Gaining purchase

Your choice for financing vehicle purchases depends on your circumstances, as well as your relationships with customers. **Chris Tindall** reports

Contract hire? Hire purchase? Lease? What options are currently available to operators on the hunt for fleet vehicles – and which is best for you?

According to Darren Turley, business development manager at BNP Paribas Rental Solutions, contract hire is "a smart way to access the latest equipment and may improve some key accounting ratios while minimising risk.

"Our main finance offer at the moment is contract hire – it's an inclusive way to rent equipment over a fixed term with maintenance costs rolled into rental payments," he says.

"These payments are a business expense and if the agreement is recognised as an operating lease, sit off-balance sheet," Turley adds.

He says that since the 2008 downturn BNP Paribas has seen a trend towards customers utilising assets more effectively and opting to extend their leases rather than replace the equipment at the end of the primary contract.

"We're also seeing more openness from companies to explore the benefits of fixed-cost repair and maintenance contract hire," Turley says. "Rather than take the risk of maintaining themselves, they're choosing to transfer the risk to the provider."

R&M deals

There has certainly been a large increase in repair and maintenance (R&M) deals bundled in with contract hire agreements, due in no small part to the technological advancements in today's HGVs.

Willie Paterson, CEO of Asset Alliance Group, says: "Commercial vehicles are becoming even more advanced, and sometimes cannot realistically be maintained in a company's in-house workshops.

Willie Paterson, CEO of Asset Alliance Group

"The market is rapidly moving towards fully-inclusive deals, thanks primarily to the increasing technological complexity of today's commercial vehicles, manufacturer incentives, and a potentially growing skills shortage in CV maintenance," he says.

"As margins continue to be squeezed and day-to-day business becomes more competitive, operators are seeking a way to precisely budget for all operational costs, and fix these wherever possible," Paterson adds.

Although it is recognised that there is a degree of difficulty in finding skilled people to maintain trucks, most people agree with Paterson that operators are motivated more by ease:

"The trucks are technologically complex and require specialist knowledge to provide the best maintenance," says John Mabey, sales director at Daf Trucks sister firm, Paccar Financial.

"The UK Daf dealer network is best placed to do that, with the most up-to-date facilities and diagnostic equipment, and technicians fully trained in Euro-6 product. This requires a high level of capital investment that, for most operators, is an unnecessary expense, choosing instead to sign-up to a bumper-to-bumper package with the manufacturer."

Mabey adds: "Operators are attracted to a residual-based rental product as it takes away the need to depreciate the asset or worry about its re-sell at maturity. It enables them to lock into a regular replacement cycle, meaning their fleet is always at current standard, and operating most efficiently.

"Hire Plus (a contract hire agreement) enables the customer to pay one single, all-encompassing monthly payment, taking care of the cost of funding, maintenance and repairs."

Peter Collins, CEO at MAN Financial Services, says: "As vehicles become technically more advanced it becomes harder for operators to manage multi-brand vehicles within their own workshops. To ensure they comply with the tough legislative burden, managing their fleets through contract hire with repair and maintenance is an obvious solution. This is set to continue to grow as telematics opens more opportunities for intelligent monitoring and management of trucks.

"Additionally, having the option to include various services in the agreement such as road fund licence, uptime guarantee, European breakdown cover, fleet management, repair and maintenance costs and replacement tyres to name a few, the administrative benefits allow business operations to run efficiently at fixed cost, which in these economically volatile times is attractive," he says.

Colin Melvin, sales director at Fraikin

Scania Finance GB (SFGB) says residual value (RV) products account for 20% of its sales, although that doesn't account for the methods used to acquire assets via independent leasing products from other financial sources.

