

White Paper

# Fuel Prices:

Implications for how you  
manage your vehicle fleet.



Oil prices continue to show significant volatility driven by a host of macro-economic factors influencing both supply and demand in the global economy.

This has implications for fuel prices at the pump and how organisations running vehicle fleets respond to the potential for cost uncertainty or increased costs.

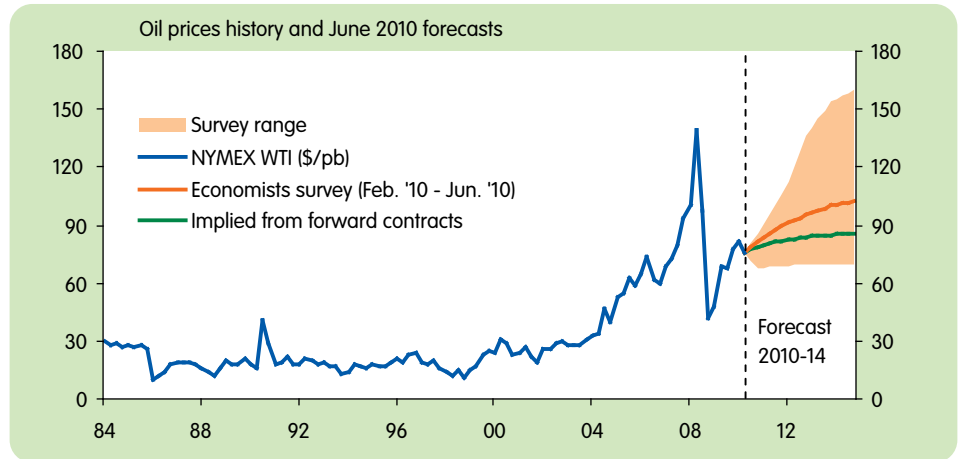
This is important as typically fuel costs can make up anywhere between 15%-30% of total fleet running costs.

This paper provides best practice advice around what organisations with UK based vehicle fleets can do to mitigate this potential exposure.

## Historic trends and forecast projections.

Oil prices have risen sharply in the last five to six years, fuelled by the global economic boom and the rapid industrial expansion of emerging economies such as Brazil, Russia, India and China.

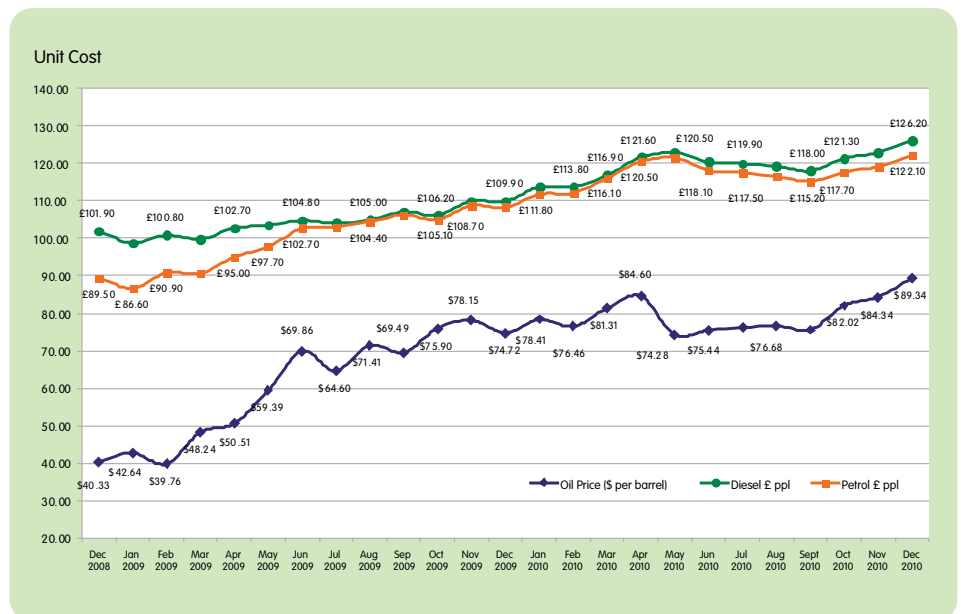
The chart below shows the upward trend, with a record peak of \$139/barrel in mid-2008.



The global recession which followed caused a dramatic reversal, but since mid-2009 prices have been increasing again, as economies have started to turn the corner in terms of positive growth. The view from economists' surveys is that on average prices will continue to rise from the current level of c. \$90/ barrel to above \$100/barrel. Across all economists surveyed the projected range of oil prices in 2014 was anywhere from \$70 - \$155/barrel, which illustrates the diversity of opinion.<sup>1</sup>

From a UK perspective, whilst approximately 70% of the price paid at the pump is tax, there is nevertheless a strong correlation between oil prices and pump prices. The diagram below shows the link.

