# Contents

- Executive Summary .................................................................................... ............... 3
- Introduction .............................................................................................. 7
- The economic impact of vehicle leasing and renting activities ........... 11
- The impact of the vehicle leasing and renting sector via vehicle manufacturing and distribution ....................................................................... ........ 17
- Wider catalytic impacts........................................................................... 21
- Total impact of the vehicle leasing and renting sector......................... 25
- Appendices ........................................................................................... ... 27
Executive Summary

Overall economic impact

The full-service vehicle leasing and short-term rental sector contributed almost £14.3 billion in value-added to the UK economy in 2011. This contribution is the sum of the individual impacts of the operations of the industry itself, the UK-made vehicles it purchases, the use of UK-made engines, the activity in dealerships, and its impact on the used-car market.

In comparative terms the value-added generated equates to £1 in every £90 of UK GDP and is equivalent to the combined local economies of Bristol and Bath.

This value-added supported over 183,000 jobs or 1 in every 175 jobs in the UK. This is a lower ratio than for GDP and reflects the higher productivity activities associated with the vehicle leasing and rental sector in comparison to the wider UK economy.

The sector generated nearly £2.8 billion of tax revenue in 2011. This is equivalent to the total cost of employing nearly 31,000 advanced nurses or paying the salaries of around 85,000 secondary school teachers.

In addition to these measureable effects, some of the sector’s key impacts stem from its role in contributing to the efficiency with which the economy works and the options it opens for both businesses and households who lease vehicles.

Leasing motor vehicles provides businesses opportunities that may not exist if vehicles are purchased outright. These benefits include reducing businesses’ motoring costs – through access to modern, fuel-efficient vehicles, fleet utilisation assessments and lower capital costs – and improved customer image.

Full-service leasing offers further benefits for companies by ensuring ‘housekeeping’ items, such as maintenance, insurance and road tax, are provided by the lessor, freeing users’ resources and working capital for other tasks. Similarly, full-service leasing can reduce the environmental impact of a business by actively promoting fuel efficient vehicles.

The benefits of leasing vehicles are not just enjoyed by businesses; households also profit from motor vehicle leasing, as access to vehicles for credit-constrained households may only be available through leasing. In turn, the availability of a vehicle can expand the job opportunities open to an individual and so play a vital role in the functioning of the labour market.

As an alternative to long-term leasing, rental companies provide cars and vans on short term hire, for as little as an hour or as much as a month. Offering a flexible, fixed-cost and ‘pay-as-you-go’ approach to motoring, renting caters for holiday-makers, business travellers and non-car owners who have an occasional use for road transport. In particular, rental forms an increasingly significant role in integrated mobility solutions, providing links to airports and rail hubs, as well as being readily available locally.

The rental option is also likely to have a beneficial environmental impact, by offering new, efficient vehicles to renters and reducing the need to own a vehicle or additional vehicles. In addition, the availability of rental cars helps travellers complete journeys to and from rail hubs, while around a quarter of all rentals involve 3 or more people travelling in the rented vehicle.
Constituents of the quantifiable economic impact

(i) Operation of the full-service vehicle leasing and rental sector

The economic impact of the full-service vehicle leasing and rental sector encapsulates the **direct impact** of the sector itself via the leasing and renting of vehicles, the impact of its current spending on inputs of goods and services from UK-based suppliers – the **indirect effect** – and the spending out of wage income of its staff and those in its direct supply chain – the **induced effect**.

The direct impact of the sector is calculated through the sum of its profits (before interest, taxation, depreciation and amortization) and the wages it pays its employees. Therefore in 2011, the full-service vehicle leasing and rental sector made a direct value-added contribution to UK GDP of £8.3 billion and employed almost 38,000 people. The sector was directly responsible for £575 million in tax revenues for the Exchequer.

The sector spent over £2 billion on inputs of goods and services – excluding capital purchases – from UK suppliers. This procurement generated an indirect value-added contribution of £1.7 billion to UK GDP, supported 42,750 jobs and raised a further £670 million for the Exchequer.

The consumer spending of the 80,000 people employed in the sector and its supply chain created a further value-added contribution of almost £1.2 billion. This supported 35,300 jobs and almost £490 million in tax receipts.

In total, the full-service vehicle leasing and rental sector contributed over £11 billion to UK GDP in 2011, equivalent to almost 1% of the economy. The sector supported 116,000 jobs – similar to the number of people employed in Portsmouth – with every direct job in the sector supporting a further two jobs elsewhere in the economy. The sector’s activities contributed over £1.7 billion in tax receipts for the Exchequer.

(ii) Economic impact on vehicle manufacturing and distribution

As well as the purchase of day-to-day supplies to support its operations, the full-service vehicle leasing and rental sector impacts the UK economy via purchases of UK-made cars and foreign cars with UK-made engines, and supports UK car dealers who supply new cars. The disposal of vehicles by the sector also supports further activity in the UK’s used vehicle sector.

In 2011, the vehicle leasing and rental sector is estimated to have purchased 222,000 UK-made vehicles. This is 15% of domestic vehicle makers’ output and 82% of UK purchases of UK-made vehicles. The vehicles manufacture is estimated to have supported a £2.4 billion contribution to GDP, 52,000 people in employment and £810 million in tax receipts.

The sector’s expenditure on foreign-made vehicles containing UK-made engines is estimated to have generated a further £349 million contribution to GDP, 7,600 jobs and £120 million in tax receipts in 2011 once multiplier impacts are taken into consideration.

In 2011, the vehicle leasing and rental sector purchased £11.1 billion of foreign-made vehicles from UK dealerships. This retail activity supported a £98 million contribution to GDP, 2,000 people in employment and £31 million in tax receipts.

The vehicle leasing and rental sector is estimated to have sold 28% of its fleet in 2011. Used-vehicle dealerships and auctioneers are likely to have made a £311 million contribution to GDP, created 6,700 jobs and £87 million tax receipts on their margin from selling these vehicles including multiplier impacts.
(iii) How the total contribution to the UK economy builds up

Vehicle leasing background
Currently, BVRLA members have 2.1 million vehicles on lease. This is 95% of the total number of leased vehicles (2.2 million) in the UK. Average CO₂ emissions of a lease car registered in 2012 was 123 g/km, compared with the average of 151 g/km¹ for all vehicles on the UK’s roads.

