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Reimbursement for Business Use of Personal Vehicles Model Year 2010 Update

A Study prepared exclusively for

The National Joint Council of the Public Service of Canada

by PHH Business Analytics

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Operating Cost Update

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Executive Summary

PHH is pleased to assist in the evaluation of driver reimbursement rates by the National Joint Council. This update evaluates vehicle operating expenses within the framework of our initial study, "Reimbursement for Business Use of Personal Vehicles," dated January 1999. Highlights of this update include:

- Model Year 2010 vehicle prices;
- Incorporating prevalent manufacturer rebates and interest rates in determining overall depreciation and financing costs;
- Updated fuel price data; and,
- Reflection of expense differences for each Province and Territory with two approaches to operating costs: per diem plus per kilometer rate; or straight per kilometer rate.

This report summarizes key assumptions and values, and presents recommended levels of reimbursement for consideration by the National Joint Council. Our intent is to provide the most up-to-date expense data so that reimbursement rates for 2010 can be appropriately established.

Methodology

We continue to present our findings in two alternative formats for reimbursement. We have recommended that the National Joint Council adopt a reimbursement policy that recognizes the fixed and variable nature of the costs that individuals incur in owning and operating a motor vehicle. This approach has a fixed component that reimburses drivers for each day they use their personal vehicle on organizational travel, and a variable component that would provide reimbursement for the operating cost of each kilometer traveled.

Recognizing that this is a departure from the historic policy, we have developed a reimbursement schedule, by Province, that reflects the operating costs on a straight per-kilometer basis.

Each approach is developed by deriving costs for three vehicle classes: compact, mid-size, and crossover. Costs are developed assuming an annual driving distance of 20,000 kilometers, and for ownership terms of both four and five years. Fixed costs include depreciation, taxes, financing, insurance, licensing and registration, and miscellaneous items. Variable costs cover fuel, oil, tires, and maintenance. Cost variations between Provinces are recognized, including adjustments that recognize the severe weather conditions in the Territories.

Evaluation

When compared to last year, the nationwide cost to operate an automobile decreased to $0.522 per kilometer on average. The principal factors impacting rates this year are significant decreases in fuel and depreciation, with financing, insurance, maintenance, and tires having increased slightly.

This year, the decrease in fuel costs was the most dominant among the other changes in running expenses. Fuel costs accounted for approximately 21% of total costs. Despite rising steadily throughout the year due to speculative capital flowing back into oil commodities and equities, gasoline prices were, on average, $0.169 per litre lower for this study period than when reviewed for the 2009 update. This is mainly due to less overall demand caused by the economy's contraction since last year and the record high prices that prevailed for much of 2008. Pump pricing used in the study reflects averages in each location from September through November and ranges from $0.928 to $1.169 per litre.

Among fixed costs, depreciation costs are down significantly, by $0.015 per kilometer reflecting a decrease of approximately 7.1% from the 2009 update. This reflects the effect of slightly lower prices for new vehicles and slightly higher trade in prices due to stabilization in the used vehicle sales market.

Finance, license and insurance costs, taxes, and maintenance and tire costs all went up slightly from last year's levels.

The Preferred Recommendation suggests reimbursing for fixed costs on a per diem basis and for operating costs on a kilometric basis. The per diem rates range from $17.00 to $22.00 per day, with companion kilometric reimbursement rates ranging from $0.140 to $0.260 per kilometer. Comparing Provincial rates to last year's recommendations, per diem rates decreased between $0.25 and $0.75 across the country except in Alberta and Ontario where there was no change.

Variable kilometric rates decreased slightly in all locations due to lower running costs, generally by either $0.010 or $0.015 per kilometer in most provinces except in Alberta where the rate decreased by $0.020. For the Territories, the corresponding rates decreased by $0.020 per kilometer in Northwest/Nunavut and by $0.050 in Yukon.

