Autumn Budget and Spending Review 2021

BVRLA Representation

The fleet sector underpins both UK automotive demand and progress to decarbonising road transport. The British Vehicle Rental and Leasing Association (BVRLA) represents the fleet sector and its members own and operate more than four million cars, vans and trucks. 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. Our member's fleets are also 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.

This submission lays out the spending and taxation policies BVRLA believes Government should commit to radically drive transport decarbonisation and modal shift. The proposals laid out in this document are bold, but so are the UK's ambitions. We cannot hope to meet world-leading targets for transport decarbonisation without world-leading incentives and support.

Spending Asks

Summary

New grants for private charging infrastructure

Businesses looking to install the private charge points they need to decarbonise their fleets require more financial support. A new tranche of match-funded grants is required to help these firms make a compelling business case for accelerating the roll-out of private charging infrastructure.

Businesses need a **depot grant**, to subsidise the costs of rapid charge points on their sites and a **site grant** to subsidise other associated installation expenditure. A **residential rapid** grant would help those tradesmen and women whose vehicle is their mobile workplace and who would need to charge away from home.

All of these measures will help to reduce the burden on mainstream public charge points and prevent mobile workers having to pay expensive public charge point rates.

Targeted top-up of the Plug-in Grant

Plug-in Grants (PiGs) still play a vital role in enabling access to vehicles. This is especially the case for vans and where the business cases for BEVs are more challenging – such as the rental and car club sectors. These grants must not be unilaterally withdrawn in 2023 if they are still required.

While many segments may no longer need support in the medium term, it is almost certain that some will. **Funds should be made available for the PiGs to continue in a targeted fashion beyond 2022-23,** focused on the hardest to transition vehicles and use cases.

Reducing CO_2 through modal shift

Transport systems in the UK have typically been designed around the private car. Moving away from this paradigm, as set out in the Transport Decarbonisation Plan, will require policy makers to design schemes which encourage people to abandon private car ownership.

Government must support **trials of new mobility schemes** and fund **incentives to get motorists out of private cars** if shared mobility is going to reach its potential as a driver of transport decarbonisation.

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New grants for private charging infrastructure

Three types of grants should be developed. Firstly, a specific 'depot' grant is needed to help fund the charge points a depot needs for its fleet. Secondly, a 'site grant' for those building a large amount of charging infrastructure to help with building works and grid costs. Thirdly, there must be funding for van-specific charge points to be added to housing estates and residential areas for tradespeople.

Grant 1: Depot Grant

The shift to electric vehicles will fundamentally change how depot-based vehicles are "fuelled". Currently vehicles will either refuel through existing fuelling infrastructure or for a particularly large sites have onsite fuelling capabilities. For the rental sector cars and vans must be returned by customers with a full tank of fuel so they can immediately be rented out again.

The current challenges with charging speeds and availability mean the public infrastructure network will not be able to perform the same function for BEVs. For firms wanting to transition their fleets now, the only viable option for them is to electrify their depots and charge their fleets themselves. Unfortunately, this option is also not viable for most firms given the enormous infrastructure costs. A BVRLA member starting to transition to ZEVs estimates that it will cost them £13 million in infrastructure investment by 2030. The proposed "depot grant" is fundamental to making the initial investments needed to start fleets on their journey of electrification viable.

BVRLA member analysis suggests that to maintain a fleet of 50-100 BEVs requires at least one 50kW charger and 16-20 dual 22kW chargers. Major rental operators can average hundreds of vehicles per site, with the biggest sites having vehicle numbers above 1,000. The electrification requirements of these firms will be immense and so will the costs. To fully electrify a single 500-vehicle depot, a BVRLA member calculated that the charge points alone could conservatively cost over a quarter of a million pounds. Firms may have tens of major sites and face many multiples of this cost.

Members recognise that they will have to invest in private charging infrastructure. For firms with a larger fleet and depots it is unlikely they will go from no BEVs to only BEVs. It will be a gradual adoption process, with ever-evolving technology making investment risky.

The current support for installing charge points (Workplace Charging Scheme) is insufficient to cover even the first steps of testing the feasibility of a workplace charging hub. Further support is needed now for those looking to invest in the appropriate infrastructure.