BVRLA members own a fleet of around 270,000 rental vehicles, with the total UK market size estimated at 325,000 vehicles. The typical rental life of a car before disposal is seven to 12 months or 15,000 miles. BVRLA members handle around 10 million rental transactions annually.

Operating mainly on a business-to-business basis, lessors of commercial vehicles provide trucks, trailers and vans on a short and long-term basis, either through rental or a leasing contract. BVRLA members own a fleet of around 500,000 commercial vehicles.

The attractiveness of leasing as a means of obtaining vehicles for SMEs is borne out in the findings of a survey of BVRLA members conducted for this study. The survey found that two-thirds of business customers were SMEs.

¹ Source: Defra/DECC’s greenhouse gas conversion factors 2011
Usage of fully-serviced leased vehicles reaches all parts of the economy – survey findings indicate that vehicles are leased to every sector of the economy. The manufacturing sector was the largest recipient of fully-serviced leased vehicles with 23% of the total. Elsewhere in the economy, the proportion of the leasing market held by each industry was similar to the proportion of all SMEs found in that industry.
1 Introduction

1.1 Purpose of report

The objective of this report is to investigate the economic contribution of the full-service motor vehicles leasing and short-term rental sector in the UK, quantifying its impacts in terms of:

- The activities of the industry itself;
- The contribution the industry makes to the UK vehicle and engine manufacturing sectors through its purchase of vehicles;
- The impact on the UK’s used-vehicle market through the industry’s disposal of vehicles, and;
- The activity created by the distribution of imported vehicles purchased by the industry.

The report is divided into five chapters as follows:

- Chapter 2 focuses on the economic impact on the industry, detalling the methodology applied to measuring the economic impact of the sector, and the subsequent results of the impact analysis into the value and employment that the activity of the full-service vehicle leasing and renting sector adds to the UK economy.
- The impact the industry has on the UK’s economy is not limited to its economic impact detailed in Chapter 2. Chapter 3 explores the wider, quantifiable ‘catalytic’ impacts of the full-service vehicle leasing and rental industry, including the impact of vehicle purchases on the manufacture and distribution of vehicles in the UK.
- Some of the ‘catalytic’ impacts of the full-service vehicle leasing and rental industry are not quantifiable, but remain significant. Chapter 4 discusses these.
- The total economic impact of the industry is reported in Chapter 5.

First, the report provides an introduction to the motor vehicle leasing and the full-service leasing and rental sector in the UK.

1.2 Introduction to motor vehicle leasing

Leasing is a contractual agreement where a leasing company (lessor) makes an asset it owns available for use by another party (a lessee) for a certain period of time in exchange for a payment, with the payment typically structured as a series of regular instalments over the period of the lease. Leasing plays an important role for businesses of all types and is particularly important for businesses that are credit-constrained, either because of general credit conditions or because of their characteristics. For example, young businesses with only a short track record and small and medium sized enterprises (SMEs) often find leasing an attractive solution, particularly for the flexibility it offers, the competitive costs on offer relative to other forms of financing, and because leasing allows financing of 100% of the price of an asset without the need to post additional collateral.

Motor vehicles are a popular item for businesses to acquire through lease agreements. Leasing companies provide longer term vehicle hire with an agreed mileage limit, typically for a period of 24, 36 or 48 months. There are a number of leasing options and the choice depends on a range of

---

2 The European Commission defines a business as an SME if it has less than 250 employees (European Commission 2005).
3 The use of leasing amongst European SMEs, Oxford Economics, November 2011
customer characteristics, including whether the lessee is a business or private customer, whether they want to take the residual value risk associated with the vehicle and whether they want the option to buy it at the end of the lease. The dominant form of lease is contract hire, which accounts for more than 50% of the market.

By leasing motor vehicles, opportunities are provided to businesses that may not exist if vehicles are purchased outright. For example, leasing a fleet of modern vehicles may not only reduce a business' motoring costs – through potentially better terms than available from lenders or investors, and lower maintenance and running costs – but also provide an improved image to customers, leading to increased activity. The benefits from leasing are not limited to commercial operations, leasing can also provide credit-constrained households access to vehicles when the upfront cost of a vehicle is prohibitive.

One type of motor vehicle leasing offered is full-service leasing. Under full-service leasing customers are offered vehicle leasing arrangements under which the lessor provides periodic maintenance and breakdown repair services, together with vehicle insurance and the payment of relevant taxes. Additionally, lessors entering into full-service leasing agreements with lessees provide wider services aimed at reducing the cost of motoring for the lessee, provide regular reviews of the lessee’s vehicle usage, and the opportunity for companies to actively reduce their environmental footprint in a cost-effective and immediate manner. By engaging in full-service agreements, lessee companies can reduce the time – and subsequently cost – they devote to fleet decisions, freeing resources to be allocated to other tasks; the impact of such a time saving can be particularly significant in smaller companies without the resources to effectively manage – or identify – their motoring needs.

As an alternative to long-term leasing, rental companies provide cars and vans on short term hire, for as little as an hour or as much as a month. Offering a flexible, fixed-cost and ‘pay-as-you-go’ approach to motoring, renting caters for holiday-makers, business travellers and non-car owners who have an occasional use for road transport. For example, a BVRLA survey\(^4\) in 2012 shows that 33% of rentals were to non-car owners. In effect, rental forms an increasingly significant role in integrated mobility solutions, providing links to airports and rail hubs, as well as being readily available locally.

