

ASSESSING THE IMPACT OF SUPPORT FOR THE USED BEV MARKET

for BVRLA

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Background and proposed policy interventions

- The leasing sector is playing an important role in supporting the ZEV mandate, as it accounts for roughly 3 out of 4 new BEV vehicles purchased, with the sector spending up to £30bn since 2018.*
- The sector has recently encountered challenges with used BEV prices, a key factor driving sector profitability, and new BEV leasing payments, which unexpectedly dropped in 2023. This outlook is not anticipated to improve.
- Given these challenges, the BVRLA is advocating for **intervention in the used BEV car market**. Two temporary policy options both running from 2025 to 2028 have been assessed:
 - **Reduce VAT** from 20% to 10% on VAT-qualifying used BEVs
 - **£1,500 grant** on the sale of any used BEV car with an RRP below £45,000 and used BEV LCV

** Based on 75% of the 1 million BEV cars and all the 71,000 BEV LCV sold between 2018 and 2023 (Source DFT). The average vehicle price is £38,000 for a BEV car and £41,500 for a BEV LCV. These figures are based on the P11D vehicle prices reported by BVRLA members.

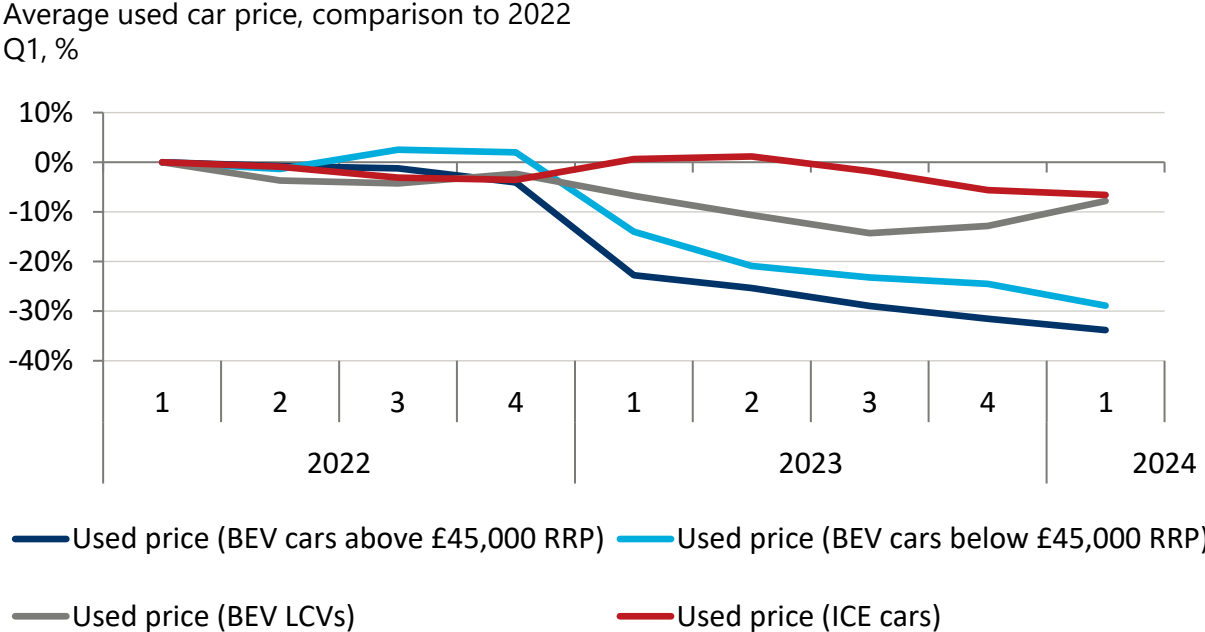


Key challenges in the BEV market

The fall in used prices has led to higher-than-anticipated depreciation of BEV vehicles

- The depreciation of a vehicle is key in calculating leasing payments, and this requires an estimate of future used prices to set the residual value.
- In 2023, used BEV values experienced a sharp unanticipated decline, which was not priced into contracts.

