

British Vehicle Rental and Leasing Association

Spring Budget 2021 Representation

BVRLA members own and operate more than five million cars, vans and trucks. They spend more than £30 billion upgrading their fleets each year and are responsible for buying 83% of vehicles that are produced and sold 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 fleet sector was not spared from the crushing impact of the Covid-19 pandemic on the UK economy in 2020. Rental firms have seen business shrink as leisure travel all but stopped and business travel ground to a halt with work from home instructions and business events ceasing. Our motor finance members have provided unprecedented levels of help to their customers through wide-ranging forbearance measures and support.

The support of the Coronavirus Job Retention Scheme, loan support such as the CBILS and BBLs and grants have saved jobs, firms and futures across the sector. However, there have also been those who have slipped through the cracks. Most crucially non-bank lenders who have not received the support they need, leaving them under extreme financial pressures.

Despite the challenges of 2020, the fleet sector has continued its role as the main driver of road transport decarbonisation. The current policy framework is working, with the mix of incentives successfully encouraging company car and salary sacrifice users to make the move to zero emission vehicles. However, barriers still remain, most notably around the cost to business of electric vehicle infrastructure. Consultation from the government with industry is also needed now around how the taxation system will need to adapt as zero emission vehicles become the norm.

This Budget representation sets out the three critical fiscal measures that will support the fleet sector's recovery, and accelerate the move to a net-zero transport system across the UK. BVRLA members have a long track record of working constructively with policymakers and we welcome continued engagement and dialogue around the priorities laid out below.

Three clear measures to support fleet recovery and decarbonisation

Priority 1: A one year freeze in Vehicle Excise Duty (VED)

The rental sector is both a major direct employer and a critical component of UK automotive demand. BVRLA rental members are a diverse group including single-site SME family businesses, multinational rental firms and specialist rental operators such as motorhome hire.

All have been hit extremely hard by the Covid-19 pandemic as the vital leisure market (in-bound and domestic tourists), accounting for just over 40%¹ of the rentals, has been almost completely curtailed. Rental vehicles are on rapid fleet cycles of 6 to 12 months and the severe impact of Covid-19 has been clear as rental firms have rapidly shrunk their fleets in response to decreased demand. Despite this challenge, rental firms fulfilled an essential role during the lockdowns, keeping key fleets and workers mobile. Rental operators continue to face an uncertain and precarious future as they wait for their leisure business to return.

BVRLA rental members have reduced their car fleet size by over 30% due to Covid-19 impacts in 2020

If multinational rental operators reduce their UK presence or SME rental businesses close, the long term impact on the tourism and business economies will be keenly felt. Having a strong rental sector provides vehicle choice, competition and lower prices.

¹ Car and Van Rental in the UK Report 2018 - <https://www.bvrla.co.uk/resource/car-and-van-rental-in-the-uk-report-2018-bvrla-members.html>

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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 CO₂ values by 10-20%.

VED as a percentage of a representative rental firm's overall annual fleet costs (excluding damage and interest)	
2014	2.8%
2015	3.0%
2016	4.2%
2017	4.5%
2018	8.0%
2019	9.3%
2020	10.4%

Despite shrinking their fleets, cancelling new acquisitions and holding on to vehicles for longer, rental operators still faced a significant VED burden in 2020 at a time they could least afford it. Rental needs renewed support to prevent further jobs being lost, both directly in the sector or in the downstream supply chain.

BVRLA rental members paid over £50 million in VED on their car fleet purchases in 2020

Freezing VED rates on cars and vans for a year would free-up valuable cash flow that can keep rental firms afloat until the leisure market returns.

The government must also commit to replacing the current first year weighted VED system with a more fairly balanced whole life approach in 2022. This is vital to the continued decarbonisation of road transport, where the current VED system is failing to incentivise purchase behaviours as was intended, especially in the retail market.

Ask: VED rates for cars and vans should be frozen at current levels until April 2022 when a new fairer car VED system is introduced.

Priority 2: “Lock in” the previously announced Benefit-in-Kind freeze and publish 2025-26 rates

BVRLA members welcomed the announcements at Budget 2020 of a rate freeze on Benefit-in-Kind (BiK) for 2023-24 and 2024-25. This gave the sector the five years of foresight that had been requested. Combined with the BiK incentives for battery electric vehicles (BEVs), it was an extremely powerful piece of policymaking. The low BiK rate for BEVs and certainty around this rate for the entire period of a lease has fundamentally transformed the UK market for BEVs. It has allowed leasing companies to effectively market the cost of ownership benefits of choosing BEVs.

BEVs were responsible for 21% of member company car registrations in the three months to October 2020

While the 2023-24 and 2024-25 rates were announced at the 2020 Budget, they are not yet written into law. Securing rates until 2025-26 will give leasing companies the ability to continue to provide customers with cost of ownership quotations. Given the impact of Covid-19 on personal finances, our member's customers are understandably seeking financial certainty. Another year of foresight is critical as it will be impossible to provide accurate quotes on 48 month or longer car leases from the second quarter of 2021 and these leases are just over 40%² of a market.