Therefore, the projected increase in oil prices over the period to 2014 has clear cost implications for UK vehicle fleet operators.



<sup>1</sup>Source: Lloyds Banking Group – Chief Economist's Office

## What are the cost implications for UK car and van fleets?

The annual fuel cost for a 600 company car fleet undertaking on average 12,000 business miles per annum with 20% of drivers taking private fuel is likely to be approx £1M.

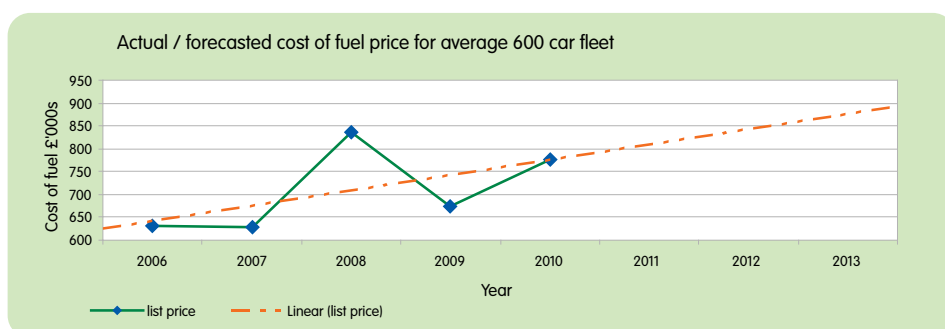
### Car fleets

In order to highlight the cost implications for UK fleet operators we have built up a typical car fleet profile and used the manufacturer mpg of this fleet to measure what the total cost of fuel would be at current fuel prices and at the average fuel prices for the last four years. We have assumed eight grades, 12,000 business miles a year and have included a mix of business use and perk cars. The modelling has been carried out for a 150 car fleet and a 600 car fleet. Typical cars in each grade and the actual fleet weighting per grade are shown below:

	Grade	Example vehicles	Fleet weighting
Business user	A	Ford Focus 1.6 TDCi Style 5dr	20%
	B	Vauxhall Astra 1.7 CDTi SXi 5dr	20%
	C	Ford Focus 1.8 TDCi Titanium 5dr	15%
	D	Volvo S40 2.0D SE Lux 4dr	15%
Perk user	E	VW Passat CC 2.0TDi CR 4dr 2.0 TDI CR 4dr	10%
	F	Mercedes-BenzC220 2.1CDI BlueEff Sport 4dr	10%
	G	Audi A6 Avant 2.0TDIe S Line 5dr	5%
	H	BMW 520d 2.0 177 M Sport Auto 5dr Touring	5%
<b>Total</b>			<b>100%</b>

Using our example fleet, we estimate the average cost of fuel (excluding VAT) for an organisation with a car fleet of 150 cars would be £195,000 and 600 cars would be £780,000.

We have plotted the cost of fuel for the 600 car fleet over the last four years. As can be seen below, fluctuating costs of petrol and diesel have meant that total fuel costs have risen by circa 23% (or £170k in this case) since 2006. The anticipation is these costs will continue to rise going forward, increasing by 10% by 2012 based on the projected trend.



Where private fuel is provided the cost impact would be considerably higher, typically an additional £2,100 per year per driver (on top of the £1,300 per year per driver for business fuel only reimbursement). Not only is the employer paying for the additional fuel spend, but VAT fuel scale charge and employers NIC on the private fuel must also be accounted for.

If 20% of drivers were in receipt of fully expensed fuel, this could equate to as much as £252k extra a year for a 600 car fleet.

The current average annual fuel cost for a mixed fleet of 600 cars (20% with private fuel) and 600 vans is approximately £2.4M. We estimate this will increase by 10% by 2012.

## Light commercial vehicle (van) fleets

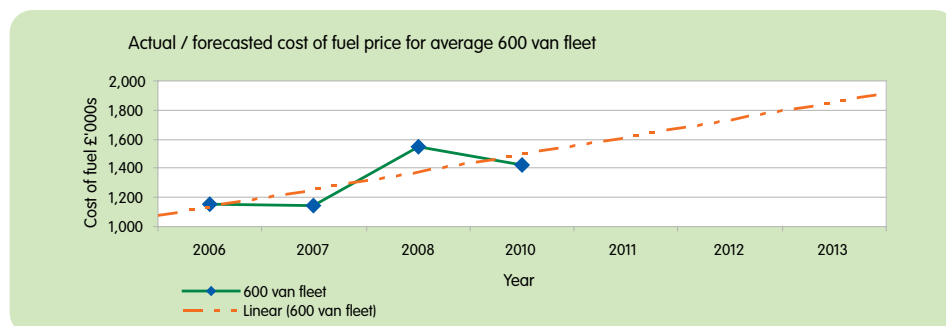
In order to highlight the cost implications for UK van fleet operators we have built up a typical van fleet profile, similar to the car fleet profile, using manufacturer published mpg data for a number of small, medium and larger vans (all under 3.5 tonnes). We have taken an average fuel cost per van type (example vans shown in the table below) and then calculated a total annual fleet cost using the following weightings:

