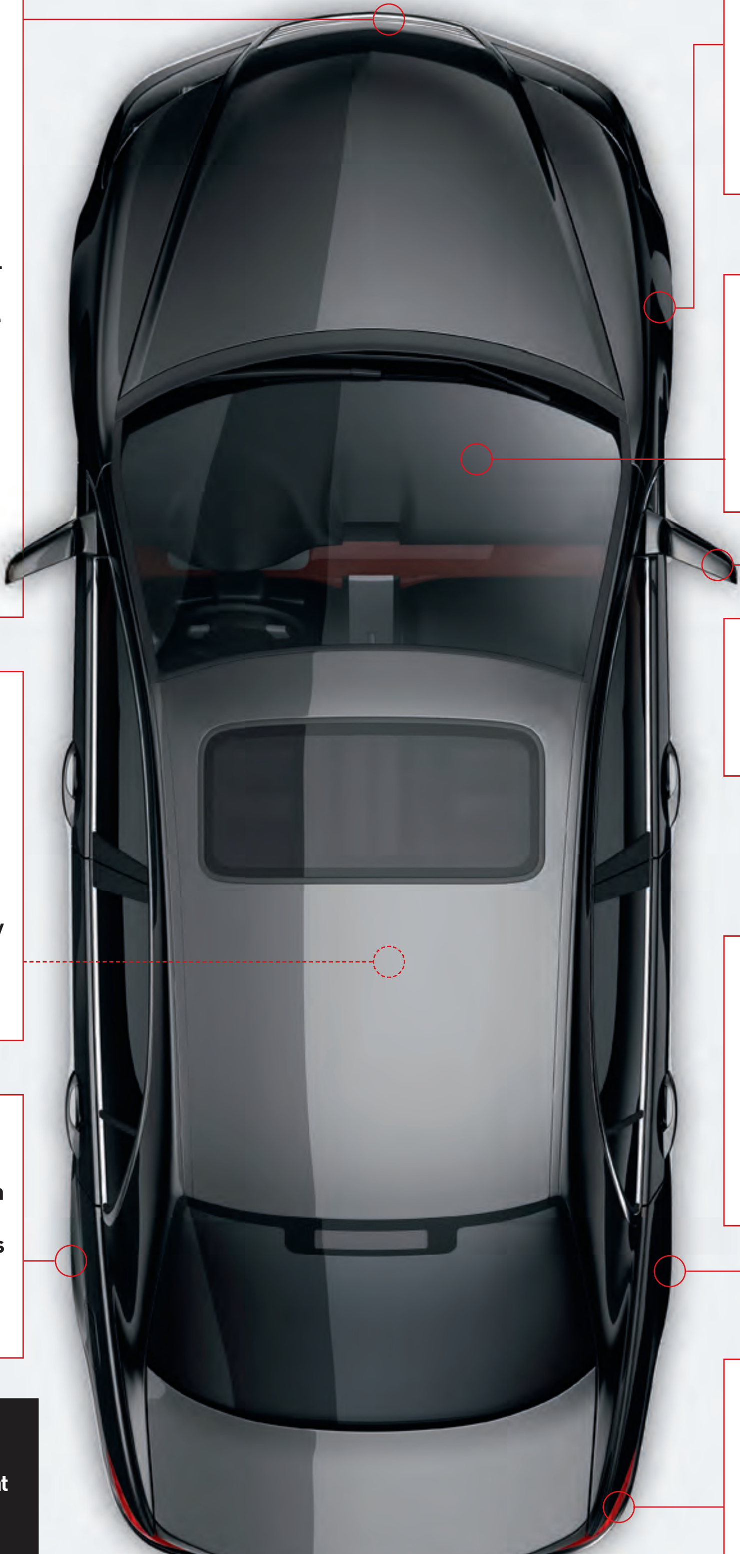
"While sales price is positively impacted by reconditioning vehicles into a higher grade, we found that there are three other important areas where reconditioning has a positive impact and these are often overlooked: buyer engagement, conversion rate and days in stock," says Hill.

"Looking at the high level data in each area, we clearly see that buyers find cars in grade one and two to be more attractive than lower-grade cars.

"Conversion rates are also positively affected by grade, with 89% of grade one cars being sold at the first time of offering, compared with only 60% of grade five cars being sold at this point.