The National Joint Council has preferred the approach taken in the Alternative Recommendation, with reimbursement based on a kilometric rate depending upon whether the employer or employee requested that the employee's vehicle be used. Changes to employee-requested rates referred as the Commuting rate in this report mirror those for the Variable kilometric rate noted above. Employer-requested rates, referred to as Travel rates in this report decreased between $0.010 and $0.030 per kilometer in the provinces. Higher rates are recommended in the Territories (owing to the added costs attributed to the severe weather conditions).

Introduction to Study

This study updates the vehicle operating costs within the same framework presented in our initial study for the National Joint Council, "Reimbursement for Business Use of Personal Vehicles," dated January 1999. That initial study included:

- an evaluation of the policy in place at the time, as well as the methodology used to develop the levels of reimbursement,
- a Benchmarking Survey of other organizations in Canada to sample the types of policies and levels of reimbursement in common use, and
- a development of our proposed methodology and the resulting recommended levels of reimbursement.

This cost and reimbursement recommendation update utilizes the methodology developed in our initial study. Specifically, we have developed costs for the various components of expense categories that are applicable to the ownership of personal automobiles. Certain costs are considered "fixed" – they are incurred regardless of whether or (within limits) how much a vehicle is driven. These costs include: depreciation (the loss in value of a vehicle over time), financing, insurance, taxes, registration and licensing fees, and other small miscellaneous costs. Other costs are tied to the use of the vehicle. These "variable" costs are primarily for fuel and various maintenance items (preventive and unscheduled maintenance, and tires).

In developing an operating expense analysis, variable expenses are typically calculated on a dollar per kilometer basis, reflecting the activity base driving this cost. Fixed expenses are appropriately measured as a monthly or annual expense, since these costs are incurred regardless of distance driven. In general, fixed expenses are approximately two-thirds of the total operating cost.

Where applicable, differences in these expenses between individual Provinces and Territories are recognized. Through each step, we have used information available in the public domain, as well as internal PHH data, expertise, and procedures.

As with our initial study, our results are presented in two alternative approaches to reimbursement: a per diem plus kilometric rate approach; and a straight per-kilometer alternative.

Beginning with the 2003 update, we started to incorporate manufacturers' rebates on new vehicles in order to recognize their wide availability to all purchasers. We continue to track and apply manufacturers' rebates to vehicle suggested retail pricing, an approach that accurately reflects the current marketplace and is a truer benchmark from which to determine market depreciation costs. Note that our approach does not attempt to account for dealer level discounts that might be available or negotiated by individuals.

Periodically, rate updates have been prepared in the past to evaluate the impact of changing pump prices. Such a study was performed last in September 2009. All comparison values in this document refer to the last full update for the 2009 model year.

Cost Component Determination

In this section, we present the assumptions and step through the methodology for determining the costs of the various expense components required to establish a rate of business use reimbursement. Overall, the basic approach is the same as described in our initial study. Here, we identify key changes and differences, and summarize our results.

Assumptions

The three key factors that drive the ultimate rate of reimbursement are the:

- vehicle selection,
- replacement period, and
- distance driven, both annually and over the life of the vehicle.

These factors are the main independent drivers of depreciation, the largest component of total operating costs, and establish key driving components in each of the other expense categories. Essentially, vehicle selection determines the initial cost, while the replacement period and distance driven are the key factors in determining the resale value.

Vehicle Selection

The type of vehicle assumed as the basis for determining the reimbursement policy will ultimately drive the level of reimbursement more than any other factor. We continue to evaluate costs for the three vehicle classes included in last year's study with one minor change: compact, mid-size, and the crossover class, which was the minivan/crossover combined class last year. Final recommended rates are averages of the expenses for these three vehicle classes.

For the current model year, the table below shows the nameplates and retail pricing that we employed. This pricing includes currently available manufacturer rebates.

There have been some additions and deletions in the manufacturers' product offerings since the 2009 model year, and we have made a few small changes to the representative nameplates within each product class to accommodate this and to maintain similar levels of vehicle pricing for each category.