Members would like to see a grant which can be used to part fund depot charge points. The suggested structure would be a grant of **50% of the cost of the charge points installed, capped at £50,000 per depot** with no cap on the number of depots per company and designed to ensure it falls outside the state aid "de minimis" limits. Conditions requiring a firm to provide a reasonable level of public access charging to be able to access the grant could also be incorporated.

Grant 2: Site Grant

While the charge points themselves are a major cost, the associated installation and grid upgrade costs can be even steeper. These costs are highly variable and depend on the constraints of the grid in that location, the physical challenges of the site and the charge point infrastructure being installed.

Members are starting to survey their sites and early estimates suggest electrifying a significant portion of a location's fleet will require grid reinforcement in approximately 80% of locations. While Ofgem recently consulted on measures which will rebalance these charges, they will only cover reinforcement charges and not 'sole use assets' needed for reinforcement. Early analysis suggests this will have a welcome but limited impact on operators' costs. For example, the grid upgrade costs at one rental member's depot was split between £60,000 for 'sole use assets' and £3,000 for reinforcement work. The barrier of grid upgrade costs

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will remain even if Ofgem's proposal is adopted. Even where Ofgem's solution does have an impact, this will not be felt until 2023, thereby holding back those fleets that want to electrify now.

Fleet operators need help now to help meet the cost challenges of high powered or large-scale charge point installations. The proposed 'site grant' would give this support and enable more firms to afford the grid upgrade and general site work costs required to facilitate charge point installation. This would enable the unlocking of both the electrification of depot-based fleets but also wider large-scale charge point rollouts by other organisations, for example in larger corporate parking areas.

The suggested measure would be a grant of **50% of the cost of grid upgrades, groundwork and siteworks required to install charge points, up to £150,000 per location,** with no cap on the number of locations per company and designed to ensure it falls outside the state aid "de minimis" limits. The grant would only be triggered if **charge points requiring a minimum of 400amps** are being installed**.** The grant should not be aimed at facilitating one or two slow charge points but incentivise firms to create meaningful scales of investment if they wish to receive this support. The 400amps requirement is the equivalent to approximately 12 22kw dual chargers but gives flexibility to the exact mix.

Grant 3: Residential Rapids - Tradesperson Grant

The vast majority of the 4.4 million vans on UK[1] roads are used by SMEs and ZEV vans are not yet viable for them. While the car market is already seeing its third and fourth generation electric vehicles, electric vans capable of 200 miles plus or with towing options have only entered the market in the last 12-18 months. Electric van technology and development cycles continue to lag significantly behind that of electric cars. The average zero emission mileage of a BEV car passed 200 miles in early 2019,[2] while the average for vans on the market is now only 129 miles.[3]

The functionality of the vehicles and their limited ranges is also a key factor affecting people's ability to transition to ZEV vans. Vans are tools and must perform the task they have been purchased for. While individual car drivers may be comfortable adapting how they plan trips and making compromises to access BEVs business rarely have the same flexibility with vans. Electric vans need to be able to function in an equivalent fashion to the ICE they replace.

Many van drivers take their vehicles home but are unable to charge there. For example, Centrica has predicted that around 65% of its engineers do not have a driveway to charge at home. Van users have to rely on public charging infrastructure, most of which is not suitable for use by vans. For those who cannot charge at home, require onboard power or have extended duty cycles charging on the job will be critical. Tradespeople will not be able to afford to spend hours either at slow charge points or diverting from their routes to find faster ones.

To enable tradespeople to shift into electric vans they will need charge points which can charge their vehicles while they work. This will require charge points that are fast enough to provide a reasonable level of charge over the time a usual job might take. These will also need to be located close to where trades people work, in residential areas. Local tradespeople are not likely to go to motorway service stations to find rapid chargers while residential on street chargers are typically very slow. While tradespeople may not need to regularly recharge their vans it must be convenient for them to do so if they are to transition.

1 DfT VEH0101: Licensed vehicles by body type (quarterly): Great Britain and United Kingdom
2 Cornwall Insight - https://www.cornwall-insight.com/press/average-electric-vehicle-range-exceeds-200-miles/
3 AutoTrader data – September 2021

The BVRLA believes a solution is for Government to support the installation of 50kW charge points in residential areas, housing estates and businesses that support tradespeople. 50kW chargers typically cost up to £25,000 per unit. Local authorities and developers are unlikely to spend those amounts or even match fund for the installation of these chargers. Members have suggested a flat grant of up to **£20,000 per qualifying** site. For a site to qualify the local authority, developer, private company or a combination would be required to install at least one 50kW charge point. These should be prioritised for tradespeople, but still open to local residents and other users.

