Environment and Climate Change Committee: Call for Evidence on electric vehicles

Response to the House of Lords' Environment and Climate Change Committee from the Finance & Leasing Association

About the FLA

1. The Finance & Leasing Association (FLA) is the UK's leading trade association for the asset, consumer, and motor finance sectors in the UK and - due to the diversity of its membership - is the largest organisation of its kind in Europe. Our members include banks, subsidiaries of banks and building societies, the finance arms of leading retailers and manufacturing companies, and a range of independent firms.

2. In 2022, members of the Finance & Leasing Association (FLA) provided £150 billion of new finance to UK businesses and households, £51 billion of which helped consumers and businesses buy new and used cars, including 84% of private new car registrations.

Introduction

3. We welcome the opportunity to respond to the House of Lords' Environment and Climate Change Committee's Call for Evidence to its inquiry on Electric Vehicles (EVs). Our response is split into two main sections: The General Comments section considers the broader context of the transition to EVs, the second section provides evidence on the topic areas specified in the call.

Summary and main recommendations

4. A consistent approach to policy is essential to ensuring that business has the confidence to invest: Uncertainty causes risk and risk increases cost.

5. Policy development and implementation is too slow and must be accelerated: The Zero Emissions Mandate is incomplete and the Rapid Charge Fund yet to open.

6. The government must make the positive case for EVs: banning petrol and diesel alternatives is not enough to win public support.

7. Public anxieties about EVs must be addresses quickly and effectively, particularly those concerning charging.

8. The government must develop a range of targeted incentives to make EVs more affordable and more attractive to those on lower incomes to ensure that they are not excluded as a result of the transition.

General Comments

1. The means by which the government intends to achieve the 2030 and 2035 deadlines for the phase out of non-zero emission vehicles is, prima facie, relatively simple: It will legislate. However, whether policy will enable a successful transition to EVs is less clear.

2. The government announced its intention to end the sale of all new petrol and diesel cars by 2030 in November 2020, and will soon lay an initial tranche of legislation to put its primary lever for achieving this – the Zero Emissions Mandate (ZEM) – on a statutory footing.

3. These regulatory arrangements are expected to take effect from 2024 and provide a transitional pathway based on targets, allowances, and a trading scheme, with additional flexibilities in the first three years to assist manufacturers. The ZEM will be backed by a monitoring and sanctions regime and will have minimum in-year compliance levels. Compliance with the provisions set out in the regulatory framework provided under the ZEM will be a legal requirement and there will be fines for non-compliance.

4. As such, the phasing out of non-zero emission vehicles by the target dates will happen so long as this remains policy.

5. However, the degree to which ending the production of Internal Combustion Engine (ICE) vehicles will drive adoption of EVs is more complicated.

6. At individual level, the argument has still to be won and there are still many practical obstacles to be overcome.

7. There is a significant and vociferous body of opinion that is opposed to EV transition for a variety of reasons and the inevitable difficulties in any major transition provide ample ammunition to sustain negative messaging around it.

8. A successful transition is heavily reliant on consent. It is worth noting that there are around 35.9 million driving licence holders in England alone - accounting for around 80% of residents aged 17 or over - and that 80% of households own at least one car[1]. This demographic will account for the majority of the 46.6m people on the electoral register[2].

9. To be successful, government must actively make the positive case for EVs, and make using them more attractive to motorists than what they have now. The current approach is overly reliant on compulsion with incentives insufficient to build support.

[1] Office for National Statistics, National Travel Survey, England 2020 Main Results p2.

[2] Office for National Statistics, Electoral statistics, UK: December 2021 Electoral registrations for Parliamentary and local government elections as recorded in the electoral registers published on 1 December 2021 for England, Wales, Scotland and Northern Ireland. 5 April 2022.

10. To be successful, the transition to EVs must be a just one. In this context, this means that those able to access a private vehicle now must not be excluded from doing so in the future.

11. If EVs as a customer proposition are not made both attractive and affordable, then the prohibition of new ICE vehicle manufacture may have some highly undesirable unintended consequences.

12. Failure to make EVs more attractive than ICE vehicles is likely to result in drivers keeping them for longer and will underpin demand for them in the second-hand market.

13. According to the Society of Motor Manufacturers and Traders (SMMT), the average age of a car at scrappage in 2015 reached 13.9 years[3] meaning that ICE vehicles purchased in the late 2020s may still be on the roads in the early 2040s.

14. Crucially, if public access to charging and financial access to EVs are not available to all, then significant demographics are at risk of social and economic exclusion due to lack of access to a vehicle.

15. This means that government needs to address driver concerns around cost and infrastructure quickly or rethink the 2030 target. Transition has been successfully managed elsewhere but with a more balanced approach.

Evidence on the specified topic areas:

The Government's approach to achieving 2030 and 2035 phase-out dates.

16. The government's approach to achieving 2030 and 2035 phase-out dates has some positive aspects but the pace of delivery needs to be rapidly accelerated and higher priority given to ensuring that no one is economically excluded by the transition to EVs.