"Days in stock numbers show that grade five cars are in auction stock for eight days longer than grade one cars, so this have a significant impact on stocking cost."

AT A GLANCE GUIDE TO UNACCEPTABLE DAMAGE, ACCORDING TO THE BVRLA'S FAIR WEAR AND TEAR INDUSTRY STANDARD



PAINTWORK, BODY, BUMPERS AND TRIM
Small areas of chipping, including door-edge chipping are acceptable. If the areas of chipping require the entire panel, bumper or trim to be repaired or repainted, the damage is not acceptable. Dents (up to 10mm in diameter) are acceptable, provided there are no more than two per panel and the paint surface is not broken. Dents on the roof or swage line on any panel are not acceptable. Scratches and abrasions up to 25mm are ok, relative to the vehicle's age and mileage, and providing the primer or bare metal is not showing.

VEHICLE INTERIOR
The interior upholstery and trim must be clean and odourless with no burns, scratches, tears, dents or staining. Carpets should not have holes. Interior fittings such as seatbelts, rear-view mirrors, courtesy lights, sun visors, door bins etc, must be present, intact and free of damage.

TYRES
All tyres, including any spare, must meet minimum UK legal requirements and comply with manufacturer's recommendations. There must be no damage to sidewalls or tread.

MOST COMMON DAMAGE/ SMART REPAIRS
1: Alloy wheel refurbishment
2: Scuffs and scratches to corner bumpers
3: Dents
4: Stone chips and scratches to paintwork
5: Interior trim repairs

Source: BCA

MOULDINGS, WHEEL ARCH TRIMS
Scuffs and scratches up to 25mm are acceptable provided the moulding or trim is not broken, cracked or deformed.

WINDOWS/ WINDSCREENS
Chips, cracks or holes are not acceptable. Repaired chips within the driver's line of sight are not acceptable.

DOOR MIRRORS
Missing, cracked or damaged door mirrors are not acceptable.

WHEELS
Scuffs totalling up to 50mm on the total circumference of the wheel trim and on alloy wheels are ok. But damage to the wheel spokes and the hub of the alloy wheel is not.

LAMP AND LENSES
All lamps must work. Minor scuff marks or scratches up to 25mm are acceptable. Holes or cracks in the glass or plastic covers of lamp units are not acceptable.

Source: BVRLA fair wear and tear industry standard

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Leasing companies are often accused of using end-of-contract damage charges as a 'profit centre'. Not so, say the UK's three largest leasing companies. *Andrew Ryan* compares answers to fleets' key concerns

NEED TO KNOW

- **Ensure terms are discussed at the start of contract**
- **Fleets can carry out repairs themselves**
- **Damaged vehicles may not be repaired but sell for less**

End-of-contract damage recharges are "the biggest bane of my life", a fleet manager with 25 years' experience has told *Fleet News* – and it is a sentiment shared by many of his counterparts.

"Judging what is fair wear and tear is not an exact science and is open to interpretation," says Nigel Rowden, fleet manager at ISS. "Leasing companies need to be more consistent and realistic."

Other fleet manager concerns include interpretation of BVRLA fair wear and tear rules, the differing belief that damage recharges are used as a 'profit centre', and the fact that not all the money is used to repair vehicles before they are sold.

Here, we put a number of fleet managers' concerns and questions to the UK's three largest leasing companies.

£500

Potential penalties from loss of spare set of keys

What steps can fleets take to minimise end-of-contract damage recharges while negotiating a contract for leasing vehicles?

Andy Hartley, commercial director at Lex Autolease: A discussion of end-of-contract damage recharges should form a central part of any negotiations. Both the business and the leasing company should be fully aware of the other's expectations and all end-of-contract processes should be clearly defined before any agreement is signed. Fleet policies can be designed strategically so that company car drivers are liable for all or part of any end-of-contract charges incurred. Putting the onus on employees goes a long way to encourage them to take better care of their vehicle during its lease.

Additionally, restricting the vehicle specification and options available to drivers can have a significant impact on reducing the likelihood of end-of-contract charges. Large alloy wheels, for example, have a greater chance of being damaged than standard-fit wheels, and are expensive to repair or replace, sometimes even necessitating a new tyre. Prohibiting free rein on vehicle choice and add-ons can drastically reduce the potential for damage to occur.

