Fleet & Fuel

INSIDE

Small capacity: big future?

Reduced-size turbo petrol engines offer comparable running costs and are less polluting than their diesel counterparts, but fleet uptake remains low. *Andrew Ryan* reports

Diesel, so long the dominant force in the fleet sector, is a fuel under fire. Last year, worsening air quality in UK cities led environmentalists to point the finger of blame at diesel transport, highlighting the amount of NOx and particulate matter it produces. This forced the Society for Motor Manufacturers and Traders to fight back against this "unfair demonisation" with a campaign to highlight the environmental credentials of the latest Euro 6 engines.

However, the fuel suffered another blow in September when the Volkswagen Group emissions scandal broke. This saw the manufacturer admit that 'defeat devices' were used during NOx emissions tests to mask the true level of pollution produced by some of its diesel engines.

The controversy was swiftly followed by Chancellor George Osborne's announcement that the Government would postpone April's planned removal of the benefit-in-kind (BIK) tax 3% diesel supplement – handing the fleet industry an unexpected BIK and Class 1A national insurance bill for £1.36 billion over the next five years.

It is widely expected that the future of vehicles will heavily feature electrification, whether it is pure-electric or plug-in hybrid models: a KPMG survey published at the beginning of this month found that 79% of UK automotive executives believe that hybrid electric vehicles would be the powertrain of choice by 2030.

At the moment, though, they are held back through either their lack of suitability for fleets or the limited range of models available for choice lists.

However, with cars powered by the latest smaller-capacity turbo petrol engines offering lower P11D prices, NOx and particulate emissions than their diesel counterparts, as well as ever-improving efficiency, should fleets start considering petrol a viable alternative to diesel?

Running cost calculations figures suggest there is a case. Comparisons using the *Fleet News* online running costs tool show how competitive the smaller-capacity petrol-engined cars are against their diesel counterparts (see table, below).

For example, the Vauxhall Astra 1.0i Turbo 105 Tech Line has a P11D price of £16,640 – £1,000 less than its 1.6-litre CDTi 110 Tech Line diesel counterpart, and has CO_2 emissions of 99g/km (diesel: 95g/km) and official combined fuel economy of 65.7mpg (70.6mpg).

Over a four-year/80,000-mile replacement cycle, the petrol model will have running costs of £20,120 (25.15ppm), just £184 more than the diesel model's £20,032 (25.04ppm). However, the lower P11D price and BIK band of the petrol model means the driver will pay £134 less in annual BIK tax (£466 compared to £600) and the employer will also pay £93 less (£321 compared to £414) in Class 1A NIC. Worth bearing in mind for fleets which pay advisory fuel rates (AFRs) is that the petrol comparisons cost 2p per mile more than diesel, equivalent to an additional £1,600 over 80,000 miles.

Venson Automotive Solutions last year commissioned vehicle finance and tax advisor BCF Wessex to research smaller-capacity petrol cars versus diesel.

It found that, over a three-year/60,000-mile cycle, diesel was the "marginal" financially astute option for wholelife costs. "Fuel price volatility, reducing annual fleet mileage and improvements in the fuel economy of petrol-engined company cars mean diesel power may not always make the most cost-effective fleet choice," says Simon Staton, director of client management at Venson. "However, all fleets are

23%

Proportion of FN50 fleets taken up by petrol cars

50%

Proportion of Ford Fiesta sales taken by Ecoboost petrol version

More on fuel management at: fleetnews.co.uk/fuel

PETROL V DIESEL

Running cost data supplied by KeeResources (4yr/80k)

	Petrol	Diesel	Petrol	Diesel	Petrol	Diesel
	1.0i Turbo 105 Tech Line	1.6 CDTi 110 Tech Line	1.0 TSI 115 Match	1.6 TDI 110 Match	1.0T Ecoboost Zetec Nav	Ford Mondeo 1.5 TDCi 120 Zetec Nav
P11D	£16,640	£17,640	£20,680	£21,905	£20,440	£22,340
CO_2 emissions	99g/km	95g/km	99g/km	99g/km	119g/km	94g/km
BIK (20% taxpayer)	£466	£600	£579	£745	£736	£719
Class 1A NIC	£321	£414	£400	£514	£508	£493
Annual VED	£0	£0	£0	£0	£0 then £30	£0
Residual value	£4,100/25%	£4,550/26%	£4,925/24%	£5,272/24%	£4,750/23%	£4,940/22%
Fuel cost	7.07ppm	6.14ppm	7.07ppm	6.48ppm	8.38ppm	6.34ppm
AFR	11	9	11	9	11	9
Running cost (4yr/80k)	25.66ppm/£20,120	25.04ppm/£20,032	29.66ppm/£23,728	30.25ppm/£24,200	32.75ppm/£26,200	32.39ppm/£25,912

different and that means decision-makers should not always assume that the dominance of diesel as the company car of choice over many years should remain."

A recent *Fleet News* online poll showed a possible change in attitude. It found that almost two-thirds (64%) of respondents would consider replacing their diesel car with one of the latest small-capacity petrol-engined cars.

Another sign of fleets becoming more receptive to petrol models comes from Simon Hill, managing director of Total Motion, who expects half of his company's customers to remove their diesel-only policies over the next two years.