Private charging support package – £250 million required

£50 million for Depot Grants – this will see at least 1,000 depots across the UK jump start their journey to decarbonisation.

£100 million for Site Grants – this is a necessary enabler for sites which otherwise could not progress and would unlock at least 1,000 major private infrastructure projects, transforming private charging provision.

£100 million for Residential Rapids – this would fund at least 5,000 charge points for tradespeople, beginning the era of the 'white electric van'.

Targeted top-up of Plug-in Grant and incentives

Plug-in Grants should be maintained for a vehicle type or user segment until the total cost of ownership (TCO) equation works for the majority of uses. Government should top-up the Plug-in Grant so that the funding will not end where it continues to be needed in beyond 2023.

Demand for BEVs cannot be taken for granted and varies considerably across different fleet and vehicle segments. A favourable Benefit-in-Kind regime is driving high BEV car uptake in the company car and salary sacrifice markets, but without this key incentive, the van, car retail and rental markets are lagging behind.

Vehicle rental and car clubs face significant barriers in establishing a profitable BEV-based 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. The typical fleet cycle of a rental or car club vehicle is 9-18 months, which makes operators even more sensitive to the upfront price premium associated with BEVs**.** This barrier created a missed opportunity for the wider decarbonisation for a number of reasons. Car clubs and rental function best in city centre locations where they are able to replace high numbers of private vehicles and facilitate emissions reductions. Car clubs and rental also offer a route for members of the public to trial BEVs. Widespread BEV trailing would be able to move the dial on their acceptance and firmly move them from early adopters to the mainstream.

Similarly, BEV vans face specific barriers slowing adoption. E-vans are significantly more expensive than comparator ICE vans. The average price for current BEV vans is 54% higher than the ICE average.[4] However, this average is not spread evenly and lower cost vans, across weight categories, are extremely price uncompetitive. For vans at 3.5t and under the most affordable BEV is over 110% more expensive than the most affordable ICE, with the challenge even more acute for those above 3.5t at 119%.[5] Over 3.5t larger ZEV vans are extremely pricy, with an average price of nearly £70,000.[6] Very few fleets can make the total cost of ownership (TCO) work.

4 cap hpi data – September 2021
5 cap hpi data – September 2021
6 cap hpi data – September 2021

In segments where fleets can access significant discounts on ICE product list prices the difference becomes even starker. For example, given a van rental company's real cost of acquisition and expected return on disposal, an e-van will commonly need to have a rental rate for their customers of double that of an ICE equivalent. Most customers are not yet willing to pay a cost premium to access current ZEV van product. This is shown by a BVRLA rental member's utilisation data. On average BEV vans had 47% utilisation compared with 93% for ICE. When looking at larger vans the difference is even more stark with 10% utilisation for electric compared with 94% for ICE. Without comparable utilisation the vans are not productive assets and completely unaffordable for firms.

An additional concern is that there are many use cases where an electric van has reduced functionality. Even if zero emission and ICE vans were at price parity, the majority of fleets would still be unable to afford the increased operating costs associated with their reduced functionality.

Without long-term **targeted support** for those struggling to transition, it is unlikely that BEV demand will meet the UK's ambitious decarbonisation deadline. This targeted support should take the form of a top-up in Plug-in Grant funds that are ringfenced for hard-to-transition use cases beyond 2022/23.

Use cases that must see support beyond 2022/23 include most van operations as well as car clubs and vehicle rental. Continued support for car clubs would give substance to the Transport Decarbonisation Plan's commitment to "support car clubs to go fully zero emission".

There will be other segments beyond these where PiGs are still needed, for example some retail consumers. A clear set of criteria for any future PiG ringfencing could be linked to real world, published TCO data, ensuring that any additional funds are only applied where they are needed, at an appropriate level. The criteria for accessible vehicles would also be expected to be reviewed so only vehicles fit for purpose are able to access the grants.

