Whole Life Cost– Approach to Fleet Policy Modelling Features and Benefits

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Introduction

Whole Life Cost (WLC) is, as the title suggests, the costs incurred over the whole life of a vehicle contract. Typically, a contract runs for 3 years but businesses occasionally enter into agreements between 2 or 4 years. The key components of a Whole Life Cost calculation can vary between advisers, but it is generally accepted that the most comprehensive Whole Life Cost modelling capability is based on the following:

- Effective lease rental (the amount including irrecoverable blocked VAT)
- Service maintenance repair (SMR) rental – which generally includes tyres and roadside assistance
- 'Tax' charge (National Insurance costs to the employer)
- Tax allowance (Corporation Tax relief at the appropriate rate, if a company is making profits)
- Fuel
- Insurance (usually an arbitrary amount)

These are the components of Whole Life Cost for a vehicle which is leased. In the event that the vehicle is not leased, and is acquired directly by a business using its own funds or borrowed funds, the key components that change are those which relate to the funding cost, depreciation and acquisition cost of the vehicle. These elements are included in the lease, but these charges are also incurred if the client chooses to use its own funds, or borrowed funds, to acquire fleet vehicles. In this event, these specific costs would generally be shown, line by line, in the calculation.

Key Features

It is now considered 'best in class' to adopt a Whole Life Cost approach to fleet policy planning. This is because the total cost of ownership is properly understood in considering all the key factors that influence buying decisions. The creation and maintenance of a company car policy generally benefits for the following reasons:

- Whole Life Cost is now considered the 'gold standard' in fleet management circles

- Companies can reduce their energy consumption and carbon footprint as the application of WLC appraisal generally leads to the selection of more environmentally friendly vehicles

- As a direct result of a positive environmental impact through lower CO2 emissions, fuel consumption is lower. CO2 emissions are a result of fuel burn. The lower the CO2 the lower the fuel consumption and tax charge. This therefore lowers the company's running costs and enhances its Corporate Social Responsibility (CSR) performance too

- The Whole Life Cost approach generally selects more optimal vehicles from a lease point of view and the lease rental includes components that estimate the vehicles residual value (RV) and service maintenance repair charges

- As RV and SMR are key components of the lease rental it means that cars with a lower P11D value are not always the best vehicles for companies to acquire. Equally, lower ELR charges are not always the most tax or fuel efficient

- The scale of front end buying discounts and manufacturer subsidies are still very important, but only form part of the final result. Other factors, principally residual value performance, can often mean a car with a higher on the road cost (OTR) might have a lower cost overall

- Because of the drive to select lower CO^2 vehicles, the tax charge is lower to the business

- The Whole Life Cost evaluation model generally selects more desirable vehicles based on stronger reasoning and removes barriers that might have been previously considered as appropriate policy drivers. For example, traditional limits to P11D and ELR can often exclude vehicles that might otherwise be included under the WLC approach

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Benefits to the Employee

As a direct result of more efficient Whole Life Cost planning, the following are considered the key benefits for the business and its employees:

- A move away from P11d benchmarking means that higher value vehicles can be selected at lower overall cost to both the Company and the employee
- The employee, in selecting vehicles on the choice list which have a lower CO^2, reduces their Benefit in Kind charge and, as a direct result, reduces the tax charge (NI) to the Company
- More efficient engineering by the manufacturer, often means lower SMR costs, which in turn ensures that less spend is attributed to running costs
- Vehicles that were previously excluded because of old style policy restrictions are now often included
- The outsourcing of the Whole Life Cost evaluation to Logical ensures that the fleet choice is regularly optimised with the very best vehicles and that open choice available to employees through a specific number of manufacturer derivatives
- The proprietary system used by Logical is unique in that it selects against optimal parameters defined in consultation with the client, to find a range of vehicles. This approach is opposed to considering a range of vehicles first and thereafter evaluating costs. This leads to optimal vehicle selection and considers options that might not have previously been considered
- The calculations naturally select the very best/most desirable vehicles in a given range for both the employee and company. For example, a lower BIK charge to the employee leads to a lower NI cost to the business
- The provision of the Whole Life Cost Company Car Policy allows employees to make wide ranging enquiries before ordering a specific vehicle and can generally lead to a wide ranging and flexible choice of vehicles compared to limiting policies to a small number of manufacturers or derivatives

Summary

The adoption of Whole Life Cost methodology for company car policy is a very pro-active step that businesses have taken throughout the UK to both reduce its costs across a range of areas, but also to minimise environmental impact through a lower carbon footprint. In achieving these corporate objectives the move to WLC appraisal also tends to enhance the vehicle desirability and benefits to its employees.

Therefore, the policy changes made are very much a 'win-win' for both employer and employee and any queries with regard to vehicle choices can be discussed directly with logical™ on the general support helpline number provided, which is 0121 779 0921.

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