Hitachi Capital Vehicle Solutions has seen one of its largest customers add additional petrol models to choice lists as a result of the diesel supplement U-turn.

"Wholelife cost is still the ultimate deciding factor," says Suzanne Phillips, national fleet consultant at Hitachi Capital Vehicle Solutions. However, with fleets looking for cost savings, any improvement in wholelife cost of petrol is not significant enough over a diesel engine to drive real change.

"Wholelife cost has also become a key factor for perk drivers who are becoming more savvy when researching a new car," adds Phillips. "But this has resulted in the adoption of other technologies aside from petrol engines."

"The move by some large corporates to add petrol back into the mix is a good representation of the market: petrol can be considered a credible alternative to diesel.

"However, given the choice, fleets don't appear to be moving away from diesel engines in favour of smaller-capacity petrol engines any time soon."

Manufacturers confirm this is the case.

"We've had a lot of interest in terms of fleets wanting to assess our 1.0-litre turbo petrol – more than we would normally have expected for a petrol engine – but the truth is that, so far, registrations are no more than we would have expected, so it is still very modest," says Paul Adler, fleet marketing and motability manager for Vauxhall. "However, there has been lots of discussion and lots of praise for the 1.0-litre engine in terms of driveability."

Ford reports a similar experience with its 1.0-litre Ecoboost engine. "Ecoboost has certainly put smaller-capacity engines on the shopping list of customers, including fleet buyers, since its introduction in 2012," says a Ford spokesman.

"We've had a lot of interest in terms of fleets wanting to assess our 1.0-litre turbo petrol"

Paul Adler, Vauxhall

64%

Proportion of *Fleet News* poll respondents who would consider replacing diesel with petrol

ELECTRIFICATION THREAT TO PETROL

One factor potentially restricting the uptake of smaller-capacity petrol engines is the continuing development of electrified powertrains.

"Small capacity petrol engines are under pressure from technology such as hybrids and electric vehicles," says Carlos Montero, commercial director of FleetEurope.

"For vehicles operating predominantly in an urban environment, an EV could be a more suitable solution. In the same vein, hybrids can offer all the benefits of an EV without the drawback of limited range."

John Pryor, chairman of ACFO, says the increasing range of fuel options could mean that fleets operate a vehicle mix that includes diesel, electric and petrol.

"All decisions related to vehicle choice should be based on total cost of ownership/wholelife cost data while always taking account of the operational requirements of each individual vehicle," he says.

	Petrol	Diesel	Petrol	Diesel
	1.2 Puretech 130 VTR+	1.6 BlueHDI 120 VTR+	1.2 TSi 110 SE	1.6 TDi SE
	£21,440	£22,655	£17,580	£19,595
	115g/km	105g/km	114g/km	99g/km
	£772	£861	£598	£666
	£533	£594	£412	£460
	£0 then £30	£0 then £20	£0 then £30	£0
	£4,375/20%	£5,050/22%	£4,050/23%	£4,825/25%
	8.22ppm	6.97ppm	8.05ppm	6.48ppm
	11	9	11	9
	32.76ppm/£26,208	32.36ppm/£25,888	27.70ppm/£22,160	27.68ppm/£22,144

"The key effect has been with smaller family cars, especially Fiesta where it now accounts for 50% of sales. There has been less of an influence in larger vehicles and CVs where diesel engines remain a default option."

Last year's FN50 listing of the country's 50 largest leasing and contract hire companies reported that 73% of risk fleet cars were diesel, with 23% petrol.

The research also found that petrol cars made up 20% of new car orders, meaning there was no significant rise for most companies over the previous year.

LeasePlan says that, generally, low mileage suits smaller-capacity petrol engine vehicles, while high mileage suits diesels.

"One important factor to bear in mind when choosing diesel is the increasing use of diesel particulate filters (DPFs)," says Matthew Walters, head of consultancy services at LeasePlan.

"In mixed driving, these filters work fine but, if your driving is mainly town-based, you should think carefully before buying a DPF-equipped car. A diet of low-speed urban motoring will clog DPF filters."

Walters says Automotive Leasing, LeasePlan's public sector specialist brand, has found petrol is a 'natural fit' for local authorities and NHS trusts which operate lower mileage fleets within fixed geographical regions.

"The public sector has been 'switched on' to the cost benefits of petrol versus diesel for many years, with petrol making up 30% of our car fleet," he says.

"We have begun to see interest changing. As the additional costs associated with diesel cars rise and their environmental impact is noted, fleet managers are becoming more aware of the possibility that other vehicles such as electric or hybrid can be considered."

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AdBlue: how it affects fleet operations

Many vehicles use the additive to comply with the Euro 6 emissions standard, but top-up intervals and costs can vary. *Christopher Smith* reports

Fleet operators and their drivers are being stung by the frequency and cost of AdBlue top-ups, with some diesel vehicles needing a top-up every 3,000-4,000 miles.

That's effectively every six tanks of fuel (assuming 500 miles per tank), with costs varying. A DIY approach costs around £15 but take it to a maintenance supplier and you could be looking at twice that figure. We were quoted £75-£100 by one dealer (see page 73).

This is a scenario most fleets will have to face.

