Strategies to tackle rising company car costs

Latest Fleet200 Strategy Network survey shows price increases across the board in 2024, so what mitigation methods can car fleet operators use? Sarah Tooze reports

At first glance, Fleet200 Strategy Network members paint a gloomy picture of the year ahead. Most respondents expect their company car costs to rise in every area of spend: 61% expect insurance premiums to increase; 60% think leasing rates will; 57% see total cost of ownership increasing; 56% think fuel costs for petrol and diesel cars will rise; 55% expect accident repair costs to go up; 52% predict electric car charging costs will increase; 49% think their tyre costs will rise; and 43% think service maintenance and repair (SMR) bills will go up.

Public sector car fleets are more negative than private sector car fleets. For instance, 86% expect insurance costs to increase (versus 57% of private sector car fleets), 71% expect accident repair costs to rise (versus 53%) and 71% expect SMR costs to go up (versus 38%).

The differences between small, medium and large fleets are not as great, except on fuel costs, with 70% of sub-101 car fleets expecting a rise compared to 49% of organisations with more than 500 cars.

This could be due to the make-up of those fleets. Large corporate fleets are further ahead in the transition to electric vehicles (EVs) than SMEs and are more concerned about EV charging costs than traditional petrol and diesel costs. About six-in-10 (61%) of 501-plus car fleets expect electric charging costs to rise versus 43% of sub-101 car fleets.

The survey didn’t ask fleet decision-makers to predict how much costs will increase by but businesses have already endured increases this year amid the cost-of-living crisis.

Interest rates remain at a 15-year high of 5.25% and the Bank of England does not expect inflation to return to normal levels until the end of 2025.

Energy prices, meanwhile, are expected to be higher than current levels until July 2024, according to independent energy research, analytics and consulting firm Cornwall Insight.

Despite the challenges, fleet decision-makers who have been in the industry a long time have faced worse situations in the past, such as the 2008/09 recession, and the survey results also show some optimism.

Almost half (46%) of respondents expect their company car fleet size to increase over the next 12 months, with 42% expecting it to stay the same, which means only a small percentage foresee a reduction.

For some fleets the increase is linked to an expected uptick in salary sacrifice cars (see page 4).

Adding more car brands to the fleet

Larger fleet operators are also expecting to increase the number of car brands on their choice lists. Almost a third (29%) think they will add more car brands compared to 13% of organisations with 100 or fewer cars.

Currently, almost half (47%) of organisations have more than 10 car brands on their choice list.

Vehicle availability issues as a result of the Covid-19 pandemic and semiconductor chip shortage (see page 5) have caused some fleet operators to opt for manufacturers with shorter lead times. But fleet operators have also opened up choice lists to help with the transition to EVs and to manage price increases.

What is your expectation for the following company car related costs over the next year?

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<th>Increase</th>
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<tr>
<td>Leasing rates</td>
<td>60%</td>
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<td>Insurance premiums</td>
<td>61%</td>
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<td>SMR</td>
<td>63%</td>
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<td>Tyres</td>
<td>69%</td>
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<td>Fuel</td>
<td>56%</td>
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<td>Electric charging</td>
<td>52%</td>
<td>36%</td>
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<td>Accident repair</td>
<td>55%</td>
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<tr>
<td>Total cost of ownership</td>
<td>57%</td>
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Peter Jardine, group fleet director at Connells Group, which operates close to 2,500 cars, used to have three manufacturer brands to benefit from higher discounts but now has 13 individual brands and is looking to increase choice further due to the fleet’s CO2 emissions cap of sub-50g/km.

“I’ve added more and more brands, like Nissan, Hyundai and Kia, because they’ve got those superminis or lower P11D value cars in hybrid and electric,” he says.

Chris Connors, head of fleet and travel (UK and Ireland) at ISS, says that at a previous company he “chased the volume of vehicles available” but he is now focusing on the type of vehicle and whether it is a good fit for the banding and the drivers.