In addition to the targeted PiG extension Government should consider a scheme to support getting people into ZEVs to trial them. Consumers and firms are far more likely to convert to a ZEV once they have tested using it within their usual everyday use. Car clubs and rental and ideally placed to support this. A **voucher scheme** which gave each applicant who does not currently use a ZEV £20 towards the hire of a rental or car club ZEV could completely change general appetite to shift out of ICE product.

Getting demand over the line – £260 million required

£250 million top-up of the Plug-in Grant – this could enable the purchase of at least 100,000 zero emission vehicles which would otherwise not have happened.

£10 million ZEV voucher scheme – this could enable 500,000 days of ZEV testing by hesitant consumers.

Enabling modal shift to drive decarbonisation

The Transport Decarbonisation Plan (TDP) sets out an inspiring vision to transition the UK away from the hegemony of private vehicle usership towards more sustainable shared mobility options. Delivering the change imagined by the TDP will require significant funding and support from Government.

The TDP has fired the starting pistol on Government backing a move to shared mobility. The announced Mobility-as-a-Service (MaaS) Code of Practice, Local Authority guidance, commitments to rural transport innovation and supporting communication campaigns encouraging modal shift are all hugely welcome. The renewed focus on modal shift is opportunely timed, given the ongoing changes COVID-19 has caused on

travel patterns and the role shared mobility can play in meeting urgent decarbonisation goals. The next step should underpin this policy rhetoric with the fiscal muscle needed to achieve change.

BVRLA car club and rental members will play a key role in the shared transport revolution. As set out in the BVRLA Cars in the City Report[7] shifting people out of private vehicles into car club or rental vehicles, reduces CO_2, increase occupancy of vehicles on the road, reduces usage and increases integration with other transport modes. Government needs to help industry establish what types of shared mobility offering work in the UK and enable them to overcome barriers to adoption at scale.

There is ongoing work to find MaaS solutions to transport challenges, which involve cross-modal shared systems of transport. What a sustainable, affordable and effective MaaS system looks like is dependent on the very specific local transportation challenges that its users face. There has not yet been enough testing and learning with MaaS to develop the optimal approaches. A bold funding vision is required, **which invests in trialling and developing new mobility models** through trials across rural and town localities in the UK. Industry wants to work with local and national authorities to create MaaS solutions that can place the UK squarely at the forefront of the global mobility revolution and power a rural transport revolution.

The lack of transport options beyond private cars in rural and town locations across England needs to be addressed. MaaS offers a route to level up transport accessibility in areas that need it. MaaS solutions are a technological leapfrog which can deliver better transport outcomes to areas rapidly. Since MaaS gives consumers the blended trips that they actually need it can create better outcomes for a previously underserved rural location than is currently experienced in a public transport saturated environment. An example of scheme using MaaS to change the transport landscape for those living in rural areas is the Scottish HiTrans Scheme. This is improving mobility by providing MaaS solutions for the Highlands and Islands some of the most remote and sparsely populated areas in the UK.

Building and implementing new mobility solutions will not be enough, users will need help to make the shift out of private cars in market towns and rural conurbations. This kind of support 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. This trial could cut car usage by up to 70 per cent and increase the use of public transport and car clubs.[8]

The Government should fund **more nationwide mobility credit scrappage schemes**, including localised measures specifically focused on moving people into zero emission car club and rental vehicles. More widely, Government should explore allowing **salary sacrifice to be used for tax-free shared mobility vouchers**, which can be used on a range of MaaS offerings or zero emission mobility vouchers for zero emission car club or rental vehicles. These kinds of measures will be critical in encouraging users to move away from private car ownership.

Unlocking modal shift – £400 million required

£100 million for trials of new mobility systems – these can replace existing public transport infrastructure as well as private car usage. Funds should be split equally between town and rural trial locations and would support up to 20 trials, cementing the UK as country at the forefront of transport innovation.

£300 million to continue the rollout of "Future Mobility Zone" schemes across the UK – these would enable the rollout of mobility credits and other support mechanisms, reducing reliance on private cars and removing at least 120,000 private vehicles from the road.

