

Mileage Audit

Cut your mileage expenses by a quarter

Evidence shows that organisations typically pay out 24.7% more in fuel and mileage expenses than they need to. This guide shows you how to cut your fleet mileage bill back down to size.

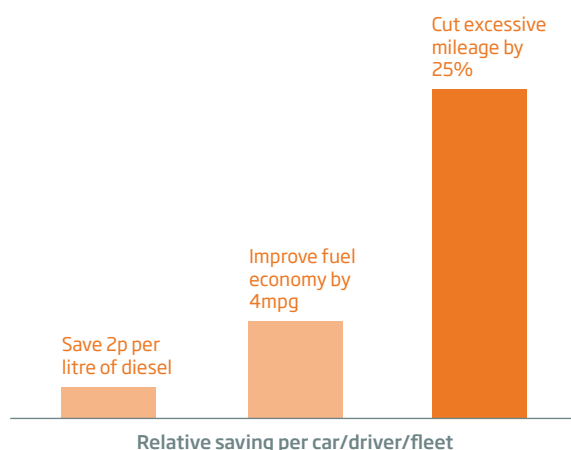
As UK firms strive for profitability in the aftermath of the worldwide financial crisis, many remain unaware of a significant drain on their bottom line.

The problem affects all organisations whose employees do business mileage - whether in company funded or private cars - and is closely linked to the soaring price of fuel, which has risen two times faster than average earnings and 1.5 times faster than inflation over the past 15 years.

Recognising the impact of high oil prices, organisations are focusing on buying fuel more cheaply and reducing the amount they use.

However, while measures such as persuading drivers to refuel at low-cost supermarket sites, or training staff in eco driving techniques have certainly helped to blunt the impact of record prices at the pumps, they are ineffective against the main problem.

Fig 1. The potential savings from buying fuel more cheaply or improving efficiency are generally considerably lower than the savings from eliminating excessive mileage payments. The comparison holds true for a single car or an entire fleet. (Based on diesel car at 46mpg, fuel at £1.14 per litre and mileage expenses of 11p per mile).



The real issue is over claiming of mileage expenses. The chart below left, which is based on the typical drop in claimed mileage experienced by TMC customers employing a total of 70,000 drivers, 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%.

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.

As drivers rarely tot up the all the extra miles, they don't realise how exaggerated their claims are.

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

Organisations that use pay-and-reclaim expenses, where drivers buy their own fuel and claim a pence-per-mile rate for business journeys, tend to be most vulnerable to over claiming.

Manually auditing a complex trail of forms, spreadsheets and till receipts is almost physically impossible, even if someone had the time to do it.

Organisations that use fuel cards usually are better-placed to uncover certain varieties of misuse by drivers. Even so, without independent auditing and verification of actual mileages, it is easy for claimed mileages to exceed the true level by 10% to 15%.



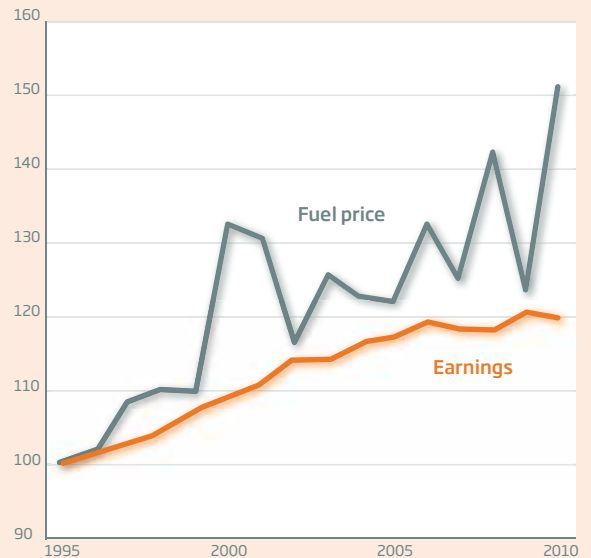
Price shock: how fuel prices have outstripped earnings

Relative to earnings, the price of petrol and diesel are now higher than at any time in the last 30 years.

In 1995, a litre of diesel cost the equivalent of 80p in today's money. Since then, pump prices have repeatedly raced ahead of wages and inflation. The real cost of buying enough fuel for 10,000 miles in a typical mid-range diesel is more than £400 higher than it was 15 years ago.

Many firms base their mileage rates for company car drivers on the HMRC 'advisory rates' (AFRs), which are adjusted twice a year in line with pump prices. This has brought the problem of excessive mileage claims into sharp focus as the level of payments made to drivers has climbed steeply in line with the rising price of fuel.

Fig 2. Index of UK average earnings vs. fuel price, adjusted for inflation. 1995=100



Why drivers get away with over claiming mileage

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 (even if they could be sure of the driver's route). 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 would 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 periodically (usually monthly) report their odometer reading and business mileage to the Mileage Audit system, via a PC, text message or voice call.

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.

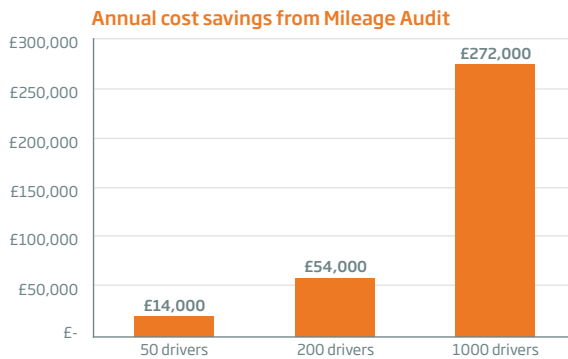
Mileage Audit is a highly effective solution because it typically replaces a dispersed, permissive, paper-based process with an independent, easily-audited, electronic system that is specifically designed to highlight anomalies and inaccuracies in drivers' reports.

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 3. 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 11p per mile.



What does it cost?

TMC Mileage Audit costs 99 pence per month per driver. You need only reduce claims by nine miles per driver each month to cover the cost of the service (based on fuel-only expenses at 11p per mile) - and the typical reduction is considerably higher.

All it takes is TMC

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 now 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 is rising rapidly, due mainly to the continual upward pressure exerted on fuel prices by tax increases and rising oil prices.

Mileage Audit is the most effective method there is of preventing over claiming: find out more by calling TMC, the leaders in Mileage Audit, on 0843 222 6000.

TMC is Europe's leading Mileage Audit specialist, providing online, automated systems that enable company car and grey fleet drivers to accurately record their business and private mileage. TMC's solutions reduce administration costs, support compliance with Occupational Road Risk requirements and are fully HMRC approved.

Disclaimer: The information provided in this guide is for general information purposes only and is correct to the best of the publishers' knowledge at the time of publication (April 2010). Neither TMC nor the author can be held responsible for any actions or consequences arising from acting on or refraining from taking any course of action as a result of reading this guide.

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