Product Class	Representative Nameplates	2010 Model Year Pricing
Compact	Chevrolet Cobalt	$17,050
	Ford Focus	$19,149
	Chrysler Sebring	$23,495
	Dodge Caliber	$19,295
Mid-size	Ford Fusion	$24,249
	Dodge Avenger	$21,495
	Chevrolet Malibu	$22,495
	Pontiac G6	$26,700
Crossover	Jeep Compass	$21,645
	Ford Escape	$28,699
	Chevrolet Equinox	$27,445
	Dodge Journey	$25,045

For the most part, the motor companies have ceased production of the minivan category in favor of crossovers. As such, and per the recommendation from the 2009 study, the Chevrolet Uplander and the Pontiac Montana have been removed from last year's minivan/crossover vehicle class and replaced with the Chevrolet Equinox. Further, we have renamed the minivan/crossover class to simply crossover to reflect the current vehicle composition. Finally, we have added the Dodge Journey and the Dodge Caliber in the crossover and compact product classes, respectively, to provide representation for Dodge, and we have removed the Saturn Astra and Saturn Aura from the compact and midsize classes since GM is discontinuing production under this brand. The makeup of the midsize vehicle class remains unchanged. On average, these prices reflect a 1.5% decrease over 2009 model year pricing, reflecting the current competitive environment for new vehicles.

Ownership Replacement Period

We continue to use the average of four- and five-year ownership periods in developing our operating expenses.

Vehicle Utilization

The final key assumption in making operating cost determinations is the number of kilometers driven annually. We continue to assume an annual vehicle usage of 20,000 kilometers. This equates to odometer readings at trade in of 80,000 kilometers at four years and 100,000 kilometers at five years. We make no distinction between personal travel and vehicle use for business purposes in this annual use assumption.

Methodology

To review and summarize, our methodology involves determining fixed costs and variable costs for several assumed parameters:

- Vehicles are driven 20,000 kilometers annually.
- Costs are evaluated for ownership periods of both four and five years, and for representative nameplates in each of the product classes: compacts, mid-size, and crossovers.
- Depreciation is determined by estimating a residual value (essentially the resale or trade-in amount) for a newly purchased vehicle, based on historic patterns for each vehicle class.
- Financing costs are based upon the net cost of a vehicle; the purchase price of the new vehicle less the resale value of the vehicle being sold.
- Taxes are determined at prevailing rates by Province on the net vehicle cost, and are amortized over the assumed ownership period.
- Licensing and registration expenses are determined on a Provincial basis and assume annual renewals.
- Insurance expenses are determined by Province, based primarily on the inflationary experience of auto policy premiums applied to policy rates used in previous years.
- Variable costs are based on current costs for fuel, oil change service, tires, and maintenance.
- Operating cost adjustments are made for the Territories, reflecting the severe operating conditions in those locations.

In the following sections, we summarize key thoughts for each cost component and review any significant items and/or changes.

Variable Expense Analysis

Variable expenses cover fuel, oil, tires, and maintenance. These expenses generally vary with the number of kilometers driven, and in the case of the Territories, the severity of the climate.

Fuel

Fuel generally represents the second largest expense of operating an automobile. Direct cost of fuel is determined by the cost per litre and the vehicle fuel efficiency, and the operating expense values vary with changes in both fuel economy and gasoline prices. The approach to determining these costs is unchanged from previous years.

In order to account for the severe operating conditions prevalent in the Territories, we have adjusted the vehicle fuel efficiency in computing fuel expenses for these locations. Our computations continue to reflect an 80% increase in the rate of fuel consumption on a litres per 100 kilometers basis.

For the selected product classes, representative fuel efficiencies are given on the following table. These values represent fuel economy values consistent with changes in motor company product offerings.

Fuel efficiency (litres per 100 kilometers)	**Product Class**		
	Compact	**Mid Size**	**Crossover**
Provinces	8.6	9.1	10.6
Territories	15.6	16.3	19.0

Current representative fuel prices by Province are given, in dollars per litre, in the following table. These represent pump prices for regular gasoline for September, October, and November 2009. For reference, fuel pricing from previous years and the most recent interim fuel price update is also shown.