More on EOC charges at: fleetnews.co.uk/fleetleasing

"Most simply, businesses can complete all repairs themselves, or through their accident management provider, prior to returning the vehicle to the fleet company"

Andy Hartley, Lex Autolease

What can fleets do during a vehicle's time with that company to minimise end-of-contract damage recharges?

AH: Most simply, businesses can complete all repairs themselves, or through their accident management provider, prior to returning the vehicle to the fleet company. This places the customer in full control, though any potential impact on insurance costs must be balanced against savings made by avoiding end-of-contract costs.

Julia Thirtle-Watts, general manager, remarketing operations at LeasePlan UK: We advise fleet managers and drivers to appraise vehicle condition in the months before returning a vehicle. This check-up gives fleet managers the opportunity to control and manage any possible end-of-contract damage charges, in line with their agreed contract.

Steve Shaw, head of remarketing and logistics at Alphabet: First and foremost, fleets need to uphold the manufacturer's servicing intervals. If those aren't maintained, then the recharge is potentially hundreds of pounds straightaway. Drivers should also be cautious, particularly when parking. A lot of damage recharges are from scuffs and dents when parking, or when a vehicle is left.

What is the source of the most common misunderstandings over end-of-contract damage recharges?

AH: There can be confusion and misunderstanding around pricing structures for different types of damage and where charges have been incurred. At Lex Autolease, we launched iPad technology at the end of 2014 to simplify the de-hire process for our customers. We also introduced a simplified pricing matrix which details all charges by vehicle size and damage type, which helps customers to make informed decisions about whether to undertake repairs ahead of returning a vehicle. As with all aspects of fleet management,

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clarity of communication between drivers, employers and fleet companies is crucial.

SS: We find that the biggest area of confusion among fleets is understanding the extent of damage: one person's 'polish out' is another person's 'repaint the side'. With some of the colours and paint finishes available now, it is no longer the case that you can just touch up a scratch and it'll be fine, so we either have to repair it or we have to lose money on the vehicle when it comes to reselling it. If you're unsure about any damage, speak to your leasing company.

How do you decide what damage is repaired before a vehicle is sold? Can you understand fleets' frustration when a damage recharge is not used to repair a vehicle?

AH: Lex Autolease does not repair vehicles that are being returned to the used car market. Most ex-fleet vehicles are returned to auction rather than directly to retail, and the majority of people who bid on ex-fleet vehicles are independent traders who will choose the level of refurbishment for vehicles and complete repairs themselves cost-effectively. Taking this route quickly turns a vehicle into cash for a leasing company, and the lower value commanded by a non-repaired ex-fleet vehicle sold at auction is more than offset by the speedy sale and absence of repair costs that a leasing company might normally incur. However, the vehicle will still deliver lower sales proceeds when returned in a damaged condition than if it had been returned in a condition in accordance with the BVRLA's fair wear and tear guidelines, with the damage recharges levied being used to compensate for this loss in value.

SS: Fleets don't always see how much damage costs to repair. Our auction guys are well trained and they know what they've got to look for: it tends to be the extent and location of the damage which determines whether a repair is carried out. I completely understand customers' frustrations that we might not always be working in their favour, but we always are.

Residual values can rise or fall between the point when they are set at the beginning of the contract to when a vehicle is defleeted. Many fleets feel that end-of-contract charges are increased to make up any shortfall, referring to them as a 'profit centre'. Does this happen?

AH: Such behaviour from a leasing business would be completely inappropriate. Lex Autolease's end-of-contract inspection technology is available to empower customers to see exactly what damage is being charged for, and any associated costs will have been clearly outlined from the contract outset. Our damage charges are levied solely in relation to the condition of vehicles returned and prevailing used market conditions have no impact upon our damage recharges.

JTW: LeasePlan doesn't want to administer end-of-contract charges if they can be avoided – it's not in anyone's interest to cause opportunity for dispute, even if the charges are in accordance with the agreed contract.

SS: This is absolutely not the case. We are not in it to make a revenue stream from damage recharge at all.

What is your top tip to fleets who want to reduce end-of-contract damage charges?