Vehicle type	Example vans	Fleet weighting
Car derived van	Peugeot 207 van, Fiesta van, Corsa van	33%
Small van	Peugeot Partner, Ford Transit Connect, Mercedes Vito, Vauxhall Combo	33%
Large van	Peugeot Boxer, Ford Transit, VW Crafter, Mercedes Sprinter, Vauxhall Movano	33%
<b>Total</b>		<b>100%</b>

The current annual cost of fuel for a 150 van fleet and a 600 van fleet is shown below:

Van type	CDV	Small van	Large van	Total van fleet	
No on fleet	50	50	50	150	600
Fuel cost £'000s	80	110	165	355	1,420

As with the cars, we have also calculated what the equivalent fuel cost would have been since 2006 for the 600 van fleet and then projected the cost forward from 2010 based on the trend:



## What strategies can be put in place to mitigate these effects?

There are a number of actions which can be taken to mitigate the cost impact, ranging from some which are relatively straightforward to others which are less obvious.

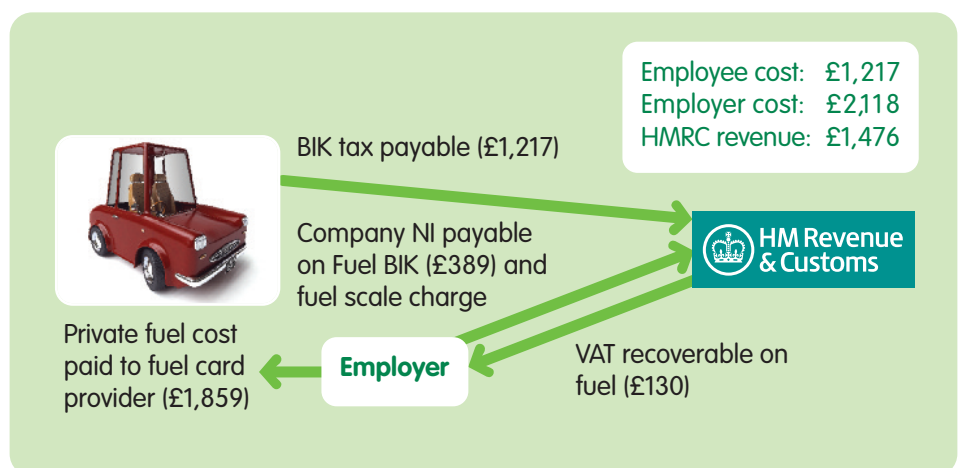
These include:

- Removal of private fuel benefit
- Evaluating whether the business journey is really necessary
- Review of company car policy/selection based around whole life cost (WLC)
- Fuel reimbursement method and intelligent use of fuel card data
- Alternatively fuelled vehicles
- Review of van choice
- Use of speed limiters
- Driver training
- Telematics
- Funding method
- Purchasing fuel
- Fuel hedging

### Removal of private fuel benefit

The provision of private fuel is one of the most expensive benefits that an organisation can provide, when comparing it to the level of actual financial reward derived by the employees who receive it. In addition, due to the way in which the taxation of providing private fuel has changed over recent years and as a result of the ever increasing cost of fuel, the gap between the cost of providing private fuel and the actual benefit derived from receiving it has become ever wider. Generally, in our experience, higher rate taxpayers driving company cars need to be carrying out at least 12,000 private miles a year to receive any benefit at all.

The following diagram illustrates the main cash-flows involved in providing private fuel, assuming 17,500 private miles driven per year:



In this scenario, an organisation pays out £2,118 a year to provide a 'benefit' to an employee worth £642 (£1,859 - £1,217) – this is a gap of £1,476 for one employee for one year! Multiplied by 100 employees this is a wasted benefit worth nearly £150k, which if removed totally could equal a saving of up to £212k.

Organisations which currently provide private fuel to drivers should assign a high priority to implementing a process of removing this benefit. A common approach would include:

- Cease the provision of private fuel to new starters
- Educate existing private fuel takers in terms of the personal tax cost – many will opt out of the scheme voluntarily if they can see that the costs outweigh the benefits
- Buy out remaining drivers through a non-pensionable, one-off lump sum payment and/or set a date in the future by when the benefit will cease to be provided

In the above example the cost of buying out a 40% tax payer via a one-off lump sum would equate to £1,227 (£642 grossed up for tax and employers NIC) against an annual saving of £2,118.