AdBlue is a brand name for an additive that is 32.5% urea and many manufacturers are using it in their diesel powertrains to meet Euro 6 emissions regulations (all diesel cars and vans registered after September 1, 2015 have to emit a maximum of 80mg/km of NOx – less than half the previous cap – with many vehicles sold before this date already complying with this rule).

The clear liquid is injected into the selective catalyst reduction (SCR) system in the exhaust chain, where it triggers a chemical reaction which converts NOx into nitrogen and water vapour. It has already been used for a number of years in commercial vehicles, but is something fleet managers and car drivers may not have experienced until a warning light comes on signalling a top-up is needed.

Therefore, it is important that drivers are aware of the process so it doesn't come as a shock. If the warning light is ignored and the AdBlue runs out, the vehicle stops and will not restart until it is replenished. When this happens will depend on the car and how it has been driven.

Peter Jardine, group fleet manager of Countrywide, has a number of Audi A6 Ultras on his fleet and has found that drivers are having to get the AdBlue tank topped up every 3,000 to 4,000 miles – at the company's expense.

"When we first spoke to manufacturers about AdBlue, they suggested top-ups would just be done when the cars were serviced, so we decided not to charge drivers," he says. "We're now having to order vehicles with bigger AdBlue tanks."

Peugeot and Citroën say their vehicles will require a top-up every 12,500 miles (fitting with the service interval of some, but not all, models), while some Vauxhall and Volkswagen vehicles could require refilling every 3,000 miles.

Consumption will also vary from car to car. Mike Cooke, fleet operations manager at fleet management firm FleetEurope, says: "You could have two identical cars with identical mileages but, while one might be used over a long distance once or twice a day, the other may be completing numerous short journeys. The total distance could be comparable, but AdBlue usage will differ massively."

> *"If the service schedule states the fluid needs to be completely changed, we will take care of it"*
>
> *Simon Pilcher, LeasePlan*

Jardine has agreed a rate of £32.50 per fill with his maintenance provider. "If we fill up 13 times per contract, this is a cost of £422 per car," he says.

Another issue is deciding on who pays for the top-ups. Russell Adams, commercial vehicle engineer at Lex Autolease, suggests a relatively simple solution.

"We consider AdBlue a consumable, similar to fuel," he says. "As such, the onus is on the operator of the vehicle to ensure it is adequately topped up and cover any costs incurred."

However, Simon Pilcher, supplier manager at LeasePlan, adds: "If the service schedule

SETTING YOUR FLEET'S ADBLUE POLICY

1 Identify the vehicles on your fleet that require AdBlue

Many Euro 6 diesel vehicles require AdBlue top-ups, but in many cases it won't immediately be apparent. Ensuring you and your drivers know which vehicles require the additive eliminates surprises.

2 Decide who pays for AdBlue top-ups

The majority of leasing companies don't include AdBlue in maintenance policies. Ensure your drivers are aware they are responsible for payment if you decide this should be the case.

3 Suggest a recommended refilling process

Particularly if your company is covering the cost of top-ups, it is essential your drivers understand your policy for refilling to avoid excessive charges. They need to know if they should take the car to a dealer and recharge the cost to the business, pay for it on their fuel card, or submit it for payment as a business expense.

If drivers are to pay themselves, ensure AdBlue fill-ups are disabled on their fuel card system.

ADBLUE MODELS, RANGE, AND DEALER TOP-UP COSTS

Brand	Audi	BMW	Jaguar Land Rover	Mercedes-Benz	Peugeot Citroën	Volkswagen	Vauxhall
Affected models	All Euro 6 diesels excluding A1, A3 and TT	5 Series, 7 Series, X5, X6	All Euro 6 diesels	Most Euro 6 diesels, excluding A-Class	All Euro 6 diesels	Most Euro 6 diesels excluding Polo, Golf, Beetle, Scirocco	Zafira Tourer/ Insignia 2.0-litre Auto
Estimated range	n/a	9,000 miles	5,000 – 17,000 miles	9,000 – 17,000 miles	12,500 miles	3,000 – 7,000 miles	3,000 – 7,000 miles
Dealer top-up price outside scheduled service	£1.50 per litre	Fixed charge of £24.99	Included in JLR service plans between services	Top-up before first service free, then free labour	Fixed charge of £9.99	£1.50 per litre	Prices vary for AdBlue, but free labour for fleets

states the fluid needs to be completely changed, we will take care of it," he adds.

While it is now becoming accepted that the additive is not included as a service, maintenance and repair (SMR) expense covered by a leasing company, it remains unclear whether a fleet operator should cover the cost or pass it on to the driver.

Fleets have a number of options when it comes to sourcing AdBlue. The first, and potentially most costly, is to use the dealer network. Costs vary considerably, with some brands having a fixed price policy, either for a full top-up or per litre. Peugeot and Citroën offer a top-up of up to 10 litres for £9.99, while BMW charges £24.99. Volkswagen, Audi and Seat are among those charging on a per-litre basis, with a fixed price of £1.50 per litre. Outside these fixed price policies, for other brands the results are likely to be similar.

Jaguar Land Rover vehicles on a service plan receive a free top-up but, for those outside a service plan, prices are "at retailers' discretion so may vary".

Vincent St Claire, commercial director of service management company Fleet Assist, which manages SMR networks for leasing companies including Alphabet, Ogilvie and Pendragon, says dealer charges are a minefield.

