



**Pendragon
Contracts**

The Definitive Guide to Sale and Leaseback

Switching from outright purchase
to contract hire



The aim of this whitepaper is to explain the principle of sale and leaseback and to help determine whether your organisation could benefit from such a programme.

If your company has previously purchased your fleet vehicles either outright or via Hire Purchase and you're comfortable with this approach it still may be worth taking a look at alternative funding methods. There are over 3 million company vehicles in the UK, with many different methods of acquisition, the most popular being Contract Hire with maintenance. In many cases outright purchase may no longer be the most effective solution. A 'Sale and Leaseback' can be a way to move to contract hire smoothly and can provide many financial and operational benefits.



This brief guide will cover;

- **What is 'Sale and Leaseback'?**
- **The potential benefits**
- **Key considerations**
- **What vehicles meet the criteria?**
- **Are there any drawbacks to contract hire?**
- **Other points to note**
- **The process ... step by step**



The Definitive Guide to Sale and Leaseback

Key considerations when switching from purchased fleets to Contract Hire.

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What is a sale and leaseback?

A sale and leaseback is when an organisation sells its previously purchased vehicles to a contract hire and leasing company. The leasing company provides payment at the market value of the vehicles, takes over the ownership, and then leases them back to the company for an agreed period of time.

An example

If you have a 48 month replacement cycle on your current vehicles and decide to make the move to contract hire via a sale and leaseback scheme, a vehicle 14 months old will be purchased, then leased back to your company for a further 34 months.

Reg No.	Vehicle Description	Age Months at 01.12.11	Leaseback Months	Mileage at 01.12.11	Leaseback Miles per Annum	Purchase Price	Total Monthly Rental
MW****	Ford Fiesta Hatchback 1.25 Studio 3dr	42	18	69,000	20,181	£2,575	£143.81
ET****	Renault Master MWB FWD MM33DCI 100 Medium Roof Van Euro 4	15	45	26,000	20,433	£8,000	£264.96
EX****	Vauxhall Astra Diesel Hatchback 1.9 CDTi 8V Design [120] 5dr	32	28	52,000	19,495	£5,525	£203.87
EX****	Vauxhall Astra Diesel Hatchback 1.9 CDTi Design [120] 5dr Auto	36	24	50,000	16,836	£5,050	£205.13
EX****	Vauxhall Zafira Diesel Estate 1.9 CDTi [120] Life 5dr Euro4	33	27	41,000	15,074	£6,650	£218.53
YT****	Vauxhall Zafira Estate 1.8i Design 5dr Easytronic	45	15	75,000	20,316	£4,775	£273.08
EJ****	Vauxhall Vivaro SWB Diesel 2.0 CDTi [90PS] Van 2.9t	5	55	9,000	21,818	£10,000	£291.16
EJ****	Vauxhall Vivaro SWB Diesel 2.0 CDTi [90PS] Van 2.9t	6	54	10,000	20,603	£9,950	£284.40
EX****	Vauxhall Vivaro SWB Diesel 2.0 CDTi [90PS] Van 2.9t	38	22	67,000	21,493	£4,600	£231.07
LD****	Honda Civic Hatchback 1.8 i-VTEC SE 5dr i-shift Auto	51	9	84,000	20,719	£4,750	£223.66

The 10 vehicle fleet shown above has a 5 year replacement cycle and would realise a value of **£61,875** with a monthly leaseback cost of **£2,339**, which would include all maintenance costs.

Why do it?



Cash and 'off balance sheet'

If you decide that sale and leaseback is right for your organisation you can expect to receive a cash injection to help investment in your business. Another financial advantage is the improvement of balance sheet figures through the sale of fixed assets.

Control

You remain in day-to-day control of your vehicles; with no early termination charge (subject to purchase price paid) letting you decide when a vehicle requires replacing.

Less risk

A Sale and Leaseback will also remove the risk surrounding vehicle disposals. In the current economic climate, markets and residual values are volatile and difficult to predict. Having sold ownership (and risk) of your vehicles to the leasing company, it is up to them to achieve a true market valuation of the vehicle.

Efficient Management

As the leasing company takes over legal ownership of your vehicles, it is their responsibility to ensure they are road legal and safe. This means you will have an efficiently managed fleet, with your drivers supported 24 hours per day.