<sup>3</sup> Calculated based on 2010/11 tax year.

Removing the provision of private fuel will typically create the greatest opportunity for ongoing cost reduction, even allowing for buy-out costs.

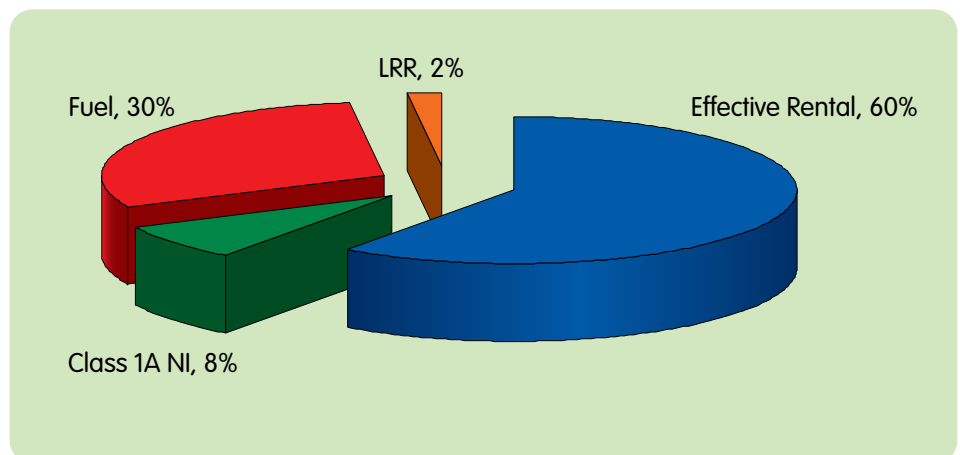
## Evaluating whether the business journey is really necessary

The starting point for reducing the cost of fuel associated with business journeys is to consider whether the journey is actually necessary and if not, whether a conference call or video conference would suffice. This may not always be possible, and in some circumstances a face to face meeting is preferable / required – however alternative means of transport such as train, coach or even car share can also help reduce fuel consumption and the overall cost of travel. The more that can be done to reduce business journeys, the greater the saving to the organisation, not only in terms of fuel saving, but also in terms of vehicle wear and tear.

## WLC company car allocation policy as an alternative to more traditional list / rental based policies

WLC bases car allocation on the true cost of running a company car. Under the majority of funding options, costs would include: lease rental (or depreciation, maintenance, RFL & interest), disallowed VAT, employers NIC, fuel & lease rental restriction (leased company cars with CO2 emissions > 160g/km funded via contract hire or finance lease). Whilst motor insurance forms part of overall running costs, policy premiums are often based on a blanket charge across the whole fleet and any attempt to break down the cost at an individual vehicle level is often arbitrary. Under these circumstances there is limited value in including motor insurance within the WLC calculation to compare one vehicle with another.

The chart below shows the typical WLC elements of providing a company car as a percentage of total cost, and as can be seen fuel makes up to circa 30% of this. Through WLC car allocation, organisations can ensure that this significant cost is considered and actively reduced through the natural promotion of the most fuel efficient vehicles.