The availability of rental cars also has positive impacts on the environment. Over a quarter of those renting report that the availability of rental cars reduces the likelihood that they will buy a(nother) vehicle in the next few years, while 15-24% of respondents said that the opportunity to rent means that they have delayed vehicle ownership, or owned fewer household vehicles than they otherwise would have done.\(^5\)

In addition, since rental vehicles are new, clean and efficient compared to the average car on British roads, and because trips to the rental branches are likely to be relatively insignificant compared with the rental journey itself, using a rental vehicle is likely to have been the less polluting option, in a number of cases, since:

- 4% of rentals were linking with train stations;
- vehicle occupancies in rental vehicles are potentially high, with nearly a quarter involving 3 or more people travelling in the rental car;

\(^4\) Rental Customers Survey 2012, Transport Research Laboratory for BVRLA

\(^5\) Rental Customers Survey 2012, Transport Research Laboratory for BVRLA
35% of respondents reported that using another vehicle was the only option they would have considered, had rental not been an option. 6

1.3 The full-service vehicle leasing and renting sector in the UK

Established in 1967, the British Vehicle Rental and Leasing Association (BVRLA) is the trade body for companies engaged in the leasing and rental of cars and commercial vehicles. Its members provide short-term self-drive rental, leasing hire and fleet management services to corporate users and consumers. The UK full-service vehicle leasing and renting sector 7 divides into three broad sectors: leasing, commercial vehicles and renting.

Currently, BVRLA members have 2.1 million vehicles on lease. This is 95% of the total number of leased vehicles (2.2 million) in the UK. Average CO₂ emissions of a lease car registered in 2012 was 123 g/km, compared with the average of 151 g/km8 for all vehicles on the UK’s roads.

BVRLA members own a fleet of around 270,000 rental vehicles, with the total UK market size estimated at 325,000 vehicles. The typical rental life of a car before disposal is seven to 12 months or 15,000 miles. BVRLA members handle around 10 million rental transactions annually.

Operating mainly on a business-to-business basis, lessors of commercial vehicles provide trucks, trailers and vans on a short and long-term basis, either through rental or a leasing contract. BVRLA members own a fleet of around 500,000 commercial vehicles.

The attractiveness of leasing as a means of obtaining vehicles for SMEs is borne out in the findings of a survey of BVRLA members conducted for this study. The survey found that two-thirds of business customers were SMEs.

Usage of fully-serviced leased vehicles reaches all parts of the economy – survey findings indicate that vehicles are leased to every sector of the economy. The manufacturing sector was the largest recipient of fully-serviced leased vehicles with 23% of the total. Elsewhere in the economy, the proportion of the leasing market held by each industry was similar to the proportion of all SMEs found in that industry (Chart 1.1).

---

6 Rental Customers Survey 2012, Transport Research Laboratory for BVRLA
7 This report used the terms ‘full-service vehicle leasing and rental’ and ‘vehicle leasing and rental’ interchangeably. Both refer to the full-service vehicle leasing and rental sector.
8 Source: Defra/DECC’s greenhouse gas conversion factors 2011
Chart 1.1 Leasing take-up and SME distribution by industry in 2011

Source: Oxford Economics
2 The economic impact of full-service vehicle leasing and renting activities

This chapter highlights the scale of the full-service vehicle and renting sector’s activities, its contribution to UK GDP, the number of people it employs and the tax generated for the Exchequer. It investigates the impact of its procurement from its domestic supply chain (excluding vehicles) and the effect of its staff spending their wages.

Key points

- The economic impact of the full-service vehicle leasing and rental sector encapsulates the direct impact of the sector itself, the impact of its current spending on inputs of goods and services from UK-based suppliers – the indirect effect – and wage-financed consumer spending of both its employees and those of its suppliers– the induced effect.

- In 2011, the vehicle leasing and rental sector made a direct value-added contribution to UK GDP of £8.3 billion and employed almost 38,000 people. The sector was directly responsible for £575 million in tax revenues for the Exchequer.

- The sector spent over £2 billion on inputs of goods and services – excluding capital purchases – from UK suppliers. This generated an indirect value-added contribution of £1.7 billion to UK GDP, supported 42,750 jobs and raised a further £670 million for the Exchequer.

- The consumer spending of the 80,000 people employed directly and indirectly by the sector created a further value-added contribution of almost £1.2 billion. This supported 35,300 jobs and almost £490 million in tax receipts.

- In total, the full-service vehicle leasing and rental sector contributed over £11 billion to UK GDP in 2011, equivalent to almost 1% of the economy. The sector supported 116,000 jobs – similar to the number of people employed in Portsmouth – with every direct job in the sector supporting a further two jobs elsewhere in the economy. The sector’s activities contributed over £1.7 billion in tax receipts for the Exchequer.

2.1 An introduction to economic impact analysis

A standard economic impact assessment identifies three channels of impact that stem from an activity:

- The first channel of impact is the direct effect. This encompasses the activity generated by the full-service leasing and rental industry itself.

- The second channel of impact – indirect effect – encapsulates the activity supported in the industry’s supply chain as a result of its procurement of inputs of goods and services. It should be noted that this supply chain impact relates to current expenditures only.

- The third channel captures the impact of staff employed as a part of the direct and indirect effects spending their wages. This supports activity at retail and leisure outlets, and their supply chains. This third channel of impact is known as the induced effect.
The industry’s direct effect is calculated by combining data collected through a survey of BVRLA members with official data produced by the Office for National Statistics (ONS). The indirect and induced impacts are calculated using the ONS (2011) input-output tables. Input-output tables detail the linkages that exist between all industries in the economy, enabling supply chains and household consumer spending to be mapped at a UK level.

2.2 The metrics of economic impact

In accordance with standard economic impact assessments, the scale of the impact of the industry is measured using three metrics:

- **Gross value added** – Gross value added (GVA) is the contribution an institution, company or industry makes to Gross Domestic Product (GDP). The sum of the gross value added of all UK organisations is – with minor adjustments for taxes and subsidies – equal to UK GDP. Similarly, the sum of GVA for all organisations in a geographical region is equivalent to that area’s GDP. GVA is most simply understood as turnover (i.e. value of sales) minus the cost of bought in goods and services used up in the production process.

- **Employment** – Employment is measured in terms of headcount rather than full-time equivalence. This enables comparisons to be made with ONS statistics, which are recorded on a headcount basis.

