Rt Hon Sajid Javid MP
Chancellor of the Exchequer
HM Treasury
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Dear Chancellor,

Budget 2020

Budget 2020 is an opportunity to set the tone for a new decade. A decade in which the transition to decarbonised road transport will be lost or won. The BVRLA represents the demand side of the automotive industry. Our members purchase around 50% of new vehicles sold annually in the UK. We look to Budget 2020 to give our members clarity of policy through to 2025 and enable them to drive the transition to zero-emission road transport.

The current recipe of grants and reduced taxation is having an impact, but this momentum is fragile.

The BVRLA calls for policy clarity from a united Government working across departments to allow our sector to drive zero-emission vehicle adoption. This clarity is most needed with regards to the incentivisation measures that Government will provide up to 2025. We believe that five clear years of foresight will accelerate zero-emission vehicle uptake, safeguarding Government plans for demand-driven decarbonisation of transport.

1. Continue Plug-in Car Grant (PICG) to 2025

1.1. The price premium associated with battery electric vehicles (BEVs) is well documented, as is the decline in sales of plug-in hybrid vehicles (PHEV) after their eligibility for a grant was removed. The market penetration of BEV vehicles is still incredibly low, only 1.6% of sales are BEVs[1]. There is still a monumental effort needed to shift BEV adoption from "innovator" consumers into the mass market.

"BEVs were 18% of total orders in the last six months. However, this means five out of every six cars ordered were not, even with the PICG and 0% CCT rates" - Major Leasing Firm

1.2. The Plug in Car Grant (PICG) is a crucial component in the affordability of BEVs. The PICG directly impacts the lease cost of a vehicle for both an individual or a company. The PICG is spread evenly across the term of the lease and in its simplest form reduces the monthly cost of a 36 -month contract by around £100 a month. The PICG monthly lease impact can be the difference between a car being offered on a company car list or not. Table 1 shows the PICG impact and differential in monthly lease cost to a firm for the BEV and ICE variants of the same vehicle model as a company car.

Table 1: BEV vs ICE model weigh-up for users (48-month contract)	DS 3 Crossback 100kw E-Tense Performance Line 50kWh Au	DS 3 Crossback 1.2 Puretech 130 Performance Line EAT8
List price	£33,935	£26,295

[1] SMMT. (2020). *Car Registrations 2019*

Fuel type	BEV	Petrol
Monthly lease cost excluding PICG	£512	£276
Monthly lease cost including PICG	**£424**	**£276**

1.3. Employers typically make available an appropriate car entitlement which is commensurate to an employee's grade and enables them to perform the duties of their role. If an employee chooses to select a different car which is available for the employee's private use and better reflects their own personal circumstances, they are required to make a Personal Usage Contribution (PUC). Our members tell us that employees are using the Company Car Tax (CCT) tax savings they know they will make from April 6 2020 to make contributions and select a BEV that better reflects their own personal circumstances. In Table 2, below, we have illustrated how an employee willing to make a contribution can now afford to choose a BEV rather than a petrol or diesel alternative.

Table 2: BEV vs ICE Contribution Worked Example	Focus Diesel Hatchback 1.5 Ecoblue 120 Zetec 5dr	Leaf Hatchback 110kw Acenta 40kwh 5dr Auto [6.6kw Charger]	E-Niro Electric Estate 150kw 4 64kwh 5dr Auto
Tax List Price	£21,390	£29,790	£37,940
CO_2 g/km	92	0	0
BIK % (2020/21)	27%	0%	0%
Employer			
Monthly cost (with PICG)	£401	£419	£501
Driver contribution	0	£18	£100
Net employer cost	**£401**	**£401**	**£401**
Monthly cost (without PICG)	£401	£516	£598
Net employer cost	**£401**	**£401**	**£401**
Employee			
BIK (2020/21) (20% Taxpayer)	£96	0	0
Driver contribution (with PICG)	0	£18	£100
Total employee cost	**£96**	**£18**	**£100**
BIK (2020/21) (20% Taxpayer)	£96	0	0
Driver contribution (without PICG)	0	£115	£197
Total employee cost	**£96**	**£115**	**£197**

