Leasing Outlook

RESEARCH & INSIGHT

DECEMBER 2020

BVRLA

Back on the road

Adapting business models to new ways of working

Market Spotlight
Post-furlough forecasting

Business Confidence
What comes next?

Forecasts
A more complex future

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About this report

The BVRLA Leasing Outlook report combines the aggregated market data and insight of experts from across the sector to provide an unrivalled perspective of what is happening to the market and where it is heading.

Each quarter the association analyses a range of automotive market data and puts a series of questions to a panel of senior executives from across the industry and its supply chain. Full of strategic insight and analysis, this report provides the BVRLA's forecasts for key areas of the leasing market. Leasing data for this report was compiled in Q3 2020 from member submissions to the BVRLA quarterly leasing survey on activity up to and including the end of Q2 2020.

Leveraging its knowledge and understanding of the policy and regulatory environment, the BVRLA Leasing Outlook report also presents a unique 'Risk Register' of upcoming items that will have a major impact on fleet procurement and operations.

The BVRLA is the home of reliable, robust and compliant fleet industry data. If you would like to find out more about what we do, or participate in our research and insight activities, please get in touch.

Phil Garthside
BVRLA Research & Insight Manager
Phil@bvrla.co.uk

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Executive Insight Panel


Keith Townsend
Managing Director, Agility Group


David Cooper
Managing Director, Arnold Clark Finance


Elliott Woodhead
Deputy Managing Director, Arval


Shaun Barritt
Group Chief Executive Officer, Grosvenor Leasing


Jon Lawes
Managing Director, Hitachi Capital Vehicle Solutions


Matthew Rumble
Chief Executive, KINTO UK


Chris Black
Commercial Director, LeasePlan


Neal Francis
Divisional Managing Director, Pendragon Vehicle Management


Mark Hammond
Managing Director, TCH Leasing


Claire Evans
Fleet Consultancy Director, Zenith

Executive Summary

Leasing leaders and their teams have successfully guided their businesses through the unprecedented shock of the initial COVID-19 crisis; now they face the challenge of assessing how the pandemic will change transport. Guided by few long-term certainties, such as electrification, business leaders are searching for highways to growth as the market reopens.

A lesson in leadership

Leadership teams within leasing companies and their employees have overcome overwhelming challenges to reshape their businesses for a new economic landscape.

The reputation for service that lies at the heart of the industry has been tested to its limits as customer demands for support, help and advice rocketed in the early stages of the pandemic, while leasing companies scrambled to completely reshape their own operations to accommodate remote working and unparalleled supply chain disruption.

Their successes have enhanced the reputation of the leasing sector and highlighted the quality of service, training and leadership that underpins the market.

New processes have focused on moving quickly, adapting, rapid iteration and constant communication, both internally and with customers.

This has enabled a return to a 'new normal', where customer demand has been reshaped by the crisis, with rapid growth in some sectors, while others face ongoing existential threats.

In every case, customer expectations of leasing suppliers remain high; fleets are protected from the issues they might face if they were trying to source a direct supply of vehicles and services. Customers still expect rapid delivery of new fleet vehicles, including a growing proportion of plug-in cars and vans, even though there is supply chain and manufacturing disruption; many fleets are extending contracts in the face of an uncertain economy, while others want rapid, flexible support as their finances are challenged.

For leasing companies, the trials will keep coming, not least the long-term supply disruption created by the pandemic, the impact of EU-exit and the increasing urgency to decarbonise.

Despite their unprecedented recent successes, leasing companies may face their biggest challenges in the coming months, as customers expect normal service to continue in a world where suppliers are struggling to establish what the 'new normal' is.

A financial balancing act

Leasing companies now face numerous financial risks with precious little data on which to base their predictions.

There is a risk of growing defaults from corporate customers and personal leasing clients in the coming months, particularly if the economy worsens. Encouragingly, many customers returned to normal payment schedules when the first period of payment relief ended.

Changing demand also makes residual value predictions difficult, including for the tide of plug-in cars and vans set to arrive on the second-hand market in two to three years' time.

> *We have experienced 20 years of change in six months. At one stage order take was down 50% and there are a lot of informal extensions, but there are also green shoots of recovery showing. Customers still have high expectations, but the challenges keep coming.*

Business Confidence

Businesses are becoming more agile as they endure months of economic shocks, but they need certainty to support strategic investment in future growth.

Business confidence dropped sharply as the impact of the pandemic became clear earlier this year, but companies and suppliers are learning to adapt to a new reality.

Long-term decisions are being made to provide some level of stability, such as the move by many companies to transition to home or remote working until well into 2021.

This reflects the search for certainty; if the outlook is stable, businesses can adapt to a tough economy. What companies and markets struggle with is unexpected change.

With a potential vaccine on the horizon, there is light at the end of the tunnel; the Confederation of British Industry (CBI) says the good news gives hope for the future and may give some stimulus to spending.

But this is only one area where certainty is needed. While the country has a history of responding to public health emergencies, there is no precedent to understanding Brexit.

Already the BVRLA has warned that failure to reach an EU trade deal will have a domino effect, hitting UK businesses, undermining economic recovery, harming the automotive sector, and slowing the transition to zero-carbon transport.

Under a no-deal scenario, the BVRLA estimates that the resulting tariffs imposed on new car and van imports from the EU would add £2.1 billion to the fleet sector's annual new car costs.

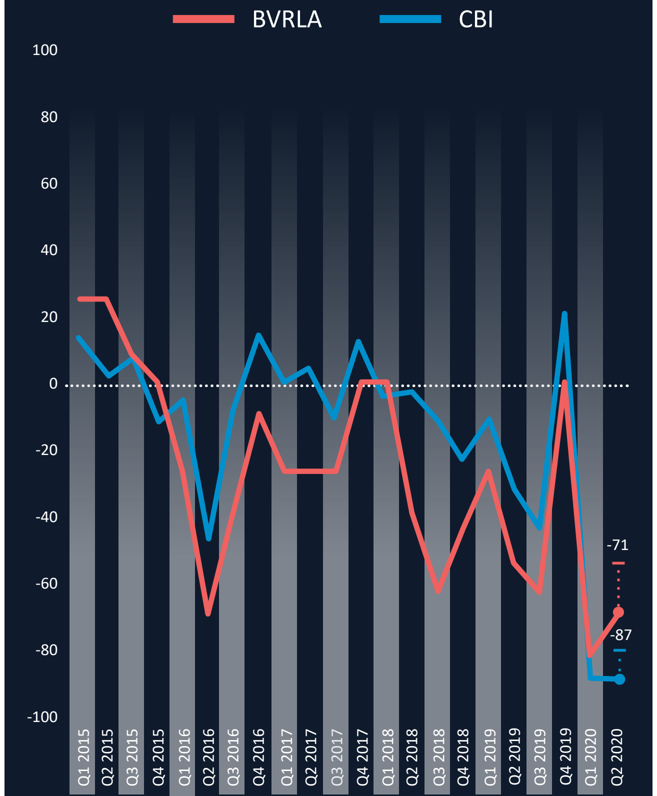
The BVRLA has joined the CBI and more than 70 other trade associations from sectors across the UK economy in calling for the swift conclusion of a UK-EU trade deal.

However, even after successfully navigating the complexities of a new arrangement, the UK will still be entering uncharted waters, where the path to economic growth is unclear.

Businesses have shown they are resilient and can adapt, but they all depend on a robust economy that generates the demand for the goods and services they supply.