- **Tax receipts** – Increases in profits and employment translate into additional tax revenues for the Exchequer. This study considers the receipts generated from Income and Corporation taxes, employee and employer National Insurance contributions, and other indirect taxes paid by employees (including excise duties and VAT).

Figure 2.1: The channels of economic impact

---

9 ONS (2011). An overview of input-output tables is presented in the Appendix.

10 GDP is the main ‘summary indicator’ of economic activity in the UK economy. References to the rate at which the UK economy is growing (or when it enters recession) are made using GDP.
2.3 Direct contribution of the full-service vehicle leasing and rental sector to the economy

To estimate the direct contribution of the motor vehicle leasing and renting sector to the economy, Oxford Economics undertook a survey of BVRLA members in the autumn of 2012. The survey collected information on their activities in 2011, including:

- financial data, including information on profits, taxes, purchases of inputs and capital goods;
- fleet data covering fleet size, number of low-emission vehicles and vehicle purchases; and,
- information on topics ranging from types of advice offered to customers, services provided, importance of SMEs in business mix and the sectoral classification of customers.

Responses were received from 10 companies representing a total fleet size of nearly 1.3 million vehicles, or around 50% of the total UK fleet of leased or rented motor vehicles. Low emissions vehicles made up 9% of the respondents’ collective fleet.

Cars accounted for 89% of the survey respondents’ vehicle purchases, or 464,800 vehicles. Excluding Motability\textsuperscript{11}, the national charity set up at the initiative of the Government in 1977, to assist disabled people with their mobility needs, primarily by enabling them to use their mobility allowance to obtain an affordable car, the respondents’ purchases was made up of 234,800 vehicles. Of these, 18.6% were low emission vehicles.

The survey data provides the basis for identifying the contribution to GDP, employment, taxes and bought-in supplies by those companies responding. It also provides the basis for estimating the contribution made by the balance of the industry. The key assumption in this estimate is that the average turnover generated per vehicle in the rest of the industry is similar to that for the companies responding to the questionnaire. This allows the development of an industry-wide turnover measure and, in turn, using ONS \emph{Annual Business Survey} data on the ‘Renting and leasing of cars and light motor vehicles’ sector\textsuperscript{12}, estimates for the GDP, employment and tax contributions for the balance of the industry, as well as the total purchases of day-to-day supplies made by the industry.

In 2011 the full-service vehicle leasing and rental sector received £14.6 billion in turnover, resulting in a contribution to GDP of £8.3 billion (Table 2.1). It employed nearly 38,000 people and paid £868 million in wages and salaries. The industry spent over £2 billion on inputs of goods and services from UK suppliers and generated taxes of over £570 million.

\textsuperscript{11} The economic and social impact of the Motability Car Scheme, Oxford Economics, September 2010.

\textsuperscript{12} Defined under the Standard Industrial Classification code 77120. The results of the \emph{Annual Business Survey} for the ‘Renting and leasing of cars and light motor vehicles’ sector are not used as a measure of the total industry size as investigation of several of the companies involved in the industry indicated that they did not report themselves as being primarily engaged in the sector. Therefore, Oxford Economics believe the actual size of the industry is greater than that captured in the \emph{Annual Business Survey}. 
Table 2.1: Vehicle leasing and rental industry – key metrics in 2011

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>14,617</td>
</tr>
<tr>
<td>GVA</td>
<td>8,265</td>
</tr>
<tr>
<td>Employment (jobs)</td>
<td>37,950</td>
</tr>
<tr>
<td>Salaries</td>
<td>868</td>
</tr>
<tr>
<td>Brought-in purchases from UK suppliers</td>
<td>2,052</td>
</tr>
<tr>
<td>Taxes</td>
<td>573</td>
</tr>
</tbody>
</table>

The proportion of turnover accounted for by value-added in the leasing industry is, at 56%, significantly larger than the average for the UK (at 28%). This is due to the nature of the leasing industry and its usage of capital goods to derive revenue. The value added an industry contributes to the economy is calculated to include depreciation. When an industry is reliant on capital goods, such as vehicles – as opposed to structures – it experiences significant annual depreciation each year, substantially increasing its value-added contribution to the economy as these assets are ‘used up’ to generate revenue. Similarly, depreciation means that salaries make up a far smaller proportion of value added for the industry (11%) relative to the UK average (61%).

This high level of depreciation means that the industry experiences a very high productivity level – defined as value-added per employee – relative to the rest of the economy; in 2011 the industry recorded a productivity level of £385,000 per employee, almost ten-times the UK average of £45,900.

2.4 Vehicle leasing and rental sector’s indirect impact

The purchases made by the industry to undertake its operations come from a wide range of industries. Chart 2.1 shows the sectoral distribution of the industry’s current expenditure in the UK. This shows that the wholesale and retail sector was the source of 40% of the industry’s bought-in goods and services supplied by UK-based businesses. A further 38% of the industry’s domestic purchases were sourced from a range of business services – including real estate, professional services and marketing – and the transport and communications sectors. Purchases from utilities and financial services companies accounted for £230 million (or 11%) of the industry’s total UK procurement.

---

13 It should be noted that business purchases of a significant proportion of items will be made from wholesalers, even though the goods themselves may be produced elsewhere in the economy. For example, the purchase of UK-made furniture by businesses will likely be made from a wholesale supplier, who sources the furniture from UK or overseas manufacturers.
These purchases translate into a value-added contribution to the UK economy, supporting employment and generating further tax receipts from the immediate suppliers to the vehicle leasing and rental sector, and from further down the supply chain as the suppliers themselves purchase the inputs they require to deliver the goods and services they sell. The input-output tables produced by the ONS show these inter-linkages in terms of purchases among sectors of the economy. This allows the indirect economic contribution of the vehicle leasing and rental sector to be estimated.

On this basis the sector’s purchases of day-to-day inputs from other UK businesses in 2011 supported a value-added contribution to GDP of £1.7 billion, 42,750 jobs and £670 million of tax receipts.

