TMC

HOW TO THINK LIKE A FUEL MANAGEMENT EXPERT

Discover the insider secrets that lead to huge savings on your fuel bills

ABOUT TMC'S FUEL AND MILEAGE SOLUTIONS

"As well as the direct cost savings it has delivered, the visibility it gives us will help us to shape our policy. No other solution offered us the same level of data. We can model and shape it to design more engaging benefit options for our colleagues as well as using it to contain overheads. It has enabled us to get firmly on track with fuel cost management."

Beverly Hodson, Benefits Manager,
Morrisons Supermarkets

"The solution met all our criteria. The auditing aspect is not on offer anywhere else. It gives us really useful information and we receive repayments from individuals more quickly. It is also easier for us to review drivers' spending patterns because all the information is collated for us by TMC."

Sarah Norman, Statutory and Tax Manager,
Arco Workwear

"Lyreco's annual savings from this project represents a six figure sum. TMC made the whole process seamless and easy for us from start to finish and the project has been a huge success."

Duane Fullwood, Financial Director, Lyreco

ABOUT THIS GUIDE

Learn the insider secrets from the UK's leading authority on fuel management

If you are looking to up your game when it comes to controlling your fuel expenses, then you have come to the right place. This short guide will break down every step of the fuel management process and explain it in plain English. We promise not to blind you with technicalities or bog you down in detail. By the time you've finished this short guide you'll be able to assess your own fuel management processes and identify areas where you could start saving money, optimize for efficiency and achieve greater transparency.

FUEL FACT

Fleets that **strongly emphasise fuel and mileage management** typically spend

20%-25%

less than those that don't

CONTENTS

THE SECRET

INSIDER SECRET

Managing fleet fuel is all about seeing the full picture, not just about fuel prices.

What's wrong with this receipt?

CLUE: it's for refuelling a VW Polo.

PAIN AT THE PUMP ISN'T ALL ABOUT PRICES

Shopping around for cheaper fuel is always a good idea. But getting a low price is only a part of successful fuel cost management. Check out the transaction above. There's nothing wrong with the price. But there's everything wrong with the fill-up.

The driver's car is a VW Polo. A Polo's tank holds 45 litres of fuel but they bought 55 litres. Something was clearly going on there. Maybe the driver was filling jerry cans ... or fuelling another vehicle entirely.

As well as watching the pennies at the pumps, you need watch out for hidden costs such as bad apples in your fleet siphoning-off the pounds. And take it from us, this kind of abuse is a lot more common than you might think.

The good news is that hidden costs are just that - hidden. They are never completely invisible. All it takes to make them visible are the right tools and techniques.

FUEL CYCLE

UNDERSTANDING THE FLEET FUEL CYCLE

The classic way to tackle any sizeable challenge is to break it up into more-manageable chunks. Fleet fuel lends itself to this method because it can be divided into four separate phases:

Purchasing – How fuel is paid-for? Usually this is either via a fuel card or out-of-pocket payment by drivers but it could be company fuel pumps or local garage accounts.

Usage – What factors influence fuel consumption? These include policy actions, e.g. setting choice lists according to Whole Life Costs or specifying speed limiters on LCVs, and behavioural measures, such as training and incentives to maximise mpgs.

Reporting – The management information you can produce and the granularity of the data within it. Reporting is key to controlling costs and achieving Duty of Care/HMRC compliance. The more information you capture, the better.

Reimbursement – Settling up with drivers for business and private fuel. Or if you don't use a fuel card, mileage payments (e.g. AMAPs). Private fuel benefit is included in this area. Watch out for hidden administrative costs.

INSIDER SECRET

Each area offers a variety of opportunities to reduce costs and overheads, and each can be tackled individually or in combination over successive years.

THE FULL PICTURE

SEEING THE FULL PICTURE

Successful fuel management can be summed up in two well-known phrases. “The truth is out there” and “The devil is in the detail”.

The first rule of fuel management is ‘what you don’t know definitely will hurt you’. Bad things come from incomplete management information. Insufficient MI leads to excessive fuel costs and needless administrative hassle.

