Zero emission vehicles and road pricing

British Vehicle Rental and Leasing Association response

The British Vehicle Rental and Leasing Association (BVRLA) represents one of the UK's largest groups of vehicle owners. Engaged in vehicle rental, leasing and fleet management, our members own and operate more than five million cars, vans and trucks. They spend more than £30 billion upgrading their fleets each year and are responsible for buying around 50% of new vehicles sold annually in the UK, including 83% of vehicles manufactured in the UK for sale in the UK. The vehicle rental and leasing industry supports over 465,000 jobs, adds £7.6 billion in tax revenues and contributes £49 billion to the UK economy each year.

The BVRLA and its members are a crucial voice on the issues of both the shift to zero emission vehicles and road pricing. We fully support the Transport Committee's inquiry into these topics, they are critical to the future of road transport in the UK. We look forward to continued engagement with the Transport Committee and would welcome an opportunity to present oral evidence in this critical enquiry.

Accelerating the shift to zero emission vehicles

The feasibility, opportunities, and challenges presented by the acceleration of the ban of the sale of new petrol and diesel vehicles to 2030

The fleet sector underpins progress to decarbonising road transport. The current policy framework is working, with the mix of incentives successfully encouraging company car and salary sacrifice users to make the move to zero emission vehicles. Progress is clear with battery electric vehicles (BEVs) accounting for 21% of member company car registrations in the three months to October 2020. However, barriers remain and the accelerated ban of new internal combustion engine (ICE) sales has increased the pressure to address them. These challenges focus on the feasibility of BEVs for all use cases, the used BEV market and electric vehicle infrastructure.

Used BEVs and residual value risks

The cost of leasing is based on the estimated residual value (RV) of a vehicle at the end of the lease. It is very difficult to predict RVs and they are sensitive to any significant shift in supply or demand, even down to a specific model type or specifications. Leasing firms are seeing huge increases in BEV registrations, with BEV market share rising from low single digits to double digits in less than a year. There are concerns about the impact this surge will have in two to three years when these vehicles arrive on the used market.

In 2020 just over 19,000 used BEVs were on the market[1], in 2025 this figure is expected to be in excess of 250,000. These used BEVs are entering the market with a significant price premium over comparator ICE vehicles. Initial data suggests that even at current low volumes supply is already outstripping demand[2]. As new BEV prices continue to drop and their ranges increase it is possible that there will be a significant challenge in the near future for used BEVs. Price sensitive used buyers could opt for ICE vehicles and those interested in BEVs for new vehicles.

While members expect that this relationship will naturally work itself out, there is a fear that we could see a crash in BEV used values. This would lead to significant losses for vehicle finance companies. Trepidation about potential losses will lead to more conservative RV setting for new BEVs, increasing the cost to customers looking to lease or finance a BEV now. It is critical that industry is confident that there will be a strong market for used BEVs, especially as the ban on new ICE sales has been accelerated. There is currently

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[1] SMMT used car figures: https://www.smmt.co.uk/2021/02/uk-used-car-market-declines-14-9-as-coronavirus-lockdowns-curb-2020-sales/

[2] AutoTrader Market Intelligence: https://trade.autotrader.co.uk/industry-latest/

no incentive or focused support for the used BEV market. This needs to change. The BVRLA is working with members to develop a Used BEV Strategy to inform Government's policy in this area.

Challenges of the rental and car club market

Car clubs and car rental support people in changing their transport behaviour, enabling them to swap private car ownership for more sustainable modes including public transport and active travel. Access to shared cars has always played a vital role in helping people make certain essential journeys - ones which cannot be completed via public transport or involve heavy loads, for example.

The high upfront costs of BEVs and PHEVs are a key barrier for rental and car club companies looking to establish a profitable zero emission 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. It means rental and car club firms must charge higher rentals for EVs for them to be able to afford the higher upfront costs.

There are opportunities for Government to address these business case specific challenges with targeted interventions. For example, the rental and car club challenge would be significantly eased by zero rating VAT on zero emission car club and rental transactions. This would reduce the price gap for end customers and lead to a surge in EV rental usage.

The actions required by Government and private operators to encourage greater uptake of electric vehicles and the infrastructure required to support them

Policy certainty as a key element of facilitating decarbonisation. Firms and consumers need a long-term perspective on the likely cost of decarbonisation. HM Treasury needs to provide a long term taxation roadmap detailing not just the taxation measures planned but also the actual levels they plan to set them at. For vehicles, the three taxes that must be laid out between now and 2030 are fuel duty, VED and BiK.

If there is to be a transition to road pricing, the structure it would take and its implementation date will also need to be in the public domain well in advance of its introduction. While this level of foresight would constrain HMT's ability to adapt it is entirely necessary for a challenge as fundamental as that proposed by net zero. The proposition of owning an ICE vehicle is completely altered if the user knows they can expect a rapid increase in fuel duty within their ownership cycle. Likewise, a BEV is far more attractive if a user knows their tax liabilities for the full term of a lease and has certainty they will not see a sudden increase.

