

Background

The Finance & Leasing Association (FLA) represents UK asset finance (HP/leasing to businesses), consumer credit and motor finance providers. FLA members currently fund 94% of all new cars purchased by consumers – this has risen from 91% during the pandemic. In all, they provided £48 billion in 2019 to help consumers and businesses buy new and used cars. Captive finance companies finance the acquisition of low emission vehicles (LEVs) produced by their manufacturer parents, and a small but growing number of independent finance companies (including banks) provide finance for the acquisition of used low emission vehicles (LEVs). Finance companies play a critical role in enabling the roll out of LEVs as without the finance, take-up will be significantly lower.

We are delighted to respond to Bright Blue's call for evidence on *Maturing the market for electric vehicles*. We've made policy recommendations in our answers to questions 2 and 3, which are summarised in the subsequent questions. Our focus is on getting the market going.

1. *How important is fully electrifying private transport to achieving net-zero by 2050?*

According to EU figures, transport is responsible for nearly 30% of the EU's total CO2 emissions, of which 72% comes from road transportation. With governments across the world setting target dates to achieve net-zero, industry and its supply chains must work closely to ensure the long-term planning and necessary infrastructure is in place to make this happen. This includes consumers and businesses having access to finance to buy new and used vehicles. If new diesel and petrol cars are phased out from 2035, then there will undoubtedly be older polluting cars on the road but given the direction of travel we would expect Government at the time to implement policy that incentivises consumers and businesses to replace used Internal Engine Combustion (ICE) vehicles for new EVs.

2. *What are the key demand-side constraints to the uptake of EVs?*

The biggest hurdle to mass consumer take-up of LEVs is cultural attitudes driven by 'range anxiety' and perceptions of the cost.

Customer information

It is currently difficult for consumers and businesses to compare the monthly operating costs and specifications of vehicles across different models and fuel classes. A survey of consumers undertaken by the Low Carbon Vehicle Partnership in 2019 showed that monthly operating cost information was deemed

the most important when deciding what their next vehicle would be. We would like to see the Government working with industry to develop a web tool that enables consumers and businesses to better compare the efficiency and monthly operating costs of both used and new vehicles across different fuel types. This could work in a similar way, or build on, OLEV's [Go Ultra Low calculator](#), LCVP's [Van Cost & Carbon Calculator tool](#) or the [buying a fuel efficient vehicle calculator](#) provided by the Energy Savings Trust but also incorporate finance, insurance and tax data to provide a better measure of overall operating costs. Customers could use this information to better understand the benefits of EVs and make accurate comparisons against ICE and hybrid vehicle equivalents. The FLA and our members would be willing to work with Government and other organisations to help deliver this information to consumers.

Charging Infrastructure

Concerns about 'range anxiety' will be addressed by an improved charging infrastructure so that drivers feel confident that they can travel longer distances safe in the knowledge that they can easily recharge their car battery, though in time, improved battery life will reduce these tensions. The Government set out a vision for the UK to have one of the best charging infrastructure networks in the world in its Road to Zero strategy, supported by the new Rapid Charging Fund announced in the March 2020 Budget. Data from the International Energy Agency suggests we have made good progress but have fallen short of investing as much as some countries like the Netherlands and Norway in per capita terms and providing lower plug-in grants than those countries.

Development in the charging infrastructure is best addressed by collaboration between national and local government. For example, the former could expedite targets for a rapid chargepoint network by leveraging speedier installations and defining clearer responsibilities and incentives for the stakeholders involved, including retailers and offices where drivers leave their vehicle for a sustained period of time. This might also include incentivising local government to provide a generous package of benefits to Ultra Low Emission Vehicles (ULEVs) displaying green number plates.

The Government should look at how other countries are encouraging take-up of EVs. Germany recently announced funding of €2.8 billion so that every petrol station contains a charging point.

Fiscal Policy

Demand could also be stimulated if the Government made greater use of fiscal policy to boost demand. Consultations in recent years on the Worldwide Harmonised Light Vehicle Test Procedure (WLTP), vehicle tax and vehicle excise

duty are steps in the right direction. Take-up of EVs in the Netherlands has increased at a faster rate to that of the UK not only due to the country having the highest concentration of charge points per capita in the EU, but because of fiscal measures the Dutch Government has introduced which more heavily penalises the use of ICE vehicles and more strongly incentivises the use of zero carbon vehicles than in the UK.

Reforms that more closely align emissions with vehicle tax and reduce tax liabilities in relation to the ownership of zero emission vehicles will help to boost demand. They could be reduced gradually as ULEVs become the cultural norm. The Government will need to carefully review the effectiveness of its fiscal policies and incentives in this area continuously to ensure they are having the desired impact.

In response to the pandemic, many European countries are subsidising the purchase of EVs - €3,500 in Italy, €6,000 in Germany and €7,000 in France. The UK offers a plug-in grant at £3,000 per vehicle <https://www.gov.uk/plug-in-car-van-grants> which pre-dates Covid-19.

Simple finance packages

One suggestion to further incentivise demand would be for the supply chain (the energy industry, manufacturers, chargepoint providers, leasing/finance companies and others) to work collectively to provide packages for used EVs that require one monthly payment – incorporating all set up and total running costs of the vehicle where a plug-in home charger is in use. There are of course complexities currently in doing this from a regulatory point of view (as we set out below), however this could be worth pursuing in parallel with the modernisation of consumer credit legislation.

