

## [Contract Hire and How to Avoid Some of the Pitfalls](#)

Contract hire is a very straightforward and inexpensive way of running company cars. It couldn't really be simpler you have fully budgeted costs over a fixed term, off balance sheet borrowing, without the complication of disposing of existing vehicles, when the time comes to renew company cars. Even maintenance can be included in the monthly rental. It is however important to avoid some of the pitfalls that can be encountered when choosing this route.

Firstly if the contract hire company is not one of the large and better know companies it is important to establish their policy with regard to the condition of the vehicle when it is returned at the end of the contract hire term.

Most of the established companies say that the vehicle must be returned in a condition that is deemed as fair wear and tear for the age and mileage of the vehicle, as set out in the BVRLA guidelines. It is important to establish that you are not dealing with a company that plans to profit from charging for work to be carried out on the vehicle that is not reasonably required considering the age and mileage of the vehicle. It also is important to have someone from your company present at the handover; one hears of cases of contract hire companies, charging for missing service records, when the hirer was certain they were in the glove box.

A contract hire agreement will be for a fixed term and there will be a specified number of miles the vehicle can be driven during that term, this will be the mileage that has been requested by the hirer. Sometimes it can be difficult to predict how many miles a vehicle is going to do and of course circumstances can change. It is therefore a good idea to check what the charge will be for excess mileage.

On occasions you will see a vehicle that appears quite inexpensive but has a higher than normal charge for excess mileage. Most companies are flexible and will allow you to renegotiate mileage, part way through the term it is worth checking that this is the case with the company you are considering. The whole idea of contract hire is that you have fully budget costs and finding yourself with a large bill at the end of the term, rather defeats the object.

It is also important to make the employee who drives the vehicle responsible not only for it's condition but also for ensuring that the vehicle is serviced at the appropriate service intervals. It should not be the company that has the responsibility of making sure the vehicle is serviced on time; the driver of the vehicle will after all see the appropriate warning come up on the screen and should advise the company accordingly.

Failing to service the vehicle within the designated time can have serious consequences; it can invalidate the warranty leaving the company exposed to the cost of any further mechanical or electronic problems that the vehicle may encounter. This again defeats the object of fully budgeted fixed costs.

There are cases of employees continuing to drive a vehicle for many miles after an engine warning light has appeared. It's difficult to understand the thinking behind this action. One possibility is that perhaps they believe that they can take the vehicle into the dealership some time later and say that the warning light has just appeared; electronics these days are very sophisticated and very often the dealership, with the help of it's diagnostic equipment, can see not only when the warning first appeared but also how many miles have been driven since.

This again is likely to invalidate the warranty, the same can apply if you fill a diesel car with petrol and then drive it. Under those circumstances you will be responsible for the cost of repairing anything else that may go wrong with the vehicle for the remainder of the contract hire term. Cars tend to be very reliable these days so you could be lucky but contract hire is not about being lucky, it's about knowing where you stand financially.

There is potentially another problem should this happen and that is that if the contract hire term of the vehicle is less than three years, it is unlikely that the contract hire company will be willing to take the vehicle back without looking for some form of compensation. This is because most vehicles have a three-year manufacturers warranty and they will then be selling a vehicle without the remaining warranty. This can significantly affect the value of a second hand vehicle.

To summarise check the contract hire company's policy with regard to their requirements for the condition of the vehicle at the end of the contract hire term and also the charge for excess mileage. Make the employee responsible for the condition of the car and for advising the company when a service is due. It also seems sensible to make them aware that they are responsible if they do anything that invalidates the vehicle's warranty. This should help the company to enjoy the fully budgeted costs of contract hire.

## About the Author

For more information about [contract hire, lease purchase, finance lease or vehicle hire purchase in the UK](#) please contact Bowater Price plc 01494 536 536.

