ESSENTIAL GUIDE TO GREY FLEET MANAGEMENT

The financial, environmental and duty of care considerations associated with grey fleet management

A Leasedrive Velo Essential Guide

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Grey Fleet - A Ticking Time Bomb

The grey fleet is a ticking time bomb for many organisations. Many have little or no control over their grey fleet, those privately-owned vehicles used by employees while ‘at work’. And worst still, many grey fleets are larger than many assume, having grown as a result of eligible employees taking ‘cash’ rather than a company car. This was at a time when historically they were being taxed unfairly for a perk car. All that has long changed, especially with attractive BIK rates for low CO_2 emission vehicles, of which there is now an abundant choice, but many employees have still stuck with cash. Such a scenario is all well and good, as long as the vehicles they drive are ‘fit for the purpose’, roadworthy, properly maintained, taxed and insured, which is not always the case!

The fact is that the grey fleet makes a fleet manager’s life far more difficult in meeting his or her organisation’s basic duty of care responsibilities, not to mention corporate social responsibilities (CSR), in terms of the environment. So why do organisations still tolerate the grey fleet? Indeed, many responsible organisations are taking steps to encourage cash takers back into company cars and introducing attractive salary sacrifice car schemes, while others are engaging with professional fleet management companies to streamline checks and have proper audit trails in place.

So what is the scale of the potential grey fleet problem? In the public sector alone, the Office of Government Commerce (OGC) estimated that nearly 57 per cent of ‘at work’ mileage is covered by employees in privately-owned vehicles. That equates to around 1.4 billion miles a year covered by vehicles that do not necessarily comply with current law or are ‘fit for the purpose.’

For organisations, there are three main reasons for tackling grey fleet – health and safety, cost reduction and the environment.

UK road deaths and injuries

The latest government figures show that the number of deaths on Britain's roads fell by 12 per cent overall last year to a record low of 2,222. Deaths among car drivers were down 16 per cent to 1,059. Total casualties, including slight injuries, were four per cent down.

Up to one in four road accidents involve ‘at work’ drivers with over 550 ‘at work’ drivers estimated to have been killed on Britain’s roads last year with nearly 100,000 injured while driving on company business. That equates to around 10 fatalities and 200 serious injuries each week. Indeed, ‘at work’ drivers are involved in over 150 road accidents each day.

The cost of each road death in the UK is estimated to be £1.68m according to the Institute of Advanced Motorists.

Duty of care responsibilities

Against an increasing legislative backdrop placing greater onus on organisations to meet their duty of care responsibilities towards their employees while driving on company business, risk management is a major issue at boardroom level.

The legislative minefield

Organisations need to be on top of current legislation in order to meet their duty of care responsibilities. The two main ones are the Health and Safety at Work Act 1974 and the UK Corporate Manslaughter (England, Wales and Northern Ireland) and Corporate Homicide (Scotland) Act 2007. See Appendix on page 6 for more details.

Environmental considerations

The UK Government is committed to halving carbon emissions and has adopted a CO_2 emissions-based taxation regime when it comes to transport. This has resulted in vehicle manufacturers now offering over 600 different models with CO_2 emission levels below 120g/km.

This is music to the ears of both employers and employees. Organisations are looking for ways to significantly reduce their CO_2 emissions as part of their CSR. Road transport accounts for around 20 per cent of UK CO_2 emissions with cars according to the Society of Motor Manufacturers and Traders (SMMT) responsible for 11.5 per cent of this figure. Operating a carbon neutral transport policy is therefore a simple, effective first step towards running a greener fleet but grey fleet stands in the way of such an objective.

Inevitably, the majority of grey fleet vehicles are older than company car vehicles and therefore are higher polluters.

In the public sector, the average age of a privately-owned vehicle used on public sector business is 6.7 years old, compared to the average age of a company car of around 2.5 years based on the current trend of replacing company cars every 48 months, rather than the previous 36 months. On-going development of the internal combustion engine has seen dramatic improvements in CO_2 emissions. For example, a two-year old Ford Focus produces 27 per cent less CO_2 than an equivalent 1.8-litre Ford Escort produced at the turn of the century. And if a grey fleet driver is advised to use a daily rental vehicle, the environmental benefits are likely to be higher as the average age of daily rental vehicles is around 12 to 18 months.

