

# Business Car

guide to leasing



in association with

**Lombard**



# ACCELERATED BUSINESS EFFICIENCY



Whether it's for one vehicle or a thousand, it's important to get fleet running costs fully under control, both for your business operations and your bottom line. This is why Lombard offers a comprehensive range of financing and fleet management services, including contract hire, contract purchase, and sale and leaseback. Value-added services such as breakdown recovery, accident management and duty of care services are also available. The net result is total peace of mind.

So for a range of car fleet options that reduce costs, minimise administration and avoid risks to your business, call Lombard on 0845 128 5143

or visit [www.lombard.co.uk/fleet-management](http://www.lombard.co.uk/fleet-management)

*Where asset finance goes further*

**Lombard** 

# BusinessCar

## guide to leasing

### Foreword

There has never been a more demanding time for businesses running car fleets. The pressures of legislation and corporate social responsibility have made compliance with risk management laws and environmental targets a prerequisite, while taxation is being aligned ever more closely with CO<sub>2</sub> emissions. Yet at the same time tougher market conditions and the soaring price of oil mean that cost is now the single biggest concern for the vast majority of businesses.

So the fleet funding and management landscape is changing – on a rapid and ongoing basis. It requires expert resources, continuous analysis and forward planning if cost is to be managed while simultaneously operating with the quality necessary to meet the standards required, reflect corporate values and help deliver the bottom line result.

The need for professional support is therefore growing, and with that in mind we are pleased to bring you the *BusinessCar Guide to Leasing*, which takes some of today's biggest issues and highlights ways in which you can tackle them.

A major leasing company such as Lombard is in a uniquely good position to help guide you. Leasing makes even more sense in challenging economic conditions, freeing up capital and removing depreciating assets from the balance sheet at a time when residual values are in sharp decline. Why not let the leasing company take that risk on your behalf?

But we offer a lot more than funding. With access to the expertise within sister automotive businesses ranging from TRACKER Network to jamjar within the RBS Group, Lombard Vehicle Management has developed a comprehensive portfolio of added-value products and services.

And we have a team of consultants able to analyse a business's fleet operations and develop bespoke solutions. Of course we would be delighted to help you with your business. But meantime please read on – I very much hope you find this guide informative and useful.

**ROB BAILEY**  
Head of Lombard Vehicle Management



## Lombard automotive history

**Lombard is the UK's largest leasing and asset finance provider and supports businesses in all sectors. But it has petrol, diesel (and these days alternative fuels) running through its veins.**

The company became formally involved in vehicle finance when Austin Rover Finance was launched in 1977 under the Lombard North Central banner, part of the newly-formed National Westminster Bank.

It was the first joint venture between a motor manufacturer and a finance house, and brought about a close relationship with Rover Group which lasted over 20 years.

It was also the forerunner of relationships with leading manufacturers including Peugeot, Citroen, Jaguar, Nissan and Alfa Romeo.

The Lombard name then became synonymous with motoring by sponsoring the RAC Rally from 1978 to 1992, and the company still supports motor sport through the Lombard Rally, the UK's biggest rally event for road cars.

Meanwhile, in 1983 the company established a specialist contract hire division, British Car Contracts, and by 1985 it had become the UK market leader.

The unit was renamed Lombard Vehicle Management in 1999, when The Royal Bank

of Scotland Group acquired NatWest.

Under the new ownership, the fleet size almost doubled within a year and now stands at more than 115,000, making Lombard Vehicle Management the UK's fourth-largest vehicle lessor and the largest to have grown organically rather than by acquisition.

The company has recently won a raft of accolades including Best Business Motor Finance Provider at the Business Moneyfacts Awards 2008, Best Motor Vehicle Finance Provider in the NACFB Awards for both 2005 and 2007, and a Fleet Management Service Award at the 2008 Fleet World Honours.



# Leasing lifeline for BUSINESS

**There's no getting away from it: the economy is not looking that healthy right now. Business pressures on corporate budgets have never been tighter, making it an even better time to be leasing your fleet rather than purchasing outright.**

Keeping your cars off your balance sheet can be useful because they're such big-ticket items. If you think about it, a fleet of 50 cars costing £20,000 each is an initial outlay of £1 million – hardly a drop in the ocean in any set of accounts, and that's before you factor in running costs.

Even if you can afford to buy outright, would the money be better put to use elsewhere?

It's no surprise, then, that contract hire is UK business's favourite method of funding a vehicle.

One of the biggest advantages of leasing is that the monthly charges are fixed. This means that for the length of the contract, be it two, three or four years, you will know exactly how much your vehicles will cost. Furthermore, the leasing company carries the risk on residual values – the largest portion of cost in running a car – as well as on certain areas of the vehicle's taxation.