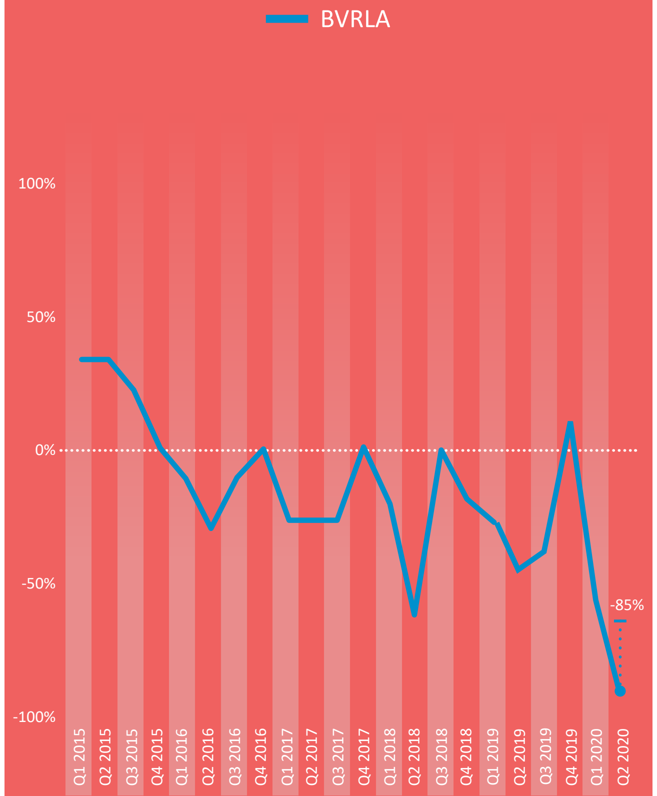
Until that path is clearer, confidence may remain low while businesses consider what their long-term strategies should be.

UK Economy



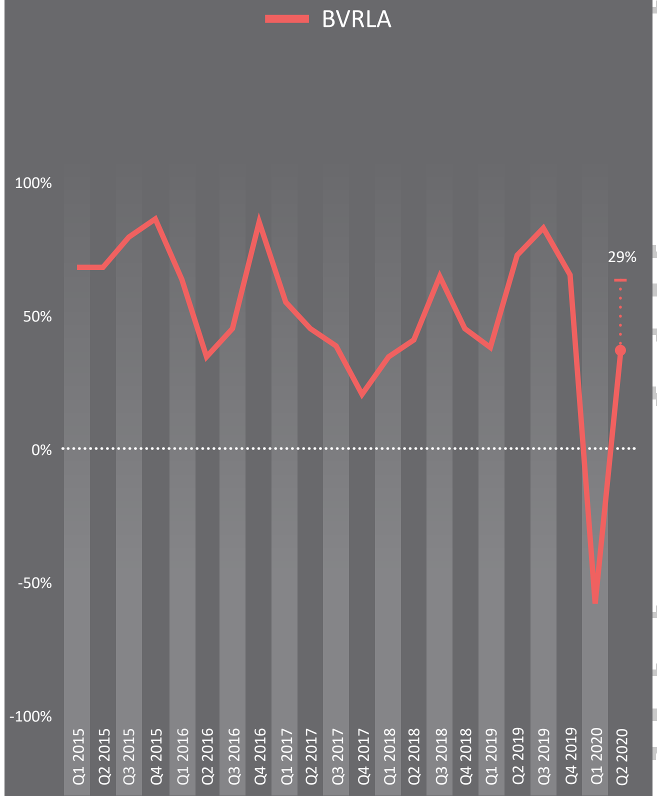
With the arrival of COVID-19, economic confidence has fallen sharply as companies prepare for the UK to face a long and painful journey back to economic normality. There is wide-ranging consensus that 2021 will be a painful year for the economy as the cloud of Coronavirus lifts to reveal the true condition of businesses once state aid has ended. Even the positivity surrounding clarity on Brexit last year has been undermined as negotiations creep closer to a 'no deal' scenario.

Fleet leasing sector



Confidence in the fleet leasing sector is now at its lowest since 2013 with an almost universally negative outlook from respondents. This represents a sharp downturn compared to the start of the year when customer demand was rising rapidly as the economic outlook seemed more certain. Leasing companies are expecting 2021 to be a tough year for the economy as the long-term impact of the Coronavirus crisis on customers becomes clearer.

Fleet sizes



Expectations of fleet growth have improved despite the gloomy outlook as demand is driven by government incentives to move to electric vehicles. This is powering fleet renewal strategies among a growing number of customers while cash for car users are being tempted back to company car schemes by massive tax savings. Further demand for renewal will come from companies with older vehicles that have reached the practical limits of contract extensions. Despite growing demand, tough competition and an economic downturn could restrict margins.

* Confidence measures take the form of improve/stay the same/ diminish in relation to the next six months compared to current. Confidence is reported "on balance" ie. the percentage quoted is the difference between the percentage of respondents who took a positive view and the percentage who held the opposing view.

Market Spotlight

Risks

Supply chain

There are reputational risks from supply chain disruption as demand returns from fleets and consumers. With reports of many customers extending contracts until there is greater economic certainty, there is a potential backlog of new vehicle orders building that may be considered time sensitive when they are eventually placed. Manufacturers will take time to respond to growing demand for traditional petrol and diesel vehicles, while electric vehicle production capacity is still being developed. Leasing companies must ensure careful and continuous communication with customers throughout the order process, or risk taking the blame for any delays.

Brexit

A lack of confidence about Brexit trade negotiations is hindering orders from some sectors. In the event of a no-deal scenario, new tariffs could see a sharp rise in prices, exacerbated by exchange rate erosion. Reduced supply caused by restructuring of import procedures could undermine discount agreements and reduce margins. The introduction of a ‘no deal’ deadline could spark a flurry of orders as buyers look to beat any tariffs, creating risks if vehicles are ordered early, but still incur tariffs because of production or delivery delays. ‘No deal’ could also cause a slump in business confidence, subduing an economy already weak from the impact of COVID-19.

Residual values

In the past few months, strong used vehicle performance has offset rising list prices and provided stable rentals and greater disposal profits for leasing companies, but the future is less certain. The long-term economic impact of COVID-19 has yet to be felt, while there is the additional risk of an economic hit from Brexit trade negotiations if they result in ‘no deal’. Across the leasing industry, exposure to the electric vehicle sector is growing. Plug-in vehicles accounted for one-in-10 sales during September, driven by government incentives and massive company car tax savings. But when vehicles return to the used car market, the financial argument is weaker, particularly for low mileage drivers. There are calls from some industry leaders to refocus incentives to drive uptake in the used car market to generate demand and, in turn, protect residual values.

Liquidity

Forbearance has restricted revenues for most leasing companies, while rising demand for new vehicles as customers return to market is placing ongoing liquidity pressures on some providers. Competitive pressures are likely to obstruct attempts to raise prices for those facing problems, particularly as bank and manufacturer-owned leasing companies can price for growth with low-cost access to a substantial supply of capital.

“After very strong levels of forbearance requests, from all types of customer, requests have fallen significantly, and second-requests are very low. Demand for contract extensions has increased, driven by a desire to make a shorter-term commitment and because rentals today are significantly higher than three years ago. There are some delays in delivery of new vehicles, especially vans, due to COVID production disruption.”

Market Spotlight

Opportunities

Decarbonisation

Demand for plug-in vehicles is accelerating and so is the target date for phasing out the sale of new diesel and petrol cars and vans. Plug-ins accounted for one-in-10 sales during the key September registration month. Future demand will be driven by formal fleet commitments from major companies to rapidly transition to all-electric fleets. The 2035 extension for plug-in and full hybrids provides an essential lifeline for those facing a greater zero-emission challenge. It gives the leasing sector much more flexibility in helping clients take a more cautious transition to zero emission motoring, but we urgently need clarity on exactly what types of hybrid are in scope.