Maintenance

The leasing company will generally include a fixed price maintenance package for the vehicles they buy as part of the sale and leaseback arrangement. They might suggest that older or higher mileage vehicles should be maintained at actual cost to keep costs down, with new vehicles replacing them having a full maintenance service included.

continued ...Why do it?



Mileage

The mileage travelled by the vehicles will be the basis for determining a suitable end date and the monthly lease charges applicable. It will also be the basis for determining a maintenance budget going forward. An excess mileage 'pence per mile' will be set up which can be pooled across a fleet, this will allow that fluctuations in future mileages are accommodated for with no additional costs building up.

Consultancy

It is in the leasing company's interests to provide a high level of customer service and on-going advice, after all, they want you to order your new vehicles from them when the used ones they purchased from you are due for replacement. They should advise you on the best fleet profile to operate, not only from a whole life cost point of view, but also taking into account the motivational and vehicle reliability needs of your drivers. Vehicle technology is advancing so fast so the leasing company should keep you right up to date with the best vehicles to choose going forward, plus advice on Co2 emissions, maintenance, depreciation costs, reducing your company fuel bill, insurance costs and drivers benefit in kind taxation.

What about the drivers?

There will be no disruption to your drivers during the sale and leaseback process, vehicles carry on day-to-day operations. The new support for servicing, breakdown, accident management and even travelling abroad should be communicated to each driver, and the leasing company should provide a 24 hour free phone helpline.

Key Considerations



The first things to consider with your leasing company...

- What is your preferred replacement policy based on age and mileage for your fleet?
- How many of your vehicles meet the criteria needed for a sale and leaseback campaign? (See details below showing our criteria guidelines for a typical sale and leaseback case).
- Have you any vehicle types that should be excluded? (e.g. specially adapted vehicles, coaches, trucks).
- Should fixed price or actual cost maintenance be included in the sale and leaseback, or a mixture of both?
- What is actually covered in any proposed maintenance package?
- What happens at the end of the lease term? – i.e. the process for vehicle disposal.
- Is there any finance outstanding on the leaseback vehicles?
- What can I do about the vehicles too old or too high mileage for sale and leaseback

What vehicles meet the criteria?



There is some flexibility but as an example here's some typical parameters used for a recent sale and leaseback programme;

Suitable for sale and leaseback including fixed price maintenance
<ul style="list-style-type: none">- Fleets of more than 10 vehicles- Cars or vans and light commercials up to 3.5 tons- Vehicles owned outright (or perhaps with HP finance on them)- A replacement policy up to 5 years or 150,000 miles in total- Up to 54 months old – to allow at least 6 months to lease back- Properly maintained vehicles with service history
Suitable for an actual cost (fleet management) maintenance package
<ul style="list-style-type: none">- As above but with less than 12 months to lease back

Are there any drawbacks to contract hire?



The ownership

You will no longer own the vehicle. You will pay to use the vehicle, and therefore will generally have to agree a fixed period of time and a fixed monthly payment. You will also have to have new vehicles rather than being able to buy second hand on some occasions as you wish.

Excess Mileage Charges

With outright purchase there are no limits to the mileage you can travel in your vehicle. With contract hire if you travel more than the amount you contract for, you will incur an excess mileage charge (emc) on return at the end of contract. This is seen by some as a penalty, however it should only equal the additional depreciation and maintenance cost you would have incurred if you had owned the vehicle. Because it comes as a bill, it is just a little more visible.

Early Termination

When your company owns the vehicles you can decide when to replace your vehicles. This can be advantageous in a tough economic climate when businesses wish to reduce overheads or decide to put off the replacement of new vehicles. When you terminate a contract hire vehicle early you will need to pay an early termination charge. This shouldn't be any more than the real costs experienced of you had bought a vehicle and decided to keep it for a shorter period. As with the excess mileage charges explained above it is just more visible. You should choose a company that will consider working with you on extending or rewriting contracts to suit your individual business circumstances.

End of Term Damage Charges

A vehicle should be returned at the end of its lease period in a condition where 'fair wear and tear' is considered for the age and mileage of the vehicle. The industry body 'BVRLA' has a guide for all its members, clearly demonstrating what fair wear and tear is for both cars and vans.