It’s not enough just to record your vehicles’ annual mileages. Nor can you really understand fuel costs if you only see drivers’ expenses claims or forecourt receipts.

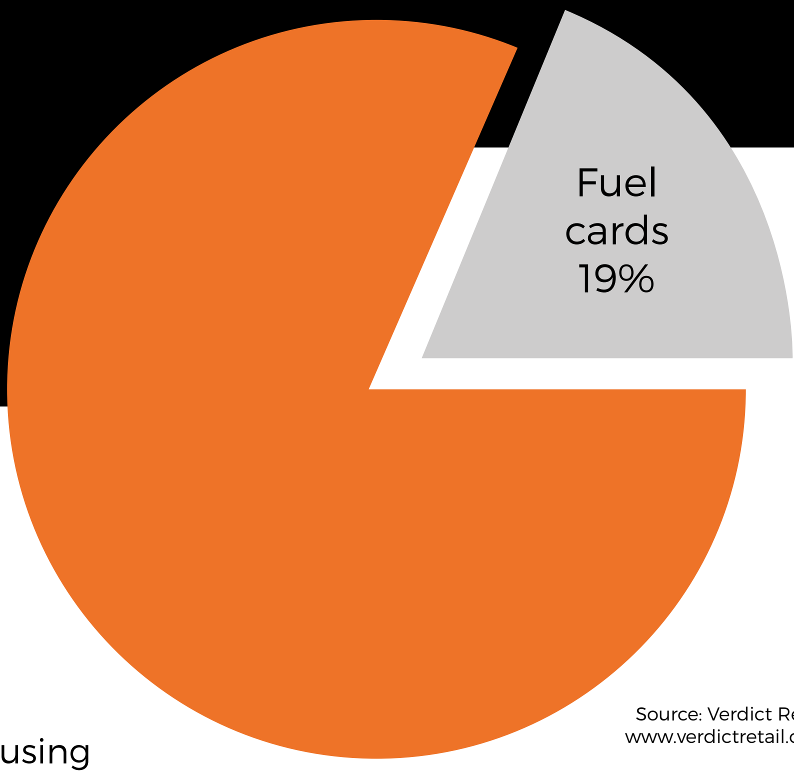
Here’s the data you need:

- **What:** Business mileage for each individual journey: the start point and end points, distance driven, date and reason(s) for travel. **Why?** For HMRC compliance, auditing mileage claims and analysing fuel cost/mpg.
- **What:** Overall private mileage for each expense period. **Why?** Reimbursing fuel costs, evaluating BIK Fuel, if provided.
- **What:** Fuel transaction data: vehicle registration, date, time, location, price, VAT detail, literage and type of fuel. **Why?** For analysing fuel costs and vehicle/driver performance analysis, monitoring for misuse.

PURCHASING

By 2020, a fifth of the fuel sold in Europe will be bought using fuel cards. That's £85 billion-worth of petrol and diesel

Total European Road Fuel Purchases 2020



Source: Verdict Retail
www.verdictretail.com

THE PURCHASING DECISION

The vast majority of fleets buy fuel using either Pay-and-Reclaim or fuel cards. This isn't simply a question of preference: the two methods are as different as chalk and cheese.

Fuel cards are a dedicated business tool, offering built-in, consolidated electronic management information (MI) and a single consolidated VAT invoice. The business buys directly from the vendor - the petrol retailer - as it does for other supplies like laptops and stationery.

Pay-and-Reclaim means companies don't have to pay for fuel up front. But the MI you get is very weak. Also, the company effectively buys business fuel from its employees, which is a somewhat roundabout way to fuel company vehicles.

INSIDER SECRET

Each method has advantages and disadvantages but don't simply consider their pros and cons as purchasing tools. Ask the question: 'Which will enable me to achieve the best result in reducing costs over the whole fleet fuel cycle?'

PURCHASING

FOR AND AGAINST PAY-AND-RECLAIM

PAY-AND-RECLAIM PROS

Employers' cash flow.	Employees pay the up-front cost of refuelling. The employer receives credit from the employees for the cost of business fuel until their expenses are paid.
Ad hoc expenses.	Pay-and-Reclaim is a practical way of reimbursing employees whose business fuel use is infrequent.
Incentive to buy cheaper fuel.	Employees filling up at their own initial expense have an incentive to seek out low cost fuel.