Province/Territory	**Current Fuel Price (per litre)**	**September 2009 Fuel Update price**	**2009 Update Price**	**2008 Update Price**	**2007 Update Price**	**2006 Update Price**
Alberta	$0.929	$0.951	$1.133	$0.990	$0.828	$0.884
British Columbia	$1.054	$1.072	$1.224	$1.045	$0.948	$0.977
Manitoba	$0.985	$0.999	$1.129	$1.014	$0.885	$0.923
New Brunswick	$0.971	$0.990	$1.146	$1.011	$0.889	$0.987
Newfoundland	$1.089	$1.100	$1.267	$1.116	$1.005	$1.045
Northwest/Nunavut	$1.169	$1.159	$1.303	$1.119	$1.005	$1.080
Nova Scotia	$1.023	$1.041	$1.166	$1.070	$0.935	$0.979
Ontario	$0.950	$0.960	$1.088	$0.973	$0.837	$0.875
Prince Edward Is.	$0.988	$1.002	$1.149	$1.013	$0.917	$0.981
Quebec	$0.945	$1.030	$1.143	$1.029	$0.894	$0.931
Saskatchewan	$0.991	$1.038	$1.168	$1.044	$0.901	$0.937
Yukon	$1.074	$1.101	$1.349	$1.187	$1.023	$1.092

After reaching record highs last summer, pump prices have fallen dramatically along with crude oil prices in response to a slowing global economy and the related weak demand for crude oil. Pump prices are lower than those from last year's update in all areas, with differences ranging from $0.127 to $0.275 per litre. The contribution of fuel costs to overall reimbursement is down in all locations, equating to $0.015 to $0.020 per

kilometer in all provinces, $0.030 per kilometer in the Northwest Territory, and $0.055 per kilometer in the Yukon Territory.

Total fuel expenses averaged $0.094 per kilometer in the Provinces and $0.190 per kilometer in the Territories, a decrease of $0.018 and $0.041 per kilometer, respectively from 2009. In general, fuel prices must change by approximately $0.047 per litre in order to affect a change of $0.005 per kilometer in the reimbursement rate.

Oil Changes

Oil expense is determined on the basis of a service interval of three months or 6,000 kilometers. For the annual usage assumption of 20,000 kilometers, the three-month interval controls. Evaluation of oil change costs across Canada continues to show an average price of $40 per service. Geographic price differences are not considered, as they would not have a material effect on the recommended reimbursement rate. The average per-kilometer rate is $0.008 for all vehicle classes.

Tires

Tire costs continue to be partially based on location, as the necessity of utilizing snow tires in the northern climes generally increases tire expenditures in these locations. Under "normal" conditions, we assume a tire replacement interval of 72,500 kilometers; per-kilometer costs are then increased by 50% in the Territories and by 25% in each of the Provinces. This reflects exclusive use of all-season radials in the heavily-populated southern areas of Canada, while allowing for increased use of snow tires to the north.

Beginning with the 2009 update, we increased the per-kilometer costs for Quebec by 50% to reflect the mandatory winter tire regulation that went into effect in the province effective December 15, 2008. This regulation mandates that all passenger vehicles' tires need to be replaced with currently available brands of winter tires between December 15 and March 15 from 2008 through 2014. Winter tires purchased by drivers in Quebec under this mandate will most likely be used during the stipulated months and then saved for use over the following year's winter season. Hence, we would not expect this increase to be consistent each year.

Compared to last year's relatively constant tire prices with a 0.7% overall decrease from 2008, this year's prices saw an overall increase of 12%. Resulting tire expenses (by location) increased over last year with costs ranging from $0.009 to $0.011 per kilometer, and do not have a material effect on the overall operating cost recommendation.

Maintenance

We continue to utilize our in-house maintenance database to develop the dollars per kilometer values used in the model. This permits us to develop maintenance costs for the different vehicle classes, and to show how these expenses increase with ownership term. In addition, we are able to make an estimate of the geographic variance in maintenance costs on the basis of the experience of our fleet clients.

The following table shows our experiential costs by product type for four- and five-year ownership periods, as well as the range of per-kilometer costs across the Provinces, used in the analysis.