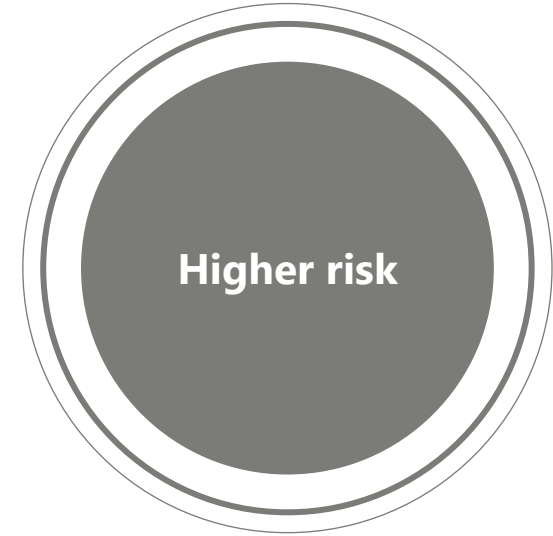
Average used BEV prices, 2022 Q1 - 2024 Q1*



Source: Oxford Economics, AutoTrader

* Below and Above £45,000 RRP groups represent the average used prices of BEV models that were above and below a £45,000 recommended retail price (RRP) when sold new.

Impact on the leasing market from the fall in used BEV prices



- The unexpected fall in used prices means leasing companies are sitting on losses.
- The losses and risks are already exerting financial pressure on leasing companies.
- Since 2022, BVRLA members reported that leasing payments are up as the depreciation of BEVs has increased.
- The uncertainty in the nascent used BEV market is leading to BEV vehicles being viewed as a more risky asset to hold for leasing companies.

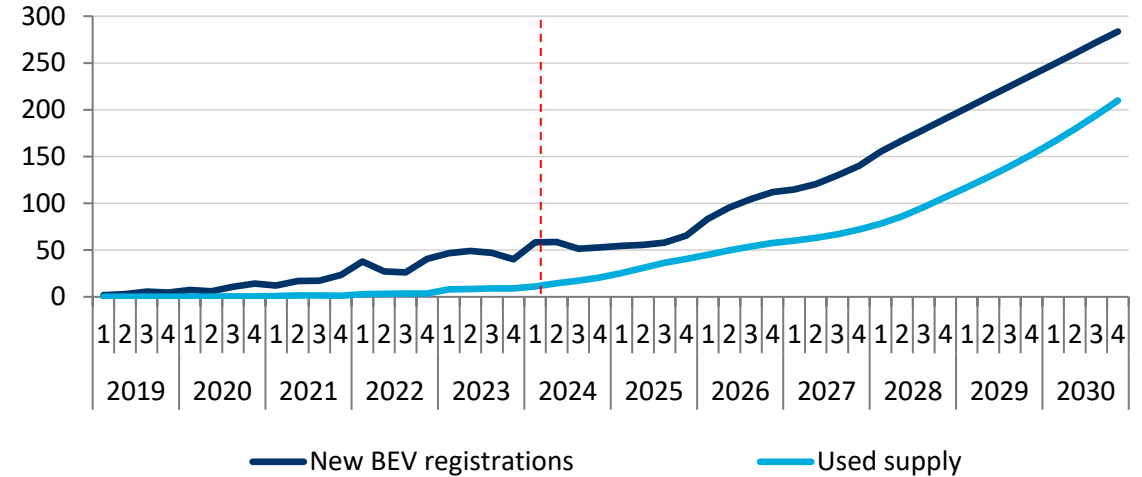


Outlook for the supply and price of used BEVs

The supply of used BEV cars is expected to increase, lagging growth in new BEV registrations.

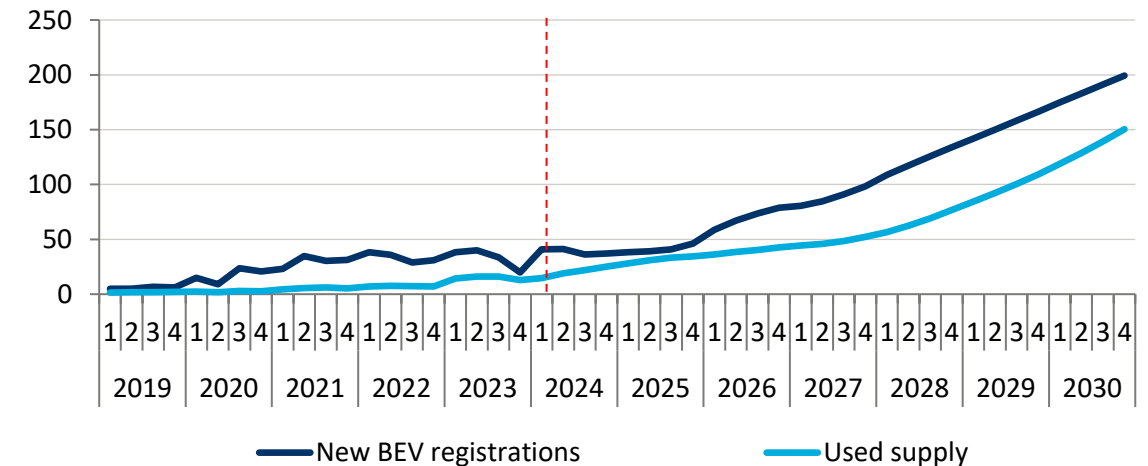
- The supply of new and used BEVs is key in determining used BEV prices.
- New BEV supply is based on the total anticipated vehicle registrations (BEV and ICE) and the ZEV mandate proportions.
- Used supply is based on the ownership length and attrition.

