The future ain’t what it used to be

It's like a storm that's never ending
It's like a shadow on the land and the sea
There's nothing so sad as a tomorrow gone bad
The future ain’t what it used to be.

These are lyrics from the Meat Loaf track “The Future Ain’t What It Used To Be”, and they provide a good point for us to start an article in which we will look at how fleet costs can be contained in a post-Brexit Britain.

The Brexit vote has already had a significant impact: inflation up, Office for Budget Responsibility 2017 growth forecast down (to 1.4% from 2.2%), government debt forecast up (by an extra £122bn by 2021 compared with the Spring Budget forecast), and on 29 December the Institute for Public Policy Research warned that Brexit and other changes will reshape the UK radically (they warn that the country is too nostalgic, institutionally conservative and unambitious, and that unless its economic model is transformed we will be “left defending sand castles against the tide of history”).

There is some reluctance nowadays to believe facts, truth or experts but – regardless of your politics – it’s probably best to base business decisions on the combined brainpower within the likes of the Office for Budget responsibility, the Bank of England and the Institute for Public Policy Research rather than the eternal optimists on Twitter or the headline writers of the Daily Mail and Sun.

The fact is that those things that were certain are now much less certain, and uncertainty is bad for business.

Once the Brexit negotiations get under way the press will deliver headlines bewailing the likely outcome of the negotiations. For some reasons, they always seem to prefer bad news to good news. In fact, for them, good news is bad news.

It’s debateable – and unlikely – that the long-term future will be as bleak as suggested by these lyrics or the prophets of doom (that’s an expression, not another rock band) but the consensus is that the short term economic outlook is significantly less rosy than it was six months ago.

So, as someone responsible for managing your vehicle fleet, what can you do now to ensure that your fleet costs don’t start to rise? Even if your company view is that Brexit will be good for your business it’s still wise to plan for any possible downsides.

Let’s first assume that you lease your cars on contract hire.

Get any two people from the fleet leasing industry together for more than ten minutes and it’s likely they’ll start talking about used vehicle prices.

Contract hire is by far the most popular form of fleet finance and the leasing company doesn’t know how much profit it has made on a lease until the vehicle has been returned and sold. Every quote they issue includes a prediction of the future value of the vehicles. If they get that prediction wrong it can cost them dearly.

Typically, the car will be sold at auction. Auction values fluctuate, as can be seen by this chart, kindly supplied by KeeResources.
If you lease your cars this is important to you because your leasing company will start reducing the projected used vehicle sales prices - "residual values" - they build into your new leases, and therefore increasing their rentals, if they think used vehicle prices are likely to fall. And this is exactly what has been happening in recent months – many leasing companies have been marking down their residual values.

If you buy your cars, the performance of the used car market is still important to you because price reductions add to your business costs, through either loss on disposal of fixed assets or additional depreciation.

So, what’s the current prognosis for used car values?

Well, actually, it’s not looking too rosy.

Used car prices reflect the willingness of consumers to put their hands in their pockets to replace their ageing cars with newer ones. If people are worried about their jobs, their salaries not keeping pace with inflation or the 15% hike in the price of next year’s foreign holiday they may well decide to defer buying that three year old car, or to buy an older one.

On the supply side, we are seeing a very large number of three and four year old cars coming onto the market, driven by record numbers of company car registrations and Personal Contract Purchase-funded retail car sales three or four years ago.

Against this background the smart money would be on used car prices falling.

So, with leasing companies reducing their residual value forecasts (and increasing their rentals) and used vehicle values falling, what can you do to protect against your fleet costs rising?

There are three good options:
1. If you haven’t reviewed your fleet policy and supply arrangements for a few years, now is probably a good time to do so. If you lease your cars, ask your leasing company for their cost-saving recommendations. They may suggest a review of the financial product you are using, the mix of cars going onto your fleet and even the pence per mile you are paying your employees for driving business mileage.

2. If you don’t have a leasing company, go out and have a chat with a few, and with a couple of fleet management companies and brokers too. Give them the same challenge. Keep an open mind because they may well be able to deliver significant savings simply by giving you the benefit of their buying power.

3. Start adopting an ‘intelligent mobility’ approach. It is likely that at any time, even during working hours, a significant number of your company vehicles will be sitting idle in a car park. They cost you money by the minute which you get no benefit from if the vehicles are stationary. Most company vehicles are supplied as ‘business use’ tools rather than as solely perks of the job. Is there a better way for your employees to get from A to B other than using a company-supplied vehicle? Do all those employees actually need company cars? Could some journeys be carried out using pool cars, shared cars, rental cars, public transport or company cars that would otherwise be sitting idle all day in the car park?

We are going to be hearing a lot more about these mobility solutions soon. Because things are changing. The future ain’t what it used to be.

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