PAY-AND-RECLAIM CONS

Buying indirect.	Is it really best practice to buy a key resource such as business fuel from employees?
Weak MI.	With no single central source of fuel purchase data, it is impossible to understand fuel costs in detail.
Poor control.	Inadequate management information prevents effective cost-control. It is also hard to influence the way drivers buy and use fuel, because they own it.
Extra paperwork.	Many till receipts must be collected and processed in order to reclaim VAT on the business element of fuel bought by drivers.
Employees' cash flow.	Higher business mileage or rising pump prices may put drivers into financial difficulty.
Incentive to maximise claims.	When you use Pay-and-Reclaim, you ask drivers to buy the business element of their fuel and then sell it to the company. Many employees see this as a legitimate opportunity to apply a mark-up on their 'sales'. They can increase their profit in several ways, including inflating claims for business mileage or exaggerating the fuel consumption of their vehicle.

PURCHASING

FOR AND AGAINST FUEL CARDS

FUEL CARD PROS

Direct sourcing.	Your company buys fuel from fuel outlets, not from your drivers.
Ownership.	The employer owns all the fuel put into its cars. It is therefore entitled to set policies around where employees buy fuel and how they use it.
Management information.	Fuel cards produce comprehensive information on the price, volume, location and time of each transaction.
Security.	The latest generation of Chip & PIN fuel cards offer high protection against misuse.
Administration.	Much less paperwork than Pay-and-Reclaim. You get a consolidated, cost-centred invoice/report for the whole fleet that doubles as a VAT receipt for every purchase.
VAT recovery.	100% VAT recovery is straightforward (see previous bullet).
Specialisation.	A fuel card is a dedicated purchasing tool specifically designed for the needs of employers and drivers.
Cash flow.	Payment to the card company is made 15-30 days after the fuel is acquired and no driver floats are needed.

FUEL CARD CONS

Up-front payment.	The employer bears the cost of private fuel until it is reimbursed by employees.
Credit approval.	Fuel card customers need credit approval from the fuel card company. A deposit (typically enough to cover one billing period) may be required.

INSIDER SECRET

Fuel cards give you invaluable visibility over transactions.

MYTHBUSTER:
"Rebates save you money"

Volume-related rebates on fuel sound good but do they really save money? They promise 'the more you spend, the more you'll save'. Which is rather like trying to lose weight by eating more: it doesn't work. You're also likely to find that only big fuel users get offered a really worthwhile-sounding rebate.

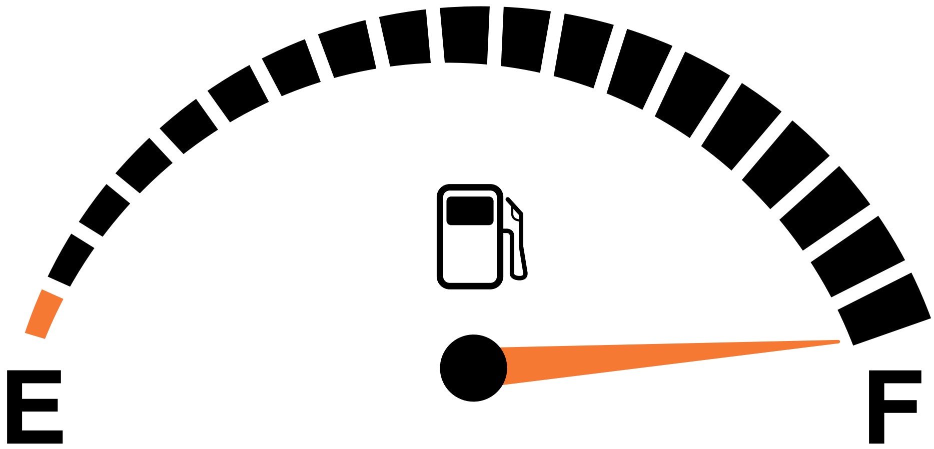
To earn the rebate, your drivers may have to go out of their way to find the required brand of fuel. This brand diversion can cost more than you think. One financial director calculated his drivers' average 'pence per minute' cost while driving. He found that it only took **two minutes** of 'brand diversion time' to cancel out the rebate he'd been offered.