"The big issue is managing the costs from the garage," he says. "The AdBlue fluid can be purchased in bulk for as little as 30p per litre but we are seeing garages charge anything up to £15 per litre and 30 minutes' labour to top up the tank."

The company is negotiating terms with garages and plans to offer a fixed price top-up for clients.

The second option is for a driver to obtain a refill kit from a dealer's parts department. The majority of brands offer a 1.89-litre refill container, which has a special valve to make filling up easier. Costing between £6 and £8, it's not the cheapest way to fill up, and several containers may be required for a full top-up, but it is straightforward.

The practical process of a driver refilling AdBlue varies significantly depending on the type of container, and the location of the filler on the vehicle. Models that have been designed with AdBlue in mind, such as the new Audi A4 and Volkswagen Passat, will often locate this under the fuel filler flap on the side of the car. Others – where the tank has been added to the vehicle midway through its life, including many Citroëns, Peugeots, and the Volkswagen Tiguan (see long-term test, page 72) – will locate the filler cap under the boot floor.

"AdBlue fluid can be purchased in bulk for as little as 30p per litre but we are seeing garages charge anything up to £15 per litre"

Vincent St Claire, Fleet Assist

£9.99

Price of a 10-litre AdBlue top-up from Peugeot and Citroën

80

Euro 6 NOx limit (mg/km) for new diesel cars and vans

The special refill containers offered by dealers click into place, meaning there is no spillage. The 10-litre capacity containers available from motor factors, some dealers and many petrol stations, are perhaps one of the cheapest ways for a car driver to top-up, but are not without their issues.

In cars where the filler cap is located in the boot floor, a funnel may be required to reduce the risk of spillage. The containers are supplied with a tube, but these may not be long enough for easy refilling.

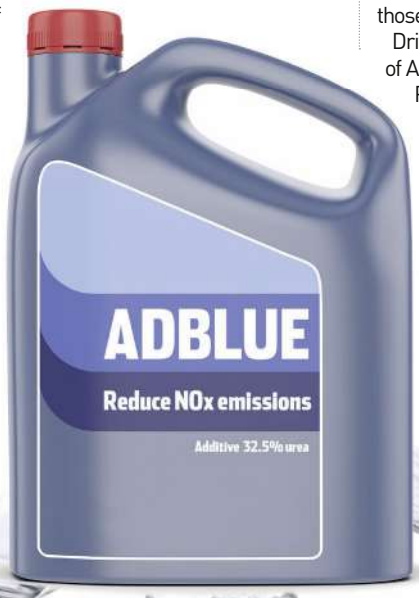
The 10-litre containers cost between £10 and £18, and should be large enough to reduce the frequency of top-ups.

Some fleet managers are wary about allowing drivers to top-up the additive themselves. "I won't go down the DIY route," Jardine says. " My drivers would be putting it in the fuel tank or washer bottle – you name it."

Fleet managers can enable or disable the ability to pay for the additive on their fuel cards, with Allstar and BP among those offering the functionality.

Drivers may be tempted to use the considerable number of AdBlue pumps available at motorway filling stations, but Paul Norman, manager at chemical company Air1, explains that the pumps cannot be used for passenger cars. "Cars will have onboard AdBlue tanks a fraction of the size of a truck's and the pump flow rate would result in overfilling in a matter of seconds," he says.

Cooke adds: "It is worth pointing out buying in bulk as a consumer is not advised. AdBlue is a bio-product and therefore has a use-by date. You shouldn't use AdBlue past its use-by date."



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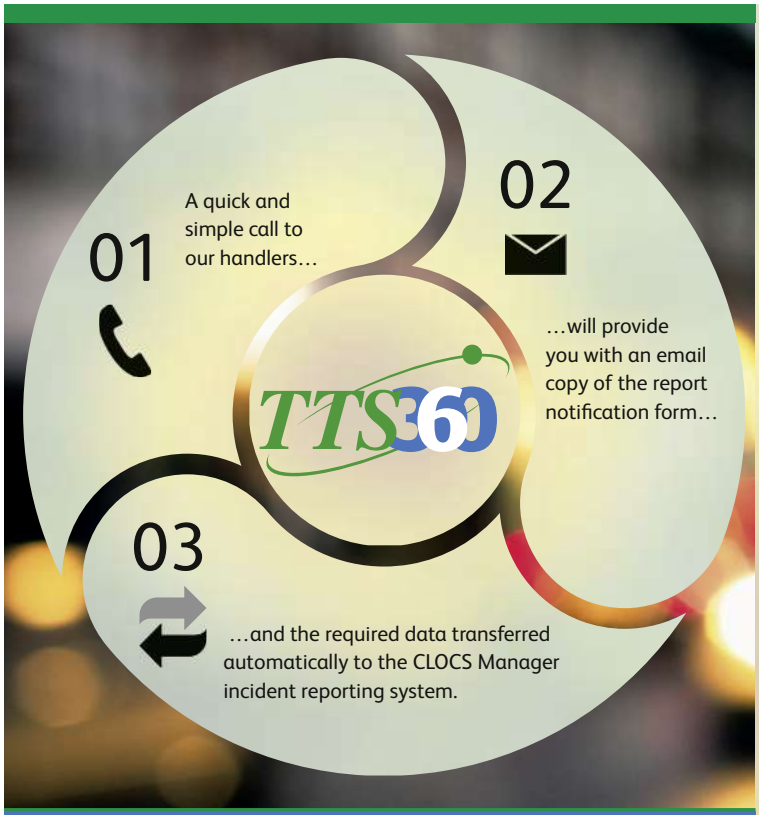

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Model Shown: Civic 1.6 i-DTEC SR Manual in Brilliant Sporty Blue Metallic.