2.5 Vehicle leasing and rental sector’s induced impact

In 2011, the vehicle leasing and rental sector employed 37,950 people directly and supported 42,750 people in jobs through its purchases of day-to-day supplies from other UK businesses. These jobs generated wage income. In turn this income fuels spending across a broad basket of consumer goods and services. These purchases will support further activity in the businesses meeting this consumer demand and in the supply chains to these businesses. This effect – known as the induced effect – is captured by the UK input-output table, which maps the industries that benefit from consumer spending and the domestic suppliers.

In 2011, the 80,700 people whose employment was supported by the vehicle leasing and rental sector generated a further value-added contribution of £1.2 billion to the UK’s GDP from their consumer spending. This induced effect added a further 35,300 to the total number of jobs supported by the sector and another £487 million of tax revenues.

2.6 Vehicle leasing and rental sector’s core economic contribution

A standard economic impact analysis looks at three channels of expenditure: the direct, indirect and induced impacts. Summing these together means that the full-service vehicle leasing and rental sector’s value-added contribution to the UK economy in 2011 amounted to £11.1 billion, or
0.9% of total GDP (Chart 2.2). In other words, £1 in every £114 generated in UK GDP is as a result of the full-service vehicle leasing and rental sector’s activities.

Analysis of where the contribution to GDP was generated suggests that the vehicle leasing and rental sector has a GDP multiplier of 1.35. Put more simply, for every £1 the sector itself contributes to the economy in value added, £0.35 is created elsewhere in the economy.

**Chart 2.2: The core economic impact of vehicle leasing and rental sector in 2011**

Through its own activities, its supply chain and the spending of its and its suppliers’ employees, the vehicle leasing and rental sector supported around 116,000 jobs in 2011 (Chart 2.2). This equates to 0.4% of total UK employment. Put another way, the employment supported by the full-service vehicle leasing and rental sector is equal to the number of people employed in Portsmouth. The vehicle leasing and rental sector has an employment multiplier of 3.05, meaning that every job in the sector supports a further two jobs elsewhere in the UK economy.
3 The impact of the vehicle leasing and renting sector via vehicle manufacturing and distribution

The vehicle leasing and renting sector is a major purchaser of UK-made cars and cars with UK-made engines. It also buys foreign-made cars from UK car dealerships. This chapter examines the impact on the UK economy of these purchases on UK GDP, employment and tax revenue. The sector also stimulates the used car retailing market.

**Key points**

- In 2011, the vehicle leasing and rental sector is estimated to have purchased 222,000 UK-made vehicles. This is 15% of domestic vehicle makers’ output and 82% of UK purchases of UK-made vehicles. The vehicles manufacture is estimated to have supported a £2.4 billion contribution to GDP, 52,000 people in employment and £810 million in tax receipts.

- The sector’s expenditure on foreign-made vehicles containing UK-made engines is estimated to have generated a £349 million contribution to GDP, 7,600 jobs and £120 million in tax receipts in 2011 once multiplier impacts are taken into consideration.

- In 2011, the vehicle leasing and rental sector purchased £11.1 billion of foreign-made vehicles from UK dealerships. This retail activity supported a £98 million contribution to GDP, 2,000 people in employment and £31 million in tax receipts.

- The vehicle leasing and rental sector is estimated to have sold 28% of its fleet in 2011. Used-vehicle dealerships and auctioneers are likely to have made a £311 million contribution to GDP, created 6,700 jobs and £87 million tax receipts on their margin from selling these vehicles including multiplier impacts.

3.1 UK-made vehicles

In 2011 the vehicle leasing and rental sector is estimated to have purchased 222,000 vehicles that were made in the UK (or 15% of total production). Of these, 24% were Vauxhall Astras, 24% were Nissan Qashqais and 15% were Ford Transit vans. The vehicle leasing and rental sector dominates the domestic market for UK-made cars, purchasing 82% of British-produced cars in 2011.

By purchasing UK-made vehicles, the vehicle leasing and rental sector generates value added, employment and tax revenues in the UK’s car industry. This UK manufacturing activity also supports a domestic supply chain from which the car industry purchases inputs, while employees in the car industry itself and across its supply chain spend their wages on goods and services, adding to the upstream economic impact of the purchases by the vehicle leasing and rental sector.

Using a combination of BVRLA members’ questionnaire responses and ONS data, the direct contribution to GDP of the manufacture of cars in the UK for purchase by the vehicle leasing and rental sector is estimated at £783 million in 2011 (Chart 3.1). In turn this results in a £978 million indirect contribution from the car manufacturing’s supply chain, while the spending of wages earned by workers in the car industry and its supply chain supports a further £601 million of GDP.

---

14 Purchases of new cars are treated as a capital investment as they are providing services over a number of years. They therefore do not form part of the indirect channel of impact discussed in Section 2.4.

The total contribution to GDP of the manufacture of UK vehicles used by the vehicle leasing and rental sector in 2011 was therefore £2.4 billion.

This car-making activity supported nearly 52,000 jobs. Many of the direct and induced jobs were located in Ellesmere Port and Luton, Sunderland, and Dagenham and Southampton where the Astra, Qashqai and Transits are made. The jobs in the supply chain are more diversely spread across the UK.

In 2011, the vehicle leasing and rental sector’s purchases of UK-made vehicles supported over £810 million in tax revenues.

Chart 3.1: The gross value added supported at UK car manufacturers from vehicle leasing and rental sector purchases of new cars in 2011

The vehicle leasing and rental sector purchases new UK-made cars from manufacturers’ dealerships. Its spend is estimated to generate a £17 million value added contribution to GDP at dealerships (Chart 3.1), employ 250 people and generate £4 million in tax receipts. Supply chain and wage consumption multiplier impacts create additional economic activity. In total, vehicle leasing and rental sector purchases of new cars from manufacturers’ dealerships supports a £30 million contribution to GDP, employees 600 people and pays £10 million in tax receipts.

3.2 UK-made engines

In 2011, 2.5 million car engines were manufactured in the UK. Of these, 68% were made by Ford, 17% by BMW, 5% by Nissan and Toyota, and 4% by other manufacturers. Neither Ford nor BMW manufacturer cars in the UK. Their engines were exported and inserted into cars at assembly plants in other countries. Just over a fifth (21%) of all the vehicles bought by the vehicle leasing and rental sector in 2011 were BMW and Fords. So the engines returned to the UK as part of a finished car.