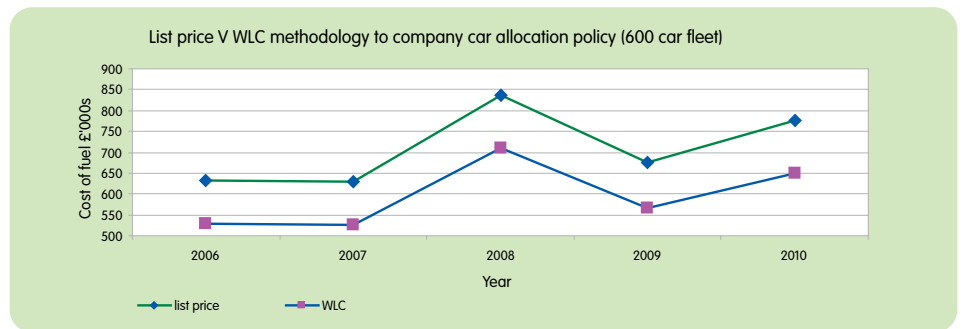


# Fuel Prices: Implications for how you manage your vehicle fleet.

Old traditional company car allocation policy	List Price £	Annual WLC £	New whole life cost based car allocation policy	List Price £	Annual WLC £
Ford Focus 1.6 TDCi Style 5dr	18,498	7,334	VW Golf 1.6TDi 105 BlueMotion SE 5dr StartStop	19,017	5,668
Vauxhall Astra 1.7 CDTi SXi 5dr	19,347	8,346	Audi A3 Sportback 1.6TDI Sport 5dr	20,675	6,072
Ford Focus 1.8 TDCi Titanium 5dr	20,455	7,205	BMW 316d 2.0 ES 4dr	24,312	6,472
Volvo S40 2.0D SE Lux 4dr	20,464	7,429	Volvo S40 1.6D DRIVE SE 4dr [Start Stop]	20,668	6,728
VW Passat 2.0TDi CR DPF Highline DSG Saloon	22,848	8,359	BMW 318d 2.0 SE 4dr	26,473	7,785
Audi A5 Sportback 2.0T FSI 180 Multitronic 5dr	25,467	10,214	Audi A4 Avant 2.0TDi 143 SE 5dr StartStop	26,484	8,626
BMW 318i 2.0 SE Business Edition Step Auto Touring	27,403	9,449	BMW 320d 2.0 M Sport Touring	28,839	8,301
BMW Z4 23i sDrive 2.5 Roadster	29,493	11,433	Audi A5 Sportback 2.0TDi Quattro S Line 5dr	31,296	10,350

Adopting a WLC approach to company car policy design can result in significant savings as a result of choosing efficient benchmark vehicles which have improved fuel economy compared to historic car choices.

In order to illustrate the level of fuel savings available through implementing a WLC policy, we have compared the mix of vehicles from the earlier example (which is based on a traditional list price based allocation policy) with a mix of vehicles selected through WLC. We have also included the list price and annual WLC of each.



The WLC benchmark vehicles continue to provide good driver choice at a similar level of desirability – the difference is they are more efficient and cheaper to run, due to advanced technologies / engine efficiencies.

We have plotted the results below:

As can be seen, the WLC allocation policy can result in a reduction in fuel prices of 16%, which would equate to circa £125k a year on a 600 car fleet.

## Fuel reimbursement method and intelligent use of fuel card data.

### Company car drivers

As a starting point, organisations need to consider whether they wish to use fuel cards, or require drivers to pay for business fuel up front with subsequent recovery via expenses. Where fuel cards are issued, this does not necessarily mean that the driver will be receiving private fuel as well, since the private fuel element can be recovered via monthly payroll deduction or some other means of reimbursing their employer – fuel cards should therefore be viewed as a payment mechanism separate from any business decision around whether private fuel is provided.

Whichever payment mechanism is used, drivers should keep details of business journeys and these should be subject to review by line managers as part of the expense authorisation process.

There is also the question of the appropriate reimbursement rate – there are implications if the reimbursement rate is set too low (drivers will be reluctant to undertake business journeys) or too high (resulting in unnecessary business cost and potential benefit in kind tax implications for drivers). As a general rule, reimbursement at HMRC advisory fuel rates (AFRs), or at actual fuel cost are considered to be appropriate. Whilst both methods can link with WLC methodology, the use of actual fuel cost ties in more closely.

The advantage of using actual cost is that it provides an incentive to drive more economically. The more efficiently the car is driven, the better the saving for the employer (business mileage cost) and the employee (private mileage cost). Conversely, reimbursing business mileage at a fixed pence per mile such as AFR rates is easier to administer as it saves having to retain receipts, and automatically avoids any PAYE liability where the rate paid is equal to or less than the AFR rate.

### Van drivers

In most organisations, vans are provided for business purposes only, and hence the need to separately record business and private journeys is often not necessary. On this basis, best practice would be to provide drivers with a fuel card which for control purposes is specific to his/her allocated vehicle, rather than in the driver's name.

In addition, the use of fuel cards can result in a small discount off the pump price and the resulting management information from the fuel card provider can make it easier to intelligently manage fuel costs.

### Intelligent use of fuel card data

The key challenge is to ensure data is as robust as possible and to cleanse any data which is incorrect. This requires promoting a culture of requiring drivers to provide correct vehicle registration and mileage information when they refuel and disciplining employees who consistently provide incomplete or poor quality data. Organisations will need to ensure that their fleet administration functions take on board the process of liaison with their fuel card providers to receive reports in the format they require (e.g. softcopy & available for data sorting and manipulation) & to then cleanse the data to provide a meaningful output.

Once robust data is produced, this can be made available for a number of uses, including exception reporting of the best and worst 10% of drivers in terms of fuel consumption. This could identify both poor driving styles and / or vehicles with maintenance issues – leading to corrective action in the form of driver training and / or appropriate vehicle maintenance & repair. The data can also be used to follow up on any refuelling which has taken place at expensive outlets (e.g. motorway service stations) and encourage a culture of refuelling at the cheapest outlets.

