The Premier Organisation
for Fleet Operators

Glossary of Terms

A guide to terms commonly used
in
car & van fleet management

Compiled by ACFO, as an aid to good fleet management practice

ACFO

Clock Barn, Little Baldon, Oxford, OX44 9PU | 01865 342 102

info@acfo.org | www.acfo.org | @A_C_F_O

About ***ACFO***

ACFO (formerly the ***A***ssociation of ***C***ar ***F***leet ***O***perators) is the largest body in the UK representing the interests of organisations and businesses operating cars and vans (sub-3,500kg) as part of their normal commercial activities. These are "fleet operators" whose own employees drive the vehicles; and/or who pay some form of allowance to employees driving their own cars. This group is separate and distinct from leasing and contract hire companies, who supply their vehicles for end-user fleets such as our Members.

There are now over 800 Members of ACFO, collectively responsible for the efficient and cost-effective operation of over 500,000 vehicles in the UK fleet market. For all of these, ACFO provides both a national representation platform, and extensive regional networking opportunities (via 9 regions across the UK),

The principal activities of the organisation relate to development and exchange of best practice in vehicle fleet management. These topics include road safety, green fleet, cost reduction and fleet documentation/ administration areas. At all regional meetings there is specific opportunity for peer fleet operators to network and discuss different techniques.

Membership covers the full spectrum of UK business and commerce – all parts of the private, and public sectors, and charities. Fleet sizes range from under 10 vehicles to over 25,000. There is a cross-section of fleet operating styles: lease and purchase; HR/ generous to tight cost control; single-badge to free choice; local and global. A number of members also operate truck fleets, but ACFO's main area of expertise lies with cars and vans (and minibuses).

While the main direction of knowledge exchange is from the larger fleets to the smaller, many small fleets have developed excellent techniques suitable for "part-time fleet management" – which is actually the majority case in the UK market.

ACFO Ltd is a non-profit making organisation, constituted as a company limited by the guarantee of its Members. Governance is through a Board of six Directors (all part-time) and a National Council (the Directors, together with the Regional Chairs and Secretaries).

Members are represented within ACFO by a named delegate, usually the fleet or transport manager. There is, however, a very wide range of job titles involved, reflecting the different styles of fleet operation. Businesses and organisations which indulge in the expensive business of vehicle fleet operation do so, simply because it is recognised as a necessary business activity.

ACFO recognises that ***above all other considerations, any fleet must serve the core needs of the business***.

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SPECIAL TERMS USED IN FLEET

This document briefly explains the meaning behind a number of commonly used jargon/ phrases within the fleet industry, across both the demand side (fleet operators) and the supply side (including dealerships, contract hire & leasing companies and aftermarket suppliers). The explanations relate to their most commonly understood meanings. It is also advised to look at the relevant web-sites for cases like the various taxation issues, where more detailed information can be found (eg www.hm-treasury.gov.uk; www.hmrc.gov.uk).

Please note that the list is not necessarily exhaustive; and that few of these terms have "official" definitions. These notes provide only a basic guide to these terms, intended to help fleet administrators/ managers to understand the various aspects of the UK fleet market.

The terms and explanations offered here are for a general indication only, and ACFO accepts no responsibility for any specific interpretation made by any party for these or similar terms.

ACCIDENT MANAGEMENT – The proactive management of all aspects of vehicle accidents, from minimising the time a vehicle takes to be repaired and returned to service, to ensuring the driver has continued mobility. Also involves managing repair and insurance costs, and any medical/ injury aspects. May include Uninsured Loss Recovery (ULR). Third party specialist suppliers can be brought in to manage this area for a fixed monthly fee.

ACQUISITION – The actual process of acquiring the vehicle in the first instance. This may involve physically identifying and purchasing the appropriate vehicle, or utilising a third party to acquire/ supply the vehicle (eg ***leasing*** or ***contract hire***).

ADMINISTRATION - All the clerical or organisational tasks involved in running fleet cars and vans. This includes vehicle and driver listings, ***acquisition*** and ***disposal*** details etc. Some types of lease relieve the user-company ("***lessee***") of most of this administration - but ***allocation policies*** and ***budgeting*** are just two of the tasks that must still be done internally.