As the countdown to 2030 begins, there are three key areas that the leasing sector will need support on. Firstly, policymakers must maintain a set of powerful tax incentives and grants capable of driving demand across all segments of the van and car leasing market. Secondly, electric vehicles are in high demand across the globe – the Government must ensure that the UK remains an attractive market for OEMs to sell their products. Finally, the UK needs a comprehensive, well-funded strategy on charging infrastructure

Subscriptions

Leasing companies report growing interest in subscriptions among a small proportion of customers, so they have identified it as an area for future product development, particularly for in-house projects, so they can maximise loyalty and support profitable growth.

Personal leasing

The pandemic has led to a rapid increase in demand for personal transport. While latest data suggests the immediate focus is on used vehicles, the leasing industry has an opportunity to promote the benefits of new vehicle leasing as a viable alternative, with a lower upfront financial commitment, affordable payments, and ongoing personalised support from expert teams with a wide range of resources at their disposal. BVRLA leasing brokers continue to report high transaction levels since the end of the first nationwide lockdown, with potential business being held back by issues with new vehicle supply.

Flexible rental

The uncertainty caused by COVID-19 and ongoing Brexit negotiations is discouraging some fleets from making long-term commitments, such as multi-year vehicle leases. Leasing companies can ensure customers remain loyal, or secure new business, by offering short and mid-term hire options with flexibility built in, to allow businesses the freedom to change their requirements as required. Short-term contracts will also play a part in helping fleets to secure management backing to introduce electric vehicles.

Alternative transport

In a more complex transport environment, overall mobility is becoming an important consideration for companies and individuals. While cars remain at the heart of most people's transport requirements, new opportunities are emerging to offer a broader range of mobility services, from car-sharing services to alternative transport hire, including e-bikes. A key battleground for customer loyalty is the user experience, typically managed via smartphone app; leasing companies that provide the best software could secure a much wider customer base that also feeds demand for traditional vehicle services when they are required.

Public sector

Public sector opportunities are helping to offset ongoing market uncertainty, particularly because policy-driven measures to move to zero-emission fleets are generating continuing demand. In addition to introducing innovative technologies, public sector investment in vehicles is a key part of the COVID-19 response, ranging from the NHS to new local authority teams helping to enforce social distancing.

Blended fleets

While some industry leaders are transitioning to entirely zero-emission fleets, it is likely that most companies will adopt a blended approach over the coming decade, applying the right fuel for the right job. Leasing companies can play an important role by offering total cost of ownership-based, practical advice on building robust fleet strategies in response to the changing market.

Fleet actuals and BVRLA forecast: Leasing Market

Leasing companies are expecting the reduction in cars on business funding to continue, but the pace will accelerate because of the additional impact of COVID-19.

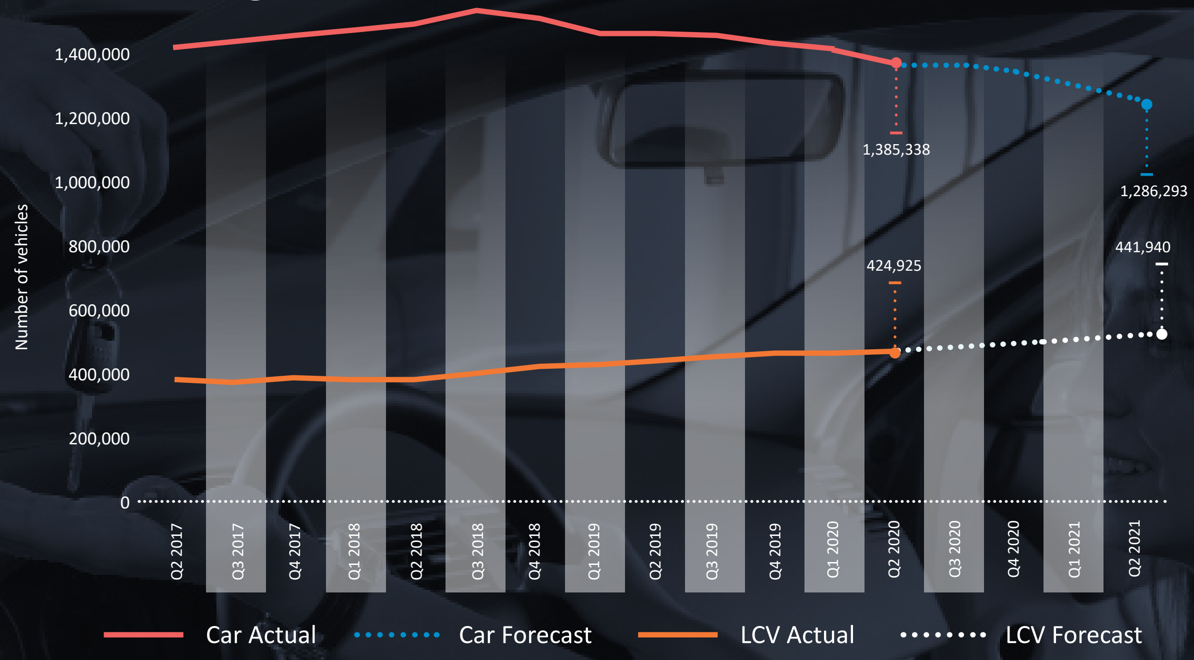
Often predictions are made with the caveat that a no-deal Brexit arrangement will increase the level of decline as business confidence drops and vehicle acquisition costs increase because of issues caused by restricted supply and newly introduced tariffs.

Decline is expected throughout the rest of 2020, with differing views on whether this fall might slow or accelerate in 2021, emphasising the uncertainties facing leasing companies as the pandemic progresses.

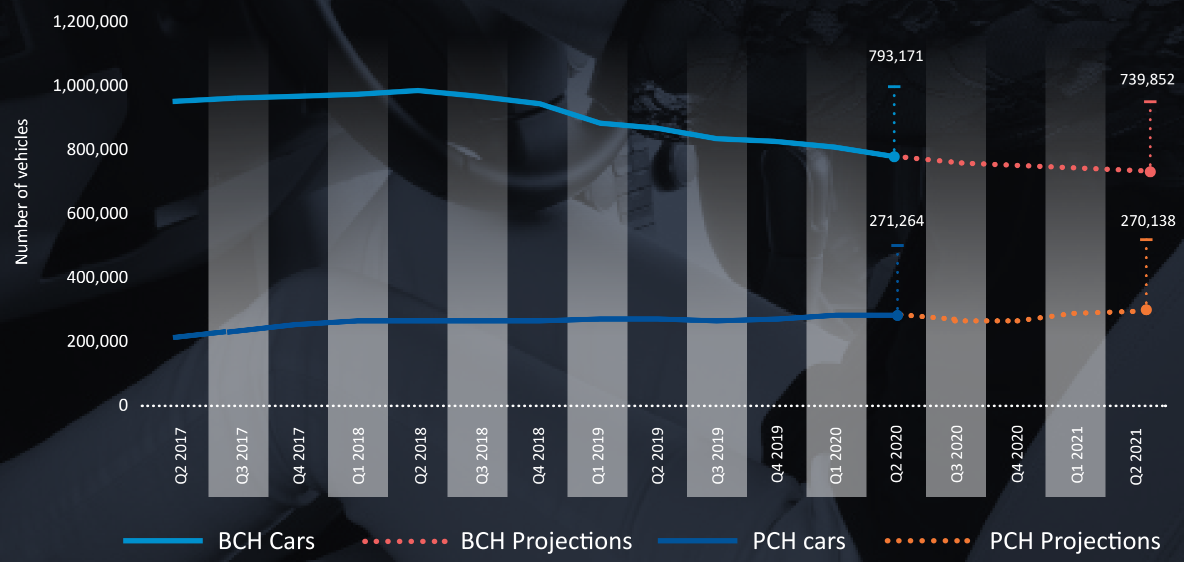
Corporate customers continue to review their vehicle policies around perk users and adapt fleet sizes to changing business demand, mainly downwards.