The full-service vehicle leasing and rental sector’s purchases of foreign-made vehicles which contain UK-made engines creates economic activity at the UK engine plants, mostly in Bridgend

---

16 The locations of where various vehicles are made are sourced from SMMT, (2012), ‘The Society of Motor Manufacturers and Traders motor industry facts 2012’.
and Dagenham (Fords) and Hams Hall (BMW). This UK manufacturing activity again supports a
UK-supply chain and an induced effect through the wages of employees in both engine
manufacturers and their suppliers.

The total contribution to GDP of the manufacture of engines in the UK for foreign cars purchased
by the vehicle leasing and rental sector in 2011 is estimated at £349 million. This manufacture of
engines supported 7,600 jobs in total, generating tax revenues of £120 million. Across all three
metrics of economic impact, the supply chain effects are estimated to be the largest (Chart 3.2).

**Chart 3.2: The three channels share of the impact from the vehicle leasing and rental
sector’s purchases of imported cars with UK-made engines in 2011**

UK manufacturers of other parts used by foreign vehicle assembly operations will also benefit. But
it has not been possible to quantify the scale of these impacts due to the lack of data.

### 3.3 Car dealerships sales of imported cars

In 2011, the vehicle leasing and rental sector spent £11.1 billion on foreign-made vehicles. These
were purchased through UK-based car dealerships, generating economic activity and employment
at these retailers. The sale of foreign-made cars generated a £98 million contribution to GDP when
supply-chain effects and impacts from the spending of wages are included (Chart 3.3). This
supports 2,000 jobs and results in tax payments of £31 million.

**Chart 3.3: The economic impact from the vehicle leasing and rental sector’s purchases of
imported cars from UK-based car dealerships in 2011**
3.4 Auctioneer and car dealership sales of used cars

The vehicle leasing and rental sector is an important supplier of vehicles to the second-hand market. In particular the rental sector provides a supply of relatively new vehicles incorporating improvements in fuel efficiency and environmental standards into the market, while the leasing sector provides a regular flow of well-maintained but slightly older cars.

As well as widening the choice of second-hand vehicles available to purchasers dealing in second-hand cars, the disposal of cars contributes to economic activity through specialist used-car dealers and car auctioneers.

Across the BVRLA members participating in the survey the average rate of disposal of cars was 28% of the fleet. This suggests the vehicle leasing and rental sector disposed of 721,000 cars in 2011. This equates to 11% of the SMMT’s estimate of used-car sales.18

Pro-rata-ing ONS data19 on the second-hand vehicle sales sector provides estimates for the direct impact of this used-car activity on the economy, suggesting it made a contribution of £161 million to GDP, supported 3,000 jobs and raised £29 million for the Exchequer.

When the supply chain to the second-hand car industry and the spending of wages from the industry and its supply chain are taken into consideration, the impact increased to £311 million of GDP, supporting 6,700 jobs and payments of £87 million of tax revenue in 201120.

20 The tax revenue estimate includes VAT charged on second-hand cars sold by the vehicle leasing and rental sector but excludes the impact of the tax that VAT-registered lessees can reclaim. For details of VAT reclaims on leased vehicles see http://www.hmrc.gov.uk/vat/managing/reclaiming/motoring.htm. VAT paid on the disposal of vehicles is included in the industry’s core tax contribution.
4 Wider catalytic impacts

To this point, this study has focused on the quantifiable impacts of the full-service vehicle leasing and rental sector. However, some of the industry’s key impacts are more qualitative in nature and not easily quantifiable. This chapter addresses these more qualitative impacts.

Key points

- Leasing motor vehicles provides businesses opportunities that may not exist if vehicles are purchased outright. These benefits include reducing businesses’ motoring costs – through access to modern, fuel-efficient vehicles, fleet utilisation assessments and lower capital costs – and improved customer image.

- Full-service leasing offers further benefits for companies by ensuring ‘housekeeping’ items, such as insurance and road tax, are provided by the lessor, freeing users’ resources for core tasks. Similarly, full-service leasing can reduce the environmental impact of a business by actively promoting fuel efficient vehicles.

- The benefits of leasing vehicle are not just enjoyed by businesses; households also profit by motor vehicle leasing, as access to vehicles may only be available through leasing for credit-constrained households.

The vehicle leasing and rental sector supplies capital goods to wide range of other sectors of the economy, as well as offering an affordable solution to motoring for consumers. By making the use of modern vehicles more accessible, the sector is also likely to contribute to the fuel efficiency and environmental standards of the vehicles used on the UK’s roads.

While it is possible to identify these effects and to collect case study evidence, the impacts, though important are diffused through the economy in a way that makes it impossible to quantify the size of the effect on GDP, employment or tax revenues.

4.1 Impacts on businesses – what motivates firms to lease

From the point of view of other business sectors of the economy the vehicle leasing and rental sector offers options that can improve financial standing and overall efficiency, as well as improving the functioning of the capital market. For example the availability of vehicle leasing and rental offers businesses:

- access to modern vehicles without committing scarce capital to purchase and maintenance of a fleet;
- an ability to finance their requirement for vehicles on better terms than might be available from lenders or other investors in the business;
- greater certainty of future costs and less volatility in the financial status of the business;
- scope to reduce costs associated with emissions, for example through lower vehicle excise duty or need to purchase carbon credits; and,
- an improved image, conveyed by the use of modern, higher-quality vehicles, with customers.

These benefits are likely to help businesses compete and, by introducing an element of certainty in terms of vehicle-related costs, encourage business investment.

Many of these benefits are likely to be of particular importance for new-start businesses and SMEs. By offering these benefits to SMEs, the vehicle leasing and rental sector is likely to help spur an important source of competition in the economy and assist the growth and dynamism of smaller
businesses. In turn the dynamism of SMEs is an important source of both output and employment growth of the UK economy.

