Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
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Dear Chancellor,

Fiscal stimulus for the fleet sector can drive a net zero recovery

In considering measures to support the UK's economic recovery the Government must prioritise a swift and robust rebound in the automotive sector that accelerates the transition to cleaner transport.

Any attempt to boost the market, either through a scrappage scheme or some other form of demand stimulus, must focus on the entire automotive supply chain. It should support both the fleet and retail sectors, which are each responsible for 50% of new car registrations. Fleets need a scrappage scheme that provides support for new and used low-emission vehicles (BEV, PHEV or Euro 6 ICE). In assisting both the new and used vehicle markets, the Government can create a positive feedback loop, pulling buyers up the chain from older, more polluting vehicles into ever cleaner ones.

Attached to this letter we have set out some specific policy measures for the vehicle leasing, rental and fleet sector, which we believe can deliver the kind of economic recovery that the Government is looking for. As well as providing a powerful short-term stimulus for the fragile automotive sector they can accelerate the UK's transition to zero-emission road transport.

In addition, I must emphasise the fact that fleets cannot be renewed or decarbonised without access to affordable finance. We estimate that more than 90% of new vehicle registrations rely on financing. It is vital that the Bank of England and the Government supports the provision of an adequate supply of liquidity to the motor finance sector, particularly for non-bank-owned lenders.

Motor finance companies are providing unprecedented levels of forbearance to businesses and consumers. The financial burden and economic risk associated with this support is immense and it threatens to reduce the sector's ability to finance future vehicle acquisitions. By underwriting these potential losses at the 80% level, as you have done with the coronavirus loan schemes, the Government can ensure that the motor finance industry is able to fund the new fleet acquisitions that will power the automotive recovery.

BVRLA members are responsible for around 50% of all new vehicle registrations in the UK. With the right Government support, this purchasing power and expertise can help deliver a net zero recovery.

Yours sincerely,

Gerry Keaney

Gerry Keaney
Chief Executive

Six steps to a net zero recovery

1. Eliminate first-year VED for from new car and van purchases until April 2021

1.1. Rental vehicles are on rapid fleet cycles of 6 to 12 months. This sector plays a significant role in delivering new vehicle demand and supplying high-quality nearly new vehicles into the used market.

BVRLA rental members buy over 275,000 new cars a year, 12% of all new registrations, and shift the same volume into the used market – BVRLA statistic

1.2. Although it fulfilled an essential role during the lockdown, keeping key fleets and workers mobile, the sector has been hard hit by the disappearance of its vital leisure market. Rental operators and car clubs face an uncertain and precarious future as they wait for this part of their business to return. Without targeted support and incentives, they are likely to shrink their fleets, cancel new acquisitions and hold on to vehicles for longer. This result is a smaller, older and more polluting rental fleet.

1.3. Rental customers demand vehicles in all shapes and sizes, from supermini to SUV. As a result, first-year VED represents a major cost for operators, even more so now that the new WLTP emissions standard has inflated CO_2 values by 10-20%. Rental companies are committed to increasing the number of zero-emission cars on their fleets but cannot take advantage of their lower fuel costs (customers buy the fuel, not the rental company) when trying to offset their much higher purchase price. As a result, zero-emission rental fleets must be subsidised by other parts of the business, which is extremely difficult when motoring taxes are rising and demand is recovering from lockdown lows. A lower VED bill will free up valuable cashflow that can be invested in ultra-low emission vehicles and lower rental rates.

BVRLA rental members would have faced a VED burden of £72 million on their planned 2020 fleet purchases, this is over 10% of their annual fleet costs – BVRLA statistic

Ask: Eliminate first-year VED until 1 April 2021.To limit the fiscal cost of this measure, it could be targeted at cars emitting less than 130 g/km, giving an extra incentive to rental operators and manufacturers to green their fleets. At the very least, VED rates should be frozen at current levels until April 2022. If a VED review does go ahead, the changes should be fiscally neutral in revenue terms.

2. Extend 0% BiK for BEVs to 2021-22

2.1. The July 2019 announcement of 0% BiK for ZEV cars from 6 April 2020 launched a step-change in battery-electric vehicle (BEV) adoption. The growth in sales and interest has been unprecedented. Previous challenges in getting organisations to add BEVs to company car lists diminished and enthusiasm for the transition accelerated. 2020 was on track to be a truly transformational year for the company car and salary sacrifice markets. Much of this momentum has been lost due to the coronavirus lockdown.

"Suddenly with 0% BiK all the 'barriers' we had been facing getting customers to shift to BEVs evaporated, it changed how they were perceived" – Leasing Member

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2.2. The supply of BEVs was already constrained pre-coronavirus and has now been even more restricted. An increasingly ambitious array of EU automotive stimulus measures has led to even more competition for BEVs in other markets. An extension of the 0% BiK rate for BEVs will give a clear signal to manufacturers that there is strong, reliable demand in the UK company car sector.