Quarterly BEV cars above threshold, thousands



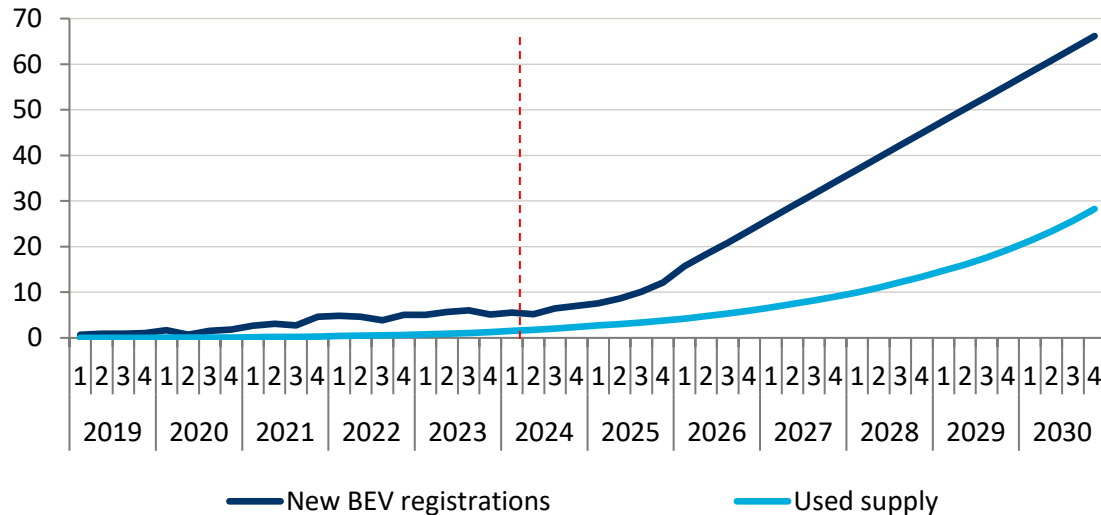
Source: Oxford Economics

Quarterly BEV cars below threshold, thousands



Source: Oxford Economics

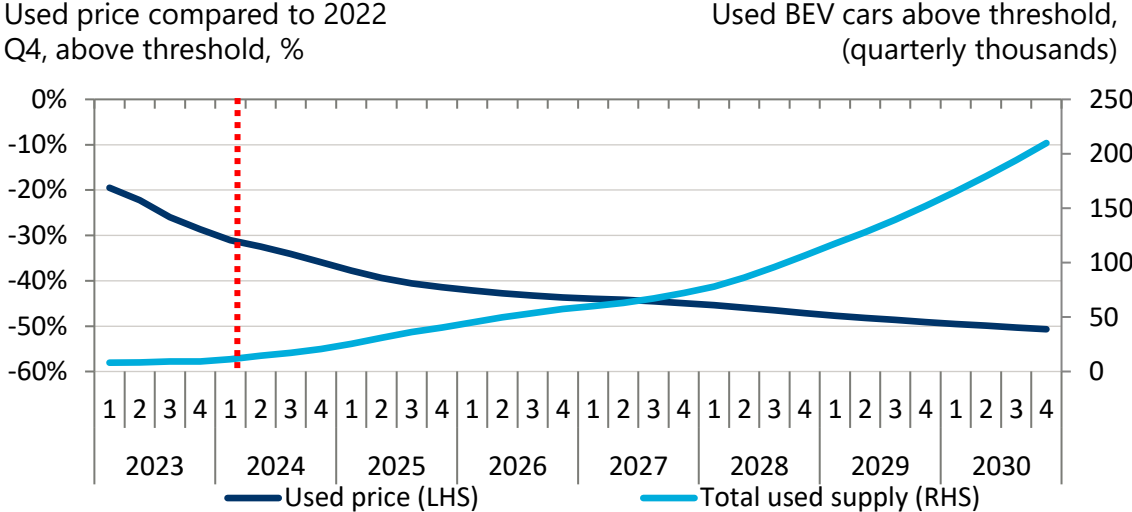
Quarterly BEV LCVs, thousands



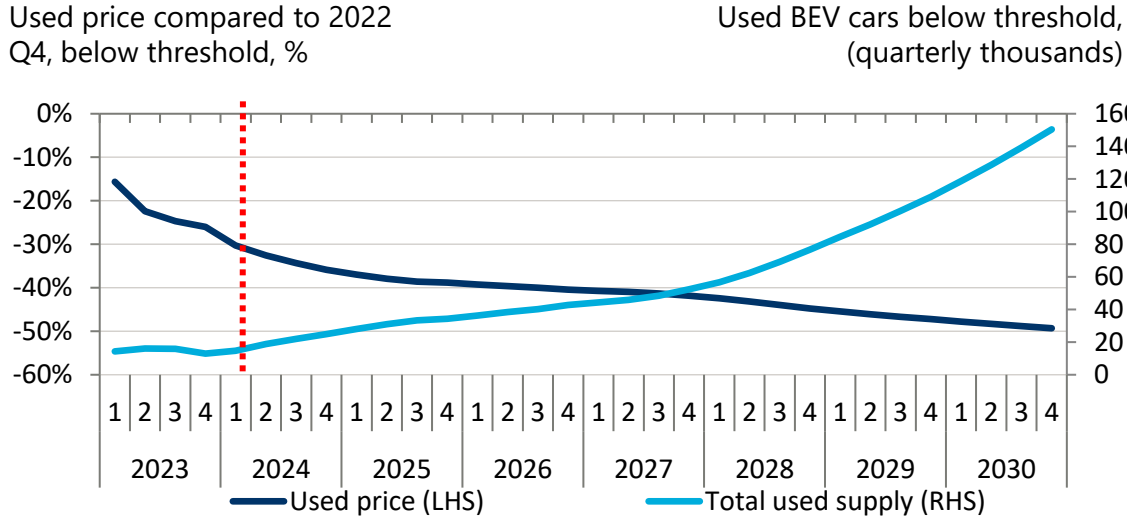
Source: Oxford Economics

Used prices of BEV cars and LCVs are expected to decline over the forecast period