3. What are the key supply-side constraints to the uptake of EVs?

In one sense the supply will only really take off once a mass consumer market develops. At this point, they will be able to deliver vehicles at scale and hence more affordable prices.

Residual values

One of the biggest challenges for finance companies is how to gauge the value of an LEV. ICE vehicle values have been consistent over the last 80 years. In contrast, residual values have varied to a much greater extent in the nascent EV market. This presents a problem when assessing future values under Personal Contract Purchase (PCP) contracts, which represent 80% of all purchases of new

cars made by consumers, as an optional balloon payment with guaranteed minimum future value is a key feature of this. In the same vein, the calculation of used car values is problematic.

It would be helpful were the DVLA to record information about EVs when they are first registered, with these details provided on the V5C logbook and the data made available through the Vehicle Enquiry Service. This could provide detailed categories relating to the battery type, range and capacity and charging specifications - such as the type of socket used to charge the battery. The information would be important for ensuring there is a better understanding of vehicle specifications by consumers, retailers, lenders and insurers – particularly in the used EV market where these basic vehicle details are not always available. For our members, which include the valuation and asset registration agencies, the availability of this information would help to better define residual values of EVs and batteries, giving lenders more confidence in their residual value forecasts and enable them to better assess risk in order to provide finance products that are profiled on depreciation - usership rather than ownership. Such information might lead to lenders more accurately assessing the vehicle's condition and remaining life span on factors other than mileage, such as the battery's capacity for its age. This together with regulatory reform would lead to financial innovations that could help make EVs more affordable for consumers and businesses.

Regulation

The biggest prize for lenders would be modernisation of the legislation governing the consumer credit regime. The Consumer Credit Act 1974 (CCA) and the Hire Purchase Act 1964 define how vehicle finance should be provided to consumers and set out the rights of consumers and lenders for regulated agreements. Both are in urgent need of reform to ensure they are fit for the modern market.

The definition of a motor vehicle within the Hire Purchase Act 1964 and Road Traffic Act 1988 is a 'mechanically propelled vehicle intended or adapted for use on roads to which the public has access'. There remains some doubt on whether Hire Purchase agreements (which include the most popular product - PCP) are valid where they apply to EVs since these vehicles are not 'mechanically propelled'. This becomes more complex where the customer has two agreements in place for the vehicle and battery (see below) and creates a potential risk for lenders where there is a possibility that a legal challenge could be made.

The CCA is inflexible allowing lenders to either: fund the entire vehicle as they do for ICE and hybrid vehicles; or finance the battery and the rest of the vehicle

separately under two agreements. This leads to risks and complexities for the consumer, lender or both depending on the finance product used. It would be better if the CCA allowed for more than one asset to be financed under one agreement in one transaction. This could potentially allow for lenders to fund a package, incorporating the vehicle, battery and (where required) a charge point as well as any other add-ons. This would be particularly useful for the used ULEV market. More flexibility could also allow for new financial innovations that make EVs more affordable.

The CCA currently offers lesser consumer protections under consumer hire agreements. CCA reform presents an opportunity to correct this and simplify the provision of information and the sales process, and help reduce the risk for lenders and consumers. This in turn will drive confidence for both lenders and consumers in financing EVs.

The VAT treatment between consumer hire and hire purchase/conditional sale also differs which raises the cost of the latter and limits consumer choice.

Capital allowances

Currently capital allowances cannot be claimed by finance and leasing companies who purchase vehicles and lease them to businesses and consumers. If lenders, including leasing companies, could offset purchases of EVs against their tax position this would enable them to offer much more competitively priced finance/rental payments for ULEVs. Research undertaken by the British Vehicle Rental and Leasing Association (BVRLA) suggests passing on the benefit of capital allowances could lead to customer savings of £20-£30 a month.

Government-backed Green Finance Funding

The green finance market is beginning to become established with financial structures in place linked to underlying green assets. This could essentially provide opportunities for green/ethical funding lines, with covenants in place that require such funding to be ring-fenced to finance zero emission vehicles. We would be interested in exploring with the Government its appetite to provide a Green Finance Guarantee, that would reduce the risk of lending under such circumstances in order to achieve a low cost form of finance for Ultra Low Emission Vehicles (ULEVs). This type of arrangement could be used to help make zero emission vehicles more affordable, making ULEVs accessible to lower income consumers.

4. *What types of policy interventions are required to catalyse the EV market?*

We have set out above a number of recommendations to support the rollout of the finance necessary to ensure EVs are available on the mass market. On the demand side, the priority is to increase the availability of comparative information, expedite the delivery of the charging infrastructure and optimise fiscal policies. The supply of finance would be bolstered by a greater understanding of residual value of vehicles, a regulatory regime which supported market innovation, extending capital allowances to finance and leasing companies and introducing a Green Finance Guarantee to better target funding for less polluting vehicles.

5. *What are the policy recommendations that would help mature the EV market?*

Once the charging infrastructure, appropriate regulatory framework and customer information is in place and the purchase of LEVs and ULEVs has become more commonplace, Government support be it through tax incentives or guarantees, can be scaled back according to the perceived need to stimulate demand or improve supply.