Significant savings can be achieved from downsizing a van fleet, not just in terms of improved fuel economy, but also in terms of other costs such as finance and maintenance. However, it is important to make sure that any change in van choice / mix will meet the ongoing operational needs of the business hence why a fit for purpose evaluation is key.

## Alternatively fuelled vehicles

The pace of technological change provides a strong argument to suggest that alternatively fuelled vehicles (e.g. pure electric, plug in electric hybrid, diesel electric hybrid etc) will become commonplace in the next 5-10 years to complement existing traditionally fuelled and petrol hybrid vehicles. Opinion is divided as to how much of a market share these vehicles will take and the timing of when mass production becomes a reality.

The current situation is that the purchase cost of electric vehicles is expensive in relation to diesel and petrol equivalents. Although government grants are likely to bridge the gap for some electric cars, there is still no sign of an equivalent incentive for electric vans. Therefore, manufacturers will need to reduce their production costs to achieve the desired uptake in sales.

For more detail around alternatively fuelled vehicles see White paper – Fuel Strategy “Helping you make the right choices”

## Review of van choice

### Fit for purpose evaluation

The choice of van should always be based around fit for purpose considerations – in other words, does the current van fleet meet the operational needs of the business both now and in the future? This is of fundamental importance before considering other factors such as cost, environmental impact etc.

Factors such as core activity, load to be carried / towed, type of journey undertaken, load access (side and/or rear access), volume / load weight, level of utilisation etc are just some of the issues. It may be that guidance from industry experts can provide real value in this evaluation and ensure that duty of care is properly considered. Such an exercise might highlight the opportunity to downsize the van specification or move to a smaller van, whilst still satisfying the business requirements.

### Downsizing

Any financial evaluation of van choice should consider a comparison of manufacturers and the WLC of each option, taking into account manufacturer support terms, lease (or depreciation & interest) cost as well as fuel performance, based on the desired model mix (car derived van, small van, larger van etc).

Significant savings can be achieved from downsizing to a smaller van. The table on the next page shows on a fuel consumption basis the saving derived from downsizing from one model to a smaller version, using Ford as an example. The highlighted savings are based on 25,000 business miles driven per annum and arise purely from better fuel economy – however there would also be an additional saving related to reduced rental costs.

Wheel base/ Roof height	Annual cost of fuel (£) of a Ford Transit			Annual saving from downsizing		
	300 2.2 TDCi (115)	330 2.2 TDCi (140)	350 2.4 TDCi (100)	330 to 300	350 to 330	350 to 300
SWB LR	3,812	3,867		55		
SWB MR	3,812	3,867		55		
MWB MR	3,812	3,913	4,333	101	421	521
MWB HR	3,812	3,913	4,855	101	942	1,043
LWB MR	3,867	3,913	4,333	45	421	466
LWB HR	3,867	3,959	4,855	92	896	988
<b>Average annual fuel saving per van</b>				<b>75</b>	<b>670</b>	<b>755</b>
<b>Saving for 100 van fleet</b>				<b>7,503</b>	<b>66,986</b>	<b>75,470</b>

In this example, downsizing from a Transit 350 to a Transit 300 on average could produce fuel savings of £755 / year – a saving of £75k is possible for a 100 van fleet. Downsizing van fleets is also likely to result in lower finance and maintenance costs as well as improved fuel consumption, although as this paper is focused around measures to reduce fuel costs, these additional benefits have not been included here.

Note that when downsizing, care should be taken to ensure that when heavy loads are carried the engine is powerful enough to cope, as an overworked engine could actually increase fuel consumption.

### Use of speed limiters

Speed limiters can be very effective in reducing fuel costs where a significant proportion of journey time is spent on major roads at high speed (dual carriageway, motorway etc). For a typical Ford Transit van the saving in fuel is approximately 16% for a 10mph reduction (e.g. from 80mph to 70 mph). For a 600 van fleet undertaking 10% of journeys at 80mph the annual fuel saving would be approximately £25,000.

An additional benefit is the reduction in vehicle wear & tear and limiting vans to a maximum 70mph supports duty of care objectives

### Driver training

As well as providing business benefits around duty of care and reduced accident rates, the improvement in driving style from driver training programmes can also lead to better fuel economy. Savings of 5% - 10% of fuel spend are achievable following the introduction of approved driving training programmes (e.g. SAFED). The cost of training needs to be taken into account, but there is often a net financial benefit to the organisation as a result of the shift in driving style.

The biggest fuel saving, can be achieved with van fleets, given that journeys undertaken are essentially for business use, but there is also the potential to achieve fuel savings through extending driver training programmes to company car fleets.