5 WAYS FLEETS ARE REDUCING FUEL BILLS

Fuel remains one of the biggest costs associated with operating a fleet of vehicles, but operators can make significant savings through introducing the right initiatives. *Andrew Ryan* reports on five of the best

1 DOWNSIZING VEHICLES

Z-Tech has reduced its fuel spend by 22% by downsizing from Ford Transits to Fiesta vans where possible.

The engineering services provider decided to take this action following a review by the Energy Saving Trust in 2009.

"Drivers that just carry technical equipment and don't have a lot of weight in the back of their vans can quite easily use a Fiesta van and save on fuel," says Sudhanva Rajashekara, fleet manager at Z-Tech.

Arval has previously estimated wholelife cost savings could reach £10,000 for businesses that move from a heavy van to a light van across a four-year vehicle lease, while moving from a heavy van to a medium van could save up to £3,000.

The downsizing trend coincides with many manufacturers introducing model ranges that optimise the use of available space, while simultaneously improving fuel consumption.

Z-Tech is also increasing its car allowance for hybrid and electric vehicles to incentivise company car drivers to make the switch from diesel.

Sudhanva Rajashekara: 'downsizing reduced fuel spend by 22%'

2 ENSURING PLUG-IN HYBRIDS ARE CHARGED

Ensuring vehicle batteries are charged before use is key to getting the most out of plug-in hybrid electrics (PHEVs).

For example, the Mitsubishi Outlander PHEV has an official combined fuel economy of 156.9mpg. But if its battery is not charged, this drops dramatically: drivers report real world fuel economy of 40-50mpg. Conversely, if the car is used for short journeys and the battery is kept topped up, then very little petrol – if any – is used.

One driver at Vital Energi, who clocked up 2,600 miles between April and October last year, recorded average running costs of just 1.48 pence per mile, excluding electricity costs. Paul Carberry, group fleet manager at the sustainable energy company, has recorded an average running cost of 2.48ppm (excluding electricity costs) for his Mitsubishi PHEV, and less than 6ppm when electricity costs are taken into account.

"I am achieving more than 200mpg," he says. "It's about making sure you charge all the time. I take every opportunity to charge at supermarkets and on the motorway."

Vital Energi also reduces fuel costs by using electricity generated by solar panels on the roof of its headquarters to charge its plug-in hybrids.


Paul Carberry: 'I am achieving more than 200mpg'

ADOPTING ALTERNATIVE FUELS

Leeds City Council is expecting to save £1.5 million on diesel and AdBlue costs over a five-year period by converting its 70 refuse collection trucks to run on compressed natural gas.

The trucks will be the first vehicles converted by the council – at a cost of around £2,400 per vehicle – which will then consider making the same modifications to its 200 vans.

Its van fleet is currently made up of Ford Transits, Fiesta vans and Peugeot Partners. The council also has a fleet of 21 Ford Galaxys and Peugeot Expert Tepees, as well as 29 cars. However, the council was unable to share its projections on fuel savings or how much it would cost to convert its van fleet.

It has gained funding approval to build and run one of the UK's biggest filling stations for the alternative fuel, and this is expected to be operational by summer next year.

The total cost for the project, including building the filling station, is expected to reach £5m, with funding provided in the form of a loan from Northern Gas Networks.

Leeds City Council: switching to compressed natural gas

ELIMINATING UNNECESSARY IDLING

Gas distribution company SGN found it was wasting 13,000 litres a month through unnecessary idling.

The business, which has 2,000 vans and 700 cars, underwent a rebrand in 2014 and when the new vehicle livery was applied an updated telematics system was also installed.

"One of the biggest initial surprises for us was the level of idling," says Chris Stone, head of finance at SGN. "When we first started monitoring, we realised we wasted 13,000 litres of fuel in one month.

"All the vans are now fitted with heaters to dry drivers' coats, with the latest additions to the fleet also capable of heating the cabs. We've worked hard with the team leaders and the drivers to change habits."

Telematics has also led to smoother, more efficient driving, which saw economy improve by 2.5mpg – or around 11% – in a sample pool of 89 vehicles.

If the same results are seen across the business, Stone estimates an annual saving of up to £1m, made up primarily of an estimated £600,000 saving through fuel economy and reduced idling, reduced maintenance and vehicle repair, and a lower spend on tyres and brakes.

Chris Stone: estimates annual saving of £1m from reduced idling and consumption

SWITCHING FUEL CARD PROVIDER

Switching from a pump price fuel card to a fixed priced one is saving Gamestec between £5,000 and £6,000 a month.

The company switched cards in 2014, but fleet manager Peter Kowalczyk was apprehensive about the change. "We were very much focused on using supermarket forecourts," he says. "We were achieving 99.5% supermarket fill-ups, month-on-month. Our big fear of switching was having to move away from that."