AH: A missing spare set of keys can incur penalties of up to £500 once the vehicle's security system has to be reset, yet it is one of the most common causes of end-of-contract charges we encounter. Providing drivers with a standard checklist of items that come with the vehicle but may be removed and stored or mislaid prior to their return, such as keys, spare wheels, parcel shelves and log books is a simple yet effective way for fleets to reduce unnecessary charges.

JTW: Something as simple as returning both the master key and spare key can save significant sums in end-of-contract-charges. Some replacement keys can cost upwards of £200 due to ever more sophisticated security systems. When returning electric vehicles, return the charging cable as this can cost up to £1,000 to replace.

SS: Be honest at the start of the contract as to the usage of the vehicle. Also, always go round the car a couple of days before the vehicle is collected and, if there is any particular issue, contact the leasing company, as we are best placed to give you an opinion on it. Make sure everything is returned that came with the car, such as spare keys, any sat-nav discs or SD cards, service records and locking wheel nuts.

"LeasePlan doesn't want to administer end-of-contract charges if they can be avoided – it's not in anyone's interest to cause dispute"

Julia Thirtle-Watts, LeasePlan

Julia Thirtle-Watts, general manager, remarketing operations at LeasePlan UK

Steve Shaw, head of remarketing and logistics at Alphabet

THE END GAME

Don't be a loser when it comes to excess mileage and early-termination charges – our FAQs will make you a winner, says *Andrew Ryan*

NEED TO KNOW

- Low mileage contracts can be a false economy
- Individual mileages for drivers should be considered
- Think about reallocating rather than ending early

EXCESS MILEAGE CHARGES

How much do excess mileage charges cost fleets? The latest FN50 research found that average end-of-contract mileage charges are at a four-year low of £439, with 21% of returned vehicles incurring charges. The highest average excess recorded for a leasing company was £927, while one FN50 firm said 56% of its vehicles incurred a charge.

What is the first step to reducing charges? Fleets should be realistic about mileage when negotiating leases. Aiming for the fewest miles possible when determining a new contract will reduce a vehicle's monthly rentals. But this can be a false economy, as any cash saved through these lower payments could be swallowed by an excess mileage charge.

Fleets should also avoid adopting a 'one-size-fits-all' approach to mileage, says Simon Staton, director of client management at Venson Automotive Solutions. "Fleet policies should be designed to tailor mileage to the driver, ensuring that the contract is being based on actual mileage, not a 'rule of thumb' for the whole fleet," he adds.

How can fleets monitor a vehicle's in-life mileage? Fleet operators can use information included in fuel card and maintenance reports. If it looks like a vehicle will go over its specified mileage, a manager can speak to their leasing company about rewriting the contract. Nick Hardy, sales and marketing director at Ogilvie, says: "Any vehicles travelling in excess of 10% above contract mileage should be rescheduled."

Are there any other measures fleets can take? Many leasing companies offer a 'pooled mileage' arrangement where fleets can balance rebates for vehicles which have travelled below their contracted mileage against those which have exceeded theirs.

Mike Cooke, fleet operations manager, FleetEurope, adds that, for fleets without pooled mileage agreements, high-mileage drivers should swap vehicles with low-mileage ones mid-contract.

EARLY-TERMINATION CHARGES

How much do early-termination charges cost? There are a number of methods for calculating early termination charges. The simplest is based on the rentals payable and the point at which a contract is terminated.

For example, a leasing company may be due 18 months' rental for an early termination in the first year of a contract.

Alternatively, the charge may be determined by a percentage of future rental.

If a vehicle has been written off in a collision, a fleet's insurance company may settle an early-termination fee.

What is the first step to reducing early-termination charges? It might be possible to agree a set number of early terminations per year without charge.

Are there any other measures fleets can take? Generally, it is cheaper to reallocate a vehicle than to send it back to the leasing company early. Many fleets reallocate cars to new members of staff or to an employee whose own car is being returned.

Also, consider whether the vehicle could be a pool car to reduce short-term rental costs.

How can you overcome potential driver objections to taking on 'old' cars? Pool fleet reallocation can have P11D and tax consequences which can lead to protests and car park politics, says Mike Cooke, fleet operations manager at Fleet Europe.

Some companies may offer financial incentives to drivers to encourage the take-up of those cars, while Cooke adds: "One of the strongest methods for minimising and avoiding early-termination charges is to have a simple policy: find a standard car or specification that is right for the majority of the workforce and limit options."