The most recent example of this is the changes to capital allowances where cars emitting more than 160g/km CO<sub>2</sub> are only subject to a 10% allowance, whereas those at

or below 160g/km can claim a 20% allowance. Current thinking is that it will only apply to new cars, but should the Government change its mind and apply the new regulations to existing cars then the leasing company would absorb the costs of the change.

As well as fixing acquisition costs, leasing companies can also provide a maintenance package, relief vehicle (if your lease car is off the road for any reason) or a risk management package, all of which can be included in monthly rentals.

Using a leasing firm for these services allows you to leverage their size and buying power to get the best rates. Let's face it, approaching a servicing chain with a fleet of 50 cars is unlikely to achieve as good a price as a leasing firm with thousands of cars.

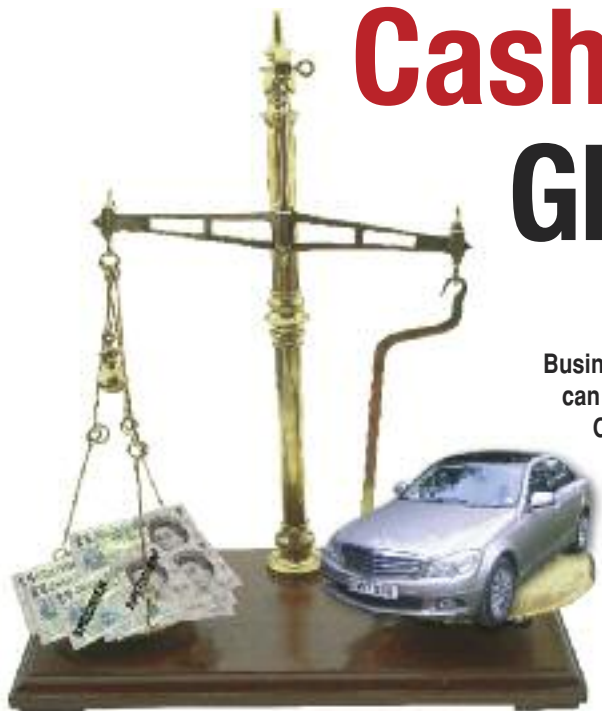
With risk management packages, however, it's not so much about the price, but expertise. Large leasing companies will either have in-house experts to help you stay the right side of health and safety laws and reduce your accident rates, or have a contract with a risk management business.

One of the final advantages of leasing your fleet is that even if you have a contract for a set period of time, you still have the option to extend it, as long as you agree details with your provider. Although the costs might vary at this point, at least there is the flexibility to do what you want and what is best for your business.

## Five advantages of leasing

1. Fixed costs
2. Can include useful tools such as maintenance and risk management
3. Residual risk taken by lease company
4. Capitalise on purchasing power of large lease company
5. Expert help on hand.

# Cash fleets suffer in GREEN tax climate



**Businesses running cash-for-car fleets can now make significant monetary and CO<sub>2</sub> savings by switching back to leasing. These savings could not only benefit the employer but also the employee.**

A recent report from leading accountancy firm KPMG claims the carbon emissions saving could be as high as 40% for fleets swapping back to the traditional company car from offering drivers a cash equivalent.

The report highlighted the propensity for drivers taking cash to select used vehicles with poorer emissions, rather than newer, more modern and lower-emitting cars.

The advantage of lower CO<sub>2</sub> emissions is obvious. Not only is the Government's tax regime based on emissions, so that lower CO<sub>2</sub> cars are taxed less both for the employee and the employer, but emissions also directly correlate with fuel consumption – improve CO<sub>2</sub> output and you will improve your average mpg figure.

“A 40% reduction in CO<sub>2</sub> equates to approximately 8mpg, which would result in a saving of around £600 in fuel cost over three years at today's fuel prices, and considerably more if fuel prices continue to rise toward £2 a

litre as predicted,” says Rob Bailey, head of Lombard Vehicle Management.

“In addition, the new 10% tax band for cars in the sub-121g/km of CO<sub>2</sub> category makes the company car option far more attractive financially for drivers. In the past they would have had very little choice. However, not only have the numbers of sub-121g/km cars risen dramatically, but the quality and appeal has been transformed, with manufacturers including Audi, BMW, Mini and VW producing super-efficient model derivatives that qualify for the 10% tax rate.

“Such cars also reduce the financial liability for employers, who have to pay Class 1A National Insurance contributions on the value of employees' benefits. When you factor-in the fuel savings, 100% first-year allowance for low-CO<sub>2</sub> cars and CO<sub>2</sub>-based VED charges, it is clear businesses can save considerable money by keeping drivers abreast of the potential benefits to them of choosing a low-CO<sub>2</sub> car, and offer a choice list embracing the latest entrants into the sub-121g/km sector.

