

The economic impact of the motor vehicle full-service leasing and rental sector

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Executive Summary

Accounting for more than one in every ten vehicles on the UK's roads, the full-service vehicle leasing and rental sector plays a crucial role in meeting the transport requirements of businesses and individuals alike. The opportunity to lease and rent vehicles provides access to modern, fuel-efficient vehicles without the strain of up-front capital expenditure. But this only tells part of the story.

Taking a wider perspective, the sector also makes a substantial economic contribution to the UK...

In 2013, the sector supported a £24.9 billion gross value-added contribution to UK GDP. 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. This is equivalent to the size of the economies of Edinburgh and Leicester combined.

The sector is estimated to support 317,000 people in employment in 2013. To place this in context, in the same year there were 270,000 people employed in the city of Sheffield. Nationally, one in every 88 jobs could be said to be supported by the full-service vehicle leasing and rental sector.

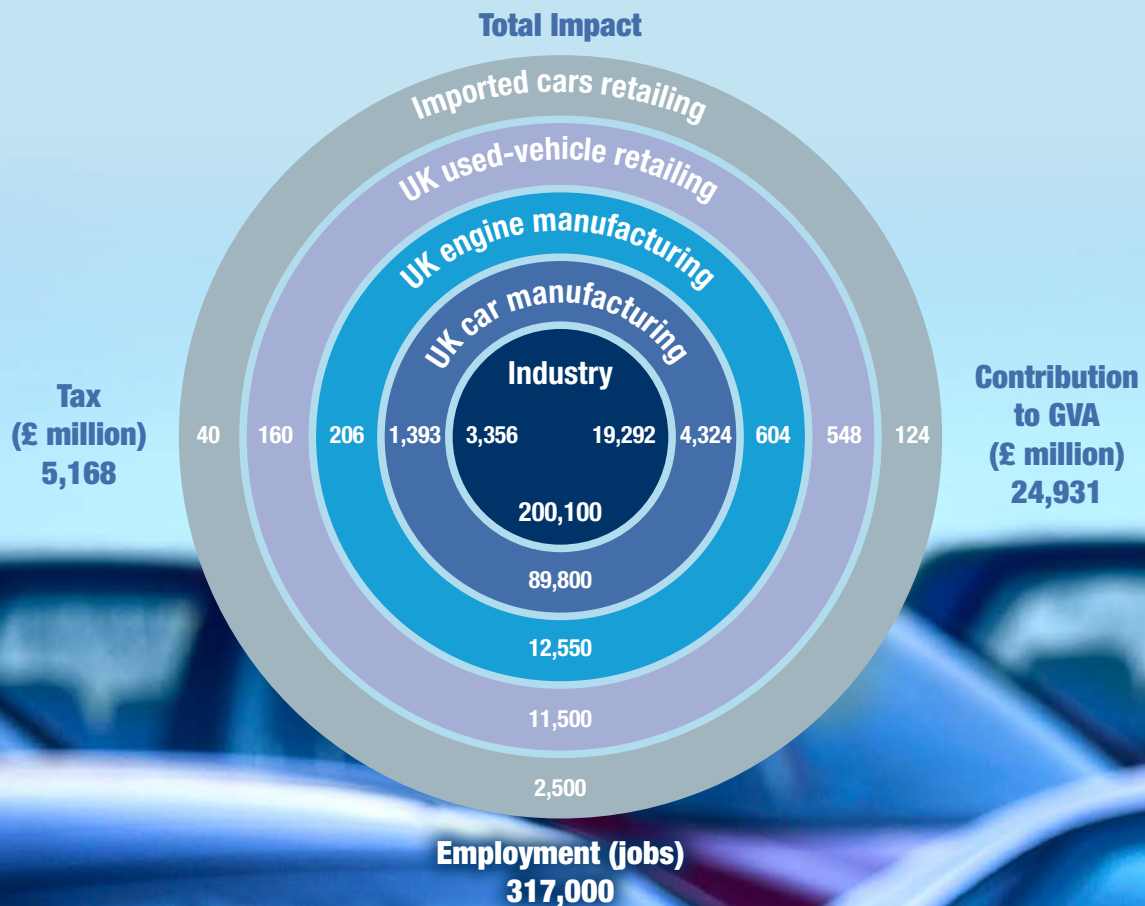
By supporting economic activity and employment the sector raised tax receipts for the Exchequer. In 2013, these receipts amounted to £81 for every UK resident, or some £5.2 billion in total.

The sector makes this contribution through its own operations, its impact on vehicle and parts manufacturing and distribution in the UK.

...through its own activity...