Maintenance dollars per kilometer	All Canada Average			Provincial Range	
	Compact	Mid-Size	Crossover	high	low
4-yr ownership	$0.032	$0.034	$0.041	$0.040	$0.029
5-yr ownership	$0.044	$0.046	$0.055	$0.054	$0.040

On average, maintenance accounts for approximately $0.042 per kilometer of the total operating cost for this update compared to $0.037 per kilometer for the 2009 update, leading to an overall net impact of less than $0.005 per kilometer. Like tire costs, overall maintenance costs are slightly higher in 2010 following a slight decrease in 2009. We attribute this to higher parts costs and more limited parts availability for newer models.

Fixed Expense Analysis

The fixed expense categories (depreciation, taxes, financing, insurance, registration, and miscellaneous) are calculated on the basis of dividing annual costs by 20,000 kilometers per year to get a dollars per kilometer value.

Depreciation

As noted in the Introduction, our approach to calculating depreciation expense reflects changes in the nature of vehicle pricing in the consumer marketplace, which currently is impacted by depressed prices for new vehicles and better returns on used vehicles. Our approach is summarized as follows:

- For each vehicle class, four to five representative nameplates are chosen.
- For each nameplate, prevailing price information is complied for each of the past five model years. For the 2010 model year, available manufacturer rebates are applied to suggested retail pricing.
- For each nameplate, estimated 4- and 5-year residual value percentages are developed from historic data. These represent the percentage of the original retail price that the vehicle would bring when traded in.
- An average initial cost for each nameplate is calculated for the number of past model years in each ownership period.
- Total depreciation for each nameplate and ownership period is calculated by applying the residual percentage to the average initial cost.
- Depreciation expense in dollars per kilometer is determined for each nameplate and ownership period based on the assumed annual distance driven.
- Kilometric values for each vehicle class and ownership period are the average of the selected nameplates within the class.

Vehicle pricing information is taken from the November 2009 Canadian Red Book and from PHH's vehicle pricing application. Factory suggested retail pricing is used for comparable models year-to-year. Published manufacturer rebates (at the time of the study) have been applied to suggested retail pricing. No attempt is made to quantify any available negotiated discounts.

This approach defines depreciation as "the expected loss in value of a vehicle over its term of ownership." We believe this best captures the actual financial effect of depreciation on the cost of ownership, and makes the appropriate distinction of depreciation from the vehicle financing issue. Summary depreciation costs are given in the following table. (For comparison purposes, values from the 2009 update are shown in parentheses.)

Depreciation dollars per kilometer	All Canada Average		
	Compact	**Mid-Size**	**Crossover**
4-yr ownership	$0.191 ($0.223)	$0.206 ($0.247)	$0.218 ($0.226)
5-yr ownership	$0.172 ($0.178)	$0.184 ($0.185)	$0.193 ($0.193)

The overall trend this year is a moderate decrease in depreciation costs, with some variation across each vehicle class and ownership period. New car prices (including effects of motor company rebates) are lower by approximately 1.5% over the last year, with an average vehicle price decrease of approximately $360. Trade-in values are slightly higher than last year, increasing by about $275 on average. The overall result of the combined changes is a decrease in the average annual depreciation cost of about $295, equivalent to a decline of $0.015 per kilometer.

Depreciation costs account for the largest portion of automobile expenses, approximately 37% of the total.

Sales Tax

The sales tax component of vehicle operating costs varies by Province/Territory, and depends on the net sale price, the assumed ownership period, and on how the tax rates are applied. While these taxes are paid at time of purchase, they are often rolled into the financing transaction. Our calculation determines the tax on the net purchase price, and amortizes the computed sales tax over the total ownership period.

Tax rates are different in the various localities, and are applied differently as well. The Federal sales tax (GST) is applied to the net price in all Provinces at the applicable rate. Most Provincial taxes are applied to the price alone; some are stated as individual rates, others as a higher GST rate. Quebec and Prince Edward Island apply their tax rate to the price including the GST. The effective tax rates range from 5.0% to 15.5%.