ADVISORY FUEL RATES (AFRS) – a set of rates (currently based on engine size and fuel type) to represent ***HMRC*****'S** view of what are reasonable rates for tax-free reimbursement of fuel costs. Strictly speaking they apply to company cars only but the method of calculation is plainly suitable for any fuel reimbursement process. The idea is to identify a fair-to-both-sides rate that can apply to drivers claiming the cost of the business mileage from all the fuel they've bought; or a fair claw-back from the employee to the employer for the cost of the employee's private mileage where the company pays for all the fuel on account or through a ***fuel card***.

AGREEMENT – See ***Contract***

ALLOCATION POLICY – Defines the company hierachy, and outlines what types, levels and costs of vehicles that employee grades/ sectors are able choose, where there is a choice; or are issued, for standardisation. ***Whole Life Cost*** or ***rental*** figures are better than the ***capital*** value of a vehicle as the criterion for selection of models at different employee grades. This more exactly defines the overall cost of the car to the company, especially if the lease is ***contract hire***.

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Alternative Fuels/ Technologies – a range of engineering approaches to deriving power for cars and vans, other than the conventional road fuels such as (unleaded) petrol and diesel. Alternative fuels include liquefied petroleum gas (LPG), compressed natural gas (CNG), battery storage for electrical power, hybrids (combinations of a small petrol engine with an electric motor) and fuel cells. This is currently a major area of technological development across the motor industry.

Authorised Mileage Allowance Payment (AMAP) – the tax-free rates set by ***HMRC*** for payment of mileage allowances where employees use their own cars for business mileage. The scales are flat-rate and apply to all situations although where the employer pays more than the calculated tax-free sum, the excess payment is taxable. Conversely where the allowance rate is below the AMAP sum allowed, the employee can claim tax relief on the difference.

AMAPs form an important part of the calculations for schemes like ***ECOS/P*** as they represent a way to provide at least some of the costs of the car on a tax-free basis. There is however the need to maintain detailed records to ensure the tax-free status is secured.

Balloon Payments - This is the final payment due under most ***finance leases***, to liquidate the whole debt. Usually set to match the expected residual value, so rentals reflect actual ***depreciation***. Beware of too-high ***balloons***: they may give low rentals, but will usually leave a financial hole to be filled by you, if the car doesn't make enough on disposal.

BIK – Benefit in Kind Tax is the income tax that is paid by an employee for any benefit they receive from their employer by virtue of their employment. In fleet, this is normally for the private use of a company car and for the provision of free fuel for private use. These are commonly known as *company car tax* and the *fuel scale charge* respectively.

The tax charge is calculated by reference to the ***List price for Tax Purposes*** and this is multiplied by a percentage factor based on the CO_2 emissions value for the specific car provided to the driver. The percentages range from a low of 10% for very clean cars to 35% for high-emitting CO_2 models (see HMRC's web-site for current details). The calculated result is considered as taxable salary and is subject to income tax at the driver's highest rate of tax.

British Vehicle Rental & Leasing Association (BVRLA) – The trade association for the members of the vehicle rental and contract hire/ leasing industries – an important part of the UK fleet supply chain.

Budgeting – The forward planning of operational costs over the forthcoming period (usually the financial year) One advantage of leasing is the fixed rental costs which help in making forward budgets. Multiply the monthly ***rentals*** for each car by the months held, and there's the forward cost. Make separate provision for the things the lease does ***not*** cover (insurance; fuel). ***Outright purchased*** fleets operated under a ***Whole Life Cost*** principle also provide a much simplified way of estimating forward budgets.

Capital – The "cost" or financial value of an asset, at time of purchase or after periodic ***depreciation*** reductions. Used by prospective lenders (including banks) as a measure of the strength or otherwise of a company's balance sheet. Capital expenditure usually is more tightly controlled than revenue spending - even though this is sometimes not justified.

