Written evidence submitted by the British Vehicle Rental and Leasing Association

The British Vehicle Rental and Leasing Association (BVRLA) represents one of the UK's largest groups of vehicle owners. Our membership is responsible for a combined fleet of four million cars, vans and trucks – one-in-ten of all vehicles on UK roads. They spend more than £30 billion upgrading their fleets each year and are responsible for buying around 50% of new vehicles sold annually in the UK, including 83% of vehicles manufactured in the UK for sale in the UK. The vehicle rental and leasing industry supports over 465,000 jobs, adds £7.6 billion in tax revenues and contributes £49 billion to the UK economy each year.

The BVRLA and its members are a crucial voice on the shift to zero emission vehicles. Our members' fleets are leading the charge to decarbonise road transport and our 'Plug-in Pledge' will see the sector registering 400,000 battery electric vehicles (BEVs) per year by 2025, making it responsible for 80% of new battery electric car and van sales. We fully support the Environmental Audit Committee's inquiry into this topic which is critical to the future of road transport in the UK. We look forward to continued engagement with the Committee and would welcome an opportunity to present oral evidence in this critical enquiry.

What contribution could battery electric vehicles make to achieving net zero by 2050?

Whilst the shift to battery electric vehicles has a clearly documented benefit to reducing carbon emissions for transportation it is important to remember those vehicles where electrification may not be a suitable solution. When considering the phase out of the sale of new diesel heavy goods vehicles the Government is right to also scope out the use of hydrogen as an alternative fuel.

When looking at some of the challenges of decarbonisation these are often most acute for commercial vehicle owners and operators. The issue of supply is most constrained for the van market. There is also a huge amount of uncertainty regarding the best path to decarbonise for heavier goods vehicles and more specialist vehicles.

This is also the group likely to be most affected by the penalties being used to nudge behaviour change to ensure better air quality, for example, the fines charged to HGVs entering Clean Air Zones or proposals for zero emission zones which are being considered ahead of the appropriate technology being widely available.

The average lifecycle for a truck is around 12 years, which is only two fleet cycles away from net zero. It is imperative that freight owners and operators are supported to make the right investment decisions and that the regulatory environment helps rather than hinders their ability to decarbonise.

How well is Government policy aligned with high-level commitment for growth of battery electric vehicles to support its net zero ambition?

In order to successfully increase BEV adoption to levels required to reach the 2030 phase out target, the government's policy strategy must acknowledge and enable an acceleration of BEV supply, BEV demand as well as EV charging infrastructure. Focusing on only one or two of these aspects without ensuring all three are adequately progressing will result in BEV adoption stalling. The BVRLA's 'Road to Zero Report Card 2020' reviews the government's progress against all three of these areas.[1]

Supporting BEV Demand: Visibility of future tax and incentives

Policy certainty as a key element of facilitating decarbonisation. Firms and consumers need a long-term perspective on the likely cost of decarbonisation. HM Treasury needs to provide a long term taxation

1 BVRLA Road to Zero Report Card 2020: https://www.bvrla.co.uk/resource/2020-road-to-zero-report-card.html

roadmap detailing not just the taxation measures planned but also the actual levels they plan to set them at. For vehicles, the three taxes that must be laid out between now and 2030 are fuel duty, VED and BiK.

The Plug-in Car Grant combined with the supportive BEV BiK taxation rates has been an extremely powerful piece of policymaking. The combined incentives and foresight of future BEV BiK rates has spurred fleet BEV adoption and fundamentally transformed UK BEV demand. Progress is clear with battery electric vehicles (BEVs) accounting for 23% of member business contract hire car registrations in the three months to December 2020 and now representing an incredible 6% of the entire business contract hire car fleet.[2]

This has been achieved by enabling leasing companies to effectively market the cost benefits of choosing a BEV to fleet users. The reduction of the Plug-in Car Grant will have only a limited impact on this transition and as long as there is long term certainty around low BEV BiK rates fleet adoption of BEVs will continue.

If there is to be a transition to road pricing, the structure it would take and its implementation date will also need to be in the public domain well in advance of its introduction. While this level of foresight would constrain HMT's ability to adapt it is entirely necessary for a challenge as fundamental as that proposed by net zero. The proposition of owning an ICE vehicle is completely altered if the user knows they can expect a rapid increase in fuel duty within their ownership cycle. Likewise, a BEV is far more attractive if a user knows their tax liabilities for the full term of a lease and has certainty they will not see a sudden increase.

Moving the UK to net zero without unbearable financial burdens for the government, firms and consumers will be an immense challenge. We encourage policy makers to embrace creative policymaking and engage with expert stakeholders who have experience of how consumers are actually responding to incentives can propose bold, innovative policy ideas.

Supporting BEV Demand: Challenges of the rental and car club market

Car clubs and car rental support people in changing their transport behaviour, enabling them to swap private car ownership for more sustainable modes including public transport and active travel. Access to shared cars has always played a vital role in helping people make certain essential journeys - ones which cannot be completed via public transport or involve heavy loads, for example.

The high upfront costs of BEVs and PHEVs are a key barrier for rental and car club companies looking to establish a profitable zero emission business model. Operators do not pay for the fuel used in their vehicles so the cost-savings from long-term EV use accrue to the customer, not the rental company. It means rental and car club firms must charge higher rentals for EVs for them to be able to afford the higher upfront costs.

There are opportunities for Government to address these business case specific challenges with targeted interventions. For example, the rental and car club challenge would be significantly eased by zero rating VAT on zero emission car club and rental transactions. This would reduce the price gap for end customers and lead to a surge in EV rental usage.