The end of furlough and other employment support schemes is likely to put more pressure on businesses and individuals, causing delays in new vehicle orders, while there may be an increase in early terminations as businesses reduce their workforce or even fail.

Leasing fleet actuals and forecast – Car & LCV



Fleet actuals and forecast – BCH v PCH



However, the outlook is not consistent across all industries, as suppliers' exposure to growth or decline varies according to the sectors they serve.

For example, leasing companies operating in some parts of the public sector report robust demand, while those with exposure to the commercial vehicle market have been supporting a substantial increase in fleet sizes, particularly in the home delivery sector.

In September, commercial vehicle registrations leapt by a quarter year-on-year, according to the Society of Motor Manufacturers and Traders, although this only partly offset overall declines incurred during the rest of the year.

Some leasing companies continue to expect growth in the LCV sector, although as with cars, opinion is divided, with some predicting strong growth, while others expect the market to decline during the early part of 2021.

When it comes to types of funding, most leasing companies share the view that business contract hire will see a decline for the next year with ongoing falls in each quarter.

Leasing companies expect growth in personal contract hire to continue, albeit at a slower pace than past performance, as drivers move out of some company car schemes, while consumers show increasing interest in leasing.

While electric vehicles are attracting drivers back into company cars to access substantial tax benefits, the current volume is not large enough to offset the decline in drivers of traditional petrol and diesel cars.

The consensus is that the economic fall-out from COVID-19, along with the reduction in government protection, will create challenges for the industry at the end of 2020 through to the start of 2021. Any subsequent recovery will be largely dependent on the conclusion of a successful UK-EU trade agreement before the end of this year.

Expert analysis

COVID-19 will have a long-lasting economic impact

The reduction in cars on business funding continues, but at a slightly higher percentage due to the additional impact of COVID-19. Corporates are rightsizing their workforce and fleet, especially in line of reduced usage due to digital meetings. We expect LCV to move to negative growth as corporates review the size of their fleets (albeit this will be supplemented by growth in segments such as distribution and logistics).

Fleet profile and BVRLA forecast: Electric Vehicles

The 2030 phase out confirmation is the latest event in a transformative year for electric vehicles. The alternatively fuelled market is now bigger than diesel, while one-in-10 cars registered in September was a plug-in model, capable of travelling substantial distances on electric power.

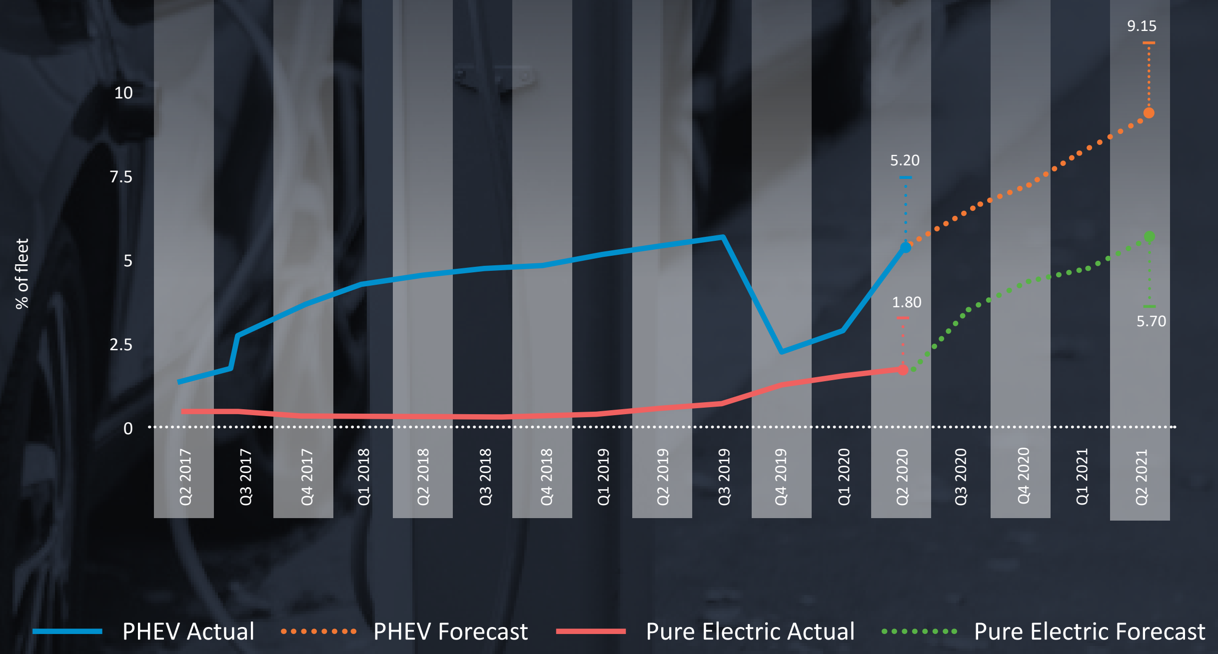
Q2 2020 was a key period, as new company car tax rules were implemented that meant pure electric cars incurred no benefit-in-kind tax. Long-term savings are built in, with rates rising to 1% in 2021/22 and 2% in 2022/23.

With premium brand drivers attracted by tax savings worth tens of thousands of pounds over a three year replacement cycle, anecdotal reports suggest some opt for an electric car, then pay for a petrol or diesel alternative with the savings 'just in case'.

Plug-in hybrid vehicles also have strong tax incentives, particularly if they can cover more than 30-40 miles in electric-only mode.

Leasing companies are predicting the fleet share of PHEVs to grow by around 40% over the next four quarters, while electric cars could see their share of the leasing market nearly double, to account for around 5% of the fleet.

Fleet profile and BVRLA forecast: Electric Vehicles



Car manufacturers have continued to promote plug-in vehicle announcements and launches with most major volume brands offering a plug-in alternative to traditional petrol and diesel models.

In addition to tax incentives, fleets are more confident about EVs thanks to a growing wealth of information from early adopters.

Organisations ranging from police forces to delivery fleets are introducing zero-emission vehicles and making public commitments to achieving 'net zero'.

For example, Mitie has launched a Plan Zero Fleet Transition Service to support other businesses looking to make the switch to electric vehicles after it introduced hundreds of zero emission models and charge points over the past year.

The company has pledged to convert its entire fleet of around 5,000 vehicles to zero-emission models by 2025.

In September, a group of companies representing the Electric Fleets Coalition called for the government to bring forward its proposed ban on the sale of new petrol and diesel vehicles, including hybrids, to 2030. The government consulted and recently revealed a 2030 ban for petrol and diesel, while some hybrids will remain on sale until 2035.

The UK Electric Fleets Coalition collectively operates more than 400,000 cars and vans throughout the UK and includes companies such as Tesco, E.On, Heathrow Airport and SSE.

With rapid take-up of electric vehicles among fleets, demand is exceeding supply, leading to long lead times, or fleets opting for alternative options, such as plug-in hybrids, and standard hybrids instead.

Leasing companies will face new challenges as volumes grow; customers will expect the same rapid resolution to issues, even if suppliers are encountering them for the first time.

The industry will have to grapple with key questions about vehicle use, maintenance and repair, not least when assessing battery condition, which can impact residual values. This includes developing fair wear and tear processes that can clearly identify when battery degradation is caused by misuse, rather than a production fault that would be covered by the manufacturer's warranty.

There are also residual value challenges ahead, as leasing companies will be remarketing large volumes of plug-in models in the next few years to a traditionally conservative market where there are fewer incentives to switch from petrol and diesel.

Expert analysis

Fleets showing growing appetite for EVs

The historic trends continue as tax drives more take up of BEV and PHEV. There is very strong demand for BEV, however there is limited supply and range of available vehicles in the short-term. This is supporting ongoing growth of PHEV and, to a lesser extent, hybrids.