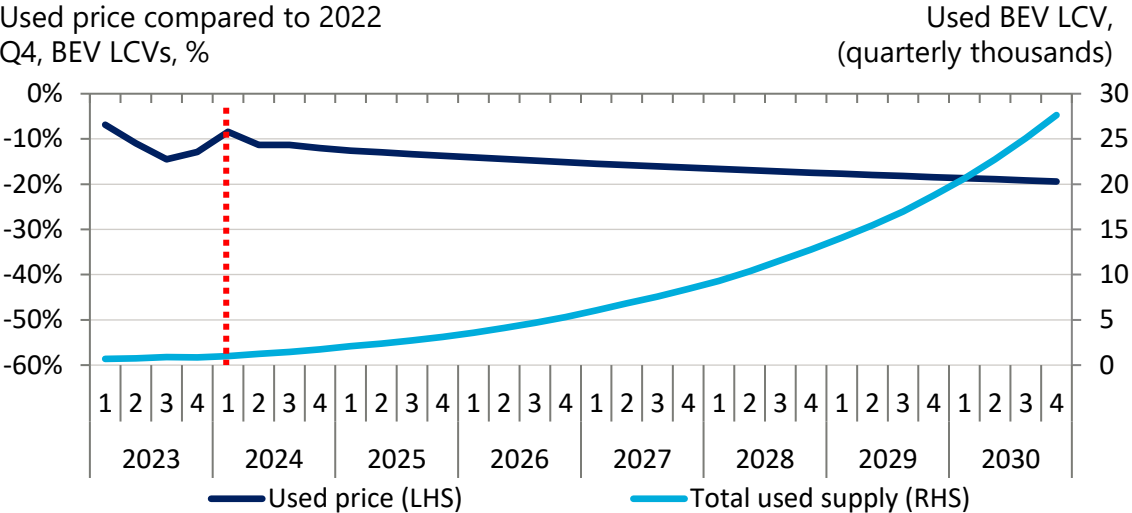
- Our models* indicated that increased used supply will outweigh demand factors in each market segment, causing used prices to continue falling, adding to the decline seen since 2022.
- Between 2024Q1 and Q4 2030, used BEV prices in the *above* segment are expected to be 28% lower and 27% in the *below* segment. Over the same period, used BEV LCV prices are anticipated to be 12% lower.