1.4. The PICG is central to all routes to BEV adoption. It works particularly well alongside favourable CCT rates, and is vitally important as a consumer incentive. Most private consumers acquire their new cars through some kind of lease, paying a monthly fee. In exactly the same way that the PICG facilitates lower monthly lease costs for the business lessee, it also does for the personal lessee. However, without the additional discretionary income secured from reduced CCT payments to cross subsidise contributions, the PICG is even more important to those making personal leasing decisions.

1.5. Table 3 shows how the proportion of monthly cost covered by the PICG is critical in the affordability of BEVs for private buyers. Any removal of the PICG will have a bigger impact on the lower end of the BEV market, where its impact on affordability is greatest. Lower cost BEVs are already competing with ICE cars in their vehicle segment that can be up to 50% less expensive.

Table 3: PICG impact on personal lease cost (36-months contract, 10,000 miles)	Average monthly rental - **including PICG**	Average monthly rental - **excluding PICG**	PICG contribution as proportion of monthly cost
Seat MII	£206	£333	**38.1%**
Smart Fortwo Coupe	£262	£389	**32.6%**
Volkswagen Golf	£277	£404	**31.4%**
Hyundai Ioniq	£327	£454	**28.0%**

Renault Zoe	£327	£454	**28.0%**
Nissan Leaf	£331	£458	**27.7%**
Vauxhall Corsa	£336	£463	**27.4%**
Mini Hatchback	£350	£477	**26.6%**
Peugeot 208	£367	£494	**25.7%**
MG ZS EV	£368	£495	**25.7%**
Peugeot 2008	£384	£511	**24.9%**
BMW I3	£388	£515	**24.7%**

1.6. We acknowledge the concerns of HM Treasury over the cost of funding the PICG. However, the cost of the PICG will be partially offset by the increased VAT returns that are linked to the higher value BEV vehicles. Table 4, below, shows that across the orders of a major leasing firm there is on average a £3,571 higher VAT take per BEV when compared with ICE vehicles.

Table 4: Major Leasing Firm VAT by Vehicle Type	Average Capital Cost (Net of VAT)	Average VAT on Capital Cost
Battery Electric Vehicles	£40,994	£8,199
ICE vehicles	£23,141	£4,628

1.7. From a supply-side perspective, where there are currently constraints, the availability of the grant makes the UK a more attractive market for manufacturers to sell EVs in.

Ask: The Government should commit to providing some form of Plug in Van and Car Grant until 2025, when most analysis predicts EVs will achieve price parity with their ICE counterparts. In exchange for providing a long-term commitment that avoids any 'cliff-edge' disruption to the market, the Government could consider reducing the grant on an annual basis as the price gap narrows.

2. Publish Company Car Tax (CCT) rates until 2025

2.1. The BVRLA welcomes the publication of the CCT rates to 2023 and the ambitious levels they set for BEV taxation. Providing clarity on future company car rates gives fleet managers and company car users the confidence to decarbonise now.

"We launched a new salary sacrifice scheme eight weeks ago, 75% of the orders placed to date have been electric" - Major Leasing Firm

2.2. 42% of business leases are for more than three years[2]. For these lessees there is still uncertainty. The impressive interest levels in BEVs are driven by the taxation level allowing for increased contributions from users (as evidence in Table 2). This creates a real fear for those in four-year cycles where an increase in the final year of a lease would lead to severe impacts on their personal finances.

2.3. Not all company car and salary sacrifice users are in a change cycle that allows them to opt into a new car in 2020. By giving extended clarity you are able to capture those who are currently midway through their car cycle, capturing a much bigger proportion of the business leasing market. It would give businesses the time needed to investigate their policies and to see if they should make the commitment to a company car or salary sacrifice scheme for their staff, moving more users away from more polluting grey fleet or cash allowance options.