Gamestec did not want to remain with its then fuel card provider Allstar and continue paying a transaction fee every time its 530 drivers filled up: that charge was adding up to £2,500 to £3,000 a month. It considered a number of alternative providers and resellers before selecting a Shell card provided by Juice Fuel Management.

The company opted for a fixed price fuel card, based on Platts price, which can be used at any Shell station.

"It's making a huge saving for us compared to the national diesel average, which is what we have always tracked our prices against," Kowalczyk says.

"We were always 2p under the national diesel average and, since we moved to Shell, we're 5p under."

Peter Kowalczyk: 'Since we switched, we're 5p under the national average'

Reduce the pain of taking away drivers' 'free' fuel

Ending fully-expensed fuel is likely to be met with resistance from your employees, but there are ways to ease the process. *Andrew Ryan* reports

Removing fully-expensed fuel from drivers is a financial no-brainer for employers – it saves them hundreds of pounds per employee per year in fuel bills and taxes.

But the situation is not always so clear-cut for the staff losing the benefit. For them, taking away 'free fuel' results in both winners and losers.

The winners will have been paying more in tax than the value of the fuel they use for their private mileage, so will benefit financially.

The losers, however, would be left out of pocket – and as the calculations are usually based on a vehicle's official combined fuel economy, the number of people who will be worse off increases if the real world figures are used.

For example (see table, page 49), using official test results, a 20% income tax payer who drives a BMW 320d ED Plus would have to travel 13,002 miles a year before they are better off through receiving fully-expensed fuel.

If the real world figures – achieved by a *Fleet News* long-term test car – are used, this falls to 9,030. This will increase to 9,546 when changes to both the BIK bands and the fuel benefit charge multiplier come into force for the 2016/2017 financial year, which begins in April.

Some fleet suppliers, however, do tailor their calculations to real world conditions.

"We have developed our own cost comparison tool which, on a driver-by-driver basis, evaluates the situation and includes a feature where you adjust the official fuel consumption figures by whatever percentage you wish, to reflect the real world," says Ian Hill, managing director of Activa Contracts. "Our default is about 15% lower because, on most cars, this seems to be about right."

> *"In this day and age, it's not an efficient taxation scheme for an employer or employee to have"*
>
> *Paul Hollick, TMC*

Paul Hollick, commercial director of The Miles Consultancy, estimates that the average saving for an employer taking staff out of fully-expensed fuel, even taking any compensation into account, works out at just over £800 per employee, per year.

"In this day and age, it's not an efficient taxation scheme for an employer or employee to have, so the employer may as well work out a mechanism that means the employee moves away from it," he says.

The first step towards removing the benefit is to collect and analyse data.

This can be done electronically through mileage capture systems, apps or spreadsheets, or by recording business and private mileage on paper.

"One thing that people find attractive about fully-expensed fuel is that they see that it is very easy to administer," says Hill.

"Drivers don't have to keep mileage records, which they see as a bit of a bind so you have to overcome that, but the savings are so significant in most cases that it's worthwhile introducing a system."

Once an employer has analysed the data, there are a number of options available to them which could allow it to remove the benefit.

This analysis usually shows that the majority of employees will be better off without the fully-expensed fuel, so it should

be quite straightforward to remove their benefit, says Nick Davies, director – employer consulting at BHP.

"You can demonstrate to drivers quite clearly that they are paying more in tax than they would in fuel costs," he says.

"Every employee is most interested in the bottom line, so the art of communication is not to overcomplicate it, but keep it simple and demonstrate the degree to which they would be better off. Producing dummy payslips is great for that, but similarly it could be as simple as doing the calculations and saying 'by having private fuel, you are worse off by £450' or whatever it might be."

The analysis will also identify drivers who will be worse off through losing their free fuel, and therefore need to be compensated for the withdrawal of the benefit.

"The savings that the company makes in total far outweigh any compensations they have to pay, so they don't have to be mean and stingy," says Hill.

One way to compensate drivers for the loss of their fuel benefit is through a one-off payment.

"This can be difficult to communicate because you would be compensating a driver for essentially a fixed period of time," says Davies.

"An employer can calculate the annual benefit a driver receives, so what they can do is say 'OK, having private fuel is saving you £300 now, but in the next tax year it is not saving you anything because of the increase in fuel benefit. Therefore, to compensate you up to the period when it ceases to be a benefit we will pay you this sum of money.'

"How that works in an employee's mind is less clear."

Davies says many employees see fully-expensed fuel as a "never-ending" benefit as there is no set date when it finishes, while a single compensation payment brings a definite finish to it.

One way around this mental barrier is to replace the fully-expensed fuel with a monthly fuel allowance.

"You can say 'ok, you are £200 better off this year by virtue of having private fuel.

"What if we withdraw private fuel but we give you a fuel allowance, so we gross up the £200 for tax and national insurance and pay that as a multi-allowance through the payroll?'," Davies says.

"It doesn't have to be pensionable pay – you can make clear it's not, it's purely a fuel allowance – so you are putting them in the same position that they were in when they had the fuel benefit.

"The selling point there is that if you remain with private fuel it will deteriorate year-on-year, so we are protecting you against these ongoing tax increases by doing this."