Source: Oxford Economics



Source: Oxford Economics



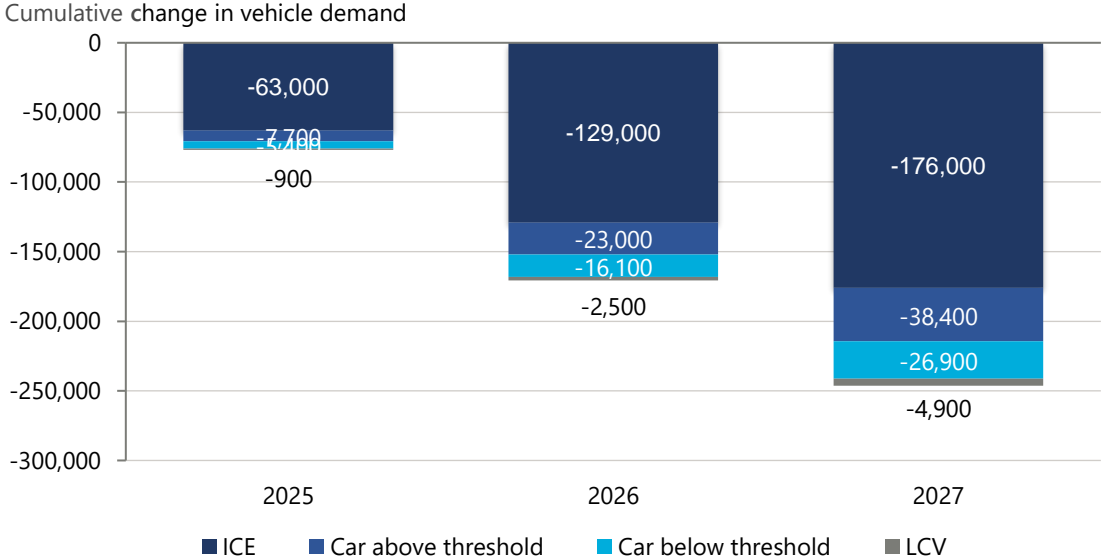
Source: Oxford Economics

* Our models found used supply and demand factors, including new BEV, used ICE, and fuel prices, to be significant drivers of used BEV prices. Forecast hold the age of vehicles constant.

Higher leasing costs reduce demand for BEVs

- The rise in leasing payments between 2022 and 2024 reported by BVRLA members is expected to have reduced new BEV demand by over 220,000 vehicles between 2023-2024.*
- Looking ahead, members' survey responses suggest that over half of the fall in used prices will result in higher leasing payments.
- As a result, leasing payments for BEV cars are The future increase in leasing payments is anticipated to lower BEV demand by 70,000 vehicles by 2027.
- Due to the ZEV mandate, the sales of ICE vehicles could be restricted if demand for BEVs is insufficient.

Cumulative change in demand for new registrations



Source: Oxford Economics

* We use a price elasticity of demand previously applied in OZEV research. Frontier Economics, "OZEV – Portfolio-Level Retrospective Evaluation"

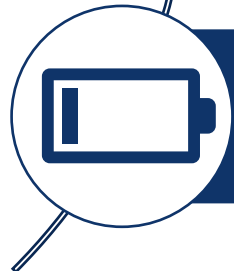
There are several additional risks to the outlook of used BEV prices



Discounting, particularly by Chinese brands.*



Vehicle Excise Duty will raise the running costs of electric vehicles.



Technology improvements could lead to a fall in demand – and therefore used price – of older generations.



Policy impact analysis

Proposed interventions

- Given challenges facing the industry, the BVRLA is advocating for specific and temporary policy support.

VAT Reduction

- Reduce VAT from 20% to 10% on a VAT-qualifying when sold into the used market.