Fleet profile and BVRLA forecast: Fuel Types

As fleets operate a growing range of fuel types, there is an increasing need for support to develop blended fleet solutions that optimise fuel choices for different operational requirements.

Over the next decade, electric vehicles will take an increasing proportion of the fleet as companies prepare to meet the future deadline for the end of the sale of new petrol and diesel cars.

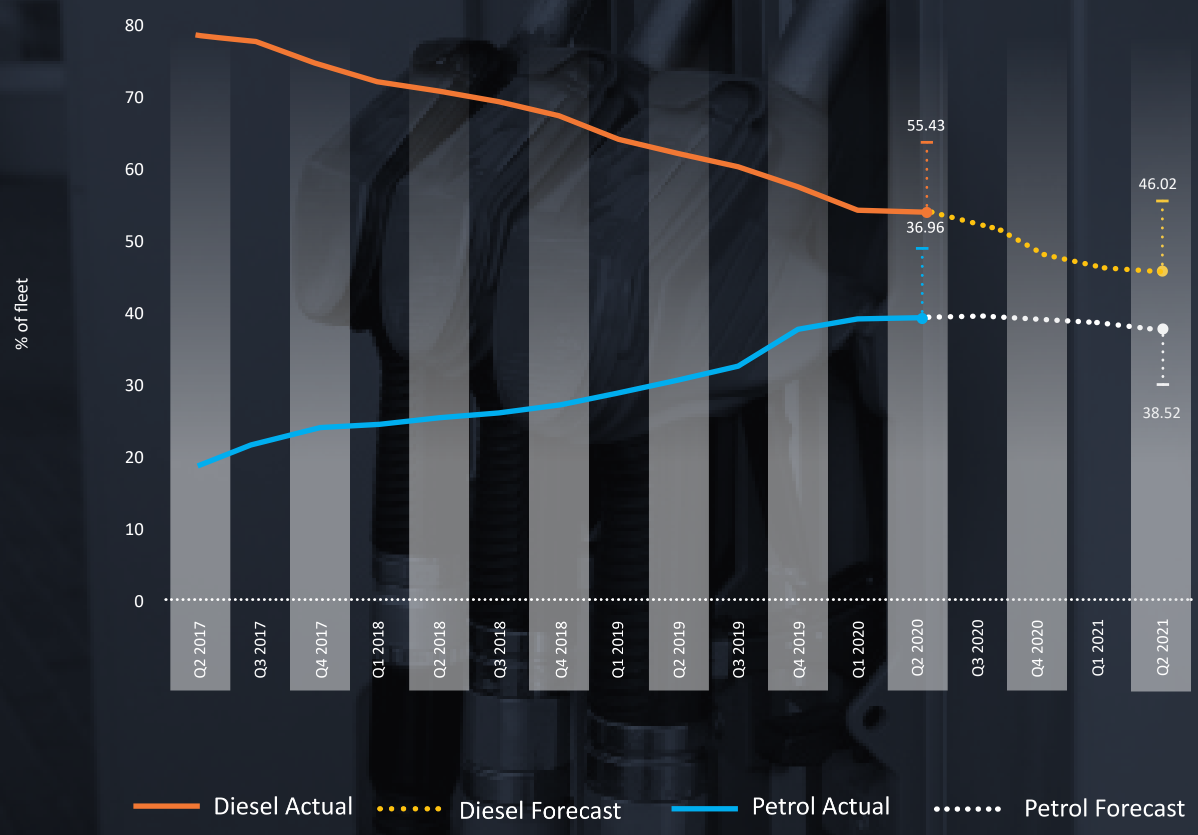
Until then, fleets face several operating cycles with around half a dozen different fuel options, which need to be matched against a wealth of new criteria, ranging from tax efficiency to city centre access, contract restrictions, refuelling/recharging availability and total cost of ownership.

The result is a much more complex decision-making process that will increasingly require the support and expertise of specialist providers, such as leasing companies.

Despite its decline, diesel remains a key fleet fuel and will still account for around two-fifths of the fleet over the coming four quarters, according to respondents, with the pace of its decline slowing slightly compared to previous years as demand focuses around core markets, including high mileage drivers, SUVs and commercial vehicles.

The share of the fleet taken by petrol is expected to be broadly static, with demand in some sectors helped by

Fleet profile and BVRLA forecast: Fuel Types



manufacturers discontinuing diesel options in favour of hybrids because they are no longer cost effective to produce, particularly in superminis, typically because of lower volumes or due to the proportionally high cost of fitting diesel emissions control technology.

Whereas fleets might normally switch between petrol and diesel, hybrid and plug-in models will now account for a greater proportion of demand, as companies opt for hybrid technology that promises diesel levels of efficiency, without concerns over urban emissions or the need to manage additives, such as AdBlue.

Together, petrol and diesel still account for most of the overall leasing fleet, but there will be a steady transition as the petrol and diesel ban nears over the next decade.

Long-term forecasts indicate that by 2023, electric cars will account for 14% of the market, while hybrids will be close to matching the share of petrol and diesel, each accounting for around one quarter of the cars sold.

The long-term nature of the transition is highlighted by Norway, the world-leader in moving to electrified transport, where a decade of incentives and infrastructure development mean more than half of registrations are BEV or PHEV, but they still only account for 10% of the 2.7 million vehicles on the country's roads.

In the UK, the BVRLA believes that the fleet sector will be pivotal to driving change and it will be responsible for 75% of BEVs on UK roads by 2025. The association's Plug-in Pledge will see its members registering 400,000 BEVs a year by 2025, equivalent to 80% of all zero-emission vehicle registrations, along with 570,000 PHEVs.

However, this transition will only be possible with the right level of supply, demand and infrastructure.

A successful Brexit transition will be important to ensuring the UK maintains its position as an attractive export market for global vehicle manufacturers' zero emission cars and vans.

Commercial vehicles remain in the earliest stages of transition, as electric alternatives struggle to compete with diesel's strong total cost of ownership advantages.

Expert analysis

Rise of the blended fleet

Petrol holds a steady level of penetration.

With limited supply of BEV and PHEV, petrol has historically taken a growing share at the expense of diesel in response to tax changes.

As availability of BEV and PHEV is increasing, it is these technologies that will take more of the market share from diesel. Petrol will hold around its current level.

Used vehicle forecast: a residual value downturn in 2021, followed by recovery

In our last article written at the end of May, our view was that values would recover in line with the economy, assisted by a fall in used supply.

Now, the COVID-19 pandemic still sees us in a unique and uncertain situation which affects everyday life and business activity; it looks likely to continue do so over the coming winter.