Financing

Costs to finance are based on the amount financed, rate, and term. As we are considering two ownership terms, the associated financing costs are based on loans of the same duration. Financing costs over the ownership term are summed and then spread evenly over that term. (Actual financing costs decrease over the life of the loan.)

For the amount to finance, we assume that the purchaser finances the difference between the price of the new vehicle and the resale or trade-in value of the replaced vehicle. We also assume an "in-kind" replacement in terms of vehicle class, and do not consider geographical differences in financing rates to be significant.

Financing rates are based on an average of thirteen lenders and offerings from three manufacturers. These current new automobile financing rates average 6.9% for 48-month loans and 7.2% for 60-month loans. These rates are 0.1% higher than rates used in the 2009 update. This reflects the higher interest rate environment in the current marketplace driven partly by less aggressive finance deals from motor companies.

Financing contributes approximately $0.033 per kilometer to the total fixed vehicle costs. Overall financing costs are slightly higher, due to a slight increase in interest rates for car loans. Compared to the 2009 model year update, financing costs have increased by 4.0%, which equates to just over one tenth of a cent per kilometer in additional fixed costs.

Insurance

Insurance costs continue to have a fairly significant impact on the reimbursement rates, accounting for the third largest portion after depreciation and fuel. For the 2010 update, average insurance costs increased slightly from the last update; however rate changes by location were relatively significant, as discussed below, with the majority of locations seeing an increase in insurance costs.

Our approach continues to determine insurance premiums on base rates used in the original 1999 study, adjusted for the price changes measured by Canadian Consumer Price Index (CPI) for automotive vehicle insurance premiums from Statistics Canada (www.statcan.ca). Using this methodology, insurance cost estimates can vary significantly from one year to the next , but are believed to track to accurate averages over time.

During the last twelve months, there was an increase in the average Canadian auto insurance rates between $25 and $275 in most provinces except in Manitoba and Saskatchewan where there was no change in rates. Rate increases in the territories were approximately $100 in the Northwest/Nunavut territory and $50 in the Yukon Territory. The following table shows the annual premium rates used, by location, as the base rates for developing operating costs in this update. The dollar changes over previous rates are noted as well.

Province/Territory	Premium / $ change	Province/Territory	Premium / $ change
Alberta	$2650 / +$250	Nova Scotia	$1725 / +$100
British Columbia	$1875 / +$25	Ontario	$2700 / +$275
Manitoba	$1550 / no change	Prince Edward Island	$1775 / +$125
New Brunswick	$1775 / +$100	Quebec	$2625 / +$50
Newfoundland	$2075 / +$100	Saskatchewan	$1225 / no change
North West / Nunavut	$1525 / +$100	Yukon	$2175 / +$50

Overall, these insurance costs add an average of $0.097 per kilometer to the operating cost which is higher by $0.005 per kilometer higher than the 2009 update. The contribution of insurance to operating costs ranges by Province from $0.060 to $0.133 per kilometer. Where rates changed, the impact was between $0.001 and $0.014 per kilometer.

Registration and Licensing Fees

Registration and licensing fees are established by each Province and are readily determined from the annual fees listed in the following table:

Province/Territory	Registration Fees	Province/Territory	Registration Fees
Alberta	$84	Nova Scotia	$129
British Columbia	$61	Ontario	$74
Manitoba	$119	Prince Edward Island	$135
New Brunswick	$129	Quebec	$347
Newfoundland	$140	Saskatchewan	$87
North West / Nunavut	$126	Yukon	$80

On average, registration contributes $0.006 per kilometer to the total reimbursement amount, ranging from $0.003 to $0.017 per kilometer by location.

Miscellaneous

Based on our internal expense reporting data for Canadian fleets, we continue to recommend a monthly allowance of $10 for miscellaneous vehicle expenses. This translates into a cost of $0.0005 per kilometer for each vehicle class, Provincial location, and ownership term. This amount is unchanged from the initial study.

Operating Cost Summary

Our summary findings on operating costs are shown on the following table. Recommendations and discussion are presented in the following section.