17. Regarding policy, we welcome the government's proposals for a Zero Emissions Mandate which provide much needed certainty for business and a mechanism for transitioning production to meet the 2030 and 2035 targets. The government response to its consultation on the ZEM is due imminently, and we would welcome its publication at the earliest possible juncture as the target trajectories for both cars and vans commence in 2024.

18. Similarly, we would welcome swift publication of the definition for 'significant zero-emission capability' vehicles. This will cover which cars and vans will be permitted to be sold between 2030-2035. While we agree with the CCC that the definition should be ambitious, we recommend that an outcomes-based approach be taken rather than one focussed on a specific technology. Reaching the targets may require a mix

[3] Society of Motor Manufacturers and Traders, 2023 AUTOMOTIVE SUSTAINABILITY REPORT, Average Vehicle Age, https://www.smmt.co.uk/industry-topics/sustainability/average-vehicle-age/

of solutions and it is important to leave room for new and developing technologies so as not to stifle innovation.

19. The publication of the electric vehicle infrastructure strategy was also welcome. It acknowledges many of the important issues including the need to provide chargers ahead of demand and dealing with customer experience issues. There has been some welcome progress on the latter through the draft Public Charge Point Regulations 2023 which are awaiting resolution by both houses at the time of writing.

20. Regarding financial support, we welcome the government's commitment of £1.6bn for charging infrastructure which is another essential element of a successful transition.

21. However, we note that the £950m Rapid Charging Fund (RCF) - which is intended to support electrical capacity at motorway and major A road services - has yet to open for applications despite first being announced by the Chancellor in March 2020 and having the investment commitment made to it nearly doubled to £950m at Spending Review 2020 (SR20). Although the RCF has targets stretching out to 2035, there is a sense of drift in this important element of the delivery programme.

22. As the balance of measures used to support the transition to zero emission cars and vans shifts towards greater regulation from the mid-2020s, it will become ever more important to target support at those at risk of being economically excluded.

23. While the supply of affordable new EVs and second-hand stock is expected to improve as transition progresses, it is not yet guaranteed that EVs will become as widely accessible financially as ICE vehicles are today.

24. This will be particularly important for those who rely on having a vehicle to get to work. This is a potentially a very serious problem as figures from the National Travel Survey show that 69% of commuting trips by residents from urban areas outside London - and 84% of commuting trips in rural areas - were made by car[4].

25. The risks to young people, those on low pay and those reliant on public charging – which is more expensive – must be understood. The impact of potential future polies such as fuel duty replacement should also be considered. Likewise the cost of insurance for such vehicles.

26. We recommend that work be undertaken to understand the numbers of those most at risk of financial exclusion, and support measures designed accordingly.

27. Such measures could include reducing the VAT applied to zero emissions vehicles and reducing the VAT rate applied to vehicles or equipment which is leased or hired (e.g., via Personal Contract Hire).

28. These measures could be targeted at the "affordable" end of the new and second-hand EV markets. The government should also equalise the VAT rate charged on

[4] Office for National Statistics, National Travel Survey 2022: Introduction and main findings Published 30 August 2023,

public charging – currently 20% - at the lower 5% rate levied on domestic users as those reliant on public charge points are already paying significantly more for their energy. Fleet News reported in January that EV drivers using the public charge point network saw an average price rise of 14p to 70p per kWh compared to the 4p rise to 30p per kWh paid for home EV charging[5].

The EV market and acquiring an EV.

29. Although the EV market is gaining momentum and progress is being made on making EVs more affordable, there is still a long way to go before EVs are as financially accessible as ICE vehicles.

30. Based on figures from Autotrader, more EV models are coming to market but the range of affordable options below £30,000 remains very limited with vehicles in this bracket accounting for just 9 of 77 new EV models for sale.

31. The supply of used EVs is increasing and they are selling faster however, their speed of sale remains slower than ICE vehicles, and there are early signs that the price cuts on used EVs are starting to level off with prices down 18% year-on-year[6].

32. Overall, the data from Autotrader shows that the average upfront price gap between EVs and ICE vehicles in the second-hand market has narrowed to just £3.6k, with some electric models now being cheaper. Their July Market health update noted that the average asking price for a second-hand Nissan Leaf had fallen below that of a comparable Ford Fiesta. This is encouraging but the £8,700 asking price would still be likely to require monthly payments in excess of £300 pcm over three years for someone with an average credit rating. Too much for too many.

33. The Climate Change Committee (CCC) has highlighted that intent to purchase or lease an electric vehicle as their next vehicle remains relatively low at 19% of respondents who planned to buy, lease or replace a vehicle[7].

34. As well as high upfront costs, the regulatory framework for consumer credit also acts as a barrier to private EV acquisition. For example, consumers typically need to acquire their electric vehicles as part of a bundle consisting of the vehicle, charge point, installation, insurance and return to-grid services.

35. Section 18 of the Consumer Credit Act 1974 (multiple agreements) makes financing this through a single contract with multiple parts prohibitively complex and makes the process confusing for firms and their customers. Simplifying the requirements to allow different forms of credit to be made available under a single agreement would be beneficial for both customers and firms.