Rebates keep customers focused on **small price differences** when what really matters is minimising the **volume of fuel you use**.

INSIDER SECRET

Prices and discounts are only one aspect of the whole picture. Fully explore the options before making any decisions.

USAGE



MAKING BETTER USE OF FUEL

Making the best use of fuel means getting as much value as possible out of the company’s spend on business fuel. That means addressing everything affecting fuel consumption and costs – including vehicle selection, your employees’ driving skills, where fuel is bought, how it’s paid for, whether business journeys are productive and claims for fuel/mileage payments are valid. Take baseline measurements and set drivers achievable targets for consumption and emissions.

Policy

Your drivers’ knowledge, skills and attitudes play a very large role in deciding your company’s total fuel bill. That is why companies need to set unambiguous policies around business driving, fuel and mileage. These can stand alone or be incorporated into a company car or travel/mobility policy.

Drivers also appreciate advice on buying fuel cheaply (e.g. using supermarkets) and driving efficiently, especially those who drive their own cars. Some may require on-the-road training in eco driving techniques. Bodies like the Energy Saving Trust (www.energysavingtrust.org.uk/businesses/fleet-services) and the Institute of Car Fleet Management (www.icfm.com) can help with advice, contacts and qualifications in fleet management.

INSIDER SECRET

Whatever measures you choose for your benchmarks e.g. miles per gallon, pence per-mile or g/km of CO_2, you will need fuel and mileage data to make the calculations.

REPORTING

WHERE DOES REPORTING DATA COME FROM?

The tagline for the 1990s X-Files TV series – 'The Truth is Out There' – can equally be applied to any fleet's fuel costs. The information you need is out there; in drivers' heads and wallets and, to a lesser extent, in their vehicles' odometers.

Where things often get unworkable is getting hold of the data and making it usable. Fuel card bills or till receipts may go to one department in a company, while mileage claims, submitted on paper or spreadsheets, end up scattered among cost centres' T&E budgets.

To manage fuel and mileage costs successfully, you need timely, accurate and complete information. Ideally you would incorporate information from telematics data too but as a minimum you need the following:

INFORMATION NEEDED	IDEAL SOURCE	OTHER SOURCES
Fuel data (price, volume, type, date, time and location of purchase)	Fuel card reports	Fuel receipts. Expense claims.
Business trip mileage	Audited mileage capture data	Unaudited mileage capture data. Manual logs (spreadsheet or paper). Expense claims.
Vehicle data linked to reg. number (fuel type, tank capacity, mpg and CO_2)	External data feed: via the mileage capture company or fleet management software supplier	

INSIDER SECRET

The goal is to capture this data in ways that allow you to easily combine and use it to control costs, settle expenses efficiently, and analyse for future cost saving opportunities.

REPORTING

“You can’t manage what you don’t measure” – Peter Drucker

MILEAGE – THE KEY TO CONTROLLING FUEL COSTS

Reporting makes fuel cost control possible. Knowing your fleet’s total annual fuel purchases and vehicle mileage won’t help. The answers are all in the detail:

- Business vs. private mileage splits
- Specifics of each business journey (needed for audit purposes and HMRC compliance)
- Actual mpg (obtained by dividing recorded mileage by litres of fuel used)
- Actual fuel cost per mile (calculated from fuel purchases and recorded mileage)

Knowing these facts allows you to measure activities and costs at any level, from individual vehicles and drivers to the whole fleet. Use them to assess your current fleet and steer your fleet policy. For example, knowing your fleet's real world mpg enables you to assess and, where necessary, change your vehicle policy. You can also benchmark current performance, set goals for improvement and use Key Performance Indicators to measure progress.

What is the common denominator of all these measurements? Mileage. It’s the main driver of fleet costs. And it’s the key to reducing them.