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CONTRACT HIRE - One of the most common types of ***lease***. Often referred to as "operational leasing". Usually totally fixed-cost: the ***lessor*** accepts responsibility for virtually all "normal" costs associated with providing the cars (***depreciation***, ***maintenance***, ***funding, VED***, ***administration***), at his own risk. Details of cover vary widely, so check the agreement. ***Contract hire*** is a service and therefore you do not own the cars. The quality and quantity of the backup and support are key areas, rather than price/ ***rentals***.

CASH FLOW – Leasing can really help match the costs of providing cars, with the income they help to generate. By spreading the costs over the period of use, leasing and other credit schemes can provide much flexibility. Make a whole-cost calculation, to ensure that the effective rate of interest is not too high. Also remember that for fleets of more than about 50, the average cash flows of purchase can be similar to leasing. If a lease only stacks up by doing a DCF (discounted cash flow) analysis, you probably don't need it. A smooth cash flow (ie £XX,XXX per month, every month) is usually more desirable to businesses than no outlay for 11 months and then a massive cost outlay in a single month.

CARBON DIOXIDE (CO_2) – an inevitable product of burning carbon-based fuels. The use of fossil fuels (petrol, diesel, LPG) releases trapped carbon dioxide back into the atmosphere where it is a powerful greenhouse gas, contributing to the climate change process. Since 1999, has been a major factor in all areas of taxing the purchase, ownership and use of cars (and vans but to a lesser extent). ***VED***, ***BIK*** and corporation tax ***writing down allowances*** on cars are now all determined by the level of their CO_2 emissions as measured during the type approval ***Euro-standard*** tests on new models.

CONTRACT – These are the legally binding documents relating to third party suppliers of vehicles and services. Read them carefully before signing, and check the small print. Consider situations such as ***early termination, excess mileage*** and ***dilapidation penalties*** when considering leasing contracts.

DEPRECIATION - Loss of value of an asset or vehicle as it is used and ages. Different professions have different definitions. Beware the accountant's definition of depreciation, as they use accounting conventions, and therefore their figures may not reflect the vehicle's *actual* loss in value. True depreciation costs for a vehicle is its purchase price less its current market value or sale price, across its fleet life.

DISPOSAL – The final sale or de-fleeting of a vehicle at the end of its life on the fleet. Taken care of by the supplier in ***contract hire***, but is the user's responsibility for most other methods. Keep an open mind on any one method - consider and use auctions, traders and part-exchange as appropriate. Disposal results can be very variable according to the vehicle age, mileage and condition; the current market conditions; and the general economy.

DILAPIDATIONS - Often an area of dispute in leasing scenarios. Can be defined as the repairs and refurbishment needed to bring the car back to a "reasonable" condition for age and mileage at end of lease. It is unrealistic for ***lessors*** to expect back a fleet car in showroom condition, and hence the industry term of ***"fair wear and tear"***. The ***British Vehicle Rental and Leasing Association*** (BVRLA) publish clear guidelines (separately for cars and vans) as to what should be regarded as fair.

DRIVING LICENCE – the physical document – issued by the Secretary of State for Transport through the various agencies - which authorises and entitles individuals to drive different classes of vehicles on public roads subject to their success in passing the relevant driving tests.

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DUTY OF CARE – the legal, moral and financial obligations on employers to ensure a safe working environment for its workers and others. Applies to "driving at work", just as much as in factories, building sites or offices. Generally expressed through the Health & Safety regulations. It should be noted that employees owe a Duty of Care to each other and to the company: everyone involved must have some ownership of the issue to ensure zero – or the lowest possible – number of incidents.

It should also be noted that the Duty of Care exists for "the working environment" – there is no distinction between what is required (by employer or employee) in terms of the vehicle ownership. The act of driving company cars and vans, rented vehicles, pool vehicles and employees' own cars – whether normal domestic or supported by some form of employer scheme (***ECOP***, ***PCP*** or cash allowance) – on business must all be considered on the same basis.

EARLY TERMINATION – If a lease agreement is ended by the lessee before its agreed contract term, then the lessor will usually require an early termination payment. This may be a penal charge, but many leasing companies now base the charge on the actual losses they incur due to the premature ending of the lease.