In 2013, firms in the sector earned an estimated £21.1 billion in revenue from full-service leasing and rental activities. From this turnover the sector generated £13.3 billion in gross value added for the UK economy and employed 53,600 people. Through this activity and employment the sector paid a total of £1.1 billion in taxes to the Exchequer.

The economic contribution of the full-service leasing and rental sector to the UK in 2013



The sector supported additional activity and employment through its spending on the inputs of goods and services it required to operate. In 2013, the sector spent £4.7 billion with UK suppliers. In total, this procurement is estimated to have supported a £3.8 billion gross value added contribution in the sector's domestic supply chain, 82,000 people in employment and £1.3 billion in tax receipts.

Finally, firms in the sector and those in its direct supply chain pay their staff wages. The 136,000 people who receive this income spend a proportion of it at retail and leisure outlets stimulating activity around the economy. In 2013, this impact is estimated to have supported a gross value added contribution to UK GDP of £2.3 billion, a further 64,000 jobs and £900 million in taxes for the Exchequer.

In total, the UK's full-service vehicle leasing and rental sector is estimated to have supported £19.3 billion in gross value added (or 1.3% of total UK GDP).

The 200,000 jobs supported by the sector are equivalent to all of the employment in the city of Liverpool in 2013. And for every 100 people employed in the sector, a further 270 were employed elsewhere in the economy.

Finally, the tax receipts (from corporation and labour taxes) derived from the activity supported by the sector totalled £3.4 billion. This equated to £52 for every person in the UK.

...and its impact on vehicle and parts manufacturing and distribution in the UK

The economic contribution the full-service leasing and rental sector makes stretches beyond the impact of the sector itself. Every year the sector makes significant purchases of vehicles that have a substantial impact on the economy, even if the vehicles are not made in the UK. Equally, when vehicles reach the end of their useful life for the sector, their disposal generates further activity at used vehicle auctioneers and dealerships.

Assuming that companies in the sector bought UK-made vehicles when there are manufacturing plants in the UK that build the acquired makes and models, it is estimated

that the sector purchased 308,000 UK-made vehicles in 2013. That is one fifth of all vehicles produced in the UK that year, and over 80% of UK-made vehicles sold to domestic customers. The £5.2 billion the sector is estimated to have spent on UK-made vehicles supported economic activity in the vehicle manufacturers and their supply chains. In total, the full-service leasing and rental sector's purchase of new UK vehicles is estimated to have supported a £4.3 billion gross value added contribution to UK GDP in 2013, sustained 90,000 jobs, and raised £1.4 billion in tax receipts.

However, the sector's impact on the UK's vehicle manufacturing sector does not end at the purchase of finished vehicles. Some 20% of the vehicles purchased by the sector were finished overseas but contained UK-made engines. By purchasing these vehicles, the sector is also generating activity at UK engine manufacturers. The sector's expenditure on foreign-made vehicles containing UK-made engines is estimated to have supported a gross value added contribution to GDP of £600 million in 2013. This activity is estimated to have sustained 13,000 jobs in the UK and £200 million in tax receipts for the Exchequer.

The sector's purchase of foreign-made vehicles also supports activity and employment in the UK dealerships that handle the transactions. In 2013, the sector spent £15.9 billion on foreign-made vehicles from UK dealerships. This expenditure is estimated to have supported £124 million in gross value added, 2,500 jobs, and £40 million in tax receipts for the UK Government in 2013.

The final impact of the full-service vehicle leasing and rental sector stems from its disposal of vehicles as they reach the end of their commercial life. In 2013, the sector is estimated to have disposed of 1.1 million vehicles, equivalent to nearly a third of its entire fleet. These vehicles enter the used-vehicle market – accounting for 16% of all transactions in 2013 – their sale supports activity at used vehicle auctioneers and dealerships. In total, the sales of used vehicles originating from the full-service vehicle leasing and rental sector supported an estimated £550 million in gross value added, 12,000 jobs and £160 million in tax receipts.

1 Introduction

With 3.6 million vehicles, the UK's full-service leasing and rental sector accounted for over 10% of the vehicles on the UK's roads in 2013.¹ Some 11 vehicles in every 100 were leased, with a further two rented. The British Vehicle Rental and Leasing Association (BVRLA) is the trade body that represents many of the firms offering full-service vehicle leasing and rental services. In 2013, its 682 members had 3 million vehicles on lease – 95% of the total – and 400,000 vehicles available for rental, nearly nine-tenths of the UK total.