INSIDER SECRET

Businesses that don’t collect meaningful mileage data can only see their fleet costs. Those that do can also understand them and therefore take action to reduce them.

REPORTING

USING YOUR DATA

INSIDER SECRET

It's up to you whether to collate reports and run analysis in-house or to outsource them to a supplier who specialises in mileage capture and fuel purchasing.

The difference between managing fuel with the help of robust mileage and transaction data and having to manage without it is like the difference between exploring a cellar with a powerful flashlight and going in with only a box of matches.

Here are just a few of the things you can do with consolidated fuel and mileage data:

1. Compare mileage reports against fuel card spend to identify drivers who under claim mileage or over spend on fuel.
2. Look for mileage claims rounded up to the nearest ten miles. If more than 10% of a driver's trips end in zero, they are almost certainly claiming too much money.
3. Analyse the trip details logged by drivers to check that they are fair or whether, for example, Birmingham appears to be 200 miles from London.
4. See real-world mpg and CO_2 data for all your vehicles. Flag high-cost exceptions, including fill-ups that exceed a vehicle's known tank capacity.
5. Support driver safety and duty of care by identifying when employees exceed safe driving hours.

REPORTING

WHY REPORTS NEED TO BE AUDITED

All of the following reporting tactics are commonplace if drivers don't believe they will be caught out:

Exaggerating the length of journeys by rounding up mileage. This is the most commonly used method for inflating claims and can be endemic in companies

Claiming for journeys they made but did not pay for (e.g. colleagues share a car and each claims the mileage)

Making unnecessary journeys to capitalise 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)

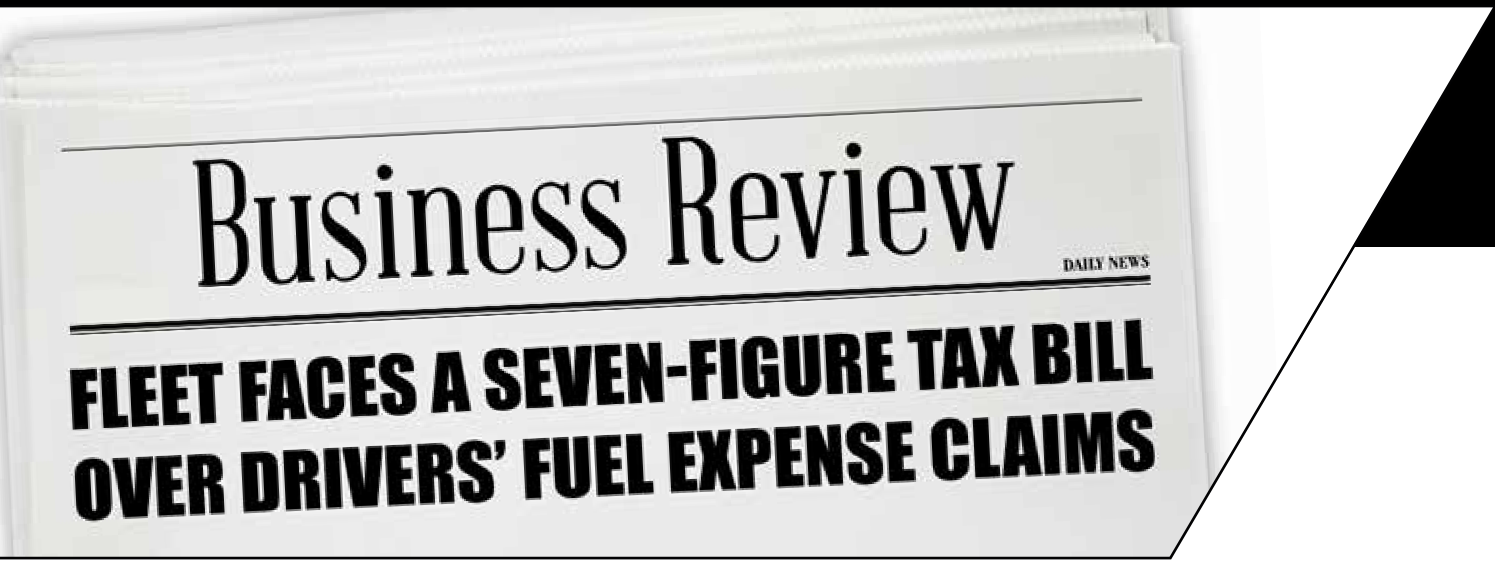
Using fuel cards to fill up other vehicles entirely

The best deterrent against over-claiming is mileage audit. If drivers know their reports are liable to be vetted for anomalies at any time, they are less likely to exaggerate their claim. You can even use telematics data to check a vehicle was present when a fuel card was used.

