Reducing Fuel and Mileage Expenses

A TMC White Paper

Repeated experience shows that many organisations pay out far more in fuel and mileage expenses than they need to. This guide shows how to cut the fleet mileage bill back down to size.

The problem of excessive fuel and mileage costs affects all organisations whose employees do business mileage - whether in company funded or private cars.

High fuel prices are only part of the problem. Even when they fall for a while (as they did in late 2014), overpayment persists. So trying to buy fuel more cheaply by persuading drivers to refuel at low-cost supermarket sites, or training them in eco driving techniques will only be partially successful.

The real issue is over-claiming of mileage expenses.

The chart below, which is based on the typical drop in claimed mileage experienced by TMC customers, confirms that savings from preventing over-claiming are significantly higher than from targeting lower priced fuel or better consumption. The average reduction in claims, following proactive capture and verification of mileage by TMC, is 24.7%.

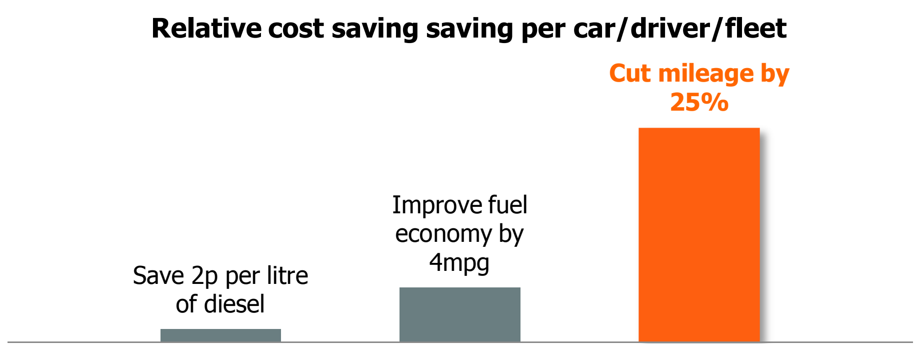

Fig 1. The potential savings from eliminating excessive mileage payments are considerably greater than what can be saved by buying fuel more cheaply or improving efficiency. The comparison holds true for a single car or an entire fleet. (Based on diesel car at 50mpg, fuel at £1.30 per litre and mileage expenses of 15p per mile).

Where do all the extra miles come from?

Most of the excessive miles paid for by employers exist only in drivers' expense claims. They come from a number of common habits, such as automatically rounding-up distances to the nearest 10 (or multiple of 10 miles) or 'guesstimating' mileages. Since drivers rarely tot up the all the extra miles, they don't realise how exaggerated their total claims are.

Some drivers are more deliberate. This minority uses tactics such as claiming for journeys they did not make or hugely exaggerating actual mileages or using company fuel cards to refuel cars belonging to their family and friends. TMC has uncovered drivers who over claimed as many as 1,000 miles a month in this way.

Any expense system is potentially vulnerable to errors and over-claiming, which is why managers check and verify employees' claims. Even so, manually auditing a complex trail of forms, spreadsheets and till receipts is almost physically impossible. And even when managers try to do the job diligently, they often don't have sufficient knowledge to spot mistakes - such as drivers who deliberately or accidentally claim incorrect mileage rates.

HMRC publishes nine advisory fuel pence per mile rates for company car drivers (which are subject to change every 13 weeks) and three mileage rates for owner-drivers, cyclists and passengers (currently 45p, 20p and 5p per mile). Small wonder that, without expert auditing and verification of claims and mileages, it is easy for claimed mileages to exceed the true level by 10% to 15%.

Why drivers get away with over-claiming

Over-claiming of mileage does not happen by itself.

In the majority of cases, someone - usually the driver's manager - signs off claims submitted on internal expense forms. Managers often barely have the time to check that the figures written down for each expense add up to the grand total, let alone to check each entry line by line or to go online to check the distances claimed. Claims by drivers who accumulate high mileages making many varied journeys each month are particularly hard to verify.

Another reason why companies do not notice over claimed mileage is that individual departments often settle drivers' expenses claims from their own separate travel and entertainment budgets. The absence of central oversight, together with the separation of mileage claims from the main vehicle fleet budget, makes the organisation vulnerable to over-claiming.