In 2010, the SMMT released figures confirming that the average new car sold in the UK in 2009 emitted just 149.5g/km of CO_2, down 5.4 per cent on the 2008 figure and 21.2 per cent better than the 1997 base level when records were first kept. The rate of reduction was the best on record. This downward trend the Society attributes to new technology, improved fuel consumption and better overall consumer awareness. According to the SMMT, CO_2 emissions have fallen across all car market segments with some of the biggest gains made at the top end. And, according to the British Vehicle Rental and Leasing Association (BVRLA), in 2009, average CO_2 emissions from fleet vehicles fell still further, by five per cent, to 144g/km indicating that fleet vehicles are greener than private vehicles. The most recent FN50 published by Fleet News in November 2010 showed that average CO_2 emissions for the FN50 vehicle parc of 1,299,295 vehicles fell below 140g/km for the first time ever.

Financial impact

Paying grey fleet drivers to use their own vehicles may not make financial sense for an organisation, especially if they have many grey fleet drivers covering high mileages.

Recent research by Sewells in association with the Energy Saving Trust revealed that 31 per cent of companies allowed employees to drive privately-owned vehicles more than 7,000 miles a year on company business and these were reimbursed nearly £3,500 each.

The research also revealed that 24 per cent of grey fleet vehicles cover more than 10,000 miles per annum on company business.

Currently, employers can pay grey fleet drivers up to 40 pence per mile for the first 10,000 miles and 25 pence per mile thereafter per year without them attracting higher Class 1A National Insurance Contributions or Benefit-in-Kind (BIK) implications for the employee.

For employers, a practical ceiling for requiring employees to use a daily rental vehicle rather than their own privately-owned vehicle might be a maximum daily distance of 150 miles at the above standard rates. Above 150 miles, it may cost more for an organisation to reimburse a grey fleet driver, who in turn will be more inclined to see business mileage reimbursement as a potential money-making exercise, counter-productive to an organisation's CSR commitments.

Grey fleet policy guidelines

Any comprehensive fleet policy will take into account an organisation's grey fleet. In order to meet its duty of care obligations under the Health and Safety at Work Act 1974, an organisation's policy should cover the vehicle, the driver and the journey as laid down by the HSE 'Driving at Work: Managing work-related road safety' guide.

Grey fleet vehicle

The fleet policy should state that grey fleet drivers are responsible for ensuring that their privately-owned vehicle complies with Road Traffic law; is properly maintained, safe and roadworthy, and is 'fit for the purpose' when used 'at work'.

Additionally, the employee is responsible for ensuring that their vehicle has a current vehicle registration document, valid vehicle excise duty disc, current MOT Certificate, vehicle insurance covering business use and an up-to-date service handbook. All these documents should be available for checking by management on a regular basis – at least once per year.

Best of all is to produce and have on file a document authorising use of a specified grey fleet vehicle covering the above, signed by the employee to confirm all is in order and up to date.

Employers could go even further by insisting on minimum safety standards based on European New Car Assessment Programme (Euro NCAP) ratings and minimum safety equipment (e.g. ABS and ESC), maximum emission levels to meet CSR targets (e.g. 160g/km), minimum engine capacity (e.g. 1.2-litre), maximum age (e.g. six years), maximum mileage (e.g. 80,000 miles) and roadside assistance cover.

As part of their duty of care responsibilities, employers could go the extra mile by introducing regular and spot vehicle safety checks of both company cars and grey fleet.

Grey fleet driver

Furthermore, the fleet policy should state quite clearly that the grey fleet driver should hold a current driving licence valid in the UK for the type of vehicle used and advise the organisation of any endorsements. The employer should check driving licences at least once a year and preferably more regularly – ideally every quarter.

Since 7 November 2010, where a driver fails to surrender his/her driving licence for endorsement to the court or DVLA, the DVLA can revoke a licence if not submitted within 28 days, rather than the previous 12 months, making driver licence checking on a regular basis even more paramount.

Where possible, the organisation should assess the grey fleet driver's capabilities behind the wheel and offer further driver training if deemed appropriate, especially after an own-fault 'at work' road accident.

Grey fleet 'fit for the purpose' assessment

The fleet policy should make department heads responsible for ensuring that an employee's privately-owned vehicle is 'fit for the purpose' for the 'at work' journey and that the employee is capable of fulfilling the trip.

Grey fleet journey authorisation

Today, it is increasingly recognised that the cheapest mile is the one never driven since the biggest fleet cost, after vehicle depreciation, is fuel.

Therefore, in order to reduce fleet costs, the environmental impact of fleet costs and the inherent risks associated with driving 'at work' (for most employees, 'at work' driving is the most dangerous thing they perform on behalf of their organisation), a robust fleet policy should seek to reduce all 'at work' journeys, especially grey fleet ones, to a minimum by conducting a series of pre-journey assessments.