INSIDER SECRET

As well as being a proven way to solve the problem of over-claiming, using a third party to record and verify mileages also minimises risk of creating friction between the company and employees when claims are queried.

REIMBURSEMENT


Business Review

DAILY NEWS

FLEET FACES A SEVEN-FIGURE TAX BILL OVER DRIVERS' FUEL EXPENSE CLAIMS

COSTS AND RISKS IN THE EXPENSE PROCESS

Reimbursement might appear to be simply a question of settling up with employees, tying off any loose ends and moving on to the next month's travel costs. But the expenses process comes with costs and risks attached.

Administrative overheads can be high. Allowing for an hour of employee time each month for each paper-based claim, plus the manager's time and payroll department's overheads, **processing costs** may add £30 a month/£360 a year per employee to fuel and travel costs.

Checking expense claims is **the last - and often only - line of defence against mistakes and fiddles**. It's asking a lot of busy line managers to catch exaggerated claims.

The financial risks include **missing-out on recoverable VAT** if receipts are missed or the HMRC Fuel VAT Scale Charge amounts, if used, are lower than actual input VAT on fuel.

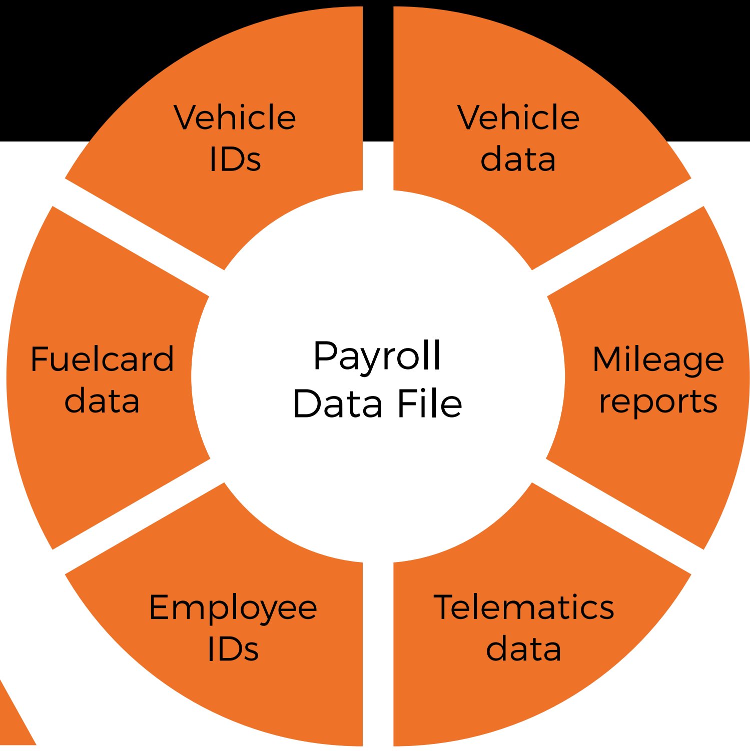
Companies that pay exaggerated business mileage claims expose themselves to **potentially huge tax bills for unpaid BIK**. That's because it means the company is technically paying for privately-used fuel (there's NO flexibility in the rules on that point). The bill can go back six years and will include interest and penalties as well as the private fuel BIK owed.

INSIDER SECRET

Review your expense process for hidden costs and risks and look for opportunities to streamline it.

REIMBURSEMENT

KEY CRITERIA FOR SUCCESSFUL REIMBURSEMENT



INSIDER SECRET

The bottom line is that any reimbursement process will only be as good as the information that goes into it.