It also means that organisations whose fleet policy and costs are otherwise well managed can still find themselves paying out excessive mileage expenses.

Even when organisations know they have a problem, they often find it hard to deal with. Complex issues of trust, motivation, custom, complicity and accepted practice are at stake, making any internal moves to tackle over-claiming a potentially explosive issue from an HR perspective.

How some drivers boost their travel expenses

Very serious cases of expenses abuse that end in court are rare. This is not because drivers lack opportunity, though, as the following list of common practices shows:

- Exaggerating the length of journeys by rounding up to the nearest 10 or 100 miles or overstating actual mileages. This is the most commonly used method for inflating mileage claims and can be endemic in companies
- Claiming for journeys they made but did not pay for (e.g. two colleagues share a car and both claim the mileage)
- Making unnecessary journeys to capitalize on over generous pence-per-mile fuel expenses rates
- Fabricating journeys entirely (for personal profit or to compensate for an inadequate pence-per-mile fuel rate)

All of these practices – many say 'fiddles' – are easy to get away with in a conventional travel expenses process.

The solution to over-claiming

Using a third party to record and verify mileages on behalf of the organisation is a proven way to solve the problem of over-claiming that also minimises risk of creating internal friction.

This is the principle behind Mileage Audit. Drivers record their business journeys on the Mileage Audit system, via the TMC MileageTrack smartphone app, a PC, text message or voice call. At the end of each mileage period (usually monthly), they report their odometer reading and close off their business mileage log.

TMC's experience shows that when Mileage Audit is put in place, the total number of miles reported to the system falls rapidly and dramatically compared with the total claimed before using Mileage Audit.

This sudden reduction in mileage bills can seem magical to customers but there is really no mystery to it. When drivers know that the mileages they report are being independently monitored and audited – and that they may be contacted by TMC and asked to clarify any anomalies – they simply take more care to report mileages accurately.

Streamline expenses

TMC Mileage Audit helps to streamline the process of paying mileage expenses, especially if used in conjunction with fuel cards (which are not, contrary to widely-held belief, purely used by drivers who receive private fuel benefit. They are an important and effective tool for managing business and private fuel use). TMC can provide a payroll-ready file based on the business/private split reported by drivers and the total cost of fuel used each month, which tells the customer's system exactly how much to deduct from each driver's salary in respect of privately-used fuel . The process is more transparent and less laborious than a paper system.

Another key benefit of Mileage Audit with fuel cards is that it allows employers to break free from flat rate mileage expenses. Flat rates are always a compromise and may lead to over-claiming either if the rate is too low (so that some drivers claim 'phantom miles' to compensate) or too high (the drivers claim for 'phantom miles' to make a greater profit).

Can anyone use Mileage Audit?

The short answer is 'yes.' Mileage Audit is suitable for organisations that have company cars, cash allowance drivers, drivers in ECO or salary sacrifice schemes or grey fleet drivers – any business in fact that pays mileage expenses in any form and wishes to be sure it is not paying out more than it needs to.

Combining Mileage Audit with fuel card data provides the strongest protection against excessive claims, as the card data can be used to corroborate drivers' reports. However, Mileage Audit performs very successfully without the need for fuel card data.

Is that all there is to it?

Almost. As with all business problems, the key to solving mileage expenses is to understand how and why they arise in your organisation. In general, propensity for over-claiming is usually closely linked to the system for processing mileage expenses, and whether managers have the time to check submissions properly and the information required to pick out obvious errors.

Mileage Audit is a highly effective solution because it typically replaces a dispersed, permissive, paper-based process with an independent, easily-audited, electronic system that is specifically designed to highlight anomalies and inaccuracies in drivers' reports.

TMC proactively chases drivers to make sure that they record their monthly business and personal mileages on time. We contact employees directly to query any anomalies so that they are fully aware that we have found them. We also make them aware that any persistent anomalies will be notified to their employer. These activities are the key to the success of TMC Mileage Audit, since a passive process that merely collects and reports drivers' mileage statements is ineffective against endemic and deliberate over-claiming.