Plug-in Used Car/LCV Grant

- £1,500 for any BEV that had an RRP below £45,000 when sold new.
- £1,500 grant for a used BEV LCV, limited to two LCVs per firm.

Eligibility and coverage

- Vehicles eligible for support must be older than 1 year to limit the potential inclusion of the support covering pre-registered vehicles.
- In addition, the support is only available once per vehicle.
- Both policies are designed to support the market for 4 years between 2025 and 2028.
- For the grant, we estimate that 470,000 BEV cars and 60,000 BEV LCV will be eligible for the scheme.

Policy aims

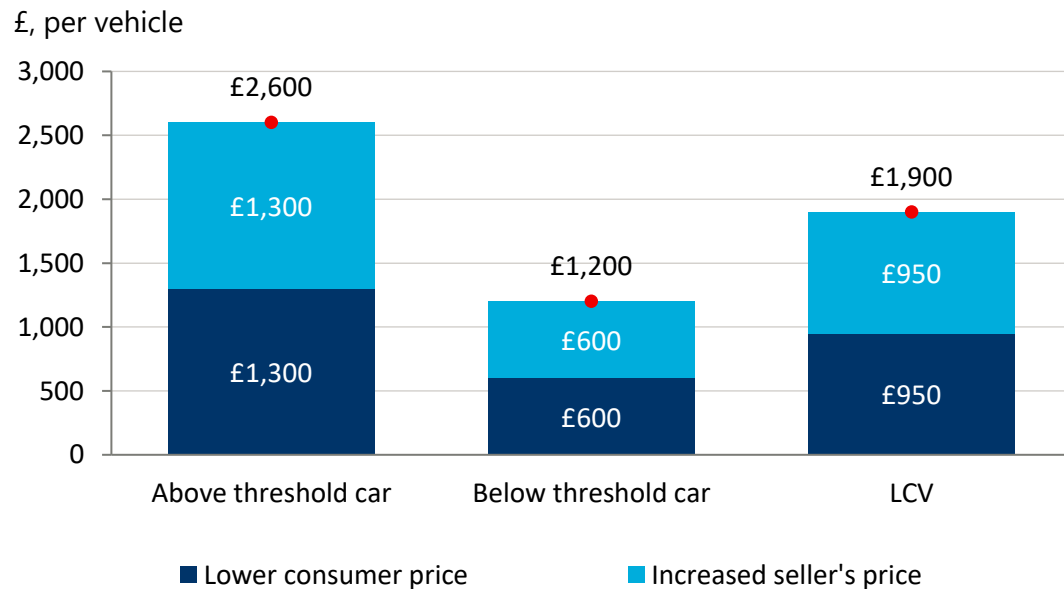
- **Government support** is anticipated to **increase seller's price and lower buyer's price benefiting the used and new BEV market**. The extent of this impact is determined by the degree of pass-through.



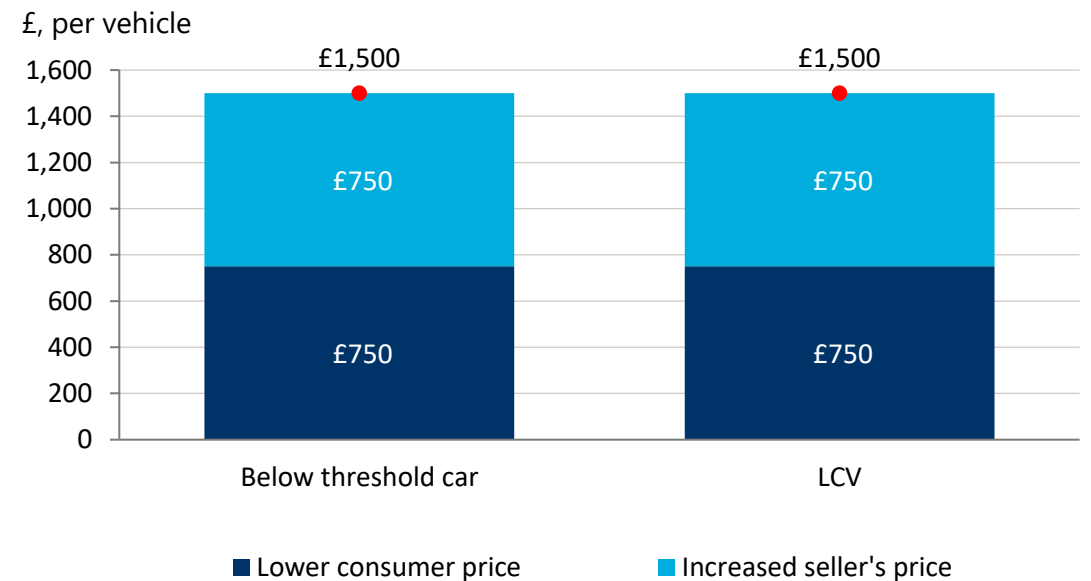
Used BEV market benefits: improve affordability and reduce market risks