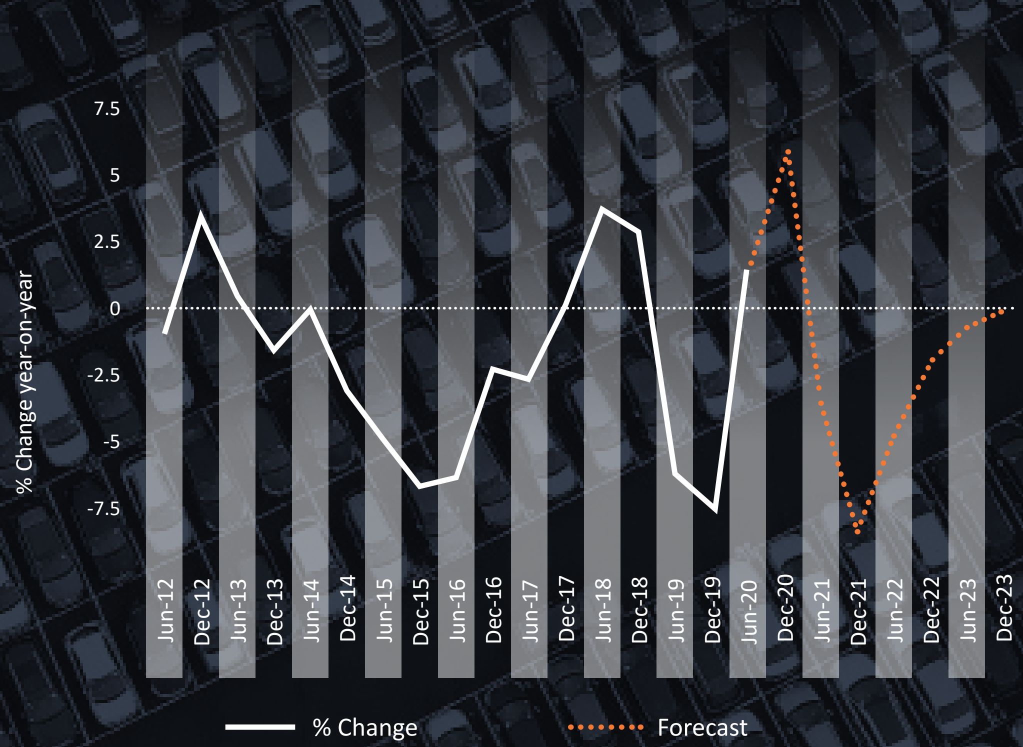
Since June, there has been a positive impact on values, which has continued for longer than anyone predicted. Cheaper used cars have proved attractive to buyers seeking an alternative to using public transport, and more expensive cars have sold well to consumers not yet affected by the pending recession, who may well have saved money by not going on an expensive holiday and not commuting to work.

However, it remains our firm view that these good times will not last indefinitely. On average, used car values are now around 7% higher than they were a year ago and we consider this unsustainable.

As we move through Q4, we expect that the strength in the used market may start to slowly ebb away, as pent-up demand is satisfied and the typical pattern of falling values in the latter months of the year could be re-established.

Looking to 2021, we are still predicting that values will take a further downturn, as the balance of supply and demand changes.

Average Year-on-Year % Change in Values June 2012 to December 2023



Source: cap hpi

We are confident that we will see an increase in used car volume. In part this will be due to large volumes of ex-fleet vehicles returning to the market, as many will be coming to the end of contract extensions and cannot realistically be extended any further. This will be compounded by an increase in consumer PCP vehicles being terminated early, as the special forbearance measures put in place to help consumers are withdrawn.

On the demand side, we believe consumer confidence will be hit by the economic recession and high unemployment levels, impacting the willingness to pay top prices for big ticket items such as a replacement car. The latest independent forecasts for the UK economy show a further worsening for GDP and unemployment. Although GDP is forecast to start to recover during 2021, full recovery is not expected until late 2022. The worst forecasts for unemployment are 10% for 2021, which is very close to those of the Office for Budget Responsibility (OBR) central economic scenario. The consensus is that the new job support scheme will be less effective at stemming the increasing tide of redundancies.

Our conclusion is that this combination of increasing supply and decreasing demand will create a perfect storm, and so values in a years' time could be up to 10% lower than they are now.

This downturn will affect all ages of cars and sectors, but there will be some variances. Smaller cars, being cheaper, will be relatively protected compared to larger more expensive cars.

Looking beyond 2021, we are still predicting that values will start to recover, with lower used car volumes coming back into the market as a result of the long term trend in falling new car registrations, and with consumer confidence improving in line with a strengthening economy.

The recovery should be complete within three years, so our latest residual value forecasts for three years into the future are broadly unchanged from pre-COVID-19 levels, and those for four and five years into the future are generally improved.

The accompanying chart shows historic and forecast year-on-year change in values. Each point on the line is the percentage change in value from one year before, for the same model at the same age and mileage, averaged across all models. It demonstrates the cyclical nature of residual value changes, and it gives context to our view of the future.

Given the cyclical nature of what has happened in the past, and the expected balance of supply and demand, a fall of 10% over the next year looks reasonable. It is broadly similar to 2019 and is nowhere near as bad as we saw in 2008.

Beyond 2021, there is improvement, but it will not be as rapid as we saw in 2009, due to Covid having a much broader and more complex set of impacts on the economy and automotive market.

Expert analysis

Towards a sustainable market?

On average, used car values are now around 7% higher than they were a year ago and we consider this unsustainable. As we move through Q4, we expect that the strength in the used market may start to slowly ebb away, as pent-up demand is satisfied and the typical pattern of falling values in the latter months of the year could be re-established. A fall of 10% over the next year looks reasonable. It is broadly similar to 2019 and is nowhere near as bad as we saw in 2008.

Contributed by Andrew Mee, Head of Forecast UK, cap hpi

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Business travel trends

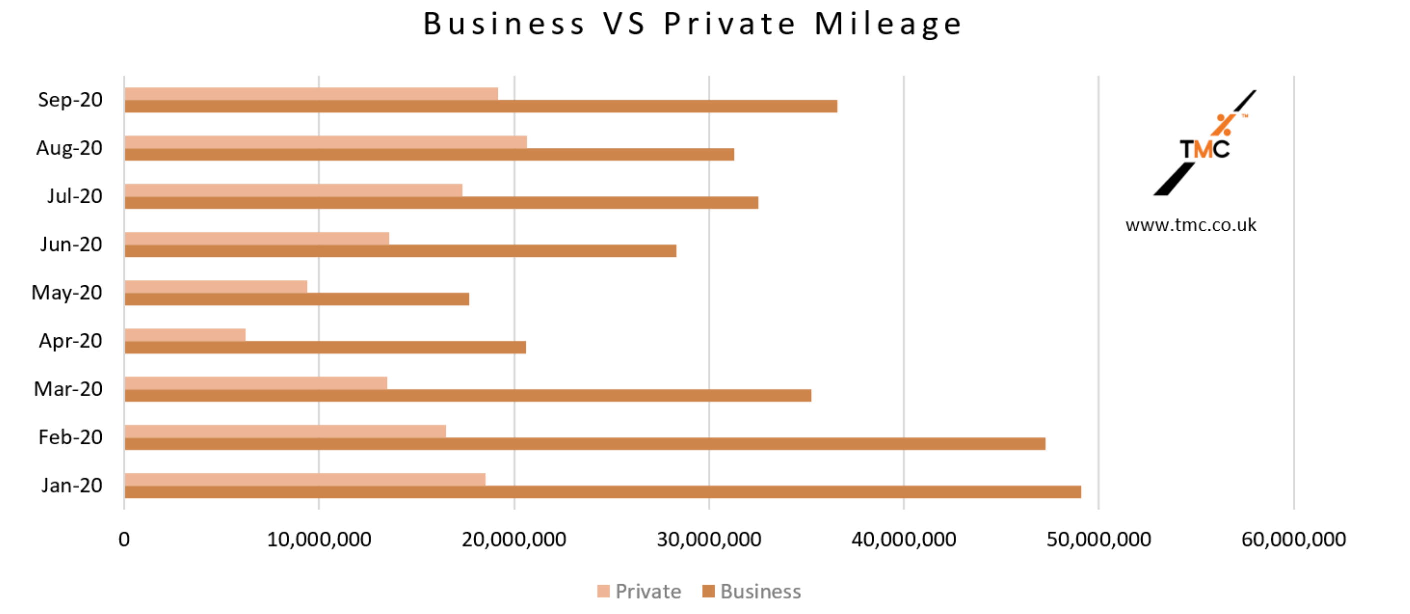
Business mileage has steadily increased since the lifting of the national lockdown, with September seeing the most business miles driven since the first lockdown.

As you'll see from the chart, unsurprisingly, private mileage picked up in the summer months - August had the highest private mileage with people travelling to their staycation spots. Consequently, August saw a slight dip in business mileage v July as people took time off.