"Every employee is most interested in the bottom line, so the art is not to overcomplicate it"

Nick Davies, BHP

£800

Average per employee saved by employers from cutting fully expensed fuel

11,375

Breakeven mileage of Citroën C4 Cactus using 'free' fuel (2016/17 tax year)

Fuel cost calculator: fleetnews.co.uk/costs/fuel-cost-calculator/

Compensating an employee for the loss of the benefit can also be done by adjusting their salary, says Hollick.

"An employee could be bought out of it by giving them a salary engrossment, or you could give them a one-off bonus every year," he says.

There are also more gradual ways of removing the benefit which do not include paying compensation. These include approaches such as continuing to provide fully-expensed fuel to existing employees, but not offering it to any new members of staff.

"However, depending on staff turnover, you could take 20 years to fully remove the benefit," says Davies.

"If I was doing that I would combine this with still offering the existing workforce the option to withdraw from private fuel as the likelihood is that the majority is not benefiting from private fuel."

Another alternative is to leave free fuel in place, but review it when an employee's car is about to be replaced, says Hill.

"Some people would say to an employee 'the next time your car lease comes up in two years' time, we'll review your fully-expensed fuel situation'.

"That will give the driver the opportunity to select a more fuel efficient car if they so wish which you benefit them."

But there remains the issue of those drivers who refuse to give up their benefit.

"There's a small proportion, maybe 2-3%, where it probably works for them, so therefore keep them in the scheme – it's not the end of the world," says Hollick.

"It's still annoying because the employer is still paying for the fuel and the employee is still paying the tax, but the overall savings are far greater than any benefit you will continue to pay."

FULLY EXPENSED: HOW THE FIGURES STACK-UP

				2015/2016				2016/2017			
Employee				Cost to 20% taxpayer (double for 40%)				Cost to 20% taxpayer			
Model	CO_2	Official mpg	Actual mpg*	BIK band	Tax	Fuel bought (gallons)	Breakeven mileage**	BIK band	Tax	Fuel bought (gallons)	Breakeven mileage**
Citroën C4 Cactus 1.6 Hdi Feel	90	88.3	65	16%	£707	155	10,075	18%	£799	175	11,375
Ford Mondeo 2.0 TDCi 180 Titanium	117	62.8	45.3	21%	£928	203	9,196	23%	£1,021	223	10,101
BMW 320d ED Plus	99	74.3	51.6	17%	£795	175	9,030	19%	£844	185	9,546
Peugeot 2008 1.6 BlueHDI 120 Allure	97	76.3	51.4	17%	£751	164	8,430	19%	£844	185	9,509
Volkswagen Tiguan 2.0 TDI 150 Match	130	56.4	45.6	24%	£1,060	232	10,579	26%	£1,154	252	11,491

Fuel price based on UK average diesel price of 100.61 pence per litre (£4.48 per gallon) on January 29. The fuel benefit charge multiplier increases from £22,100 in 2015/16 to £22,200 for 2016/17 calculations. *Calculations based on actual mpg. **Gained from *Fleet News* long-term test cars.

'We save around £1,200 per vehicle a year by using LPG'

Noel Roberts, Isle of Anglesey County Council

Name Paul Beesley
Role Marketing manager
Organisation Autogas Limited

Despite the potential to cut fuel bills by 40% and offering environmental benefits over diesel and petrol, LPG has never caught on. *Andrew Ryan* investigates why

On paper, LPG has the cost and environmental qualities to be a mainstream vehicle fuel. It is more than 40p per litre cheaper than petrol or diesel, while research by the German Federal Motor Vehicles Agency found that NOx emissions are generally lower than petrol and substantially lower than diesel. LPG also generates no recordable particulate matter.

And it creates less CO_2 on a well-to-wheel basis as it is a byproduct of the crude oil and natural gas industries.

However, the 28 leasing companies which provided details of vehicle fuel types in last year's FN50 ran just 23 cars and 31 vans. LPG was dealt a near-fatal blow in 2005 when the Government scrapped the Powershift grant scheme, but despite that, there appears to be a clear argument for greater uptake. So why don't more fleets use it, and what does the future hold for the fuel?

We asked Noel Roberts, fleet and driver manager at Isle of Anglesey County Council, which operates 71 LPG vehicles, John Pryor, chairman of ACFO, Simon Hill, managing director of Total Motion – the FN50 leasing company with the most LPG vehicles (six cars and 31 vans) – and Paul Beesley, marketing manager of LPG supplier Autogas Limited.

What are the benefits of using LPG?

Paul Beesley: The main benefit is the fuel cost. Savings of up to 40% are a significant driver. LPG also enhances a business's environmental credentials by using a proven cleaner fuel. The likely introduction of further Clean Air Zones brings the possibility of further vehicle restrictions in city centres.

"Government policy towards LPG led to manufacturers dropping LPG models from lists"

John Pryor, ACFO

More on fuel management at: fleetnews.co.uk/fuel

Simon Hill: We've got two customers who use LPG. One is a construction business and the other is a service engineering company. Their overriding motivation is cost. Their vehicles have really good wholelife costs, they are reliable, the drivers are happy with their performance and CO_2 and NOx emissions are good.

Noel Roberts: The main factors our councillors looked at when deciding to adopt LPG were the fuel costs and CO_2 emissions. We have our own LPG tanks and today's price is 32p per litre, so we make considerable savings from running LPG: around £1,200 per vehicle, which is more than £80,000 a year.