EFFECTIVE RENTAL – The actual cost to the fleet operator of a lease, including the ***finance rental***, the ***maintenance/ service rental*** and the non-recoverable ***VAT*** elements where there is private use of the car. For vans, there is no non-recoverable VAT imposition on any part of the rental.

EMPLOYEE CAR OWNERSHIP PLAN/ SCHEME (ECOP/ ECOS) – arrangements for the functionality and "look and feel" of a company car provision, but through an arrangement directly between the employee and the supplier, so that no company car ***Benefit in Kind*** tax is due. Usually includes full utilisation of ***the AMAP***s tax-free rates. However, any balancing cash allowance made by the employer to the employee is fully taxable as salary.

EURO-STANDARD TESTS – a set of tests and evaluations made on samples of all new cars and vans coming to market across the EU. Addresses all aspects of vehicle design and technology but principally crash-worthiness and environmental performance. Each standard lasts around 5 years. Current standard (Euro IV) came into full effect in January 2006. There are already (mid-2009) many models on the UK market which comply with the Euro V standard although that is not mandatory until January 2011.

EXCESS MILEAGE - Most fixed-cost ***leasing*** contracts assume a "contract mileage". Any mileage over this will incur additional ***depreciation*** and ***maintenance***, which the ***lessor*** will seek to recover by the ***excess mileage*** charge. **Pooling** arrangements to aggregate all vehicles returned in a 3- or 6-month period are increasingly common. Watch the actual rates, and keep a check yourself, as they can be penal.

FINANCE LEASE - The simplest form of lease which is only concerned with ***funding*** the chosen vehicle, as a purely financial service. Usually involves writing the car off over the period of contract (2-5 years) with the ***lessee*** doing most of the "fleet" work, eg finding the car, negotiating discounts, ***maintenance***, ***residual value***, etc. Disposal proceeds go to ***lessor*** because he is the owner: usually then rebated (95 – 100 %) to lessee as a "rebate of rentals". Rentals are classed as revenue expenditure, not capital, and attract VAT.

Where the vehicle is a car, and there is ***private use*** allowed, then 50% of the ***VAT*** payable cannot be reclaimed in the normal way. Most rentals are paid monthly or quarterly. Since the lessee carries the actual risk and cost of depreciation as if he owned it, this type of lease is in fact treated (for the purpose of financial reporting) as if it were ***hire purchase***.

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Finance Rental – The leasing charge for the finance portion of any composite lease rental. There are important reasons to separate out the finance rental part of a contract hire rental for cars from the ***maintenance/ service rental***, as the non-recoverable ***VAT*** restrictions only apply to the finance rental part. In the same way, any restrictions on corporation tax ***writing down allowances*** also apply only to the finance rental part of the whole contract hire rental.

Fleet Management Services – A range of technical support functions available from a specialist supplier - can include any of the cost areas such as purchasing, ***disposal***, ***maintenance*** arrangements, ***funding***, fuel monitoring, reporting etc. Usually available from ***lessors*** (because of similarities to the tasks undertaken) but client carries all risks and costs. Fleet management company charges an agreed fee (typically per vehicle per month) to cover their administration.

Fleet Management Software – There are many suppliers of specialist software packages – computer based systems that, once primed and loaded with your fleet's vehicle data, can be used to manage and monitor your fleet and its costs proactively. Many smaller fleets may use a standard spreadsheet application, which in many instances can be adequate. Specialist software systems are especially beneficial when dealing with a high level of small transactions from different driver/ cars, such as fuel and maintenance costs.

Fuel Cards – Fundamentally a corporate credit card that is specifically for fuel. Its main advantages are the provision of a simplified central billing system, and also management reports can be supplied providing information on fuel purchases (where, when, how much and who by), vehicle's fuel economy, fuel pricing etc. Also cards can be restricted to only cover certain forecourt purchases ie diesel OR petrol, oil, screen-wash, and exclude other forms of spend.

Funding - Anything to do with providing the money to acquire fleet cars. Can include bank overdraft, ***hire purchase***, conditional sale, block discounts, ***lease*** or ***contract hire***. The choice of method or even mixture of methods depends on the needs of the user - overall cost, ***cash flow***, additional services and support etc. Taxation, balance sheet and risk elements are all factors to be considered. Some care needed to ensure that effective interest rates are not excessive.