[2] BVRLA. (2019). *Quarterly Leasing Survey – Q3 2019*

2.4. The BVRLA is not wedded to a specific 2025 matrix of CCT values but would ask that they continue to favour BEVs. We understand that this is a rapidly changing space and that there is a trade-off when publishing a CCT table. Publication limits HM Treasury's future flexibility but gives businesses and individuals confidence in their decisions through signposting. If HM Treasury is unable to commit to publishing all CCT rates, a pledge to raise CCT rates for BEVs by no more than 1 percentage point per year would still create much needed certainty.

Ask: We call on the Government to build on their publication of CCT rates to 2023 and publish to 2025. Committing to a clear CCT policy until 2025 will give employers and drivers the confidence and clarity required to make the transition to BEVs.

3. Raise BEV VED surcharge threshold to £55,000

3.1. The current threshold for the VED surcharge of £320 should be raised for BEVs. Due to the BEV price premium, a long range "working car" BEV with reasonable ride comfort and safety accessories will commonly have a higher than £40,000 list price. It would inaccurate to classify such vehicles as "luxury" cars. These practical, longer-range vehicles should be encouraged because, in the used market, they are the vehicles that allow users to overcome the barriers of BEV adoption.

Table 5: Popular BEV Models	List price
Nissan Leaf 5 Door Hatch N-Connecta 40KW	£32,950
Hyundai Ioniq Hatch 38.3 kWh Electric Premium SE	£35,271
Nissan Leaf 5 Door Hatch e+ Tekna 62KW	**£41,005**
BMW i3s Hatch eDrive 120Ah Auto	**£42,175**
BMW i3s Hatch eDrive 120Ah Interior World Suite Auto	**£43,110**
Tesla Model 3 Saloon Standard Plus Auto RWD	**£45,000**
Tesla Model 3 Saloon Long Range Auto AWD	**£57,300**

3.2. The first challenge of the VED surcharge is one of affordability. It effectively adds £20 a month to the lease cost of a vehicle on a 48-month contract. This undermines significantly the affordability impact of the PICG, as the surcharge accounts for 27.4% of its monthly contribution.

3.3. The second challenge lies in the used market. A number of BEV vehicle models have variants that sit both above and below the £40,000 threshold. It is often obscure to a trader whether the product they are viewing will pay the surcharge. This lack of knowledge distorts the purchasing behaviour of traders at auctions and at the forecourt of used BEV dealers. It is an alarming distortion of the market that safety and comfort option choices can take a vehicle over the VED surcharge threshold, making it less valuable in the used market. This distortion directly impacts the residual value of vehicles and in turn their financing requirements.

"I bought a BEV at auction and did not realise that the options it came with took it over the £40,000 list price. Since it's hit by the VED surcharge I have had to price it below an identical car without the options and will avoid such models in the future." - Used EV Dealer

3.4. The majority of the second-hand car market is still wary of BEV residual values, due to fears over battery life and technological redundancy. These barriers are often overcome by the messaging of zero VED, home charge grants and lower fuel and maintenance costs. The surcharge becomes an unnecessary barrier and "scare factor" for these consumers, who are worried they will not enjoy the savings they expected.

Of our order bank for BEVs 48% are over the current threshold of £40,000, 34% are over £50,000 and 12% are over £60,000 - Major Leasing Firm

Ask: We call for the surcharge for BEVs to be increased to ensure that extras, safety features and battery size choice do not create an unfair tax burden. A significant portion of cars with the best range and safety features have a list price over £50,000, with a small minority being over £60,000. We would propose that the amount that triggers the VED surcharge should be raised to £55,000 for BEVs. This figure would remove the ambiguity from the majority of BEV model lines

4. Launch VED Review

4.1. The shift to WLTP CO_2 values from NEDC for first year VED payments will create major impacts in the rental and leasing sector. The proportion of the average rental car fleet that falls below 150 g/km CO_2 for petrol and 130g/km for non-RDE2 diesel, (where there is a significant jump from £210 to £530 for first year VED) was 61% under NEDC but is now only 31% under WLTP.