In terms of fuel mix, diesel dominates in terms of percentage of business mileage driven but it's share has been slowly declining pretty much every month since Jan 2019. There was a spike in April, May and June 2020, but this will be down to essential journeys only such as deliveries in the height of lockdown.

Electric vehicles (EVs) account for part of that decline, we have seen an 89% increase in miles driven by electric vehicles on our system since September 2019, but in terms of volume, hybrid petrol have seen the highest increase on our system.

This is partly because even though a lot of our clients are starting to introduce EVs, they are doing so cautiously, with the majority of businesses at the early stages of deployment. That said, there is a huge appetite for pure electric vehicles and we have had an enormous amount of interest in using real world trip data, to identify where electric vehicles could be deployed.



Source: The Miles Consultancy

Although a lot of clients have a handful of PHEVs, we have quite a few that run 20+. The number of business miles driven by plug-in hybrid electric vehicles (PHEVs) has increased by +54% in the last year. There are the obvious tax benefits of course, but there is also the feeling that PHEVs are a first, and safe, step into the realms of EVs. The good news is, we are seeing an improvement in the performance of PHEVs compared year on year. That said, there still a significant variance between the average MPG achieved for this year (53.4) and the average OEM advertised figure (113.91*) - a variance of around 46.7%.

Within this population, there are, of course, some that are performing really well – with 5% of drivers achieving over 100 MPG. Again, this emphasises that the success of PHEVs is heavily reliant on drivers charging them at every opportunity, which is something our audit team proactively encourage with PHEV drivers, as well as a good usage model.

In summary, business mileage is creeping back up and we are seeing a slow but steady change in the power train used for business mileage – with EVs and PHEVs chipping away at diesel's share.

Businesses are off the blocks in their strides towards electric which will make a really exciting 2021 and 2022!

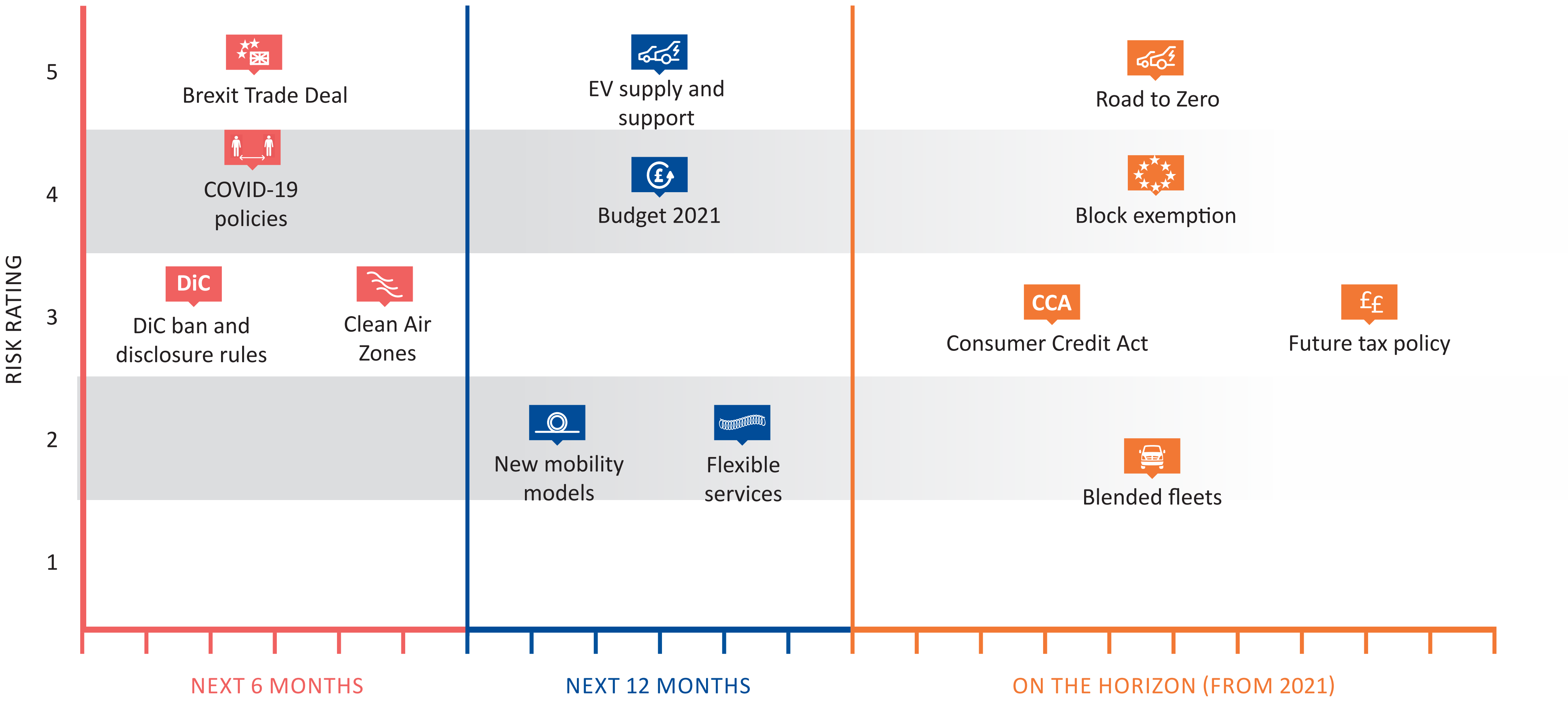
*average OEM figure adjusted down by 15% for real world driving.

Expert Analysis

Our clients are introducing EV's into their fleets but slowly and with caution. Businesses are at the early stages of deployment but there is a huge appetite for pure electric vehicles and a need for these businesses to understand where they could be deployed.

Contributed by Paul Hollick, Managing Director, TMC

Fleet Forward Planner



Summary

Next 6 months

Clean Air Zones

The timetable for introducing Clean Air Zones has become even more complex because of the global pandemic. After initially postponing plans, some cities now expect to move ahead with their zones next year. Birmingham's CAZ will start from June 1, 2021, while Bath will start charging non-compliant vehicles from March 15, 2021. However, Leeds has decided to abandon plans for a CAZ after an air quality review. It found that emissions reductions among vehicle fleets including lorries, buses and taxis had improved air quality more rapidly than expected. Other cities including Bath and Bristol are moving forward with their CAZ plans, leaving fleets facing a patchwork of schemes and rules throughout the country.

Brexit trade deal

Compromises on both sides of the Channel are required to secure a Brexit trade deal ahead of a looming December deadline. Talks currently remain stalled after negotiators failed to find common ground on key aspects of any deal. The UK has called for a 'fundamental change' in the EU's approach, with sticking points ranging from the level of support the government can provide for businesses, to increasingly tense negotiations about fishing rights. The major hurdle of Northern Ireland's border with the EU also remains. With Prime Minister Boris Johnson urging business leaders to prepare for the end of the transition period in December, the stage is set for the UK to adopt default rules defined by the World Trade Organisation, triggering tariffs and border delays that could push up business costs significantly and restrict vehicle supply.

COVID-19 policies

The long-term fight against COVID-19 has created a regional patchwork of local lockdowns as authorities and devolved administrations battle spikes in some areas, while trying to encourage economic recovery in others. This will create complex challenges for leasing companies, as they adapt to the different environments fleet customers and consumers face depending on where they are based. As government support schemes are reduced in scale, the economic impact of COVID-19 will be felt more forcefully, leading to a potential increase in support requests from some customers, or defaults from others. In addition to managing clients, the emergence of a second wave suggests leasing companies will have to support home working for their own staff well into 2021 before any plans for a full-scale return to the office can be considered.