2.3. The demand and supply constraints created by the coronavirus lockdown threaten to make 2020 the 'year that could have been' for company car decarbonisation. The 0% BiK incentive has had a transformative impact on fleet market sentiment towards BEVs. Extending this rate into the 2021/22 tax year will ensure that this market sentiment delivers real change on the roads. The BiK rate was due to rise to 1% next year, but the powerful message and cut-through delivered by an extended 0% rate makes this measure an extremely cost-effective one for government.

"0% is a magic number it opened doors previously closed in management" – Leasing Member

Ask: 2020 threatens to be a year of lost opportunity for company car decarbonisation. This momentum can be recovered and re-energised by extending the 0% BiK rate for BEVs into the 2021-22 tax year.

3. Delay the new 50 g/km CO_2 threshold for the Lease Rental Restriction (LRR)

3.1. In April 2021 the LRR falls to 50 g/km CO_2 from 110 g/km. This new car market is not ready for this.

3.2. A limit of 50 g/km CO_2 essentially limits eligible cars to BEVs and a minority of PHEVs. As mentioned before, imports of these vehicles to the UK are likely to be heavily constrained, resulting in long lead times in the short-term. Facing such supply constraints, firms are faced with the choice of extending current leases or accepting much higher fleet replacement costs, even if they are choosing vehicles well below the previous 110g/km threshold. The expectation is that there will be a wave of extensions as firms hold on to their more polluting cars while waiting for a larger supply of sub 50g/km vehicles.

3.3. A further round of lease extensions in 2021 will undermine any momentum that the recovery has gathered. New car sales will slow, with ripples through the rest of the supply chain.

95% of cars on sale in the UK emit more than 50g/km CO_2, 93% emit more than 110g/km CO_2

Ask: Delay the introduction of the new 50 g/km CO_2 LRR until the 2022-23 tax year.

4. Extend 100% First Year Capital Allowances on BEVs to rental and lease vehicles

4.1. If a business buys a BEV outright it can claim a 100% First Year Allowance (FYA). This enables businesses to reduce their tax bill by speeding up the rate at which these vehicles can be depreciated in company accounts. This valuable benefit is not available to rental or leasing companies.

4.2. The ability to access 100% FYAs on BEVs would create significant commercial advantages for leasing and rental firms and produce cost savings that would be passed on to customers renting or leasing electric cars and vans. This would help reduce the current price gap between ICE and battery electric vehicles.

Ask: The 100% FYA on BEVs should be extended to include vehicle rental and leasing companies.

5. Zero rate VAT on the hire of BEVs and PHEVs through rental firms or car clubs

5.1. 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 are even more reliant on the upfront costs of EVs becoming aligned with ICE vehicles than private car buyers. Exempting zero emission car club and rental transactions from VAT would help them reduce the price gap and lead to a surge in EV fleets and journeys.

5.2. 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. With public transport capacity now constrained by social distancing guidelines, car rental and car clubs are an even more essential part of the shared transport 'mix' and should be considered alongside other public transport modes when it comes to VAT exemption.

Ask: ZEV and PHEV vehicle rental and car club use should be VAT zero-rated as soon as possible. This would make zero emission rentals price-competitive and lead to a surge in electric fleets.

6. Clean freight fund

6.1. The freight industry has played a massive role in the fight against the coronavirus pandemic across the UK - delivering vital PPE to doctors and nurses on the front line and ensuring that people could stay home with food and goods delivered to their doors. The lockdown has created an existential challenge for many as huge parts of the economy stopped and have remained frozen for months.

6.2. As the lockdown slowly lifts, the industry must upgrade its fleet to meet a host of new local air quality measures. The delayed Clean Air Zone (CAZ) rollouts announced by local authorities provide some breathing space, but the economic shock caused by the Covid-19 crisis has severely damaged the freight industry's ability to invest in new CAZ-compliant trucks that can cost upwards of £80,000 apiece.

In CAZs HGV operators face a daily charge that can equate to an additional 25% on the daily running cost of a non-compliant vehicle

6.3. An ambitious Clean Freight Fund can build upon the existing Clean Air Fund by providing specific, targeted support for commercial vehicle operators travelling in an around CAZ cities and towns. Allocation of the fund should be handled by local authorities, who are best placed to administer it and ensure that it reaches the operators that need it most.

6.4. The fund should require local authorities to work with industry to identify local bottlenecks to their air quality plans. The central government would then be able to allocate the appropriate funds to the local authority to administer a grants scheme tackling their specific challenges.

6.5. The local focus is needed to allow the grants to be highly targeted, but some general principles should guide their use. Support should be available for fleets using rented or leased vehicles.

Ask: A £1bn Clean Freight Fund would save businesses and provide an accelerated upgrade to the UK's commercial vehicle fleet. The fund should be split 75% toward HGVs and 25% vans.

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