Lombard

Making sense of vehicle finance

Is leasing or buying the best option for your business?

With so many ways to fund a company vehicle, making the right choice for your business can seem daunting. So before investigating the detail of individual options such as hire purchase, contract purchase, contract hire or finance lease, it makes sense to consider the more fundamental questions first.

Having made the decision to invest in one or more company vehicles, it's easy to understand why many small business owners and managers find it hard to decide the best route forward. The question of buying versus leasing is key. And there are a number of important points to consider before making this decision.

1. Do I want to tie up capital in a vehicle?
2. Is an uncertain future resale value an issue?
3. What costs (other than fuel) should be budgeted for?

"By far, the most important consideration is the whole life cost of the vehicle."

Outright purchase clearly has advantages. You can utilise your negotiating skills to achieve an attractive discount; there are no mileage restrictions; and you have full control over when you sell the vehicle. But you also face the risk that the running costs and resale value may not be what you expect.

Leasing (such as contract hire) is essentially a long term rent with various options. The leasing company usually sources the vehicle for you, having pre-negotiated discounted prices with the manufacturer. At the end of your contract they will also dispose of the vehicle, thereby taking on the risks associated with its residual value.

Your fixed monthly rental is for a set period (typically 24-48 months) and an annual mileage (anywhere between 5,000 and 50,000). If you exceed the mileage or decide to terminate early, there are cost implications. Excess mileage charges and termination fees are often quoted as the disadvantage of leasing, however it is important to recognise that a reputable provider only reflects the additional costs incurred – costs that you would also incur in lost value if you owned the vehicle. A three year old vehicle that's covered 100,000 miles is worth less than one with 60,000 miles, no matter who sells it.

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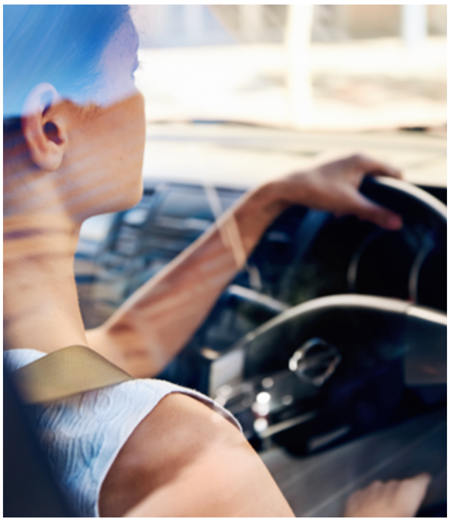
By far, the most important consideration is the whole life cost of the vehicle. For accounting purposes, buy and lease are treated entirely differently, so you need to do a discounted cashflow using your business cost of capital, or the return you would make using the money elsewhere, to compare accurately. Ask leasing providers for example calculations on typical vehicles – like the Ford Mondeo example (fig.1), provided by Lombard Vehicle Solutions.

Here, contract hire is clearly the more attractive option. But bear in mind the outcome can change depending on P11d, CO_2 and your Weighted Average Cost of Capital rate. What it does show is that it's vital to review the whole life costs before tying up funds you could use elsewhere.

If you would like to find out more about what Lombard Vehicle Solutions could do for you, or would like to see our vehicle special offers, please click here.

Security may be required. Product fees may apply.



Ford Mondeo 2.0 Diesel : P11d Value £17,845.83*	Buy	Lease
Purchase price (with Ford SME discount)	£16,948	n/a
Tax relief on capital allowances	£2,045	n/a
Residual Value	£6,725	n/a (but same as OP for model)
Road tax (year 2 and 3)	£60	£60
Tax relief on road tax	£12	£12
Rentals/Payments	n/a	£11,331
VAT recoverable	n/a	£1,888
VAT blocked	n/a	£944
Total	£8,226	£8,357
Present value (NPV) from discounted cashflow	£9,719	£7,703

Fig1. Example figures taken in Feb 2014 and subject to change.