Why do so few fleets use it?

Paul Beesley: Primarily it's all down to education and breaking the duopoly of diesel and petrol. More than 10 million drivers in mainland Europe use LPG and have done for more than 40 years, while more than 14 vehicle manufacturers offer LPG-powered models directly from their showrooms, some of which are even manufactured in the UK. But there is no OEM offering an LPG option in the UK.

Simon Hill: My feeling is that it was the right place at the wrong time for LPG. I think it just didn't get the push it needed and I don't think the Government helped massively [in 2005 it ended its Powershift grant scheme , through which drivers could get up to 75% of the extra cost of their LPG back]. It's going to be one of those fuels that will forever be on the periphery, but never mainstream. People still feel nervous about aftermarket conversions and, because of this, they want to stick with diesel. It's unfortunate, because if more

LPG IN NUMBERS

55.4
Average price for a litre of LPG (source: fleetnews.co.uk)

20%
Average increase in fuel economy compared to petrol

£1,400
Typical price of vehicle conversion

Name Simon Hill
Role Managing director
Organisation Total Motion

Name John Pryor
Role Chairman
Organisation ACFO

people saw the benefits then more would use LPG. If companies do not have the facility to bunker the fuel, the number of sites where you can buy it is limited.

John Pryor: Government policy towards LPG as a viable fuel for road-going cars and vans led, some years ago, to mainstream motor manufacturers largely dropping LPG models from their price lists. Today, ACFO's understanding is that vehicle conversion to LPG is typically an aftermarket issue.

As a general rule, fleets have vehicle sourcing relationships with mainstream motor manufacturers, franchised dealerships and third-party suppliers such as contract hire and leasing companies. Best practice dictates that fleet managers should consider the viability of such vehicles on a total cost of ownership/wholelife cost basis. Only then will they know whether LPG vehicles have a place on their fleets.

Are there any issues with reliability?

Simon Hill: In the past 10 years, we've not had a single problem with a conversion and every single LPG vehicle we've had on fleet has performed as well, if not better, than their diesel or petrol equivalent on reliability.

Noel Roberts: We have got vehicles here – the original ones – which have covered 180,000 to 190,000 miles without any problems. The LPG system needs to be serviced every 12 months, but our mechanics have been trained to carry out the work.

What does the future hold for LPG?

Paul Beesley: Interest levels have been increasing in recent months, given the publicity around poor air quality in the UK, with much of the criticism levelled at road transport as one of the biggest contributors. The news that London breached annual pollution limits just one week into 2016, and that the Government has announced plans to introduce Clean Air Zones in 38 areas (five by 2020), with the possible banning of diesel vehicles, provides a timely opportunity to consider the benefits offered by LPG.

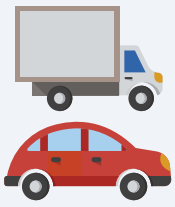
Simon Hill: I wish we would see an increase, but I don't think we will. What will happen is we will probably live out LPG and then go to hybrid or full electric and then on to hydrogen. That's my gut feeling. I think a possible increase in interest for it could be the move back to petrol. Over the next two years I am expecting half our customers, if not all, to remove their diesel-only policies and reintroduce petrol. When we see that, we are ready to promote LPG to those that it might be relevant to.

We are planning to say "here are your wholelife costs for diesel, petrol, LPG and plug-in hybrids", but we will make sure we reinforce the position around LPG because we think it's a viable option. It has to be the right circumstances, but we think it's viable. I don't think we will increase our LPG fleet massively, but I don't think we'll lose any either. I think we'll just continue until the time there is a better alternative; but at the moment there isn't one.

Noel Roberts: LPG has given us good service and massive savings – we've got no regrets. Council policy is to purchase dual fuel (both petrol and LPG) vehicles where possible. We will continue to do that until our policy changes.

40%
Estimated saving on fuel bill by using LPG

1,400
Number of LPG filling stations in UK



54
Number of LPG cars and vans on the FN50 risk fleet, said respondents

LPG FAQS

Q How are the residual values of LPG vehicles?

A "Exceptional," says Simon Hill.

"Every single vehicle we get we can sell five times over.

"It's one of our best-performing vehicles in terms of RVs. We get farmers, we get taxi drivers, we get all sorts of people interested in our used LPG vehicles. I would say they probably get back the cost of the conversion."

Q How does an LPG conversion affect a manufacturer warranty?

A "The manufacturer's warranty still exists," says Hill. "We have an exclusion list of certain parts which are not covered by the manufacturer's warranty, but we have a warranty contract in place to cover these."

Rob Beesley says approved conversion specialists will offer an additional warranty that covers the LPG system being fitted and the powertrain.

Q How often does the LPG system need to be serviced?

A "It should have an annual inspection and service through one of the industry-approved specialists," says Beesley. "This should cost in the order of £55."

Q Does the after-market conversion affect benefit-in-kind tax?

A "It does not affect BIK as it is an aftermarket conversion," says Beesley. "As such, the CO_2 used would be for the petrol engine. If an OEM were to offer LPG then the additional cost for the LPG option would be included for BIK, but the reduced CO_2 figure for the LPG would be used. Vans do not attract BIK."