[7] BVRLA 2019 - https://www.bvrla.co.uk/resource/bvrla-cars-in-the-city-report.html

[8] Green Alliance 'The case for clean air zones' 2021 - https://green-alliance.org.uk/resources/The_case_for_clean_air_zones.pdf

Summary

More certainty for benefit-in-kind (BiK) tax rates

Drivers and fleets need more years of certainty to be able to continue the company car and salary sacrifice BEV adoption momentum. Low BiK rates and sufficient foresight have transformed demand for zero emission vehicles. The sector is nervous of sudden tax increases beyond the announced years and needs to see both future rates and the long term taxation glide path.

The 2025/26 rates need to be announced for immediate near-term certainty. BiK rates also need to remain below 10% for BEVs up to 2030/31 and should not increase in increments of greater than 3% year on year between 2024/25 and 2030/31. Both principles should be committed to publicly by Government in the Autumn Budget.

Drop leasing and rental exclusion from Capital Allowances Act (CAA)

Leasing and rental, two of the most common ways that businesses and consumers access cars, vans and HGVs are currently excluded from support through the capital allowances regime. A revised regime, that removed the rental and leasing exclusion has the potential to unlock billions of pounds of sustainable investment. A reformed Capital Allowance Act would spur investment that reduced transport CO_2 and enable firms, who otherwise could not afford it, to invest in new vehicles.

Launch road pricing green paper

The spectre of road pricing grows ever larger as BEV sales grow. Expected declines in fuel duty and statements from Government have created certainty that a major change to vehicle taxation must happen. However, without open discussion and consultation a scheme that works for all cannot be created. The scale of the challenge that road pricing represents demands an extensive and considered approach. Industry and consumers cannot afford a rushed scheme or limited implementation period. Discussions must start now.

More certainty for benefit-in-kind tax rates

The current BiK taxation structure is the single biggest driver of zero emission vehicle uptake in the UK. Fleets and drivers need foresight of more years BiK tax rates and certainty as to the 'glade path' for any increases in the rate for BEVs.

Low BiK rates for battery electric (BEV) cars have made it financially viable for huge numbers of company car and salary sacrifice drivers to shift from internal combustion engine (ICE) cars to BEV.

The two factors that have enabled this seismic change are:

1. **Low rates**: currently at 1% for a BEV
2. **Foresight**: giving industry five clear years of foresight in 2020 provided a reliable total cost of ownership covering the entire term of the company car BEV lease.

Latest BVRLA figures show that the business lease vehicle parc is 8% BEV while salary sacrifice is at 22%, both far in advance of the general vehicle parc which stands at less than 1%. In terms of order bank, some of the leading salary sacrifice providers tell us that BEVs now have a market share of 60%. With the right BiK rates the company car and salary sacrifice markets could be 100% zero emission far in advance of the

Government's 2035 phase out date. This would deliver significant carbon savings to the UK, make BEVs mainstream and create a steady supply of affordable BEVs entering the used market.

Just as this incredible momentum builds, the foresight that drives it continues to recede. The five years of certainty provided in 2020 is now four years. The process of getting a new company or salary sacrifice car is not immediate and typically involves a quotation, the selection and specification of a vehicle and a lead time of up to six months between order and delivery. Already, those starting a four-year lease (which represent over 40% of the market) no longer have knowledge of their tax obligation for the duration of their lease. In early 2022 this will be the case for all drivers renewing their vehicles.

Fleets and drivers are increasingly nervous of a sudden cliff-edge increase to BiK rates in 2025/26 which would shatter the affordability of BEVs. Continued speculation in the media around the future of BEV taxation and declining Government fuel revenues create concerns of spectacular tax rises in the years following the announced rates.

BVRLA members believe the transition requires them to have the **immediate near-term certainty of 2025/26 rates, announced at the Autumn Budget**, as well as longer term certainty of an end of decade ceiling rate for BEVs and confirmation of the HM Treasury approach to bridging the two.

Rapid increases in BiK rates should be avoided and the **industry preference is for an escalator approach** between the very low levels of 2024/25 and a more 'natural' level. **Cliff edges should be avoided** as they will create distortion and swings in the market. If they must be used then industry will require foresight of more than five years to mitigate against them.

Rates need to remain low for the rest of the decade if the sector is to decarbonise at the fastest possible rate. Recent history has shown that the company car and salary sacrifice markets can fluctuate wildly if the total cost of ownership equation compares poorly to the alternative option of sourcing a car privately. Statistics show that when drivers do opt out of a company-provided car, they will choose cars that are older and more polluting – either through a personal lease or using an existing household vehicle (grey fleet). The company car and salary sacrifice market do not compete only with like for like new product and their costs but also with the used market and the significantly cheaper vehicles available there.