Operating Cost (dollars per kilometer)	All Canada Average			Provincial Range	
	Compact	Mid-Size	Crossover	high	Low
4-yr ownership	$0.486	$0.521	$0.573	$0.652	$0.428
5-yr ownership	$0.478	$0.512	$0.561	$0.642	$0.419

The variability in ownership term continues to be quite small, and the variation in product classes remains fairly constant. More significant are the cost differences between geographic locations.

Overall operating costs are lower than the 2009 update and are reflected in recommended reimbursement rates that are lower in general, with variances by location. Lower fuel and depreciation costs were the main factors that led to the decrease in rates.

Financing, insurance, licensing, maintenance, and tire costs increased moderately, while the costs attributed to oil changes and miscellaneous expenses were essentially unchanged from the previous update.

Policy Recommendations

Based on the cost category components and our evaluation of their variability, we continue to recommend that the National Joint Council adopt a "Fixed and Variable" Reimbursement Schedule. This approach recognizes that there are fixed costs to operating a personal vehicle that are incurred regardless of the distance traveled and variable costs that are tied to the number of kilometers a vehicle is driven over a given time period. The essence of this proposed schedule is:

- a fixed per diem rate to reimburse daily fixed costs of owning an automobile; and
- a variable per-kilometer rate to reimburse for the cost of operating an automobile.

The details of this recommendation are presented below as our "Preferred Recommendation."

We believe that this recommendation most closely and equitably provides for the reimbursement of the actual costs of operating a vehicle. However, we do recognize that this is a departure from the current per-kilometer method of reimbursement. Indeed, the per-kilometer approach is commonly used by most organizations, as indicated by the results of our survey. Having compiled the expenses for each of the component cost categories, it is possible to develop several viable reimbursement schemes.

Recognizing that there may be a comfort level with the more common per-kilometer approach, we also provide an alternative recommendation on this basis. This is presented as our "Alternative Recommendation."

We continue to base our recommended rates on the average operating costs for the compact, mid-size, and crossover (minivan/crossover in the 2009 update) product classes and for both four- and five-year ownership periods.

We also continue to recognize the Provincial differences in the operating costs of vehicles. The costs by Province and Territory that we have developed are tabulated in the following sections.

Preferred Recommendation

We recommend that the National Joint Council adopt a fixed and variable rate of reimbursement policy. This entails establishing, for each Province and Territory, a daily per diem rate and a per-kilometer rate. An individual who is requested to use their personal vehicle for company travel would receive the flat per diem reimbursement for each day that they are on travel status. This per diem rate would reimburse the driver for the fixed costs of owning their automobile. In addition, the driver would receive reimbursement at the policy rate for each kilometer of travel that is business related to compensate for the true cost of operating the vehicle.

We recommend that these policy rates be based on:

- the average costs calculated for the compact, mid-size, and crossover product classes;
- the average of costs calculated for both four- and five-year ownership periods; and
- recognizing the variations in cost from Province to Province, as discussed previously.

We have developed the following reimbursement rate table that shows our recommended per diem and per-kilometer rate for each Province and Territory. The per diem rate is derived by dividing the annual fixed expenses by 365. The per-kilometer rate represents the variable expenses as developed for each Province. Per diem rates are rounded to the nearest $0.25 while per-kilometer rates are rounded to the nearest $0.005.

For comparison purposes, the 2009 recommendations are shown as well.

2010 Preferred Reimbursement Schedule

Location	Per Diem (dollars per day)	Per Kilometer (dollars per kilometer)	2009 Values Per Diem/ Per Kilometer
Alberta	**$20.50**	**$0.140**	$20.50 / $0.160
British Columbia	**$19.00**	**$0.160**	$19.75 / $0.175
Manitoba	**$18.25**	**$0.145**	$19.00 / $0.155
New Brunswick	**$19.00**	**$0.145**	$19.25 / $0.160
Newfoundland	**$19.75**	**$0.165**	$20.25 / $0.180
Northwest	**$17.50**	**$0.260**	$17.75 / $0.280
Nova Scotia	**$19.00**	**$0.160**	$19.25 / $0.170
Nunavut	**$17.50**	**$0.260**	$17.75 / $0.280
Ontario	**$21.25**	**$0.155**	$21.25 / $0.165
Prince Edward Island	**$19.25**	**$0.150**	$19.50 / $0.160
Quebec	**$22.00**	**$0.160**	$22.50 / $0.170
Saskatchewan	**$17.00**	**$0.150**	$17.75 / $0.165
Yukon	**$19.00**	**$0.245**	$19.75 / $0.295