Andrew Jamieson, Scania UK truck sales director, says: "This demonstrates the fact that RV products account for around half of the business SFGB writes. We believe this is down to the fact that a significant proportion of Scania operators find it appealing to be able to budget for fixed monthly payments that cover the majority of vehicle acquisition and operating costs – including repair and maintenance –

ELDDIS TRANSPORT

Contract hire doesn't suit everyone. County Durham haulier Elddis Transport prefers hire purchase and when asked why, MD Nigel Cook says: "Flexibility."

"With contract hire, a lot are on fixed terms. We have got the scenario where all are owned, so we can flex – increase or decrease – very easily.

"Yes, a percentage at any one time will be on a financial agreement, but once they're owned the opportunity to flex the fleet is there.

"We put five brand new Mercedes on the road on 1 September. But we haven't sold any; our fleet has temporarily increased by five vehicles. We will probably take five off the roads if volumes drop after Christmas. Depending on what volumes there are, we can do a one-for-one exchange."

without the risk or administration of ownership."

He adds: "Overall, I wouldn't say that there has been a significant shift from customers choosing traditional purchase products to RV products, with a relatively modest increase in overall RV product penetration over the past five years. However, I do believe that leasing in general has become more accepted by some smaller operators, valuing use over carrying the need of ownership status."

What's the most tax-efficient method for financing an HGV? Jamieson says there has been a significant fluctuation on the annual investment allowance over the past few years, with the limit ranging from between £25,000 and £500,000.

Tax deductible

"This would play a part in the benefits of ownership, with the full outlay being tax deductible in the year of purchase and the ability to fully expense lease product rentals through the profit and loss account," he says.

"The other key aspect is with businesses' focusing on their balance sheet structure and key ratios to meet targets and obligations, where the use of RV products has allowed them to treat the transaction 'off balance sheet'. However, this may change for some with the changes due within [international accounting standard] IAS16," says Jamieson.

Collins says: "It is difficult to state the most tax-efficient option as MAN Financial Services offers a range of funding options that are both on and off balance sheet, allowing customers to determine which tax and accounting benefit is right for them individually.

He explains that one option is an operating lease that allows the customer to get full economic use of the vehicle through low-cost, pre-tax rentals while not having to account for the depreciation of the vehicle.

However, on options such as hire purchase, interest payments are tax deductible and VAT can be recovered on the asset purchased.

"Every customer is different, but there has been a trend towards shorter-term or flexible contract hire and rental packages, which reflects the defensive nature of customers who no longer have the luxury of a long-term contract with their customers," according to Collins.

Colin Melvin, sales director at Fraikin, says contract hire remains the most popular form of vehicle procurement, "because it's a simple, easy to plan fixed cost that encompasses everything a fleet needs.

"If you're a fleet manager, you don't need to worry about scheduled maintenance costs or repairs for the duration of the contract, and at the end of the term, there are none of the hassles typically associated with vehicle disposal.

"As long as vehicles are used regularly, so that money is not wasted on assets that spend a large proportion of their time sitting idle, this is a most cost-effective solution and allows a company to concentrate on its core business, safe in the knowledge that we're managing the compliance, safety and performance of its fleet," he explains. ■

RESIDUAL VALUES

What impact is the residual value (RV) of Euro-6 trucks having on contract hire and lease costs?

Asset Alliance Group CEO Willie Paterson says: "We are somewhat unique, in that we take all residual risk in-house via our used truck and trailer sales business and tend to set a long-term strategy, rather than what the market is suggesting at the time.

"We are seeing stronger residual values now on Euro-6 than Euro-5, although certain asset classes, such as tractor units, are under pressure due to oversupply in the marketplace. These stronger values are in turn creating some very attractive leasing rates."

Peter Collins at MAN Financial Services says expectation that Euro-6 RVs were higher was offset by the increase in capital costs for the new models, "so there may not have been seen any significant change in leasing prices.

"However, when you factor in the impact of Brexit upon the value of the pound and the deterioration in used vehicle prices reported by the guides, then you find a very complicated set of circumstances that may result in all manufacturers possibly not being any more competitive than before."