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[5] Fleet News, Public electric vehicle charging cost up 14p per kWh, 17/01/2023, https://www.fleetnews.co.uk/news/latest-fleet-news/electric-fleet-news/2023/01/17/public-electric-vehicle-charging-cost-up-14p-per-kwh

[6] Autotrader, The Road to 2030, May 2023.

[7] Climate Change Committee, Progress in reducing emissions, 2023 Report to Parliament, p339.

Experience of using an EV.

36. Good customer experience of using an EV is important to successful transition as their reputation will influence demand. Consumers must have the confidence to buy.

37. YouGov polling from April this year indicates that, that while 90% of Britons are satisfied with their purchase of electric vehicles, nearly half of them face range anxiety and fear of running out of battery charge while driving (49%). Worryingly, the same poll found that 69% of British EV owners had experienced problems with the limited availability of charging stations in certain areas[8].

38. Problems experienced by early adopters of EVs must be addressed quickly as failure to do so fuels the significant adverse publicity around them. This risks slowing the pace of transition and increasing resistance to it.

39. The recent Uxbridge byelection can be seen as a clear illustration of the need to build public support for change through effective communication and effective policy measures accurately targeted at public concerns. Improving air quality is self evidently a good thing, yet the result of the election has been widely interpreted as the electorate rejecting the ULEZ expansion ostensibly designed to do just that. Public support matters.

40. Part of the problem is that rapid change creates short obsolescence cycles. Early adopters of EVs may have had poor experiences of limited range and poor public charging. However, some problems should ease as progress continues.

41. For example, range remains a core concern, but progress has been rapid. In 2010, the world's first 100% electric car for the mass market, when fully charged, could achieve a range of approximately 124 miles whereas electric vehicles today now offer a range of over 200 miles, [9] just enough to drive from London to Manchester. The 2023 Tesla Model S boasts a range of 405 miles, just enough to drive to from London to Edinburgh. The next generation of EVs look set to deliver even greater range.

42. Innovations regarding range include the Ford F150 Lighting Truck which can charge other electric vehicles, and the Toyota Mirai which covered 845 miles on a single, five-minute complete fill of hydrogen in 2021[10].

43. It is also worth noting that, as evidence from the national travel survey shows, the average length of a car journey has remained unchanged between 2002 and 2019, at 8.4 miles per trip [11].

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[8] YouGov, What car troubles are EV owners experiencing in Britain? April 10th 2023, https://business.yougov.com/content/8066-what-car-troubles-are-ev-owners-experiencing-in-britain

[9] Citroen, Is Range Improving on Electric Cars? 21/10/2021, https://www.citroen.co.uk/about-citroen/news/range-improvement-on-electric-cars.html

[10] Toyota UK Magazine, Toyota Mirai sets official Guinness World Record, 21 October 2021.

[11] Office For National Statistics, National Travel Survey: England 2019, Published 5th August 2020, p1.

End of life disposal of EVs.

44. EVs have significantly fewer parts than ICE vehicles which makes them inherently easier to recycle, and as volumes of EVs increase, the cost of doing so will come down. However, there remain challenges with disposal and the lack of secondary markets.

45. Innovation will continue to drive improvement and it has been widely reported that the bodywork of the new Tesla model Y will be cast in just two parts.

46. The CCC has recommended that the government consult on regulations requiring EV batteries sold in the UK to be recyclable, and that these should be coordinated with requirements in other markets to ensure that batteries can be reliably recycled across jurisdictions. We agree with this recommendation which the CCC regard as overdue[12].

National and regional infrastructure and charging issues.

47. The delivery of charging infrastructure is arguably the most important priority for the decarbonisation of road transport. The charging infrastructure strategy recognises many of the issues with the network, including that roll out is too slow.

48. Regionally, data from Zapmap suggests that, of the 48,450 UK charging devices on its database, nearly 46% of are located in Greater London and the Southeast.

49. While we acknowledge the ongoing work to improve coverage, there is still a long way to go, particularly in ensuring that coastal, rural, and remote areas do not become “no go areas” for EVs due to insufficient charging infrastructure.

50. As well as coverage, it is important to ensure that the new infrastructure is future proofed and easily upgradeable.

International perspectives.

51. Norway is well ahead of the UK in its transition to ZEVs having set a target for all new cars sold by 2025 to be electric or hydrogen fuelled. In 2022, Battery Electric Vehicles held a 79.2% market share and by the end of that year, vehicles of this type accounted for more than 20% of registered cars in Norway[13].

52. In July 2020, Oslo’s environment agency announced that the city had 50,000 electric vehicles and – together with Bergen – had achieved the highest number of electric vehicles per capita in the world.

[12] Climate Change Committee, Progress in reducing emissions, 2023 Report to Parliament, p425.
[13] Norwegian Electric Vehicle Association, https://elbil.no/english/norwegian-ev-policy/

53. Oslo has also entered innovative partnerships with private companies to establish low-carbon city distribution centres. These CityHubs offer emission-free last-mile logistics using electric trucks electric trucks, vans and cargo bikes.

54. Their successful transition has been driven by sustained cross party support underpinned by a broad package of financial incentives and effective delivery of fast charging stations on all main roads in Norway.