These should start with challenging whether the journey is really necessary or could be covered by an audio or video conference call, telephone or e-mail. If required, consideration should be given to whether the journey could be timed to coincide with some other associated activity or whether a car journey could be shared among several employees to reduce costs further.

After these assessments have been conducted by a head of department or line manager, before final authorisation is given proper journey planning should be insisted upon.

This should start by requiring an employee to use the most economic and efficient form of transport for the anticipated journey. This should take into account the cost of travel, its environmental impact and duration. Where possible, public transport should be stated as the preferred method of transport, i.e. train, tube, bus, or a combination including car travel to the nearest mainline rail station.

Vehicle journeys over a certain distance, e.g. the afore-mentioned 150-mile ceiling, should be undertaken by borrowing a colleague's lease car, using a company pool car or daily rental vehicle.

Grey fleet policy implementation

Once the fleet policy has been agreed, it needs to be put into action and reviewed on a regular annual basis. The person responsible for fleet policy needs to ensure that department heads and line managers are familiar with it and are challenging whether grey fleet journeys are necessary and have assessed risk in relation to them.

At the same time, they need to make sure that employees are equally familiar with the policy, comply with it, are safe drivers and have access to a vehicle 'fit for the purpose of 'at work' activity. When it comes to journey planning, the policy procedures should make it easy for grey fleet drivers to choose alternative methods of transportation by providing online access to public transportation timetables and booking facilities and daily vehicle rental online booking.

Communication

As with all organisational procedures, proper communication and administration are critical elements to success and compliance.

Consideration should be given to the needs and preferences of employees from different generations and the best approach is to communicate information in multiple ways.

While younger employees will expect online communication, older employees may not be so comfortable. In this instance, printed and mailed information may be a preferred method of communication and elicit a more positive response.

Different communication methods ranging from face-to-face meetings, e-mail, intranet tools and printed materials (including fleet policy documents, induction packs, driver handbooks, guidance packs and articles) all have value and are received in different ways by different generations.

Inevitably, after successful launch, the fleet policy will need to be regularly reviewed and re-defined in line with changes to overall business strategy. Fleet policy should be seen as a strategic tool to support the overall strategy of the organisation.

Grey fleet reduction

In order to reduce an organisation's reliance on grey fleet, a senior manager should be appointed as a grey fleet Tsar. He or she will own the grey fleet issue, be responsible for changes to its composition and set agreed key performance indicators (KPIs) for reducing grey fleet mileage and ensuring total compliance on grey fleet policy including pre-trip authorisation.

Considerable savings can be achieved through reduction of grey fleet numbers and usage. Since 2007/08, organisations engaged with OGC have reduced their grey fleet mileage by 22m miles generating over £8m of savings and reducing carbon emissions by over 5,300 tonnes. In the 2009/10 financial year, the OGC forecast is for grey fleet mileage to be reduced by over 40m miles generating over £15m of savings.

Conclusion

By properly managing the grey fleet, organisations can not only meet their duty of care responsibilities but also enhance their corporate social responsibilities by improving their safety culture and reducing their overall carbon footprint.

Additionally, and importantly, they can achieve significant cost savings in terms of travel expenditure and minimise loss of productivity through staff absence, resulting from death or injury in 'at work' road accidents. Properly managed, a grey fleet need not be a ticking time bomb!

The legislative minefield (- Appendix.)

Health and Safety at Work Act 1974

Starting with the Health and Safety at Work Act 1974, this requires employers to ensure as is reasonably practicable the health and safety of all full and part-time workers at work. The Act covers all work-related journeys including drivers in company vehicles, using their own cars or vans for business use, temporary drivers, freelance drivers and agency or contract workers.

The Health and Safety Executive (HSE) published a guide called ‘Driving at Work: Managing work-related road safety’ in September 2003. It highlighted the legal responsibilities of companies, large or small, to comply so far as is reasonably practicable with the Health and Safety at Work Act. The guide has since been updated. The guide stresses the benefits of managing work-related road safety and suggests some ways on how it should be managed and road risks assessed. Areas organisations need to look at include driver competency and training; driver health; knowledge of basic vehicle checks; vehicle suitability, condition and maintenance; a valid MOT certificate after three years; and safety equipment. Other considerations include proper route planning and adequate travel time allowance.