Work by Oxford Economics on leasing in Europe in 2010\textsuperscript{21} found that SMEs used leasing to finance a greater portion of their investment than larger business. The research found that though SMEs lease an extremely broad range of assets, vehicles are the most frequently leased asset type. Importantly, European SMEs which use leasing were found to invest 57% more on average than non-users and this general trend held true across almost all industrial sectors. The report suggested that small lessees may invest more than non-users because they are taking advantage of the few external financing options available to firms of that size.

The analysis also showed that leasing is one of the funding sources that new firms are able to turn to most quickly. The take-up of leasing increases from 26% for SMEs less than 2 years old to 50% for SMEs aged between 2 and 5 years, whereas the use of bank loans (of a term over 3 years) increases more gradually, from 29% to 38% for these age groups.

\textbf{The economic benefits of leasing}

Academic papers on the economics of leasing point to a number of ways in which leasing acts to improve capital markets. These influences are outlined below.

\textit{Information} – Lessors continue to be the legal owner of the capital equipment after it is leased. This can help to by-pass what are sometimes termed information inefficiencies of capital markets. For example the lessor is placed in a more secure position than even a provider of ‘secured’ finance. This helps overcome the barrier to lending created by borrowers typically having more knowledge or ‘information’ on their prospects than general lenders.

\textit{Specialist knowledge} – lessors typically build a high degree of specialist knowledge in the type of assets that they are leasing. This specialist knowledge, which includes an understanding of the value of the assets they lease over time, including likely residual values at the end of the lease period, can be a useful source of advice for the client. This specialist knowledge is another factor in bridging the information divide and may make lessors more willing to provide finance than other more generalist providers.

\textit{Asset-specific funding} – Leasing, because it involves specific assets, is one method that guards against so-called ‘agency costs’, that occur when management uses external finance to pursue its own rather than the shareholders’ interests. Similarly leasing offers a route to reduce an effect known as ‘adverse selection’. The act of raising debt finance or new equity to fund projects sends signals to the capital market – whether to the equity and bond market for quoted companies or to small company lenders in the unquoted sector. These signals may be interpreted as indicating deteriorating financial conditions of the company, leading to a lower share price or more onerous conditions from lenders. As leasing allows a company to access the services of capital equipment without having to raise external finance, adverse selection is avoided.

\textit{Debt-exhaustion} – companies who have no current capacity to raise debt – for example new starts without credible track records; those to whom their existing lenders do not wish to take on additional exposure; those facing short-term cash flow constraints and so on – may only be able to progress profitable projects via leasing. This argument has additional force in the post-financial crisis banking environment.

\textsuperscript{21} Oxford Economics, November 2011
Owner-manager risks and preferences – Owner-managers may have to give personal guarantees when raising loan finance or perceive that the dilution of their shareholding required to attract equity finance is too onerous. Leasing can therefore present a route that both avoids further accumulation of debt and the loss of control or dilution of their interest in the business. In this view the availability of leasing on competitive terms may be an important element in the development of an enterprise culture.

Alternative source of finance – As an alternative to other sources of funding, leasing contributes to competition in the capital market.

Firm size – Aspects of firm size also lead to suggestions of different propensities to lease across the spectrum from the smallest to the largest company. Some of these influences will be related to other factors such as ownership structures mentioned above. In as much as large firms tend to have sufficient profits to be tax-payers, are more likely to have alternative uses for general purpose assets such as vehicles, and are less likely to suffer from capital market imperfections due to information asymmetries (offset to some extent by the possibility of adverse selection), there would appear to be less incentive for them to use leasing than for smaller firms. In contrast small firms are more likely to be debt constrained, operate with tighter cash flows and face bigger information asymmetries than their larger counterparts and so have a greater propensity to lease, all other things being equal.

4.2 Value-added services to vehicle lessees

Respondents to the survey of BVRLA members were asked about the services they offer to their customers. All the respondents offered advice to their customers, though the mix of topics covered showed some variation across individual companies. For example, when approached by new customers, the vast majority offer to review vehicle policy in an effort to meet cost and environmental objectives. All respondents take care of ‘housekeeping’ items, such as road fund licences, servicing and provision of a relief vehicle. Over 80% of respondents also handle insurance, while nine of the 11 companies who answered the question provided duty of care services, such as Driver License checks.

In terms of low emissions vehicles, all companies who responded to the question promoted low emissions vehicles to their clients as a means of reducing:

- their carbon footprint;
- personal taxation liabilities for employees; and,
- fuel costs (Chart 4.1).

The majority of respondents also promoted low emission vehicles as reducing corporation tax liabilities, improving the company’s image and being at the forefront of adopting new technologies.
4.3 Catalytic influences on households

There are also benefits for household users of car leasing and rental that enhance the performance of the overall economy. As for businesses, leasing or rental may be the only financing option available to credit-constrained households. Without access to a modern, reliable, fuel-efficient vehicle, many households may be constrained in terms of employment opportunities, for example in terms of the geographic range that is considered for job search or in terms of job mobility.

Research in the US suggests significant labour market effects from car ownership. For example\textsuperscript{22}, there appear to be strong causal effects from car ownership on the probability of employment and hours worked. More recent research\textsuperscript{23} suggests that less-wealthy ethnic minorities without access to car transport achieve poorer labour market outcomes. Car ownership gave the wealthier Caucasian population more job opportunities per unit of time and as a result they enjoyed lower unemployment rates, higher wages, and required less travel time even though they were travelling more miles to reach their workplace.

\textsuperscript{22} Car Ownership, Employment, and Earnings, Steven Raphael and Lorien Rice, University of California, February 2000

\textsuperscript{23} Car ownership and the labour market of ethnic minorities, Paul Gautier and Yves Zenou, Journal of Urban Economics, May 2010
5 Total impact of the vehicle leasing and renting sector

Key points

- The total contribution of the full-service vehicle leasing and rental sector is the sum of the individual impacts of the operations of the industry itself, the UK-made vehicles it purchases, the use of UK-made engines, the activity in dealerships, and its impact on the used-car market.

- In total, the sector is estimated to have contributed almost £14.3 billion in value added to UK GDP in 2011. This was equivalent to £1 in every £90 generated in the UK, as much as the cities of Bristol and Bath combined.