DiC ban and disclosure rules

The Financial Conduct Authority's ban on all discretionary commission models in motor finance comes into force from January 28, 2021. The FCA argues that while some firms may feel comfortable that they can operate these commission models responsibly, they still present brokers with an incentive to charge customers more interest, as that generates greater levels of commission. The legislation also includes updates to policies on disclosure of any commissions. While the ban does not cover personal contract hire, the FCA warned it will monitor this area and if it has evidence that similar commission models exist in the consumer hire market and 'are leading to harm', it will look at how to act. A market review to assess the impact of the ban, including mystery shopping exercises, will begin next autumn.

Next 12 months

EV supply and support

As demand starts to increase for plug-in vehicles, the industry is likely to face supply shortages, extended delivery times and teething troubles related to the mass adoption of new technology. Supply chains are already strained by demand, but a 'no deal' conclusion to Brexit trade negotiations could trigger lengthy border delays and a potential strategic shift from manufacturers to focus production on markets that are easier to reach, particularly as many face losses or very meagre profits on every vehicle sold. For the growing plug-in fleet, additional challenges are emerging, with several key models now facing recalls because of overheating batteries creating a risk of fires. Leasing companies are at the mercy of manufacturers when it comes to reliability, but customers will expect their hire provider to minimise disruption and, in some cases, quickly facilitate a switch to a more traditional fuel option if they lose confidence in plug-in vehicles.

New mobility models

Has COVID-19 changed business travel forever? With the country set to mark the first anniversary of the pandemic early next year, its impact will still be felt and, as companies adapt, this may lead to long-term changes in the way they approach travel. With personal interaction still restricted, there is less need to travel to a client's offices. Furthermore, private travel needs have also been reduced. This could lead to lower demand for company cars, either because employees are opting for cash or because companies cut the size of their fleet. An economic downturn could also reduce demand.

Summary

Next 12 months

Flexible services

Amid economic uncertainty, there is growing business interest in flexible rental so that companies can adapt to changing business circumstances. By adopting shorter-term contracts, companies aim to protect themselves in the event of a drop in business, as vehicles can be handed back without penalty. Providers also promise to quickly support fleet expansion when more vehicles are needed. The leasing industry is perfectly placed to support this market, with extensive vehicle infrastructure and expertise already in place.

Budget 2021

The government may use the 2021 budget to take the first tentative steps towards paying the £310 billion bill for COVID-19. There will be no return to the 'austerity Britain' approach of previous years, so expect policy to choose soft targets, which may include transport, particularly where the costs will fall on businesses, rather than directly on voters. In the longer term, as the economy recovers, businesses can expect tax rises to be more wide ranging.

On the horizon

Block exemption

A review of The Motor Vehicle Block Exemption Regulation was launched in December 2018 and a public consultation is currently planned for the end of 2020. A report is expected by the end of May 2021, ready for the expiry of the current legislation on May 31, 2023. The purpose of the evaluation is to gather facts and evidence on the functioning of the Block Exemption Regulation to verify that it is meeting its objectives. The evaluation will be based on the following criteria: effectiveness, efficiency, relevance, coherence and added value.

CCA Consumer Credit Act

There will be significant pressure on government to overhaul the Consumer Credit Act after the outdated legislation proved more a hindrance than a help during the pandemic. Even before the outbreak, industry leaders said the 45-year-old legislation was not fit for purpose, requiring lenders to send severely worded letters to those in financial difficulty, while also delaying how quickly they can step in with support suggestions for customers.

Blended fleets

Leasing companies have a key role to play in helping companies to develop blended fleet policies in response to the complex business environment they face. Rather than a one-size-fits-all policy for fuel, funding, replacement cycles or even vehicle types, customers will need to develop a more nuanced approach that reflects their varied fleet requirements. Expert support from the leasing industry will be important in helping companies, particularly SMEs, to navigate the available choices and the usage restrictions they face, such as low emission zones and congestion charges. In the large goods vehicle sector, the requirement for expertise is even greater, as assets are a significant investment and may well be in use for more than a decade, while fuel options are more extensive, ranging from diesel to gaseous fuels, batteries and hydrogen.

Future tax policy

With the national debt surging past £2 trillion, government policy will need to generate more taxes in the coming years. Once the crisis has subsided, wide-ranging tax rises are likely to follow. There may also be a shift in focus, away from emissions towards usage-based taxes, such as road pricing, so that the burden falls most heavily on those with the greatest use of national resources. Tax policy will continue to be key to the government achieving its Road to Zero aims; financial incentives will move drivers away from petrol and diesel towards zero-emission alternatives, although some campaigners are now calling for initiatives to be extended to the used vehicle market.

Road to Zero

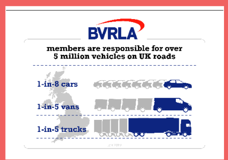
With some fleets backing the recent plan for a 2030 deadline for the end of the sale of petrol and diesel vehicles, the speed of transition away from fossil fuels seems to be accelerating, despite the disruption of the pandemic. To support the move to electric vehicles, whether by 2030 or 2035, major investment in infrastructure is required. There are now more than 30,000 charging points in the UK, but some estimates suggest more than 100,000 are needed. The changing transport landscape will include the introduction of Zero Emission Zones that charge all vehicles to enter an area, except those powered by electricity. London has already provided detailed guidance to launched ZEZs, while Oxford expects to launch its zone in 2021. A major issue in planning ZEZ/LEZ initiatives is how to enable effective freight movement. Concepts include the introduction of urban transfer hubs, where goods are moved from inter-city channels using fossil fuel powered lorries to zero emission vehicles for the last mile of their journey.

Fleet industry insight from the BVRLA

The BVRLA Research and Insight team produces a range of market reports and analysis that provides a clear picture of the scope, scale and direction of the vehicle rental and leasing sector.

*You can find out more on the **BVRLA website**.*

BVRLA in Numbers



Our annual breakdown of BVRLA membership and fleet profile provides a useful snapshot of the industry. Our historic data can give a more detailed perspective of how it is changing over time.

Quarterly Leasing Survey

Now five years old, this survey provides a fascinating insight into the changing profile of the UK fleet leasing market. It gives a detailed analysis of trends in product type, vehicle type, fuel type, emissions and business confidence.

Industry Outlook - Commercial Vehicles

Our new 2020 Industry Outlook for Commercial Vehicles report charts the main challenges faced by the sector and provides insight into how they are being overcome. It was produced in collaboration with Motor Transport and involved input for leaders across the CV sector.

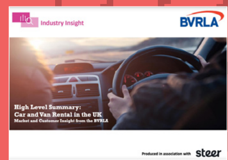
Road to Zero Report Card

The BVRLA's 'Road to Zero' Report Card tracks the UK fleet sector's progress towards full decarbonisation. It recognises that the sector contains a number of diverse fleet segments and assesses the readiness of each of these segments in making the transition. It also recommends where further action is required from Government and other industry stakeholders to hasten the shift to cleaner road transport.

Quarterly Leasing Outlook

This new BVRLA looks ahead at the key market trends and issues that will be driving the leasing market in the short and medium term. Combining the latest insight from leasing executives and supply chain experts, it also provides an aggregated industry forecast on key industry metrics.

Vehicle Rental Report



Representing some of the most comprehensive research to-date into the vehicle rental market, this report is the culmination of six key research projects. Transport consultants Steer have lent their expertise to unearth important insights from a survey of 4,500 rental customers, a market-sizing omnibus survey, a detailed rental operators' study, a series of in-depth interviews with rental sector leaders as well as an analysis of both the economic impact and the sustainability credentials of the rental sector.

British Vehicle Rental & Leasing Association
Badminton Court
Church Street
Amersham
Buckinghamshire HP7 0DD

01494 434747
bvrla.co.uk

@bvrla bvrla bvrla @bvrla