

Advisory Electricity Rate – Reform

Industry Position

The British Vehicle Rental and Leasing Association (BVRLA) represents the demand side of the automotive industry. Our members engage in vehicle rental, leasing and fleet management. BVRLA members own and operate more than four million cars, vans and trucks. The Association of Fleet Professionals (AFP) represents the interests of businesses which operate cars and vans as part of their normal commercial activities. Members of both associations have recognised that the current 4p per mile Advisory Electricity Rate (AER) is no longer fit for purpose.

The AER is not a binding rate of remuneration for drivers, but it is a cornerstone figure for industry. Through its signalling it sets out the norms in remuneration and running cost calculations for firms. Maintaining as accurate as possible AER is in the best interests of all parts of the fleet sector and Government, improving fairness and customer experience for battery electric vehicle (BEV) drivers and their companies.

The Challenge

The AER was originally introduced in 2018. It was calculated using two key elements, BEIS figures on the average costs of electricity in the UK and efficiency figures from the BEVs on the market. Both of these elements have changed fundamentally.¹ In 2017 the average cost of standard electricity across regions in the UK was 14.4p/kWh, in 2020 this figure stood at 17.4p/kWh, representing an over 20% inflationary increase.² Similarly the range of BEV vehicles available has dramatically increased across both number of models available as well as the types of vehicles. A representative bundle of vehicle available in 2018 was able to travel on average 4.63 miles/kWh, a representative bundle in 2021 has an average of 3.69 miles/kWh, a more than 20% reduction in average efficiency. With more vehicles having larger, heavier, batteries and more SUVs in the model mix this change is natural.

Despite these fundamental shifts in cost the AER has remained static at 4p per mile. In contrast the Advisory Fuel Rates separate vehicles by their efficiency, recognising different vehicles have different fuel costs, and are reviewed quarterly to allow for fluctuations in the underlying costs. The AER needs to evolve to become a more nuanced and adaptive measure.

Industry Proposal

Industry is ready to work with HMRC to create sustainable and fair AER reform. There are four key actions that industry believe HMRC must consider:

- **A review of the current AER level**, to account for the changed model mix and inflation in electricity prices
- **Establish an ongoing review process for the AER**, so that it does not become out of sync with actual costs again
- **Create a separate AER for vans**, vans are fundamentally different to cars, they are used fully laden achieving much reduced miles/kWh and a single AER cannot fairly cater to both cars and vans
- **Begin work on a hydrogen AFR**, while still in its infancy hydrogen cannot be ruled out from becoming an important option for fleets and a hydrogen AFR will give needed guidance to industry

¹ Please see supplied data in attached Excel.

² There is a time lag of one year in the data availability, as such 2017 informed the 2018 rate and 2020 data is the most recent.

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.

About the AFP

It brings together ACFO, a non-profit making organisation representing the interests of businesses which operate cars and vans as part of their normal commercial activities; and ICFM (the Institute of Car Fleet Management), the UK's only independent not-for-profit organisation dedicated to furthering the education, recognising the achievements, and advancing the profession of car and light commercial fleet management.

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