At the moment, a significant proportion of drivers still feel challenged by the implications of electric motoring – due to the compromised range or concerns about access to charging infrastructure. These **drivers still require a clear financial benefit from their transition** in order to accept what they see as the compromised functionality and increased hassle of operating a BEV.

BVRLA members believe that **BiK rates need to remain below 10% for BEVs up to 2030/31 and should not increase in increments of greater than 3% year on year between 2024/25 and 2030/31. Both principles should be committed to publicly by Government in the Autumn Budget.**

Cost of certainty

What this would cost the exchequer is dependent on what HM Treasury believes is a natural level of BiK revenue. The most recent revenue figures of over £5.2 billion does not represent a sustainable level. Company car driver numbers have continued to see net declines as drivers opt out and instead use cash in the second hand market. Anecdotally, there is a counter trend of BEVs drawing drivers in either back into company car schemes or through salary sacrifice. HMT must decide if they would like to try to maximise revenue or create a sustainable zero emission company car and salary sacrifice market. Sustainability will come at a cost from today's tax highs as will continuing to enable the move to BEVs.

Drop leasing and rental exclusion from CAA

As long as General Exclusion 6 remains in the Capital Allowances Act 2001 leasing and rental will continue to be excluded from measures aimed at increasing investment and decarbonisation. Urgent action is needed to drop the exclusion and unlock the full potential of these innovative policy measures.

If a business buys a BEV car outright it can claim a 100% First Year Allowance (FYA), if it uses hire purchase or outright purchase for a van or HGV it can claim the 130% super deduction allowance (SDA). These enable 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.

The ability to access 100% FYAs, and 130% SDA would create significant commercial advantages for leasing and rental firms and produce cost savings. In today's highly competitive market this saving would undoubtedly be passed on to customers renting or leasing electric cars, vans or HGVs. This would help reduce the current price gap between ICE and BEV cars. It would also stimulate investment in new, low carbon, vans and HGVs.

The distortion also potentially impacts SMEs far more than larger businesses. Larger businesses will generally have greater availability of cash and or access to cheap funding, making a cash purchase or debt a viable option. Given the leasing exclusion, the businesses most able to make use of capital allowances are not those struggling to invest and in need of its support. Instead, SMEs with limited access to cash and finance cannot access it as their fleet renewal requires a leasing or rental offering.

Changes in the leasing and rental landscape mean there is no risk of cross-border leasing or avoidance. The UK's exit from the EU has means that vehicles cannot freely flow from the UK to other markets. Additionally leasing and rental contracts give an additional layer of control over how vehicles are used, while outright purchase vehicles can be exported with no restriction. Similarly, avoidance legislation has advanced significantly in recent decades and are now very robust. Given the vanilla nature of the leasing and rental a general anti-abuse rule (GAAR) linked to the removal of leasing and rental exclusion would be welcomed by the sector.

Cost to increase investment – £400 million

£400 million to unlock investment – for cars the change would not create a net different tax take for HMRC but will significantly increase the speed of the relief. Cost analysis carried out by an external consulting agency using BVRLA BEV purchase data estimated a time value of money cost to Government as £400 million for cars. Given the claw back mechanisms built into the SDA for vans and HGVs Government revenues will see an absolute increase over the term of a lease. However, as the relief is also front loaded there will only marginal overall impacts.

Launch road pricing green paper

The Prime Minister's Ten Point Plan for a Green Industrial Revolution it was made clear that revenue from motoring taxes must be maintained during the transition to ZEVs, while the transition itself should not be hampered. This will require a new approach to vehicle taxation. Any change will be hugely complex with far reaching impacts. Government must act now to start the discussions around the future of vehicle taxes.

An accelerating trajectory of road transport decarbonisation is set to rapidly erode HM Treasury's fuel duty revenue. Every percentage point increase in market share for ZEVs will cost the Exchequer tens of millions of

pounds in lost revenue if the current emissions-based motoring tax regime is maintained. Careful and consultative reform is required.