As well as helping businesses to minimise mileage expenses, Mileage Audit data supports decision-making in pursuit of cost savings and greater efficiency in other areas such as setting policy around vehicles, fuel management and fuel cards. It can be used by company car, cash allowance, ECO, salary sacrifice and grey fleet drivers. It also offers the ability to capture compliance statements from drivers (e.g. confirming licence status and routine servicing and MOTs) for duty of care purposes.

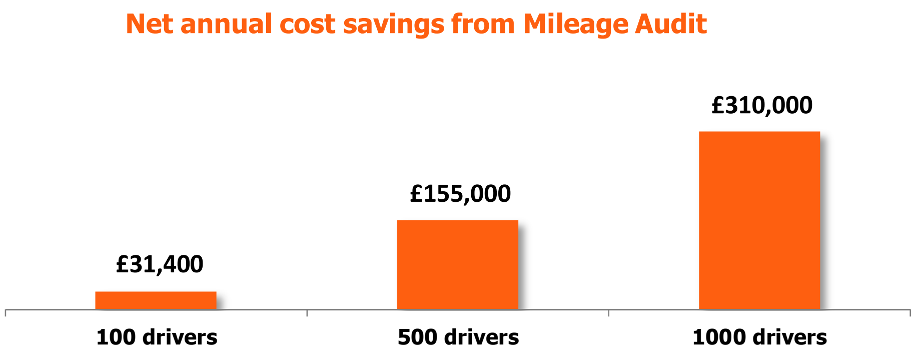

Fig 2. Potential cost savings from reduction in over-claiming due to the introduction of Mileage Audit. Based on TMC average of 24.7% reduction in annual claims and an average business mileage of 10,000 miles per driver, charged at 14p per mile.

Guaranteed cost saving

How much fleets pay for Mileage Audit depends on how many of their employees use the system. However, TMC's Savings Guarantee gives customers complete confidence that using Mileage Audit will be 100% cost-effective. If Mileage Audit does not save at least the cost of the service in the first year, TMC will refund the difference.

Typically, customers need only reduce excessive claims by 10-20 miles per driver per month to more than cover the cost of Mileage Audit. Since TMC's service invariably achieves a considerably greater reduction compared with unaudited mileage expenses, the overall savings from Mileage Audit are proportionately higher.

Demand transparency in mileage expenses

Over-claiming of mileage expenses is a widespread problem whose scale often goes unnoticed by organisations. Without the right tools and audit processes it has been virtually impossible to control and manage this area.

Thanks to improvements in technology and the exclusive checking and analysis process offered by TMC's Audit Team, organisations can make mileage reporting far more transparent than is possible in systems based on paper forms or Excel spreadsheets. As a result, drivers in organisations that use Mileage Audit will feel more accountable for both the accuracy of their claims and the validity of the journeys that they claim for. The cost of over-claiming will continue to rise, due mainly to the continual upward pressure exerted on fuel prices by tax increases and rising oil prices.

Sustainable improvements

The improvements in your cost base delivered by TMC Mileage Audit are sustainable in all senses. First, they are long-lasting. Once drivers get into the habit of using the system, they log their mileages more accurately and get their reports in on time. 96% of Mileage Audit users close off their monthly reports before their scheme's cut-off date.

Second, Mileage Audit helps you comply with statutory requirements and to deliver against your organisation's environmental targets. Using Mileage Audit, you can be highly confident of complying with HMRC's rules on recording business mileage, while the data we capture for you could help you increase the amount of VAT you recover on business fuel by 40%.

Thousands of large companies now have a statutory duty to include their greenhouse gas emissions in their annual reports – an obligation which may be extended to SMEs after 2016. TMC's award-winning carbon reporting tool allows you to calculate your fleet's carbon emissions and separate out CO_2 from business activity from emissions from private use of vehicles.

And TMC takes you even further if your business is covered by the new Energy Savings Opportunity Scheme (ESOS) – by also allowing you to plan and implement cost-effective energy reduction measures. In fact, even if your business is not covered by ESOS, TMC will help you make your fleet greener and less costly to run.

Mileage Audit is the most effective method there is of preventing over-claiming. To find out more, call TMC on 01270 525218 or email reply@themilesconsultancy.co.uk

The Miles Consultancy Limited.
TMC House, Spring Farm Business Park, Moss Lane, Minshull Vernon, Cheshire, CW1 4RJ. Registered in England and Wales No. 004679336