Hire Purchase - An early form of credit funding. Lender provides a fixed cost, fixed period loan (of money) to user, to support purchase. User is effectively the owner but will not have title to car until loan is paid off. Instalments repay the capital and interest. If a ***residual value*** is built into the calculations, the scheme is usually called ***Contract*** or ***Lease Purchase.***

Her Majesty's Revenue & Customs (HMRC) – the part of government responsible for collection of tax and duty revenues. Mostly involved with fleets through ***BIK***, ***VAT, WDA, AFR*** & ***AMAP*** systems *(please see separate entries for definitions of each of these tax forms).*

Her Majesty's Treasury (HMT) – the government department responsible for setting tax systems and rates, usually at Budget time each year.

Insurance – Legally-required contractual arrangement for compensation against loss due to theft or traffic accidents. Principally required to indemnify "third parties" (ie anyone other than the fleet operator and the insurance company): comprehensive cover also compensates for loss of or damage to the fleet vehicle.

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Lease – A rental service to provide the "use" of a vehicle for an agreed monthly/ quarterly ***rental***. In a lease there must never be any vehicle ownership by the ***lessee***, hence an employee may be able to purchase a lease car at the end of its time on the fleet, but the business leasing or hiring in the vehicle cannot.

Lease Purchase – See Hire Purchase

Lessor - The owner of the asset, who sees ownership as an investment, not as a purpose. Implicitly needs to have financial and administrative strength.

Lessee - The user of the asset, who has unrestricted access to the asset as if he owned it, but who never obtains legal title.

List Price for Tax Purposes (also known as P11D price; Taxable Price) – the starting point for ***benefit in kind*** taxation calculations under ***HMRC*** rules. The key definition is the published retail price of the car (as at the day before the date of first-ever registration), including delivery and preparation costs, together with the value of any extras and accessories, but excluding ***VED***. The value for the tax base does not take account of any discounts, bonuses or other short-term cost reductions, so that the starting point for the tax charge is essentially the "retail cost" of the specific car provided to the employee.

Employees can reduce their tax charge by making a capital contributions (subject to a £5,000 cap) which then lowers the List Price for Tax Purposes pound for pound.

Maintenance/ Service Rental – the part of a full ***contract hire*** rental that covers any maintenance, servicing, relief vehicle provision, together with some of the administrative elements of the total cost. Important to be separated out from the finance rental as full VAT and corporation tax relief are available on the maintenance rental part – but not the finance rental.

Management – Often seriously underestimated, especially by smaller fleets. Effective management of a fleet of cars can save considerable sums of money, but itself costs money. Many – but never all – of the functions can be delegated to external experts - ***fleet management*** or ***contract hire*** companies.

Managing On-Road Risk – now seen as a vital part of fleet management, to cover all aspects of improving the road safety profile of the fleet. This protects drivers and passengers, other road users and the employer organisation from actual and financial harm. Generally based on the principles of Health & Safety management, with structured risk assessment processes and sets of actions then to be taken to eliminate or reduce risk of driving-related incidents.

Mileage Pooling – Can be used to avoid potentially punitive ***excess mileage*** costs. Mileage Pooling is available in many ***leasing*** scenarios, where vehicles returned to the ***lessor*** with mileage exceeding the contract mileage can be pooled with lower mileage vehicle returns, to offset those with high mileage.

Motor Insurance Database (MID) – a nationally-held database of all insured vehicles, maintained for retail cases by the insurance industry and for fleet operators by themselves or via a managing agency (eg contract hire service provider or insurance broker). Among other benefits this allows the police to identify immediately any uninsured vehicle being used on the roads.

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Miles per Gallon (MPG) –, the main unit to express the actual fuel consumption of a vehicle. Simple to calculate from the total number of miles covered on a known volume of fuel – for example if the car or van covers 400 miles on 10 gallons of fuel, it achieves 400/10 – 40 mpg. To convert the fuel volume in litres (as fuel is sold) divide volume in litres by 4.546. The metric system used widely across Europe expresses fuel consumption the other way round, in litres/ 100 kilometres (ie volume of fuel needed to cover a known distance.