The HSE guide also applies to the use of privately-owned vehicles on business trips. So, organisations could be liable if employees use an un-roadworthy vehicle on company business. Organisations who allow employees to use their own vehicles on business have a duty of care to ensure they have checked employees hold a valid driving licence, are monitoring the maintenance history of the vehicle and that the vehicle insurance also covers business use. Over a third of organisations recently admitted they did not check the driving licences and vehicle insurance cover of their ‘at work’ grey fleet drivers.

All organisations need to have undertaken a professional risk assessment audit of both vehicles and staff, have in place comprehensive ‘driving at work’ risk management strategies and ensure those strategies are carried out. In the event of an ‘at work’ road accident, organisations will need to be able to provide evidence that they have taken ‘reasonably practicable’ steps to manage their duty of care responsibilities to their employees. This includes grey fleet drivers.

Organisations that fail to act on the guide run the risk, in the event of an accident, of facing significant fines under the Health and Safety at Work Act 1974. Company directors and senior management could also face large fines and even possible prison sentences.

UK Corporate Manslaughter (England, Wales and Northern Ireland) and Corporate Homicide (Scotland) Act 2007

The UK Corporate Manslaughter (England, Wales and Northern Ireland) and Corporate Homicide (Scotland) Act 2007, which came into force in April 2008, makes it possible for a company to be prosecuted as the result of the failings of senior management.

Under the Act, all employers have a duty of care to ensure the safety of their ‘at work’ drivers. The Act makes it much easier to prosecute organisations for manslaughter following a work-related death, than previous legislation. The Crown Prosecution Service (CPS) will not have to rely on an individual being found guilty of gross negligence. All the CPS will need to do is prove the fatality resulted from a gross breach of the relevant duty of care by the organisation as a whole.

The Sentencing Guidelines Council has issued penalty guidelines relating to those found guilty under the Health and Safety at Work Act 1974 or the UK Corporate Manslaughter (England, Wales and Northern Ireland) and Corporate Homicide (Scotland) Act.

Under the former, the fine will be seldom less than £100,000 and more likely several hundred thousand pounds. Under the latter, a work-related road death will result in an organisation being fined rarely less than half a million pounds and more likely several million pounds. In addition, a publicity order could be imposed on every organisation found guilty. This could range from advertisements being placed in print, TV and radio media to an order for all customers to be informed of the conviction.

Other relevant legislation to be taken into consideration includes the following.

Management of Health and Safety at Work Regulations 1992

The Management of Health and Safety at Work Regulations 1992 (updated in 1999) places an onus on companies to carry out health and safety risk assessments of employees at work. This covers 'at work' drivers.

Provision and Use of Work Equipment Regulations 1998

The Provision and Use of Work Equipment Regulations 1998 require that work equipment is suitable for its intended purpose, is safe, has been properly maintained and been inspected. It also requires those operating equipment to have been properly trained.

Road Vehicles (Construction and Use) Regulations 1986

As we all know, the standards and conditions of vehicles operating on the UK's roads is governed by the Road Vehicles (Construction and Use) Regulations 1986.

A veritable legislative minefield but by pro-actively managing risks associated with 'at work' drivers employers not only meet their duty of care responsibilities but can save on lost man hours, and costs estimated by Driving for Better Business to average over £500 per vehicle per year.

Company Car vs. Cash

The comparison below clearly demonstrates the benefits of choosing a company car over taking a cash allowance, most factors considered. Taking a fully expensed, brand new, premium range, £28k car, attracting a Benefit-In-Kind (BIK) tax of £170 per month, as an example, it shows the extremely good value for money a company car offers compared to the cash alternative. From a company perspective, it is better value to provide a company car. Equally, from an employee perspective, it is better value to receive a company car over a cash alternative.

And the example does not even take into consideration various company and personal headaches! Allowing a grey fleet requires a company to operate a minimum of two systems, one for HR and the other to cover duty of care responsibilities. Running your own car involves organising insurance, car tax, MOTs, servicing, replacement tyres and the eventual sale or disposal of the vehicle where trade-ins are a rip-off. A company car choice clearly makes sense.