Since January 2023, ISS has operated a fully electric company car policy, having previously offered a mixture of plug-in hybrids and EVs, as part of its aim to be net zero by 2030.

It now has 220 fully electric cars (40% of its fleet of 550 company cars), 255 plug-in hybrids (46%) and the remainder are petrol and diesel vehicles.

ISS has European and global framework agreements which then flow down to a country level. However, if there is a critical need for a particular vehicle type it will consider manufacturers outside the framework agreement.

From January it will be adding Ford to its framework agreement to maximise choice for employees.

Denise Hawkins, fleet manager at Stannah Management Services, which has 223 company cars, also expects to increase the number of car brands on the choice list over the next 12 months.

“That’s mainly because we’re going electric and we have to branch out to get the ranges and prices,” she says. “It’s ever changing. A few years ago we probably only had three brands on the fleet and now we’ve got a mixture of more than 10.”

Stannah is on track to hit its target of 50 EVs on fleet by the end of the year and its long-term aim is for the car fleet to be 100% EV by 2030.

“Range is key with our drivers as a lot of them are out on the road every day and our average business mileage is 20,000 miles,” Hawkins says.

Bootspace in an EV is also important as sales advisors need to carry dummy home stairlifts to show to prospective clients.

As a result, Tesla Model 3 and Model Y are popular choices, with 28 now on fleet, up from one Model 3 this time last year.

Price reductions from Tesla have been a double-edged sword for Stannah. Although they have allowed more drivers to choose Teslas, it will have to take the hit on a Model 3 which has been on the fleet for a number of years because it outright purchases its cars.

ATTITUDES TO NEW ENTRANTS FROM CHINA

Hawkins isn’t planning to add any of the new Chinese car brands, such as BYD (Build Your Dreams), to the fleet, although Stannah does offer Geely-owned Polestar.

“It’s too early. I’ll leave it for a couple of years until reliability results start coming through rather than moving to the unknown now,” she says.

Connors is also keeping a “watching brief” on new entrants to the UK car market from China.

“My personal concern is around mechanical repair and how they’re going to manage and facilitate keeping a company vehicle on the road,” he says.

Jardine agrees that new Chinese manufacturers are “on his radar” but he’s not willing to add them to the fleet yet due to uncertainty about after-sales support.

“Maybe I’m old-fashioned but I like a dealership to sort out any warranty claims and manage my off road times,” he says. “If a manufacturer just has a pop-up shop somewhere to sell cars, where is the infrastructure? Where do I service the vehicles?”

Plastic Surgeon is one company which has been willing to add Chinese manufacturers to its choice list and some drivers are considering them in order to increase their take-home pay.

South West Water operates a “totally open market” based on wholelife costs, and it is seeing a shift to the Chinese market as people can get better specification cars and better range within their wholelife cost band, according to Mark Kareek, head of fleet services.

“If it’s available on the market and we can see it through the rate books we’ll offer it,” he says.

REVIEWING THE CAR FUNDING METHOD

Aside from increasing the number of manufacturers they work with, fleet operators can review their funding method to see if it’s the most...
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Cost-effective option. Connells Group stopped ordering cars following the Mini-Budget in September 2022 and Jardine says that before he places any new orders he will assess whether to continue leasing or go back to outright purchase or whether a mix of the two works best. He will then look at a bulk order so he can lock in a price with a manufacturer rather than risk being subjected to a number of price increases during the year.

Connells Group’s replacement cycle for cars is four years, 60,000 miles on a pooled mileage agreement. Cars which are significantly under the mileage limit are run on to the fifth year.

The average car replacement cycle for Fleet200 Strategy Network members is 48.5 months and 70,602 miles. This is expected to reduce slightly to 48.2 months and 68,873 miles.

ISS still benchmarks on data that predates Covid-19 and with the rise of flexible working and people travelling fewer miles, Connors is considering adjusting mileage terms.