Reviewing our fleet plan for 2020 and using data provided by vehicle manufacturers, this change brings a £3.7 million increase in annual VED costs. This additional cost impacts our ability to buy new vehicles or invest in EVs and charging infrastructure – Major Rental Firm

4.2. Rental firms committed to increasing the number of zero-emission cars on their fleets face significant costs, both for the infrastructure needed at their sites and the more expensive price of the cars themselves. They need to provide vehicles of all shapes and sizes for their customer base and the increased VED burden on much of their fleets undermines their ability to finance rapid decarbonisation.

4.3. The increased VED burden means rental companies will need to hold onto cars longer to recoup their costs. The rental sector is the largest contributor of nearly new vehicles to the used market. Slowing down the new car churn increases the average age and emissions profile of the UK car parc, undermining the decarbonisation agenda.

4.4. Rental operators will need to pass on a proportion of the raised VED cost to the customer. This penalises individuals who have opted out of fulltime vehicle usership for access to a rental vehicle only when they require it, reducing emissions and congestion.

Ask: We urge the Government to make the same adjustment to VED rates as was made for CCT rates, ensuring that rental companies and their customers are not hit with unfair tax hikes because of a change in the way CO_2 emissions are measured.

5. Support zero-emission fleets

5.1. We ask that more is done to support fleets decarbonise. Fleets buy vehicles in bulk, use their vehicles intensively and their purchasing is driven by rational cost analysis. These factors make fleets an ideal target for rapid gains in transport decarbonisation. A key barrier holding fleet decarbonisation back is the postcode lottery that can result in them being asked to fund a local electricity network upgrade to meet their vehicle charging needs.

5.2. If a firm loses the postcode lottery and requires a local network upgrade, they are faced with a plethora of challenges. The process is such that the last company that pushes local demand over the edge must foot the bill, creating a first-mover disadvantage in clusters of businesses. In this transitional phase, first-movers ought rather to be supported. The cost of the upgrades can be enormous, up to a million pounds, and if they pay for the extra capacity it's not an asset they can add to their balance sheet.

5.3. Additionally, firms are not equipped to deal with the network upgrade process which incurs a massive bureaucratic burden. There is a lack of independent, trusted expert advice to help firms understand what their real energy needs are and the options available to them. All this combines to create a barrier for firms, who are intensive transport users, to be able to upgrade their fleets.

Ask: We ask that Government reviews its approach to the fleet decarbonisation process and looks to offer support, both fiscally and through other channels, to the firms involved. Government should foster dialog at all levels between Ofgem, DNOs, energy suppliers and fleets. The BVRLA and its members stand ready to engage over these challenges and contribute constructively to how they can be overcome.

6. Continued Support for Future Mobility Zones

6.1. Towns and cities across the UK face transport challenges. Particularly in areas where there has been historic underperformance of public transport, there is a need to level up the transport system. However, it is difficult for local authorities to innovate in this space.

6.2. The type of innovation we wish to see is exemplified by the West Midlands Combined Authority's Mobility Credits trial. This trial is only possible through the Future Mobility Zone funding that was announced in Budget 2018.

Ask: We call for continued Future Mobility Zone funding in Budget 2020. This will help national government meet its decarbonisation goals, local authorities meet their air quality targets and build a transport system where low-income groups have access to clean transport options.

We ask that more is done to support fleets decarbonise. Fleets buy vehicles in bulk, use their vehicles intensively and their purchasing is driven by rational cost analysis. These factors make fleets an ideal target In conclusion, the fleet sector is the quickest route to decarbonising road transportation and is best placed to help the government achieve its 2050 net zero target. We are ready and willing to play our part and to work with Government to achieve its environmental goals. However, we look to Government for policy certainty through to 2025 to help achieve these joint ambitions.

Yours sincerely,

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