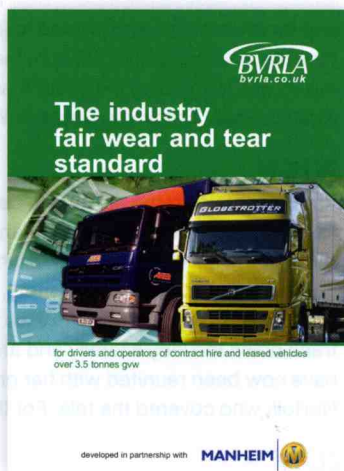


# Rent, Hire or Lease?

Flexibility and peace of mind maybe... but, says Ainsley Fraser, read the small print first, not later.

Unsurprisingly, the nature, variety and diversity of operations in the waste industry is served by an equally wide (and sometimes bewildering) range of options to rent, hire, lease or buy vehicles, plant and equipment to do the job. Which option you choose will very much depend on individual circumstances – but there are some common basics, especially when it comes to terms and conditions – and the obligations for care of the asset whilst it is operating on hire or contract with the end user.

Generally, the options fall into three basic categories – short-term rental or spot hire, longer term contract hire or straight lease. With all of them, the first golden rule is simple ... read and understand the T&Cs and the small print at the outset, because it's a lot easier to deal with issues and queries now than a potential dispute later on. And rule number two is to consider carefully which company you want to go to. The main ones will almost certainly belong to the BVRLA (British Vehicle Rental and Leasing Association – [www.bvrla.co.uk](http://www.bvrla.co.uk)) which has an established, mandatory Code of Conduct and a whole range of helpful information and publications, including the industry's best 'Fair Wear and Tear Guide' to help quantify return conditions at the end of a term.



BVRLA spokesman, Jamie Fretwell told us, "The guide can be used to eliminate many of the concerns about end-of-contract charges, as it highlights the acceptable and unacceptable conditions for returning a vehicle – from scratches and stone chips to trim damage and scuffs. BVRLA members can provide waste companies with affordable access to a range of specialist vehicles, but we recommend that all operators check the terms and conditions of their agreement thoroughly before signing a contract."

"Another good reason why it's very important and sensible to negotiate the finishing terms at the start of the contract is because the people involved may well have moved on by the time it comes to an end", one industry insider revealed. "Then it can get messy trying to settle end of term or legacy issues with people who were not even involved at the outset."

The new Alternative Dispute Resolution regulation



came into force on 1st October this year and the BVRLA's Conciliation Service, which it has offered for over twenty years, has just recently been approved by the Government as a Consumer ADR body. Under the regulation, only ADR organisations that have been checked and certified to ensure independence by the Trading Standards Institute (TSI) can be used – and the BVRLA's Conciliation Service has become one of the first in the UK to complete this process. The service is a simple, low cost way to resolve contractual disputes and should give operators even greater peace of mind.

## So which deal do you choose?

The spot hire solution is often 'reactive' – you've no spare capacity or there's an increased work load; you need seasonal cover or maybe you've had a breakdown – or the start-up of a new contract needs urgent resources. Whatever the reason, the process is likely to start with a phone call along the lines of "Get it here for 07:30 in the morning" and even the paperwork may follow through later. That flags up the first warning sign, as the vehicle or equipment may arrive and start working before terms and conditions have been scrutinised, let alone understood and signed off.

Apart from the 'quick-fix', spot hire can also be a very useful way to test and evaluate equipment. Many of the companies involved in the sector will offer the newest or latest types available ... and for manufacturers too, that can be a good way to seed product into new customers through user experience. Spot hire can then stretch into longer term relationships and requirements too.



Commercial philosophies and pricing structures within the rental business also vary, but overall, there are some fairly standard ball-park industry rates for a particular piece of kit ... price differences may be found in what you get. On one hand you have got the bigger companies, who provide new kit and typically look for longer commitments, while at the other end of the spectrum you have the much smaller guys who will often provide older or refurbished kit – and it will be cheaper. However, if you choose a cheaper to hire refurbished machine, you might save hire costs – but expect to pay higher

maintenance – or worse still, risk downtime. Alternatively, you might opt for new equipment at a higher rate, but pay less maintenance. It's your call!

In the waste business, different types of kit also reveal different whole life cost profiles. Refuse collection vehicles, for instance, may have a five year first line operating life, at the end of which they will have a pretty low residual value. Hook loaders and sweepers by contrast, appear to retain comparatively higher residual values.

With spot hire, it is normal to expect charges for consumables or damage –



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but maintenance will be included. But if the hire rate is lower, then don't be surprised if the provider expects to get back more on the extras. When it comes to parts – particularly whether or not manufacturers' recommended genuine parts are used, it becomes much more of a grey area.

Going for the contract hire option will be for a longer term – and tend to be based on fixed three, five or even seven year terms. Even then however, there may be extensions available, say for an extra year – and the discussions at that point can be the basis for renegotiations or contract renewal.

“One way BVRLA members work to ensure operators are satisfied throughout the duration of the contract is through regular communication. This begins at the start of the contract, when operators are encouraged to clearly outline the intended usage of a vehicle. This is not just about outlining the expected mileage (e.g. 90,000 miles over three years), but the conditions for use. A vehicle used for light material recycling will probably come back in better condition than a skip loader moving rubble off a building site, simply due to the nature of the job. Having constant communication

throughout the agreement is vital, and it's important to notify the lease company if a vehicle's usage changes”, says BVRLA's Jamie Fretwell.

Most contract hire and leasing companies will regularly and thoroughly inspect their assets on-site during the life of the contract and will monitor condition, care and maintenance. This is not least as they are crucial in forecasting residual values – and you will find that the return clauses on leases tend to be more stringent too, on the basis that the user is maintaining the leasing company's asset. It is also fair to say that the larger hire companies very tightly manage equipment warranty.

What are the commercial benefits of contract hire or lease? Top of the list is that there is no capital outlay, accounting for the asset is 'off balance sheet' and there are fixed costs which are set over the contract period. In addition, the user has no risk from changes in legislation – as this is managed by the contract hire company. You can also cover potential downtime risk and response as you can simply call for replacement equipment.

At the end of the lease it is worth

remembering that vehicles or equipment will have to return to the company – because it is against financial regulations to sell the asset direct to the incumbent customer. Any acquisition therefore has to be handled through a third-party – which could remove any benefit of doing so.

And finally, why would you go out and buy a whole new fleet or equipment inventory? There is a flip side scenario where a company may actually want to establish a really strong balance sheet, underlined by chunky asset values. This could be because there may be a takeover, merger or exit sale in the wings. Then, assuming that the money is available, there could be a compelling business case to buy new kit to boost the asset value of the business, recover the main capital cost in the first phase of operation and the remainder of the period just generates good revenue.

Still not sure which way to go? Actually, the choice probably depends on where we all are in the economical cycle and, to some extent, government policy at the time... but it's interesting to note that most of the big hire and rental companies seem to love a recession!