Occupational Road Risk – the set of risks and potential dangers that arise simply from having employees using the road system (as pedestrians/ street-workers as well as drivers) while carrying out their duties. It is a clear legal responsibility of the top and senior management of the business to be aware of the occupational road risks from their particular business activities (through proper risk assessments) and manage them appropriately (through the ***risk management*** process).

Operating Lease - Any lease which leaves most of the risks of ownership with the ***lessor***. This is important under accounting conventions as it determines if the assets will appear on the ***lessee's*** balance sheet. Fixed-cost ***contract hire*** (with or without maintenance) is clearly an operating lease and hence off balance sheet.

Outright Purchase – The simplest form of vehicle acquisition, where the company requiring the vehicles buys them from cash reserves or via a business overdraft facility. This provides the most flexibility for the company operationally, but also carries the highest administration levels and potentially the highest risk/ reward from ***residual value*** fluctuations.

Personal Contract Plan (PCP) – an arrangement for the employee to take a car on a specialised funding arrangement which provides more or less the same benefits and conditions as a conventional company car. Because the car is "owned" by the employee, no company car/ BIK tax is payable. The whole arrangement is usually funded by a mix of cash allowance (which is taxable as salary) and mileage reimbursements. Note that any driving on employer's business will generate a ***Duty of Care*** on the employer.

Pool Vehicle – a car or van provided by the employer to serve the business travel needs of several employees on a shared basis. Often kept overnight/ outside business hours at the company premises. To avoid ***BIK tax*** on any employees there must be no ***private use*** by anyone: the vehicle to be used solely for business purposes.

Private Use – any non-business use of the vehicle. In general this will give rise to a ***benefit in kind tax*** liability on the employee who enjoys the private use. For vans, commuting and occasional private use will not normally generate a BIK liability. For cars, anything other than occasional and incidental private use will create a tax liability on the driver.

Relief Cars – Most ***contract hire*** agreements which include maintenance, also provide use of a relief or temporary replacement car if the subject car is off the road beyond a specified period (eg 24 or 48 hours). Many such provisions are made through rental companies appointed by ***lessor.***

Rentals - Periodic payments (usually monthly/ quarterly) by ***lessee*** (user) to ***lessor*** (owner) to cover all the cost factors included within the lease agreement. Usually they are fixed for the agreement period, and always attract ***VAT*** (see the VAT entry for restrictions on VAT reclaims on cars where ***private use*** is allowed).

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Replacement Cycles – The period of time a vehicle will remain on a fleet before being replaced with a new or newer vehicle. Decisions should be based on valid criteria whether under ownership or leasing, and usually is defined as a combination of annual time and mileage eg “4 years or 80,000 miles”. Length of replacement cycle usually based on vehicle type, reliability, cost and employee status.

Residual Value – This is the final market value of the vehicle when it comes to the end of its life on the fleet. It reflects the second hand worth of the vehicle in the often-volatile used car market. The purchase price of the vehicle less the residual value provides the vehicle’s ***depreciation*** cost, which is typically the largest single operating cost of a vehicle.

Risk Assessment – a range of processes to examine just what risks are faced by employees driving as part of their job function. Under Heath & Safety legislation, the senior management of ***all*** employers ***must*** ensure that appropriate and reasonable risk assessments are undertaken for all aspects of their business activities – including at-work driving and other road use – at reasonable intervals. The process can be outsourced but the responsibilities always remain with the employer. Any material risks identified by the risk assessment programme must be addressed as part of the ***risk management*** policy.

Risk Management – Minimising the company’s exposure to risk, typically from an accident/ Health & Safety viewpoint. May include driver training programmes, or reviewing company procedures regarding the length of a working day and hours spent behind the wheel. Starts with a comprehensive risk assessment process to identify all the various risks, including driver attitudes, licence checking, vehicle fitness for purpose, hours behind the wheel and should include a policy statement on drink/ drug use, mobile phone use and any other identified risk.