² BVRLA Quarterly Leasing Survey Q2 2020 <https://www.bvrla.co.uk/resource/bvrla-quarterly-leasing-survey--2020-q2--full-report-pdf.html>

The success of the low BiK rates in driving BEV adoption is impressive, but fragile. Across vehicle segments, BEVs still have a significant price premium over equivalent Internal Combustion Engine (ICE) cars. Due to their higher values they are more sensitive to BiK rates than ICE cars. Any sharp increase in BiK rates for BEVs would halt the momentum achieved in the company car market and break trust in the government's policy direction. While the BVRLA recognises that extremely low taxation rates for BEVs are not sustainable, 2025-26 is not the time for any significant increases.

Making the Van Benefit Charge (VBC) for zero emission vans 0% from 2021 in the 2020 Budget was a welcome and necessary step to support the uptake of BEV vans. However, to give accurate quotes members also need foresight of the future rates planned for the VBC. Vans have an average lease term of around 48 months³ which makes long term foresight extremely important in facilitating the decarbonisation of this sector.

We call on the government to engage with stakeholders to develop a long term vehicle taxation strategy. This strategy must futureproof the vehicle taxation system for a zero-carbon future. The right incentives must be maintained in this period without unintended consequences and road users need certainty around the taxation trajectory. The strategy should also aim to make the current complex vehicle taxation environment simpler and fairer.

Ask: Confirm 2023-24 and 2024-25 Benefit-in-Kind freeze, announce 2025-26 rates (with BEVs facing no significant increase), give foresight of Van Benefit Charge rates for BEVs and engage on a long term vehicle taxation strategy.

Priority 3: Create a 'Green Investment Allowance' to unlock private investment in electric vehicle charging

The Government needs to tackle the immense financial barriers faced by businesses wishing to install multiple high-capacity chargepoints on their locations. The current 100% first year allowance for expenditure incurred on electric charge-point equipment and Workplace Charging Scheme, while welcome, do not address the core market failure holding back investment.

In almost all cases where a company plans to invest in the charging capacity they need for a large, high-mileage and high-utilisation fleet, installing the charging infrastructure would push their local grid over the edge. This leaves them liable for the cost of upgrading their local electricity supply – which can run to hundreds of thousands of pounds. This process is antiquated and patently not appropriate for our transition to electric vehicles, where first movers should be encouraged and not punished. The lottery of grid-upgrade costs must end.

Government recognised the inadequacy of the grid upgrade process in the 2020 Budget, when it launched the Rapid Charging Fund with £500 million to 'help businesses with the cost of connecting fast charge points to the electricity grid'. The 2020 Spending Review increased this amount to £950 million, but made the funding geographically exclusive to motorways and major A-roads. While this support is vital, it ignores businesses beyond those providing charging services on the arterial roads. High-mileage, high-utilisation fleets have been forgotten.

The BVRLA believes that the Ofgem review of the grid upgrade process must lead to a more equitable and affordable approach, but we cannot wait until 2023 to reap these benefits. Action is needed now to ensure three years of transition are not lost.

Government should reform the 100% FYA for expenditure on an electric vehicle charging point into a 'Green Infrastructure Allowance'. This allowance should allow firms to claim against both the cost of the charging

³ BVRLA Quarterly Leasing Survey Q2 2020 <https://www.bvrla.co.uk/resource/bvrla-quarterly-leasing-survey--2020-q2--full-report-pdf.html>

equipment as well as all expenditure incurred providing that charging point with the necessary supply of electricity, including grid upgrade costs, ground works and installation.

This additional first-year allowance could also be supercharged with a time-limited expenditure credit on top of the FYA to encourage even more rapid investment in EV infrastructure. The higher rate credit could last for the first three years of the scheme, until the Ofgem review is complete and then be reviewed.

This measure would provide a cost-effective, grant-free way for the government to incentivise more private sector investment in EV infrastructure. It would encourage large fleet owners to decarbonise who have the purchasing power to supercharge the transition to zero emission road transport.

If the private sector accelerates their investment into EV charging infrastructure, it will also significantly alleviate the pressure, both financially and in terms of implementation, on government and local authorities' public charging network plan.

Ask: Transform the 100% first-year allowance FYA for expenditure incurred on electric charge-point equipment into a 'Green Investment Allowance' that allows businesses to offset 100% of investment costs for all EV infrastructure (including groundwork, installation, and grid upgrades) against corporation tax.

About the BVRLA

- Established in 1967, the BVRLA is the UK trade body for companies engaged in vehicle rental, leasing and fleet management.
- BVRLA members are responsible for a combined fleet of over five million cars, vans and trucks on UK roads, that's 1-in-8 cars, 1-in-5 vans and 1-in-4 trucks. The vehicle rental and leasing industry supports over 465,000 jobs, adds £7.6bn in tax revenues and contributes £49bn to the UK economy each year.
- On behalf of its 1,000+ member organisations, the BVRLA works with governments, public sector agencies, industry associations and key business influencers across a wide range of road transport, environmental, taxation, technology and finance-related issues.
- 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 maintaining industry standards and regulatory compliance via its mandatory Codes of Conduct, inspection and governance programme and government-approved Alternative Dispute Resolution service. To support this work, the BVRLA promotes best practice through its extensive range of training, events and information-sharing activities.

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