A key aspect is to continue to monitor fuel consumption achieved through collection and review of fuel card data, linked with incentives for both managers and drivers which will encourage a sustained change in driver behaviour. Close monitoring will enable further corrective training to be applied selectively, where appropriate.

Collection and monitoring of data can also be facilitated via telematics. This has the added benefit of online data capture with real time performance data.

A telematics solution can be beneficial but be clear about the reasons for introducing it. Undertake thorough due diligence around cost/benefit and supplier choice.

## Telematics

Telematics have been available for some time and there are now a number of suppliers in the market. The basic functionality allows organisations to track where vehicles are at any point and to provide the ability to route and schedule journeys. For vans this can be very helpful from a logistics planning perspective by allowing vehicles to be efficiently utilised depending upon location and required job. For example, parcel delivery companies can benefit from efficient delivery scheduling. Such an approach can avoid unnecessary journeys saving on fuel and potentially maintenance spend, and can improve customer service through ensuring deliveries take place on time more often. For service companies who use engineers to carry out repairs or servicing at customer sites, dynamic scheduling of jobs, by understanding actual start and finish times, can increase productivity by more efficiently utilising spare time between jobs to potentially fit in additional customer visits.

The data collected from telematics systems can also be used to monitor driving styles. Combined with initiatives to reward drivers for adopting defensive driving techniques, or highlighting the need for driver training, this can be used to change driver behaviour and reduce fuel consumption, whilst reducing the likelihood of accident damage.

Telematics have not generally been embraced by company car drivers thus far – there is a reluctance to accept journey monitoring where the vehicle is

available for both private & business use – whereas it is much more readily accepted that a van is a “tool of the trade” and is essentially for business use.

Organisations considering introducing telematics need to conduct a cost/benefit analysis to determine if overall it is worthwhile. There is usually an installation cost and monthly service charge which typically would equate to £20-£25 per vehicle per month. This amount could be reduced depending on the provider / level of functionality.

It is important to be clear about the business objectives of introducing telematics and what data and management information is required as a result. Users should then ensure that they work with a supplier capable of delivering on these requirements. Consideration also needs to be given to the supplier risk as many providers are relatively small companies which are vulnerable to financial pressures.

Organisations running ECOS schemes or considering introducing such schemes should reassess whether these are appropriate for their needs going forward where the financial savings over more traditional funding methods are marginal.

## Funding method

The rise in fuel prices has a neutral impact on the choice of traditional company car funding methods e.g. contract hire, outright purchase, contract purchase and finance lease. This is because the choice of business fuel reimbursement method e.g. AFR, or actual cost is independent of the vehicle financing method. The same is true of salary sacrifice, which is essentially an expansion of the company car fleet in return for driver contributions. However, in the case of Employee Car Ownership Schemes (ECOS) there is a potential impact brought about by the interaction of Authorised Mileage Allowance Payments (AMAPs) and the business fuel reimbursement rate.

ECOS schemes work due to the tax efficiencies created by the driver owning the car (no company car tax) and by the fact that the company can pay the driver AMAPs (payments without deduction of tax or NIC) for business mileage undertaken. Taken together, these tax efficiencies can make ECOS schemes attractive in particular where car drivers are undertaking high business mileage.

AMAPs are currently payable at 40p for the first 10,000 business miles and 25p thereafter. The amount paid to the driver for business fuel reimbursement needs to be set against this and only the net amount can avoid gross up for tax and NIC purposes. For example, if the company reimburses business fuel in line with AFR rates, they would currently pay 15p for a petrol car between 1,401 cc and 2,000 cc<sup>2</sup>. The amount which can be paid before any gross up (for up to 10,000 business miles) is therefore 25p (40p – 15p).

Whilst the government is committed to raising AFR rates in line with fuel price rises, there is no obligation to increase AMAP rates and indeed these have remained constant for several years. Therefore, the increase in fuel prices has the effect of shrinking the marginal pence per mile rate at which companies can pay ECOS drivers for business mileage without tax and NIC gross up. As a result, this will impact on the level of savings achievable under such schemes.

<sup>2</sup>Rate applicable from 1st December 2010

Purchasing fuel in advance for large commercial fleets can prove cost effective due to access to wholesale prices.

Intermediary organisations can enable the fuel purchased to be dispensed at traditional fuel outlets, providing both convenience and purchase discounts.

Organisations need to be aware that whilst the economic consensus is for rising fuel prices in the medium term, there is still a downside risk that fuel prices could fall due to short term price volatility.

If prices were to fall, locking into a fixed price would be sub-optimal. So organisations wishing to protect against rising fuel prices need to be mindful of the downside risks too.

## Purchasing fuel

As well as being able to monitor where drivers fill up and the price paid per litre, fuel cards also enable the company to benefit from volume discounts relating to fuel purchased although the discount per litre is typically quite small for large volumes of fuel.