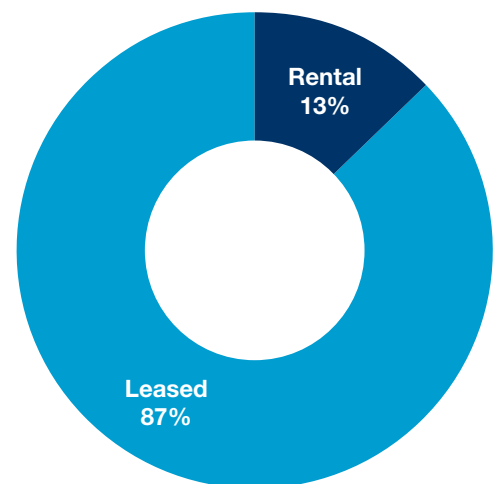
The high proportion of vehicles in the UK operated by the sector indicates the important service it plays for both businesses and individuals. Businesses can utilise lease agreements to use vehicles without the need to post collateral and handle the myriad housekeeping issues that can be associated with operating a business fleet. Small and medium enterprises in particular can benefit from the additional services offered under full-service leasing agreements. Leasing can enable private customers to overcome financial barriers to accessing vehicles, while rental can help provide transport solutions in the short-term.

But the sector's impact on the UK economy is far wider than just the benefits enjoyed by its customers. As it supplies services to its clients, the UK's vehicle rental and leasing firms generate economic activity, support employment and raise tax receipts. Equally their procurement from their UK supply chain and their employees' wage-financed consumer spending stimulates further activity elsewhere in the economy.

This report seeks to quantify these impacts across the UK in 2013. The economic contribution the sector makes through its own activities, its spending with UK suppliers and the wage-induced spending of employees is explored in Chapter 2. In Chapter 3, the analysis investigates the impact of the sector's capital spending and other catalytic impacts. Following this, Chapter 4 concludes. An appendix at the end of the report provides further details on the methods used in the study.

¹ Department for Transport, (2014), 'Vehicle licensing statistics, 2013', April.