- **Used BEV buyer:** They will accrue half the benefits of the VAT reduction and grant, which will help improve these vehicles' affordability and help develop this nascent market.
- **Used BEV seller:** The other half is accrued to the seller and other upstream market participants (e.g. new car leaseholders). It is anticipated that between 2025 and 2027, this will primarily support leasing companies' balance sheets.

Distribution of VAT reduction (2025-2028 average)



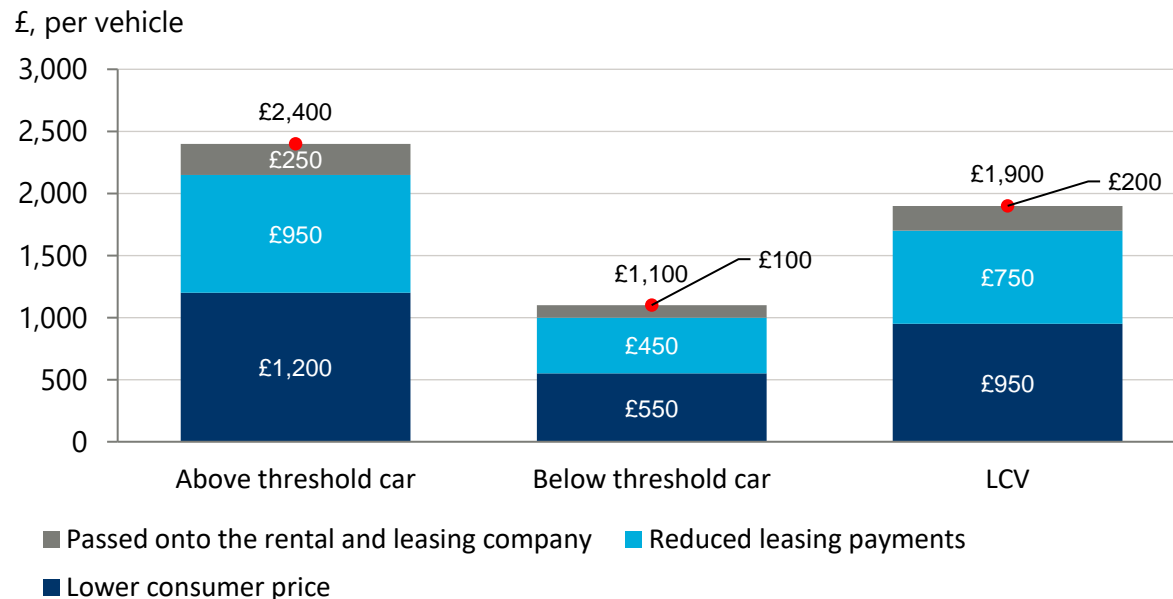
Distribution of grant support (2025-2028 average)