For larger commercial fleets an option to consider is purchasing fuel direct from the oil companies. Traditionally this has been achieved via fuel bunkering and can often be worthwhile where a business operates a significant number of vehicles from a single depot. Purchasing the fuel directly from the supplier is likely to provide the cheapest price compared to other procurement methods on an ongoing basis, but the initial installation costs of bunkering can be high and a careful cost/benefit review is necessary. Additional considerations are the Health and Safety and environmental protection requirements which are considerable. In addition, there is a need to set up a robust fuel dispensing system to monitor the amount of fuel dispensed in order to prevent abuse.

An alternative is to work with intermediary organisations which enable clients to purchase fuel in advance at wholesale prices but use an extensive network of traditional filling stations to draw off the fuel as required using a card management system. This approach is suitable for commercial fleet operators purchasing 1 million litres of diesel fuel or more per annum (equates to fleet size of 350+ commercial vehicles, undertaking c. 20,000+ annual business miles) and can yield fuel savings of around 6% as well as providing the convenience of not being restricted to a handful of bunkered sites. Careful control of the fuel cards is needed to avoid abuse.

Purchasing fuel in advance means locking in to a fixed price. This provides certainty for budgeting purposes and a hedge against future price rises. As described earlier, economic forecasts suggest that over the medium term, fuel prices are expected to rise. However, short term supply and demand

imbalances could result in short term volatility where prices fall as well as rise. Purchasing fuel in advance carries a risk that prices fall following the agreement to lock in at an agreed price and therefore at least in the short term the cost of this approach could outweigh the cost of buying fuel at prevailing pump prices in the normal way.

As with any purchase of goods or supplies which display price volatility, an organisation making one large purchase at a point in time needs to acknowledge that depending on when it made its purchase it may gain or lose as a result of near term price movements. This should be taken into account in deciding whether purchasing fuel in advance is strategically acceptable.

## Fuel hedging

Organisations with significant fuel spend (upwards of £1M spend per annum) may benefit from hedging fuel price rises through buying oil commodity options. This gives the opportunity to lock into a fixed future price for a fee. If the option is exercised the purchaser avoids incurring price rises during the hedged period. Conversely, if oil prices remain below the option exercise price then the option need not be used and the organisation can continue to pay the current market price for fuel. This avoids the risk of locking in to a fixed rate only to see prices fall in the future. The cost of avoiding this risk is effectively built into the option price.

Organisations with fleets of 500-600 or more vehicles are likely to incur the sort of annual spend on fuel which makes fuel hedging worth considering.

## Summary and conclusions.

Oil prices are forecast to rise over the next 3-4 years. Given the strong correlation between oil prices and UK pump prices, this indicates fuel prices in this country are also set to rise. We estimate a 10% increase over this period on top of what is already a significant cost for most organisations which run vehicle fleets.

A typical fleet of 600 company cars with 20% of drivers taking private fuel will incur an annual fuel spend of approximately £1M. A typical commercial fleet of 600 vans will spend upwards of £1.4M. Taken together the combined cost could represent 30% of total fleet costs.

Faced with these significant costs many organisations need to assess how their fleets are being run, and what steps can be taken to minimise the impact of further price increases. The good news is there is often a range of measures which can be taken and often these are fairly straightforward. The table below summarises the options which provide the greatest opportunity for saving.

Action	Annual Cost Saving
Remove private fuel	165,000
Car policy - WLC	125,000
Van downsizing	75,000
Driver training (van fleet)	70,000
Speed limiter (van fleet)	25,000
<b>Total savings</b>	<b>460,000</b>
<b>% Total fuel costs</b>	<b>19%</b>
<b>Company car fuel cost</b>	<b>1,000,000</b>
<b>Company van fuel cost</b>	<b>1,400,000</b>
<b>Total fleet fuel cost</b>	<b>2,400,000</b>

Assumes 600 company cars and 600 vans with 20% of car drivers taking private fuel and 100 vans in scope for downsizing.

Organisations should not ignore the other options identified earlier, where there are also potential benefits, although these may be harder to quantify:

- Evaluating whether some business journeys are really necessary & considering alternatives to face to face meetings
- Intelligent use of fuel card data (to support changing driving style)
- Considering the use of telematics
- Considering using alternatively fuelled vehicles for urban environments
- Purchasing fuel in advance or hedging via use of oil commodity options

It is clear that organisations have a range of options they can take to reduce fuel spend, and taken together these can have a substantial positive impact. What works best for each organisation is likely to be dependent on individual circumstances and therefore careful consideration needs to be given as to what combination of measures is likely to provide the best outcome.