Moving the UK to net zero without unbearable financial burdens for the government, firms and consumers will be an immense challenge. We encourage policy makers to embrace creative policymaking and engage with expert stakeholders. Experts who have experience of how consumers are actually responding to incentives can propose bold, innovative policy ideas. Annex A contains a proposal from our 2021 Spring Budget Representation which would unlock private investment in electric vehicle charging infrastructure and correct some of the market failures in the sector

The Government's ambition to phase out the sale of new diesel heavy goods vehicles, including the scope to use hydrogen as an alternative fuel

When looking at some of the challenges of decarbonisation these are often most acute for commercial vehicle owners and operators. The issue of supply is most constrained for the van market. There is also a huge amount of uncertainty regarding the best path to decarbonise for heavier goods vehicles and more specialist vehicles.

This is also the group likely to be most affected by the penalties being used to nudge behaviour change to ensure better air quality, for example the fines charged to HGVs entering Clean Air Zones or proposals for zero emission zones which are being considered ahead of the appropriate technology being widely available.

The average lifecycle for a truck is around 12 years, that is only two fleet cycles away from net zero. It is imperative that freight owners and operators are supported to make the right investment decisions and that the regulatory environment helps rather than hinders their ability to decarbonise.

Road pricing

The case for introducing some form of road pricing and the economic, fiscal, environmental and social impacts of doing so

The combined pressures of more fuel efficient ICE vehicles, driven by ambitious CO_2 targets, and the growth in the zero emission vehicle (ZEV) market will rapidly erode HM Treasury's fuel duty revenue. As the vehicle parc of ZEVs increases a fossil fuel linked tax becomes increasingly inappropriate. There will be a need for careful and consultative reform.

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 less than optimal results. A well designed road pricing mechanism would be able to address current market failures in a targeted manner and reshape the behaviours encouraged by taxation to meet societal values.

As ZEVs, connected and autonomous vehicles, shared and active travel all become more mainstream it is expected that the social costs of transport will reduce. Health costs associated with air position and traffic incidents will decline and road use may dramatically decrease. Road pricing can both 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 should be a transition to a new way of funding our roads and linked 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 should guide Government's thinking around road pricing. These principles create the 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 for 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.

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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 ones, 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.

Which particular road pricing or pay-as-you-drive schemes would be most appropriate for the UK context and the practicalities of implementing such schemes

There are countless possible variants of road pricing schemes. Many would be entirely inappropriate for the UK. The process to develop 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 there should be 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.

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

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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.

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.

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 ZEV 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 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 incentivize fleets into the pilot programmes road pricing should decrease their tax burden 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 level of public support for road pricing and how the views of the public need to be considered in the development of any road pricing scheme

The BVRLA cannot speak for the broader public. However, the appetite for an appropriate road pricing regime has risen considerably amongst members. The rapid uptake of ZEVs amongst some user groups and the impacts of Covid-19 on travel patterns have shifted perceptions of how the future of vehicle taxation needs to work.

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. Just as company car users and their rapid BEV uptake are normalising ZEVs so a fleet-led approach would create national confidence and understanding around the finalised scheme.

The lessons to be learned from other countries who are seeking to decarbonise road transport and/or utilise forms of road pricing.

Given the timeframe and approach the BVRLA believes is best, the use of national gantry systems or tollbooths would both take too long to deploy and be hugely expensive. It is therefore inappropriate to look to countries such as Singapore for road pricing inspiration. Instead, the primary influence on the UK should be the US Road User Charging (RUC) pilots.

These pilots are at various stages of development, but there are already significant learnings. The OreGo[3] scheme is a voluntary road user charging programming in Oregon. Users have been able to choose from three different account managers (one of which is the state transport authority), and a variety of mileage collection and payment methods. The use of technology, flexibility and simplicity of the scheme are all commendable, including that users are refunded their fuel duty payments. However, as the scheme increases the tax burden for users of all but the most inefficient cars, it has seen only 900 sign-ups out of a possible 5,000.

Washington State's RUC pilot[4] has gone further than OreGo, with over 2,000 users driving over 15 million miles in their pilot. Users were able to choose from five different mileage collection and payment methods. These were mileage permits with in-person or electronic odometer readings, pay-per-mile odometer readings, plug-in devices which were either GPS or non-GPS enabled and a smartphone app. Payments could also be monthly or quarterly.

While some systems were more popular than others, there was a significant spread of user choice across them, 37% used GPS enabled plug-in devices, 28% odometer readings 19% non-GPS plug-ins, 14% the app and 1% mileage permits. This underscored the importance that there must be a choice for users to find a system they are comfortable with and works for them.

Some of the learnings from these pilots focused on the need to act slowly and carefully on this issue, fully understanding all concerns before progressing. Other key considerations were around the administrative costs of the programmes, concerns around data privacy and the fairness of the system. While these concerns underline the importance of getting road pricing right, they are by no means insurmountable. The collaborative iterative approach suggested by the BVRLA is well placed to address and overcome these challenges.

[3] https://www.myorego.org/
[4] https://waroadusagecharge.org/

Annex A: BVRLA 2021 Spring Budget Representation ‘Green Investment Allowance’ proposal

Create a ‘Green Investment Allowance’ to unlock private investment in electric vehicle charging

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

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

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

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

Government should reform the 100% FYA for expenditure on an electric vehicle charging point into a ‘Green Infrastructure Allowance’. This allowance should allow firms to claim against both the cost of the charging equipment as well as all expenditure incurred providing that charging point with the necessary supply of electricity, including grid upgrade costs, ground works and installation.

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

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

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

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

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About the BVRLA

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

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