- This value-added contribution supported over 183,000 jobs, 70,000 more than found in the City of York.

The economic impact of the full-service vehicle leasing and rental sector on the UK extends beyond that of the operation of the industry and its UK-based supply chain. Indeed, the industry impacts on the UK economy through the entire lifecycle of its vehicles:

- The capital purchase of a vehicle stimulates activity and supports employment in the UK by either being a vehicle manufactured in the UK, a vehicle manufactured overseas but using a UK-made engine, or the margin received by UK dealerships to retail vehicles made overseas.

- The use of the vehicle by a leasing or rental company derives revenue for that company, supported activity and employment within the company and its UK supply chain.

- Even when the vehicle has reached the end of its life within the leasing and rental sector, its disposal supports further activity and employment in the UK’s used-car market.

The total impact of the full-service vehicle leasing and rental sector consists of the direct, supply chain and employee consumption effects for each of these aspects of the industry’s interaction with the UK economy.

Figure 4.1 illustrates the make-up of the sector’s total impact on the economy. In GDP terms the sector supported a value-added contribution of almost £14.3 billion, or 1 in every £90 generated in the UK economy in 2011. This is equivalent to the total size of the combined Bristol and Bath local economies.

The sector supports over 183,000 jobs. This is equivalent to 1 in 175 jobs in the UK in 2011. This is a lower ratio than for GDP and reflects the higher productivity activities associated with the vehicle leasing and rental sector than for the economy as a whole. This employment contribution is 70,000 more jobs than that found in the City of York.

Total tax revenue associated with the sector in 2011 was nearly £2.8 billion. This is equivalent to the total cost of employing nearly 31,000 advanced nurses or paying the salaries of around 85,000 secondary school teachers.
The quantification carried out above provides a conservative estimate of the size of the sector’s impact. For example, the data do not exist to include the effects in relation to the value of the catalytic effects that flow from the sector to the rest of the economy. Moreover, while the impact of UK-made engines being used in cars manufactured abroad and purchased by the sector is accounted for, the same does not apply to the input of other vehicle components that may be exported from the UK. Once again the data do not exist to enable this effect to be captured.
6 Appendices

6.1 About Oxford Economics

Oxford Economics formerly Oxford Economic Forecasting - was founded in 1981 to provide independent forecasting and analysis tailored to the needs of economists and planners in government and business. It is now one of the world’s leading providers of economic analysis, advice and models, with over 300 clients including:

- **International organisations**, such as the World Bank, OPEC and the Asian Development Bank.

- **Government departments** in many countries, including HM Treasury in the UK; the US Department of Treasury and US Office of Transnational Issues; Ministries of Finance in, for example, Saudi Arabia, Slovakia, Bulgaria, Azerbaijan, Turkey and Egypt; the Economic Development Board in Libya; and tourism boards in the EU, US, Abu Dhabi, Dubai and the Caribbean.

- **Central banks around the world**, ranging from the UK and Spain to Chile, Hong Kong, Korea and Thailand.

- **A large number of multinational blue-chip companies across the whole industrial spectrum**, including, for example, IBM, Intel, BP, Shell, Unilever, HSBC, Banco Santander, Swiss Re, DaimlerChrysler and Boeing.

Oxford Economics commands a high degree of professional and technical expertise, both in its own staff of over 70 professionals based in Oxford, London, Belfast, Paris, the UAE, Singapore and Philadelphia, and through its close links with Oxford University and a range of partner institutions in Europe and the US.

Oxford Economics’ services include:

- **International macroeconomic, sectoral and regional forecasts** – with country briefing reports covering 180 countries; detailed projections for 80 sectors; and forecasts for local areas throughout the EU and cities in Asia.

- **Bespoke econometric modelling** – building detailed forecasting and simulation models and training clients’ staff to use them to support budget planning and policy decision-making.

- **Detailed market analysis** - translating our economic forecasts into forecasts for market segments and providing advice on market opportunities.

- **Briefings for ministers, senior officials and executives** – both presentations and tailored written reports on key economic issues.

- **Outsourced economics support** – providing on-call advice, data, modelling, briefing and policy advice.

- **Economic impact assessments** – analysing the economic and social contribution of particular sectors, investment projects or tax proposals.

The key framework in which Oxford Economics’ analysis is conducted is its own Global Econometric Model, which covers some 45 economies in detail and headline statistics for another 35 economies. This Model – which is unique among the commercial economic consultancies – provides a rigorous and consistent structure for analysis and forecasting, and allows the
implications of alternative global scenarios and policy developments to be readily analysed at both the macro, sectoral and regional level. It is provided with very powerful, user-friendly software that enables Oxford Economics’ clients to use its Global Model to generate their own forecasts and undertake detailed scenario and policy analysis.

6.2 Input-output models

An input-output model gives a snapshot of an economy at any point in time. The model shows the major spending flows from “final demand” (i.e. consumer spending, government spending investment and exports to the rest of the world); intermediate spending patterns (i.e. what each sector buys from every other sector – the supply chain in other words); how much of that spending stays within the economy; and the distribution of income between employment incomes and other income (mainly profits). In essence an input-output model is a table which shows who buys what from whom in the economy.

Figure 1: A simple Input-Output model

6.3 Bibliography

BVRLA, Annual Review, 2011
Clean Drive, A campaign for cleaner vehicles in Europe,
Department of Transport, Vehicle Licensing Statistics
European Commission, The new SME definition, 2005
Office for National Statistics, Annual Business Survey, 2011 Provisional Results, November 2012
Oxford Economics, *The economic and social impact of the Motability Car Scheme*, September 2010


Paul Gautier and Yves Zenou, *Car ownership and the labour market of ethnic minorities*, Journal of Urban Economics, May 2010


Society of Motor Manufacturers and Traders (SMMT), *Used car sales: Q4 2011*, February 2012

Society of Motor Manufacturers and Traders (SMMT), *New Car CO2 Report 2012*

Steven Raphael and Lorien Rice, *Car Ownership. Employment, and Earnings*, University of California, February 2000