The key criteria for each stage of fuel reimbursement are:

Stage	Criteria
Input	Timeliness, accuracy and completeness of information. Ease of data entry. Ability to audit input data.
Processing	Minimal manual intervention (i.e. using automation and rules-based authorisation where possible). Correct rates applied to payments/deductions.
Outputs	Prompt payment of employees. Records are HMRC-compliant

There is no reason for companies to struggle with late, incomplete, hard-to-verify and non-digital fuel expense information.

Today's specialist fuel and mileage management services can deliver extremely good reimbursement information, either as audited data for your fleet software package or as a pre-processed payment file to import into your payroll system (or both). Timing and completeness are also extremely important – otherwise you'll get bogged down dealing with late returns, queries and adjustments. Therefore, you should ask potential suppliers whether their service includes chasing drivers to complete returns on time and, if so, what their monthly capture rate is[1].

[1] TMC's average monthly capture rate is 94%

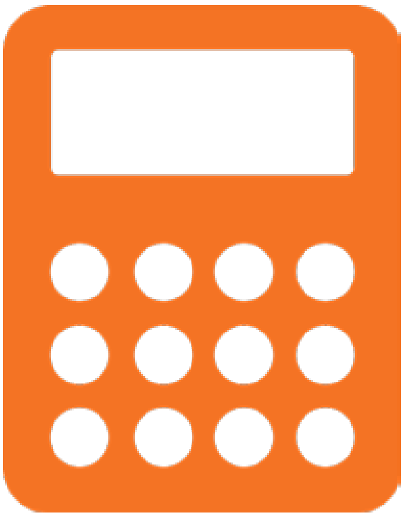
REIMBURSEMENT

IS IT BEST TO USE FLAT RATES OR THE ACTUAL COST OF FUEL?

A huge number of variables affect fuel consumption, making it extremely rare for drivers to obtain exactly the same mpg, even from identical cars. So is it wise to set flat pence-per-mile rates for fuel expenses?

Flat Rates are easy to work with. Most fleets that use them apply the Advisory Fuel Rates (AFRs) published by HMRC. Flat Rates don't require you to capture fuel information (apart from receipts for reclaiming VAT if you don't use fuel cards). But this is also the main drawback of fixed rates – they encourage companies to try to make do with only half the information they need to manage fuel costs properly.

Actual Cost is always fairer to drivers than flat rates. Companies that use Actual Cost usually spend less on fuel in the long run, too. That's because Actual Cost requires a complete suite of fuel and mileage information in order to calculate expenses. This in-depth knowledge allows you to seek out cost saving opportunities that aren't easily achieved via Flat Rates – such as enhanced VAT recovery and improvements to vehicle policy.



INSIDER SECRET

There's no right or wrong answer. Actual Cost is generally preferable but both Actual Cost and Flat Rate solutions will perform efficiently when outsourced and run on a dedicated mileage capture platform.

TAX

There is only enough space here for the barest essentials about business fuel. For the full picture, visit www.gov.uk/expenses-and-benefits-company-cars

BUSINESS MILEAGE TAX ISSUES

95% of tax issues around business mileage relate to Benefit in Kind and VAT.

Fuel Benefit in Kind tax (or BIK Fuel) is expensive and inefficient. Even so, around a quarter of company car drivers still receive it. Somewhat perversely, the tax is a more serious problem (potentially) for the drivers who don't get it, and for their employers.

Why? Because a company car driver is liable to pay it if their employer pays them for ANY private fuel. That makes it vital not only to be able to show careful records of business mileage and reimbursements but also that they've been checked. If you couldn't do that in an HMRC tax audit, your company could find itself facing sanctions.

Fuel VAT. Mileage records can also allow companies to increase the amount of fuel VAT they recover. Most companies reclaim the VAT using the rates set in the HMRC Scale Charges. But if you can show HMRC proof of your fuel input VAT and your fleet's actual business-private mileage ratio, you can recover VAT proportionally. Obviously you'd do so if it meant getting more VAT back. Cherry picking by vehicle or VAT period isn't allowed.