“We are in increasingly tough economic conditions, and if financial savings help maintain the effort to reduce our environmental impact then that is a happy bi-product of the situation.”

## IKEA: Eco fleet furnishings

Home furnishing store IKEA wanted a greener fleet, not only to reduce its carbon footprint in line with its long-standing environmental commitment but also to reduce fuel bills.

The brand's fleet of 80 vehicles include cars for store managers and a number of pool cars, and following a competitive tender Lombard, which offers expert environmental advice, won the business, with the contract starting in May 2007.

IKEA credits much of the reason for selecting Lombard to the extensive range of services included in the contract, such as daily rental,

maintenance, and in particular the provision of a personal account manager, which gives the Swedish firm a single, familiar point of contact at Lombard.

The nature of IKEA's fleet means all qualifying staff are given the same car, unless they have more than one child, in which case a mini-MPV of their choice can be selected.

IKEA, in conjunction with Lombard, calculated the Honda Civic Hybrid was the most suitable car for the fleet with its impressively low carbon emissions and fuel consumption and, as a petrol-electric hybrid, it



fits the business's progressive and contemporary brand image.

The result: IKEA became one of the first businesses to make a comprehensive commitment to a low-CO<sub>2</sub> fleet, and now runs 57 hybrids with 14 more soon to be delivered.

# Why take the **RISK?**

**Brought into force earlier this year, the *Corporate Manslaughter Bill* is designed to improve business safety by making bosses more accountable for at-work accidents. Effectively, it closes a loophole that let directors off the hook when they claimed the fault was lower down the management structure.**

Interestingly, the Government doesn't include company car crashes in the official HSE figures for deaths at work. If they did record company car deaths then the figure would be more than four times the official 228 for last year.

However, this doesn't mean fleets needn't worry about their accident rates. Crash investigation police take this new law seriously and they've made it clear it's only a matter of time before directors will end up in court.

They're not unreasonable, though. If they find a firm has the right systems in place they are far more willing to respect your day-to-day business needs.

However, if they find a business hasn't put anything in place to measure risks, act on them and record the improvements they'll come down on them like a tonne of bricks – impounding any records held and that includes the PCs and servers any records are stored on.

There are two main elements a business needs to assess here – the employee and the car – and both will not only save the company money but also improve their eco credentials.

For the driver element, at the most basic level a regular licence check is essential, preferably every six months. And if you think taking a photo copy is enough, you'd be wrong. Who's to say that an employee facing a ban for speeding doesn't just 'misplace' his licence, get a new one which records the ban, but then shows the clean one to you. To avoid this, ask all employees to allow you to check driver records automatically with the DVLA using a system such as Lombard Vehicle Management's Licence Check, part of its Driving *on Business* package (see box).

Once you've licence checked, you need to record accidents and vehicle damage. Next make sure the worst offenders get the correct training to change things. It's wasted money if you spend hundreds of pounds on town and motorway hazard perception if all your accident damage is because staff are rushing to meet unrealistic schedules. And after you've trained go back to the beginning and record the improvement. All of this is best carried out by professionals such as those running Lombard's Driving *on Business*.

It may not just be your drivers' behaviour that lands you in court. If you're not checking vehicles then these too could cause problems. A poorly maintained car, say with bald tyres, can not only be dangerous if it has to stop in a hurry in the wet, but it won't be running at its most efficient and will burn more fuel than a recently serviced car with correctly inflated tyres. The easiest thing to do is to bring in an expert. This in its own right will show investigators you're making an effort.

## Five handy hints to keep staff safe

1. Are your drivers legal? Check licences and insurance for private cars
2. Is the journey necessary? If so, allow sufficient travel time
3. Are your cars fit for the job? Check tyres, oil and windscreens regularly
4. Measure, record and if necessary act on accident rates, licence checks and car inspections
5. Keep your driver's handbook and employment contract up-to-date and make sure your drivers know about any changes.

What about the cost? Yes, there'll be an initial cost, but if you get it right you'll see a drop in accident damage costs. And training can also improve consumption.

"Fleets which have undertaken the driver profiling and training included in our Driving *on Business* duty of care product have experienced reductions of well over 20% in both the numbers of claims and the average cost per claim," says Rob Bailey, head of LVM.

The message is clear. Fleets can save costs as well as lives, and the better the care, the greater the savings.

## Risk management the Lombard way

Lombard Vehicle Management's all encompassing risk management package, Driving *on Business*, is unique in bringing together the market leaders in five elements: Road Risk Consultancy, Driver Profiling, Driver Training, Driver Workshops and Licence Checking. However, it is modular and customers can choose the elements they require.