Sale and Leaseback - If a decision is made to move into ***leasing*** from ***outright purchase*** it is usually best to change as quickly as possible. Sale and leaseback is available from most ***lessors*** and involves them buying existing car fleets at agreed value (eg Glass’s Guide/ CAP; or similar). Each unit is allocated a “remaining life” to end of “normal” replacement cycle, with rentals calculated accordingly. When they are finally defleeted new leased vehicles are introduced.

This system provides rapid, easily managed transition into ***leasing***/ ***contract hire*** - usually provides a cash surplus as well, from sale of owned assets. Watch terms for very old or very young units in the deal

Service Maintenance and Repair (SMR) - Blanket term for all the mechanical and technical attention needed by any fleet car. Includes routine servicing, unexpected repairs, replacement tyres etc. Overall is considered as the user’s responsibility, especially from a legal/ safety viewpoint, but costs, account arrangements and administration can be included in a ***lease*** or ***contract hire*** agreement.

Smart Repairs – the process of securing early attention to a range of relatively minor repairs on fleet cars, either during in-life service or immediately before return/ ***disposal***. Typically offered as a mobile service where a specially-equipped van comes to the agreed venue and carries out repairs without the need for a full bodyshop. Scope includes scratched paintwork, small dents, scuffed alloy wheels and the like. Not suitable for seriously-damaged bodywork.

Total cost of ownership (TCO) – see Whole Life Cost

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VAT – Value Added Tax: a standard sales tax applied by the vendor to the sale of most goods and services (in fleet, just about every transaction other than ***VED***, insurance premium and interest/ funding costs). There are special rules for VAT recovery on the ***finance rental*** or finance part of a ***contract hire*** rental, whereby only 50% of the VAT charged by the lessor can be recovered by the ***lessee*** All the VAT can normally be recovered on the ***maintenance/ service rental*** for a car; and for the full rental of a van

VEHICLE EXCISE DUTY (VED) – a form of government duty applied to vehicles. It is essentially the tax that must be paid annually to the Treasury for the use of the country's road network. Payment confirmed by issue of a paper disk (often called the "tax disk" or "road fund licence"), which must be displayed on the windscreen of all vehicles.

WEAR AND TEAR - This is an important point of negotiation with fixed-cost leases and guaranteed buybacks. The standard of condition of a vehicle on return to a ***lessor*** must be agreed between the parties to avoid aggravation – and excess costs – on completion. Wear and tear is notoriously difficult to define, but it should be considered right from the start: some ***dilapidations*** charges change the economics of leasing completely. The ***British Vehicle Rental and Leasing Association (BVRLA)*** provides fair wear and tear guidelines.

WHOLE LIFE COST – The most effective way of operating and managing a fleet/ allocation policy. Whole Life Cost (WLC) driven allocation lists take into consideration all the actual costs associated with operating the vehicle, including ***depreciation, SMR***, insurance, fuel, various taxes etc. Can be shown as a cost per annum, month, or mile.

WRITING DOWN ALLOWANCES (WDA) – the formal allowances for relief from tax corporation tax payable by employers to reflect true costs to the business. In general running costs (fuel, maintenance, repairs) are fully allowed as business expenses and are tax deductable. Since it is impossible to tell the exact depreciation on a car or van which is in the fleet over several years, HMRC have a schedule of allowances to provide a formula for interim assessment of depreciation. This works on the reducing-balance basis, to depreciate fixed vehicle assets by a constant percentage of their remaining or reducing value in each taxable period.

For company cars, the whole system was changed in early 2009, and currently allows 20% pa of the reducing balance as a formula depreciation, where the CO_2 emissions value of the car is 160 g/km or less. For vehicles emitting 161 or more g/km CO_2, the annual constant percentage is only 10% pa. These terms apply to all normal fleet operators, including ***lessors***. ***Lease rentals*** for 160 and less g/km CO_2 are allowed in full as a running cost but the lease rentals for vehicles emitting 161 or more g/km are subject to a 15% tax disallowance.

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info@acfo.org | www.acfo.org | @A_C_F_O