INSIDER SECRET

Fleets that separate business from private mileage and keep HMRC-compliant records give themselves significant advantages when it comes to tax.

Withdrawing BIK Fuel via a TMC managed programme saved a 350-car fleet £440,000 a year

WHAT DO WE DO ABOUT BIK FUEL?

BIK Fuel is a great benefit – if you and the driver like jointly paying £2 or more for the same litre of diesel. Not surprisingly, many drivers now want to be free of this punishing 'perk'.

The good news is that, as long as companies pay attention to the factors below, BIK Fuel can be withdrawn in a way which makes everyone a winner.

1. **Understand each driver's business/private mileage split**. This defines whether they should be bought out of BIK Fuel or opt-out of it completely (the company makes a saving either way).
2. **Understand the true total cost of the benefit**. Not just the cost of fuel but also what the employee pays in tax and what the company pays in Class 1A NIC.
3. **Communicate, communicate, communicate with the drivers**. Done correctly, a withdrawal programme has no downside for the drivers. But employees may not see it that way unless the change is carefully explained to them.
4. **Make sure you are absolutely compliant with HMRC**. Once your drivers are off 'free fuel', you'll need a robust system in place for recording mileages and handling reimbursements when drivers need to pay back the cost of private fuel.

INSIDER SECRET

A withdrawal programme can be carried out in around six months, which includes implementing mileage capture.

SUMMARY

KEY POINT SUMMARY

It's not price that matters most. If you only focus on pennies at the pump, it's easy for fiddles, fraud and other 'hidden' costs to push up your fuel bill.

See the full picture. You need detailed fuel transaction and mileage data if you want to prevent excessive costs and claims, streamline your expense/payroll process, and comply with tax reporting regulations.

The fuel cycle. Purchasing, use, reporting and reimbursement each offer opportunities to reduce costs and overheads. They can be tackled individually or in combination over successive years – whatever works best.

Purchasing options. Don't simply consider their pros and cons as purchasing tools. Which will enable you to achieve the best result in reducing costs over the whole fleet fuel cycle?

Pay-and-reclaim shifts the up-front cost and credit risk of buying fuel on to employees. But it very poor for managing fuel and mileage costs.

Fuel cards give invaluable visibility over transactions

SUMMARY

KEY POINT SUMMARY CONT'D

The rebate myth. Rebates keep customers focused on small price differences when what really matters is minimising the volume of fuel you use.

Best use of fuel. Whatever measures you choose for your benchmarks and progress tracking, you will need robust fuel and mileage data to make the calculations.

Mileage is the key. Without meaningful mileage data, fleets can only see total costs. With it, they can understand them and take actions to reduce them.

Audited mileage capture. Solves the problem of over-claiming. A third party also avoids friction between the company and employees when claims are queried.

Expense process. The bottom line is that any process is only as good as the information that goes into it.

Actual cost vs Flat Rate reimbursement. There's no right or wrong answer. Both perform efficiently when outsourced and run on a dedicated mileage capture platform.

BIK and VAT. Fleets that separate business from private mileage and keep HMRC-compliant records give themselves significant advantages when it comes to managing tax.

THANK YOU

For taking the time to read How to think like a fuel management expert. We hope it has highlighted some areas within your business that can be improved.

If there’s one key point to take away with you, it is ‘visibility’. Worthwhile and lasting changes come from capturing fuel pence-per-mile costs and being able to examine it at every level from vehicle and driver upwards.

Managing fleet fuel is all about pence-per-mile, not pence-per-litre

TMC

TMC

TMC's award winning service is designed to cut fuel costs, reduce administration, provide invaluable management information about your fleet and ensure HMRC compliance.

It is all centred around mileage capture – drivers log their mileage via our easy to use system or app - we can also take a telematics feed. We audit each journey to ensure there are no exaggerated claims and follow up any anomalies with a call the driver to find out more.

At the end of each month, we provide a payroll ready file for private mileage deductions along with a series of reports, including your fleet's real life MPG figures, enabling you to steer your fleet strategy and optimise your company fleet.

We'd love to speak to you to find out how we could help you cut costs and reduce admin. You can get hold of us via:

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