This is part of a strategy to make company cars more attractive to cash allowance drivers as in recent months drivers have opted out of the company car scheme either because they are not ready to make the switch to EV or they have been deterred by manufacturer price increases, which have meant they can’t get the same ‘quality’ of car.

Stannah has tweaked its car replacement cycle from five years or 100,000 miles to five years or 120,000 miles, whichever comes sooner.

“We weren’t able to get hold of vehicles so we’ve pushed some cars to 150,000 miles out of necessity and they’ve been running fine,” says Hawkins.

Managing VOR Time

Despite most of the cars proving reliable, vehicle off-road (VOR) time is a major challenge due to the labour and parts shortages currently plaguing the industry.

“Previously, if something was off the road for three days it would get flagged, and that’s now expanded to two weeks,” says Hawkins.

“It doesn’t even seem to be regional, it’s right across the country. We do have an advantage in that we’ve got an independent network through our fleet management provider because if we were going to main dealerships the wait times are even longer.

“It has been a massive challenge in the past 12 to 18 months and it doesn’t seem to be improving.”

ISS has seen its average VOR time extend from a couple of weeks to four weeks for both mechanical repairs and accident repairs. This has resulted in increased hire costs and there is an associated reporting “headache” with HMRC if the driver is in a hire vehicle for 30 days or more, particularly if their company car is a tax efficient EV and the hire car isn’t, Connors says.

To manage VOR, ISS has a weekly meeting with its accident management provider to discuss vehicles which are a concern.

ISS also has different vehicle hire rates depending on the duration of the hire, and it is even assessing whether it is worth repairing a vehicle if it is nearing end of contract.

“The majority of our fleet is business-need so there is an expectation to travel and we’ve got to get that person mobile as quickly as we can,” says Connors.

A lack of courtesy cars is another VOR problem for fleets.

Jardine says: “We’re hiring more because a lot of the garages don’t have courtesy cars anymore.”

He puts that down to garages selling courtesy cars when used car prices were at record levels and deciding not to replace them.

To mitigate the problem, he is considering a taxi service instead of a hire car when he knows a driver will only be without their company car for a day. This could prove more cost effective as one to two days is the most expensive hire period.

He sees labour shortages and increased labour rates as a long-term problem.

“People repairing cars is a dying trade,” he says. “People these days want to be social media influencers. They don’t fancy being a panel beater.”

He adds: “You can’t control skilled labour costing more but what you can control is how many vehicles need repairing.”

Mitigating Insurance Costs

A Fleet200 Strategy Network survey earlier this year found that six out of ten fleet operators use brokers to minimise insurance premiums.

It also revealed the steps fleet operators take to manage risk such as on-the-road training, fitting telematics and dash cams, and having driver reward and recognition programmes.

All of these measures can lower the incident rate, which in turn will help mitigate insurance increases.

“We have a close partnership with our insurer,” says Hawkins. “We have a big review each year and we’re focusing on our accident rates and our risk reduction measures.”

Connells Group self-insures and uses an insurance company to deal with third party losses.

“We tend to do a long-term arrangement rather than renewing each year,” says Jardine. “So we’ll set the premium per vehicle for three years, but we have a mechanism that says that if things rise by a certain percentage then we’ll have to pay a bit more, and if the claims reduce we’ll get a rebate back for lower claims cost.”

Salary Sacrifice set to grow

Currently, salary sacrifice accounts for 7.4% of the funding methods across car fleets who responded to the survey but this is expected to rise to 9.3% over the next 12 months.

Salary sacrifice schemes allow employees to ‘sacrifice’ part of their salary in return for a new, low emission or zero emission car. Employees have to pay benefit-in-kind tax but there are significant income tax and National Insurance (NI) savings, while their employer benefits from Class 1 NI savings.