Road pricing opens the possibility to reform our current cumbersome tax structure of a Vehicle Excise Duty, where three systems are concurrently running, and fuel duty into a single simple but powerful measure. The transport landscape is hugely complex with an endless variety of use cases and millions of users. Static taxation of this ecosystem invariably creates sub-optimal results. A well-designed road pricing mechanism can address current market failures in a targeted manner.

As ZEVs, connected and autonomous vehicles, shared and active travel become mainstream, the social costs of transport will reduce. Health costs associated with air pollution and traffic incidents will decline and road use may dramatically decrease. Road pricing can encourage this transition and be flexible enough to lighten the taxation load when appropriate.

All these benefits fall away if road pricing is rolled out with the ambition of increasing revenue for HMT. Fundamentally, road pricing can provide a new way of funding our roads and should be linked to societal objectives, specifically decarbonising road transport and increasing driver safety. It should not be a new revenue stream or increased tax burden for road users.

To ensure these benefits are achieved the BVRLA has developed a set of ten principles which provide a framework for the discussion around road pricing.

1. **Consult early and extensively:** Road pricing is a complex issue with a huge array of possible approaches and challenges. For any eventual scheme to work it will require extensive consultation from the government with a broad range of vehicle users and owners. The lack of consensus on the need for road pricing or the form it should take means that it is vital for government to engage with stakeholders as early as possible in its policy development.
2. **Make it simple and easy to administer:** Any road pricing scheme needs to be simple to pay and administer for both vehicle owners and users. Vehicles are used in a wide range of activities so any system must be flexible enough to allow for a range of different business models, including vehicle rental or shared ownership.
3. **Don't rush it:** One of the key lessons learnt from the introduction of the London Congestion Charge and Ultra Low Emission Zone is that new road pricing schemes must be widely communicated and allow sufficient time for stakeholders to adjust their vehicle purchases, IT systems and operational procedures. Depending on the solution that is introduced, this could include allowing time for the development of specific telematics equipment or new road tolling infrastructure.
4. **Build-up the Back Office:** IT systems within the Government motoring agencies have not kept pace with the increasing levels of digitisation seen amongst their customer base. These systems need to be upgraded so that they can cope with the bandwidth, cyber security and 24/7 digital capabilities required from a national road pricing system.
5. **Streamline the motoring tax regime:** A new national road pricing scheme is more likely to be welcomed if it can tackle some of the inequalities and administrative frustrations that have been caused by the current over-complex and inefficient motoring tax regime. Government should aim to consolidate existing measures, not add new ones.
6. **Provide a national framework:** Road pricing will not work if it's development is left in the hands of devolved nations or local authorities. A national framework is essential to ensure that road users get a consistent message and experience. Only a national road pricing system will provide a fair and simple way of replacing national motoring taxes such as VED and Fuel Duty.
7. **Drive the right behaviour:** Any road pricing scheme should have the flexibility to charge in a way that supports more sustainable transport behaviour. For example, it should encourage people to use zero-emission, shared vehicles (e.g. car club and rental) rather than privately owned ICE vehicles, or to travel outside of peak times or away from the busiest roads.

8. **Link revenues to transport infrastructure and decarbonisation:** Road pricing costs will be more easily accepted if they are transparently allocated against the huge cost of upgrading the UK's road network and zero-emission vehicle infrastructure.
9. **Treat all road users fairly:** Road pricing has the potential to create an unfair taxation burden on certain road users because of where they live and work, their economic circumstances or a host of other individual circumstances. Any system should have the ability to provide exemptions or special rates to avoid unfair outcomes.
10. **Get it right first time:** Sentiment towards road pricing has changed, and many road users can now see the benefits of a well-designed, carefully implemented system. This goodwill will soon evaporate if the previous nine principles are not followed.

There are numerous variants of road pricing scheme. Many would be entirely inappropriate for the UK. The process of developing a scheme will need to be highly consultative with many iterations and pilot programmes. The UK is already behind other nations where extensive pilots of viable road pricing schemes have been running for a number of years.

If Government engages with BVRLA members, a world leading system optimised for the UK can be developed. The fleet sector is perfectly placed to work as a partner with Government, spearheading the testing, development and deployment of a road pricing scheme. The BVRLA believes that the best road pricing system is simple, data-led and not overly prescriptive in its approach. It must work well for all vehicle use cases.