BMW 3 Series 320d (184) SE 4dr Saloon

Cost to the Business

Contract Hire Costs

Monthly Finance Rental	£357.66
Monthly Service Rental	£84.74
Monthly Net Total Rental	£442.40
Monthly Effective Rental*	£478.17
Total Payable over 48mths based on DCF**	£16,321
Equivalent Cost per Month	£340.02
Monthly National Insurance Contribution***	£54.47
Monthly Insurance Cost****	£50.00
Total Cost per Month*****	£444.49
Total Cost over 48 Months	£21,335.52

Cash Allowance Costs

Equivalent Monthly Cash Allowance Offered ******	£478.17
Monthly NI Payable by Employer Cash Allowance	£61.21
Total Payable over 48 Months*******	£25,890.24
Monthly Additional Cost for Cash against Company Car	£94.89
48 Month Additional Cost for Cash against Company Car	£4,554.72

Monthly Rental costs are net and based on 48 months / 80,000 miles and a payment profile of 1 month in advance. VAT, where applicable, is calculated at 20%. Discounts used are based on Leasedrive Velo corporate terms and are correct at time of publishing (01/12/2010). * The Effective Rental assumes half the VAT cannot be reclaimed on the Finance Rental. ** The DCF calculations assume a discounted rate of 6%, that Corporation Tax is payable at 28% and that 50% of the Finance VAT and 100% of the Service VAT can be reclaimed. *** NI calculations are based on Class 1A at 12.8%. **** Monthly Insurance Costs are assumed premium of £600 per vehicle per annum. ***** Total Costs exclude fuel, damage, excess mileage and any other potential out of contract recharges. ****** The equivalent Cash Allowance payments are based on the Non-VAT Reclaimable rental to ensure like-for-like comparisons. ******* The Total amount payable over the 4 years excludes any internal administration costs for managing this, including regular mandatory licence and vehicle documentation checks.

Cost to the Individual

Benefit-In-Kind (BIK) Value	£28,376.00
Monthly BIK*	£170.23
Monthly Allowance Received prior to Tax	£478.17
Net "Take Home" Allowance**	£282.12
Monthly Net Contract Hire Rental***	£442.40
Monthly Gross Contract Hire Rental****	£530.88
Monthly Insurance Cost*****	£50.00
Total Cost per Month******	£580.88
Cost to the Driver over Monthly Allowance	£298.76
Monthly Cost Savings of Cash vs. Car (for the driver)*******	£128.53
Total Cost Savings of Cash vs. Car (for the driver) over 4 years	**£6,169.44**

Monthly Rental costs are net and based on 48 months / 80,000 miles and a payment profile of 1 month in advance. VAT, where applicable, is calculated at 20%. Discounts used are based on Leasedrive Velo corporate terms and are correct at time of publishing (01/12/2011). * Based on a 40% Tax Payer and calculated using benefit charges for the 2010/11 Financial Year. ** Based on the net difference after tax at 40%. *** Based on the same Contract Hire rental offered to the Company. **** Gross cost used for comparisons as the individual cannot reclaim the VAT on any/all of the rental. ***** Based on an assumed premium of £600 per annum. ****** This is the gross rental + the monthly insurance premiums. ******* This is the difference between the total cost to the driver (rental + insurance - "take-home" allowance) vs the monthly BIK Taxation for the same vehicle.

Leasedrive Velo Group

Leasedrive Velo is the largest independent privately-owned vehicle management group in the UK and comprises two main operating divisions:

Leasedrive Velo Vehicle Management
Working in partnership with fleet managers, or delivering a complete outsourced service, Leasedrive Velo offers blue chip clients an extensive range of multi-award winning bespoke fleet management services.

Major investments in the finest asset management system and pioneering, flexible, web-based customer service technology ensures Leasedrive Velo can reduce its client's costs, minimise their carbon footprint, improve their duty of care and enhance the overall efficiency of managing their vehicle fleet and associated costs.

Leasedrive Velo Rental Management
One of the largest short-term vehicle rental management companies in the UK, with access to an almost unlimited choice of vehicles and locations throughout the country, Leasedrive Velo Rental Management offers a simple and transparent pricing policy with no hidden surcharges. For rentals of 28 days or more, it offers the Stopgap mid-term vehicle rental solution. Rates are substantially reduced compared to daily rental.

The headquarters for Leasedrive Velo is at hi-tech offices at TRL in Wokingham. Leasedrive Velo is the winner of the 2006 Fleet News Award for 'Best Contract Hire/Fleet Management Company', the 2006 GreenFleet Award for 'Leasing/Rental Company of the Year', The 2006, 2007 and 2008 Thames Valley Business Awards for 'Business Management Team of the Year', the 2007 ITM Award for 'Independent Vehicle Management Company', the 2008 ITM Award for 'Fleet Management Company', the 2009 Energy Saving Trust Fleet Hero Award for 'Innovation in Services and Systems' and the 2009 and 2010 BusinessCar Techies Award for 'Best Daily Rental Website'.

For further information about Leasedrive Velo or advice regarding your company's vehicle fleet, please contact:

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