Continued/ End of Term Damage Charges

Your chosen leasing company should charge you for damage above fair wear and tear at a level that covers the reduced value of the vehicle, not the cost of actually repairing the vehicle (unless the damage is so serious that it should have been repaired by you under your insurance). Make sure that you clearly declare the condition of your vehicles before selling via a sale and leaseback, and if possible insist that the contract hire company inspects a good selection of the vehicles in operation. There is no reason why end of contract damage charges on contract hire vehicles should be any greater than the reduced value of a vehicle because of unrepaired damage.

Other points to note



Are you looking after your drivers adequately?

As a result of the Corporate Manslaughter Act coming into effect in 2008 it is now a legal responsibility of an organisation to look after its employees in their day-to-day operations. You should think of a company vehicle as an extension of your office and all the same health and safety rules apply. A modern fleet not only projects the right image but managed by a professional contract hirer will ensure your drivers are safe and supported 24 hours per day.

Would a change benefit your organisation?

Whether your organisation is feeling the pinch in these tough economic times or if business is 'as usual' or even 'improving', a welcome cash injection is something to consider. Whether it be reinvested into the company to improve or increase productivity or capacity, or put into the company's reserves.

The process... step by step.



Fleet profile

In order to embark upon a Sale and Leaseback agreement, the organisation will need to provide the exact make, model, mileage (including the date it was taken) and registration numbers of the vehicles. This will allow the contract hirer to provide accurate quotes for purchasing, leaseback and maintenance, and identification of those that fall outside of the Sale and Leaseback criteria.

Agreement in principle and establishment of a credit line

When comfortable with the prices and figures proposed, an agreement in principle is put in place. The contract hire company will then establish a credit line covering the sale and leaseback transaction and sufficient capacity to cover at least the first years expected new vehicles needed.

Fleet status update

Following the agreement in principle an up to date check of the vehicles will then be made, to record current mileage, vehicle specifications and condition.

This update/check will also include identification of any outstanding finance which the contract hirer would need to settle before paying the balance of the fleet purchase price. If this is the case then a re-calculation of financial figures and a final date of agreement for Sale and Leaseback is put into place.

Master Hire & Fleet Management agreements

Arrangements for a Master Hire Agreement (MHA) for the leaseback and for new vehicles needs to be agreed and signed. An interim fleet management agreement to cover the older vehicles might need to be put into place also.

Replacement programme

Propose and agree on a vehicle replacement programme for those vehicles which are not suitable for Sale and Leaseback, new vehicles will then be ordered and a vehicle remarketing programme organised to sell the older vehicles for maximum value when they are exchanged 'key for key' upon delivery of the new vehicle.

Account management

An account management programme will then be agreed for the remaining calendar year, where other areas of fleet expenditure such as fuel and insurance will be considered.

Conclusion

Sale and Leaseback is a practical and beneficial way of making the transition to a contract hire policy in one go, where the contract hire company purchases the vehicles currently owned and leases them back to your company. The overall leasing package is designed to suit your requirements, and maintenance can be budgeted in depending on each vehicle's age and mileage.

Although you 'lose' ownership of the vehicles, and perhaps the flexibility of when to sell them, a sale and leaseback provides fixed cost budgeting, a cash injection, a reduction in risk, fleet consultancy, fixed price maintenance and efficient fleet management control.

The financial benefits of an immediate cash injection can be enjoyed along with the reassurance of improving your company's position with regard to managing employee risk.

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About Pendragon Contracts

Pendragon Contracts is the vehicle leasing division of Europe's largest automotive dealer group – Pendragon PLC, trading under names such as Stratstone, Evans Halshaw and Chatfields. Pendragon Contracts is a major FN50 leasing company, providing complete fleet solutions from maintenance and management to full service and vehicle supply.

The company employs over 70 team members dedicated to contract hire who also work closely with a national network of vehicle suppliers within the Pendragon PLC group.

We aim to develop long term relationships with corporate clients and the following reasons enjoy a high client retention rate;

- We operate using a consultative and flexible solution-driven approach, designed to suit **your** requirements.
- Unlike many other competing vehicle leasing companies, we are 'automotive people' at heart. We maintain a firm understanding of cars and vans, as they are our group's core business.
- As a 100% subsidiary of Pendragon PLC, we are independent from bank and single manufacturer ownership, retaining full impartiality, a fast response rate and the ability to provide impartial advice and supply of all vehicle makes, models and servicing.

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