New BEV market benefits: lower leasing prices

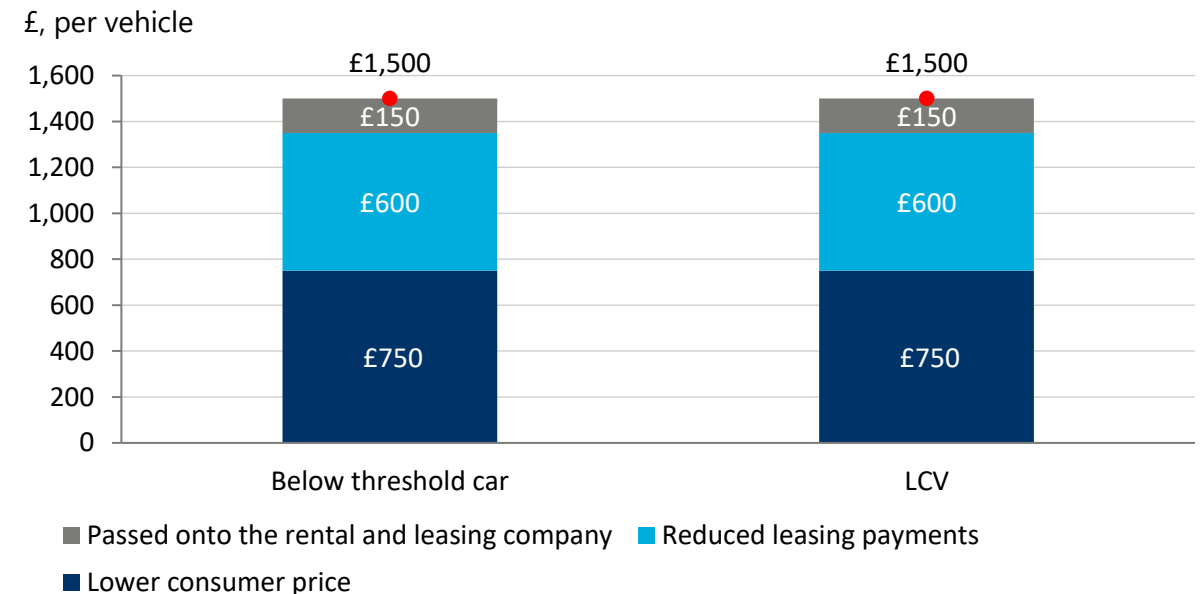
- In 2025,* the proposed support for the used BEV market lowers payments on leasing contracts as leasing companies factor a higher used price in 2028 into these contracts.
- Across the three market segments, a VAT reduction results in total lease price falls of between £450-£950, on average, while the grant leads to a total price fall of £600 across the 2 segments to which the policy applies.****

Distribution of VAT reduction (2028)



Source: Oxford Economics

Distribution of grant support (2028)



Source: Oxford Economics

* A very small proportion (4%) of BEV car contracts are shorter than 3 years and so would affect leasing contracts for new cars in 2026 too. Given the small portion of cars this will apply to, we only focus on the impacts in 2025.

** Spread across a representative three-year contract expiring before or during 2028.

Costing of the support

- The VAT scenario provides broader support across all BEVs, so the cost of the scheme is higher than the grant scenario.

| | VAT reduction scenario | | | Grant scenario | |
|-------------------------|------------------------|--------------------|---------------|---------------------------|-------------|
| Segment | Support per vehicle | 4 years: 2025-2028 | | 528,000 vehicles: 4 years | |
| | | Eligible vehicles | Cost (£m) | Eligible vehicles | Cost (£m) |
| BEV car above threshold | £2,500 | 505,000 | £1,270 | - | - |
| BEV car below threshold | £1,200 | 341,000 | £400 | 465,000 | £700 |
| BEV LCV | £1,900 | 19,000 | £40 | 63,000 | £95 |
| Total | - | 865,000 | £1,710 | 528,000 | £795 |

* The costs depend on the number of eligible used vehicles, which is driven by the number of BEVs more than a year old and the number of VAT-qualifying BEVs sold to individuals for the VAT scenario.

Policy support key findings

- The analysis shows that **reducing VAT** in the used BEV market will:
 - **Reduce used prices for BEV cars by £600 - £1,300 and by £950 for BEV LCVs**, on average, between 2025 and 2028.
 - **Reduce leasing payments by £450 - £950 on new BEV cars and by £750 on new LCVs**, on average, in 2025.*
- The analysis shows that **a grant** in the used BEV market will:
 - **Reduce used prices for eligible BEV cars and BEV LCVs by £750**, on average, between 2025 and 2028.
 - **Reduce leasing payments by £600 on new BEV cars and LCVs**, on average, in 2025.*
- Both policies will also increase the seller's price on used BEVs. This will **help leasing companies' balance sheets in the near-term, reducing the risk of market exits** that could reduce competition and result in higher leasing prices on new BEVs.
- In addition, **lower leasing prices are anticipated to boost demand for new BEVs**, supporting the reduction in decarbonisation of UK roads.
- The VAT scenario offers more comprehensive support for all BEVs, leading to a higher implementation cost. The VAT reduction is estimated to **cost £1.7bn**, and the grant is estimated to **cost £795mn** between 2025 and 2028.

* Spread across a representative three-year contract expiring before or during 2028.