In instances where employees request that they be allowed to use their own personal vehicles on organizational business, we recommend that the National Joint Council continue their current practice of reimbursing for

variable expenses by using the per-kilometer rate, by Province, given in the above table, in which case there would be no per diem reimbursement.

Alternative Recommendation

We do recognize that our fixed and variable recommendation is a departure from the norm of a fixed reimbursement rate. The advantage to developing expense data in the fashion presented here is that the same information can be employed to establish a fixed rate. The basis of the rates recommended below is an annual driving distance of 20,000 kilometers. The following table lists the per-kilometer reimbursement rates, by Province, that result from our analysis.

As with the preferred recommendation, we suggest continuing the practice of reimbursing the employee-requested personal vehicle use on the basis of variable expenses only. This is referred to as the Commuting rate in the following table.

2010 Alternative Reimbursement Schedule
(dollars per kilometer)

Location	Commuting	Travel	September 2009 Update Values Commuting / Travel	2009 Annual Update Values Commuting / Travel
Alberta	**$0.140**	**$0.515**	$0.140 / $0.515	$0.160 / $0.530
British Columbia	**$0.160**	**$0.510**	$0.160 / $0.520	$0.175 / $0.535
Manitoba	**$0.145**	**$0.480**	$0.145 / $0.490	$0.155 / $0.500
New Brunswick	**$0.145**	**$0.495**	$0.145 / $0.500	$0.160 / $0.515
Newfoundland	**$0.165**	**$0.530**	$0.160 / $0.535	$0.180 / $0.550
Northwest	**$0.260**	**$0.575**	$0.255 / $0.580	$0.280 / $0.605
Nova Scotia	**$0.160**	**$0.505**	$0.155 / $0.505	$0.170 / $0.520
Nunavut	**$0.260**	**$0.575**	$0.255 / $0.580	$0.280 / $0.605
Ontario	**$0.155**	**$0.545**	$0.150 / $0.540	$0.165 / $0.555
Prince Edward Island	**$0.150**	**$0.500**	$0.145 / $0.500	$0.160 / $0.515
Quebec	**$0.160**	**$0.560**	$0.160 / $0.570	$0.170 / $0.580
Saskatchewan	**$0.150**	**$0.460**	$0.150 / $0.475	$0.165 / $0.490
Yukon	**$0.245**	**$0.595**	$0.250 / $0.610	$0.295 / $0.650

Recommendation Summary

When evaluating the Preferred Recommendation, the per diem reimbursement rates represent the fixed costs. In general, these fell between $0.25 and $0.75 per day in all provinces except Alberta and Ontario where there was no change. The per diem rates range from $17.00 to $22.00 per day. The variable expenses are covered by kilometric rates and decreased by $0.010 or $0.015 per kilometer in most provinces except in Alberta where the rate decreased by $0.020. In the Territories, the corresponding rates decreased by $0.020 per kilometer in Northwest/Nunavut and by $0.050 per kilometer in Yukon. Reimbursement rates decreased across the board mostly due to lower pump prices for fuel this year.

These same variable kilometric rates apply to the Commuting rate under the Alternative Recommendation. The Travel rate is derived by adding the fixed costs to the variable rate. Reimbursement rate decreases ranged between $0.010 and $0.030 per kilometer in all provinces, while these rates decreased by $0.030 per kilometer in the Northwest and Nunavut territories and $0.055 per kilometer in the Yukon Territory. Travel rates ranged from $0.460 to $0.560 per kilometer in the Provinces, with higher rates in the Territories.