In some cases, salary sacrifice will act as an alternative to the company car but often it is an alternative to the grey fleet.

Stannah Management Services launched its EV salary sacrifice scheme in February 2023 to go hand-in-hand with the roll out of fully electric vehicles for the company car fleet.

“We wanted to make sure that our grey fleet drivers had access to the same level of car as our company car drivers do, and to encourage everyone to get an electric car,” says fleet manager Denise Hawkins.

“Out of about 200 grey fleet drivers we’ve had about 30 drivers opt for salary sacrifice and I know a lot of people are just waiting for their own personal contract hire agreements to expire before going on to it.”

At Connells Group, car salary sacrifice is open to all employees (subject to a minimum wage and pension ‘stress test’) and its group fleet director Peter Jardine is expecting numbers to rise this year.

“We launched the scheme in September and at the moment it seems to be people coming out of their own personal arrangements and going into sal/sac than someone coming out of a company car,” he says.

The scheme is sub-50g/km of CO2, like the company car scheme, but EV take-up is higher with salary sacrifice.

“It started off as a staff benefit but it has organically grown into an ESG (environmental, social and governance) offer,” Jardine says.

47% of organisations have 10+ car brands on their fleet

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ISS has kept its insurance premium at the same level as 2022 by improving its claims management together with its insurer, and looking at the measures it can take to reduce incidents.

“If we reduce the number of incidents it helps the insurer because they haven’t got the outlay and it helps us manage our premium and keep more vehicles on the road for longer,” says Connors.

He is also looking to reduce vehicle mileage as part of ISS’s decarbonisation strategy, which may have the knock on effect of reduced incidents, as well as reducing the cost of EV charging as ISS will be reimbursing drivers for fewer miles.

His advice to other businesses grappling with rising costs is to network with other fleet managers via Fleet News events or the Association of Fleet Professionals (AFP).

“There’s so much expertise out there to help you navigate through it,” he says.

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**Six-month vehicle lead time is the ‘new normal’**

A number of fleet managers say the biggest challenge they are facing with their car fleet is availability or supply of vehicles.

Average lead times for company cars have improved significantly this year, although they are not back to pre-Covid levels of three months.

Fleet operators report that at the start of 2023 they were facing lead times of 12 to 18 months, or nine to 12 months.

Now, six months is standard, and some manufacturers have vehicles in stock for almost immediate delivery.

Connells Group is not ordering any cars at present but its group fleet director Peter Jardine continues to have conversations with manufacturers.

“Some manufacturers seem to have stock around and if I wanted to go out and order a couple of 100 vehicles I could have them for Christmas,” he says.

Denise Hawkins, fleet manager at Stannah Management Services, says: “I’ve seen improvement across the board.

“At the start of the year I was still waiting for everything from the previous year and as soon as it started to get to summer I was not only getting the vehicles that I’d ordered last summer but I was also getting the vehicles I’d ordered from the start of the year. So they were all coming in together as opposed to it being staggered. It was almost like there was a dam that broke and everything started coming through.”

For Chris Connors, head of fleet and travel (UK and Ireland) at ISS, the challenge is communication about delivery times, as vehicles have not been arriving on the expected delivery date.

“We’re getting no real communication as to why and when it’s happening,” he says. “As the fleet manager that’s the biggest struggle because we can’t manage (employed) expectations and we can’t manage their choices.

“People make a decision based on the information that’s available to them at the time they order.

“That’s mainly about vehicle type but lead times come into it and if they’re torn between two vehicles they’ll pick the one with a three-month lead time as opposed to the one with a six-month lead time.

“If that gets pushed back then they feel they were misinformed at the start and it creates a headache and a lot more work for us.

“Six months is manageable but it needs to be consistent and then we can manage renewal cycles around it.”

What would help fleet managers is to be informed by their lease provider or the vehicle manufacturer whether the car has been built or not and where it will be shipped from so they have a clearer understanding of the likely delivery time.