Road Risk Consultancy is provided by RBS Mentor Services, a leading health and safety and employment law consultancy and is also part of The Royal Bank of Scotland

Group. A site visit by a consultant will assess a business's risk profile and recommend steps to mitigate those risks.

Driver Profiling, Driver Training and Driver Workshops are provided by risk management firm Peak Performance Management. The profiling element applies DriverMetrics, an online risk assessment tool designed to identify individual driver risk. Each driver is given an individual risk profile and a list of areas on which to focus. The findings are then integrated into practical training. Regular

reviews and audit trails demonstrate compliance with duty of care legislation.

Licence Checking is carried out online using Datacheck. This is a simple reporting tool from Intelligent Data Systems – a provider of driver data verification solutions – to minimise administrative time and increase accuracy.

Lombard Fleet Tracker, which monitors vehicle usage and driver behaviour, can be used alongside Driving *on Business* to give an even more comprehensive duty of care and risk management system.



# How to **PICK** a **TAX**-beating fleet

The word 'tax' can send shudders down a grown fleet manager's spine – and that's without trying to understand the nuances of the upcoming capital allowance changes.

However, there are a few basic rules that can stand you in good stead when it comes to selecting the most tax-efficient cars.

Priority number one is to remember the Government is basing all taxation surrounding cars on CO<sub>2</sub> emissions.

The move to tax-based on emissions started with benefit-in-kind taxation on company cars and has proved highly successful with emission levels from company cars dropping significantly since the introduction of the system in 2002.

While the BIK system taxed the drivers, when National Insurance contributions moved to a similar system there was then additional pressure to go green for the business.

More recently the Government switched the road fund licence, or Vehicle Excise Duty (VED), to a CO<sub>2</sub>-based system. This, along with BIK has since been ratcheted up to make buyers think about the environmental impact of their purchases.

Next on the list to become CO<sub>2</sub>-based is capital allowances. There is already a 100% first-year capital allowance for cars emitting less than 121g/km CO<sub>2</sub>, but with allowances being totally reformed for new cars from April 2009, businesses must think hard and plan carefully for the fiscal consequences.

## Benefit-in-kind tax levels for petrol cars\*

CO2 (g/km)	2008/09 (%)	2009/10 (%)	2010/11 (%)
0-120	10	10	10
121-134	15	15	15
135-139	15	15	16
140-144	16	16	17
145-149	17	17	18
150-154	18	18	19
155-159	19	19	20
160-164	20	20	21
165-169	21	21	22
170-174	22	22	23
175-179	23	23	24
180-184	24	24	25
185-189	25	25	26
190-194	26	26	27
195-199	27	27	28
200-204	28	28	29
205-209	29	29	30
210-214	30	30	31
215-219	31	31	32
220-224	32	32	33
225-229	33	33	34
230-234	34	34	35
235+	35	35	35

\* Add 3% for diesel-fuelled cars, however, max remains 35%

"Under the new regime, cars producing more than 160g/km will be subject to a writing-down allowance of only 10%, while those producing 160g/km or less will qualify for a 20% allowance," says Rob Bailey, head of Lombard Vehicle Management.

The differences to costs between cars on either side of the new 160g/km capital allowance level will make a massive difference. For example, a company could claim over £8500 on a sub-161g/km CO<sub>2</sub> car – such as a 1.6-litre diesel-engined Focus – with a new value of £20,000 and 70% depreciation after three years. However, if the car produced 161g/km CO<sub>2</sub> or more only just over £4800 could be claimed.

The relationship between CO<sub>2</sub> and VED levels is also being strengthened. And while these costs don't initially sound that great next to the price of a new car, the effect is expected to be felt in residual values – where the VED costs form a far higher proportion of the running costs.

Rob Bailey concludes: "As ever, it is crucial to consider whole-life costs when choosing vehicles for business, but CO<sub>2</sub>-based vehicle taxation means that fuel and tax must now be brought into the cost analysis and forward planning in order to ensure the right vehicles are chosen."

## VED bands for 2008/09

VED band	CO2 (g/km)	2008/9 (£)
A	Up to 101	0
B	101-120	35
C	121-150	120
D	151-165	145
E	166-185	170
F	Over 186	210
G	Over 226	400
H	–	–
I	–	–
J	–	–
K	–	–
L	–	–
M	–	–

## VED bands for 2009-11

VED band	CO2 (g/km)	2009/10 (£)	2010/11 new car (£)	2010/11 after first year (£)
A	Up to 100	0	0	0
B	101-110	20	0	20
C	111-120	30	0	35
D	121-130	90	0	95
E	131-140	110	115	115
F	141-150	120	125	125
G	151-160	150	155	155
H	161-170	175	250	180
I	171-180	205	300	210
J	181-200	260	425	270
K	201-225	300	550	310
L	226-255	415	750	430
M	Over 255	440	950	455

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