Approach and administration

To ensure road pricing works for all users it should enable multiple methods of revenue collection. Central to these would be the principle that fleets can act as 'agents' for the government and collect the revenue on their behalf. Currently, fleets pay VED on all the vehicles they own, and this administration capacity can be transitioned to collecting the road pricing revenue due on their fleet - if the system is administratively simple.

The system for mileage tracking and revenue collection must not be overly prescriptive. International pilots have allowed users to choose from a variety of options for recording and paying their road user charges. For example, the scheme should have the flexibility to allow a smartphone app and monthly payments for a personal leasing customer and a plug-in device and annual payments for a rental fleet, with many options in between.

Pricing road use

Road pricing rates should encourage Government's broader goals, such as decarbonising road transport and reducing private vehicle miles. However, any system needs to be simple and understandable by end users. The BVRLA suggests an iterative approach where a menu of factors linked to the vehicle is used to determine the final rate. This would allow users and fleets to clearly see the impact their vehicle choice and usage has on their tax liability.

In practice, all vehicles would have a base pence per mile rate, replacing VED and fuel duty. The base rate would then increase by a set amount for set characteristics of the vehicle and its use. For example, an increase could be triggered if the vehicle was over a certain gross weight, is only used for private use or had CO_2 emissions over a certain threshold.

Necessary systems reforms

Before fleets, or any road users, could start to trial road pricing the DVLA would require fundamental reform. Currently, the DVLA is simply not technologically capable of overseeing a system of road pricing. Government cannot attempt to create a system which works within the practical constraints the DVLA currently has. The DVLA will need to be fully digitised, agile and refocused on both individual users and fleets.

Role of fleet

Fleets are well positioned to work collaboratively with Government to pilot road pricing and make its broader deployment a success. Fleets represent the majority of zero emission vehicle purchases and ICE fleet cars are younger, cleaner and more technologically advanced than the UK wide parc. Fleets also have extensive knowledge of vehicle management, telematics and fully accounting for all costs associated with a vehicle.

These factors would make fleets the ideal location to start piloting road pricing. However, for this to be a success the Government would need to ensure that competition and data security laws enshrined fleet's ability to access and control the data produced by the vehicles they owned and operated. Without access to in vehicle data, fleets will be unable to effectively manage road pricing and the UK will likely have a much longer and more difficult journey to a national scheme.

With access to the necessary vehicle data and flexibility in approach, fleets could rapidly deploy road pricing pilots. These pilots should start as opt-in and develop models which work for a specific use case, for example, company cars or daily rental, before being made mandatory for that segment. Pilots could run in different use cases simultaneously, each refining the best approach for that segment of fleet.

To incentivise fleets into the pilot programmes road pricing should see their total tax burden decrease for the period of the pilot. Those on pilot programmes would receive rebates equivalent to their fuel duty and VED payments while the traditional taxation system and road pricing pilot coexist. The learnings taken from across the fleet use cases could then be applied to a later vehicle parc-wide road pricing introduction.

The BVRLA proposal of fleets pioneering any system and the slow introduction from pilots to full rollout would allow the general public to gradually acclimatise to road pricing. It would also allow for the taxation of zero emission vehicles to start to be tested. If the pilots reduce the overall taxation burden of a fleet, then it should not slow BEV adoption if, for the purposes of the pilot, BEVs pay tax while ICE tax burden is marginally reduced to compensate.

Timeframe

The possible timelines of revenue reduction with ZEV uptake mean this issue cannot be dealt with at the end of the decade. **Work needs to start now on actionable trials** which can have widescale uptake from 2025, with adoption across the vehicle parc by 2030. **Government must urgently launch a Green Paper** to start open discussions on this issue. The longer this is delayed the more potential there is for a rushed implantation leading to undesirable outcomes. Discussions must urgently start in earnest.

Cost of inaction

The costs for the public purse, industry and drivers will compound the greater the longer the future of vehicle taxes remains. Industry and government departments will need an extended period of piloting, testing, systems development and education before any system can go live. These changes will take at least half a decade and will need a clear framework to work to. The decision on what road pricing looks like needs to be finalised before 2025 for viable implementation before there are massive reductions in fuel duty revenue. Deciding how to implement road pricing will also require multiple years of engagement, consultation and unhurried consideration or else risks enormous costs to industry and consumers.

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