Supporting BEV Supply

In the BVRLA's Road to Zero Report Card 2020 the supply of BEVs was rated as 'amber – brakes on'.[3]

Supply of electric vans is particularly challenging, as although the limited product range for electric vans is beginning to be addressed by manufacturers with new models being released last year, the relative model availability is still very low compared with battery electric cars. Some BVRLA members have also raised concerns that a few models may have faced volume issues due to passenger cars taking priority for battery stock. In addition there remains a lack of zero emission technology options for specialist vehicles. The government currently has no policy planned to specifically support the uptake of electric vans. The BVRLA is calling for a tailored policy approach that differentiates between support for cars and vans to acknowledge the relatively fledgling stage of uptake of the van sector compared to cars.

The BVRLA also believes the government should increase its support for investment in a stronger UK EV supply chain, including gigafactories. We note research by the Advanced Propulsion Centre (APC) suggests

2 BVRLA Quarterly Leasing Report (Q4 2020) – Link

3 BVRLA Road to Zero Report Card 2020: https://www.bvrla.co.uk/resource/2020-road-to-zero-report-card.html

that the UK automotive industry and its supply chains will necessitate a 5-to-10 fold increase in manufacturing capacity within five years (from 2020) in order to cater for the extra EV demand required by a 2035 new vehicle sales ban on ICEVs.[4]

Supporting BEV Charging Infrastructure:

In the BVRLA's Road to Zero Report Card 2020 the EV charging infrastructure was rated as 'amber – accelerating.' Despite this positive outlook, there are still a number of areas where government policy could be better supporting the rollout of the EV charging network. In particular, the BVRLA would highlight the below recommendations:

- Whilst we welcome the Ofgem review of charging, even if changes are implemented which make allocation of grid reinforcement payments fairer, this will not come into effect until 2023 at the earliest. In the meantime, these costs, which currently fall entirely on the individual customer, will be prohibitively expensive potentially delaying the uptake to an all electric vehicle fleet. The government should look at ways to support with these costs in the short term.
- Review the wider process for grid upgrades and connections as current timescales are unacceptable.
- More funding should be focused on the rollout of rapid charging away from the strategic network, in towns, cities and transport hubs.
- The Government should work with industry to understand the many different charging needs of all vehicle user groups.
- Government must intervene to improve public charging for all users, fleet or individuals, specifically in terms of accessibility (for disabled users and commercial vehicle operators), pricing transparency and reliability. This should be conducted in full consultation with a wide range of road users.

What action can Government take to support growth of secondary markets to extend lifetime use of EV batteries?

The rental and leasing sector is a crucial supplier of newer, greener one to four year old BEVs to the used car market due to the rapid fleet cycles of their vehicles.

The cost of leasing is based on the estimated residual value (RV) of a vehicle at the end of the lease. It is very difficult to predict RVs and they are sensitive to any significant shift in supply or demand, even down to a specific model type or specifications. Leasing firms are seeing huge increases in BEV registrations, with BEV market share rising from low single digits to double digits in less than a year. There are concerns about the impact this surge will have in two to three years when these vehicles arrive on the used market.

In 2020 just over 19,000 used BEVs were on the market[5], in 2025 this figure is expected to be in excess of 250,000. These used BEVs are entering the market with a significant price premium over comparator ICE vehicles. Initial data suggests that even at current low volumes supply is already outstripping demand. [6] As new BEV prices continue to drop and their ranges increase it is possible that there will be a significant challenge in the near future for used BEVs. Price sensitive used buyers could opt for ICE vehicles and those interested in BEVs for new vehicles.

While members expect that this relationship will naturally work itself out, there is a fear that we could see a crash in BEV used values. This would lead to significant losses for vehicle finance companies. Trepidation about potential losses will lead to more conservative RV setting for new BEVs, increasing the cost to customers looking to lease or finance a BEV now. It is critical that industry is confident that there will be a strong market for used BEVs, especially as the ban on new ICE sales has been accelerated. There is currently no incentive or focused support for the used BEV market. This needs to change. The BVRLA and its

4 APCUK (2020), Opportunities in passenger car electrification, https://www.apcuk.co.uk/opportunities-for-you/strategic-ukopportunities-in-passenger-car-electrification/
5 SMMT used car figures: https://www.smmt.co.uk/2021/02/uk-used-car-market-declines-14-9-as-coronavirus-lockdowns-curb-2020-sales/
6 AutoTrader Market Intelligence: https://trade.autotrader.co.uk/industry-latest/

members are working to inform the Government's policy in this area but innovative policy making and collaboration across the industry will be important.

May 2021

About the BVRLA

- The BVRLA represents over 970 companies engaged in vehicle rental, leasing and fleet management. Our membership is responsible for a combined fleet of four million cars, vans and trucks – one-in-ten of all vehicles on UK roads.

- BVRLA members represent the demand-side of the automotive industry, buying around 50% of new vehicles, including over 80% of those manufactured and sold in the UK. In doing so, they support almost 500,000 jobs, add £7.6bn in tax revenues and contribute £49bn to the UK economy each year.

- Together with our members, the association works with policymakers, public sector agencies, regulators, and other key stakeholders to ensure that road transport delivers environmental, social and economic benefits to everyone. BVRLA members are leading the charge to decarbonise road transport and are set to register 400,000 new battery electric cars and vans per year by 2025.

- BVRLA membership provides customers with the reassurance that the company they are dealing with adheres to the highest standards of professionalism and fairness.

- The association achieves this by reinforcing industry standards and regulatory compliance via its mandatory Codes of Conduct, inspection regime, government-approved Alternative Dispute Resolution service and an extensive range of learning and development programmes.