Figure 1: Breakdown of the sector's vehicles by type of contract in 2013



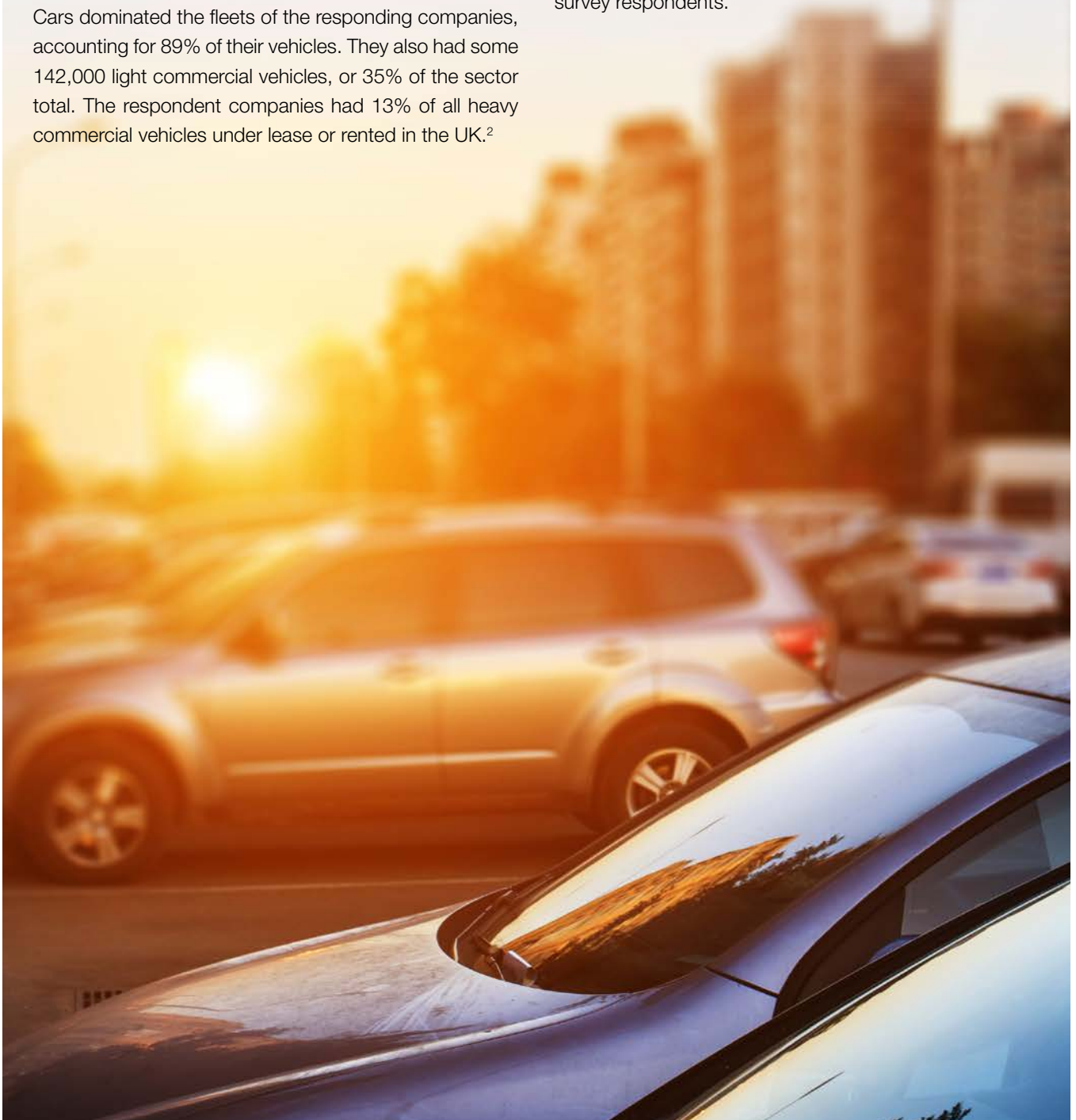
Source: BVRLA

BVRLA Survey 2014

In 2014, the BVRLA undertook a survey of the member companies represented on its board. The survey asked respondent companies to provide information on their financial performance, procurement, fleet size, vehicle acquisitions and disposals in 2013.

Some 14 companies responded to the survey, with a combined fleet of 1.4 million vehicles, or 39% of the total sector. Nine respondents were solely engaged in leasing activities, while the rest operated rental fleets. Cars dominated the fleets of the responding companies, accounting for 89% of their vehicles. They also had some 142,000 light commercial vehicles, or 35% of the sector total. The respondent companies had 13% of all heavy commercial vehicles under lease or rented in the UK.²

The findings of the survey enabled the economic contribution of the total sector to be calculated. For responding companies, this was achieved by drawing from the data provided in the survey and their financial accounts. The survey also provided the basis for constructing an estimate of the contribution made by the rest of the sector, using the assumption that the average turnover generated per vehicle in the sector as a whole (split by rental and leasing) is similar to that exhibited by survey respondents.



2 The economic impact of full-service vehicle leasing and rental activities in the UK

The full-service vehicle leasing and rental sector stimulates economic activity in the UK through its own activity and its procurement of inputs of goods and services from domestic suppliers. The wages and salaries the sector, and its supply chain, pay their employees generate additional economic activity by financing their consumer spending. This chapter of the report discusses these impacts in turn, employing a survey of BVRLA members and the framework of a standard economic impact assessment to estimate of the contribution the full-service vehicle leasing and rental sector makes to the UK economy.

Key points

- In 2013, the full-service vehicle leasing and rental sector made a £13.3 billion gross value added contribution to UK GDP, employed 53,600 people and paid £1.1 billion in tax to the Exchequer.
- The sector also spent £4.7 billion on inputs of goods and services (excluding capital purchases) from UK businesses in 2013. This procurement generated a £3.8 billion gross value added contribution to UK GDP in the sector's domestic supply chain. It also supported 82,000 jobs and an estimated £1.3 billion in tax receipts.
- In 2013, £3.7 billion in wages and salaries were paid to nearly 136,000 people estimated to be employed in the sector and its domestic supply chain. Their use of this income to finance consumer spending is estimated to have supported £2.3 billion in gross value added, 64,000 jobs and £900 million in tax receipts for the Exchequer.
- In total, the full-service vehicle leasing and rental sector is estimated to have supported £19.3 billion in gross value added (or 1.3% of total UK GDP). The sector had a GDP multiplier of 1.5, meaning that for every £100 the sector itself contributed in value added, £50 was created elsewhere in the economy.
- The 200,000 jobs that can be attributed to the sector is equivalent to all of the employment in the city of Liverpool. For every 100 people employed in the sector, a further 270 are employed elsewhere in the economy.
- Finally, the tax receipts derived from activity supported by the sector totalled £3.4 billion. This equated to £52 for every person in the UK.

Measuring economic impact

This study employs a standard economic impact assessment framework and considers three channels by which the sector impacts on the UK economy.

The first channel of impact is the **direct effect**. This represents the activity generated by all businesses active in the full-service vehicle leasing and rental sector.

The impact of the sector's spending on inputs of goods and service from UK-based suppliers is captured in the second channel of impact. This **indirect effect** of the sector only considers the economic contribution generated by the sector's operational, rather than capital, expenditure.

The final channel of impact is known as the **induced effect**. This encapsulates the economic activity created by payment of wages to staff in the sector and its direct supply chain. A proportion of this will be spent on consumer goods and services.



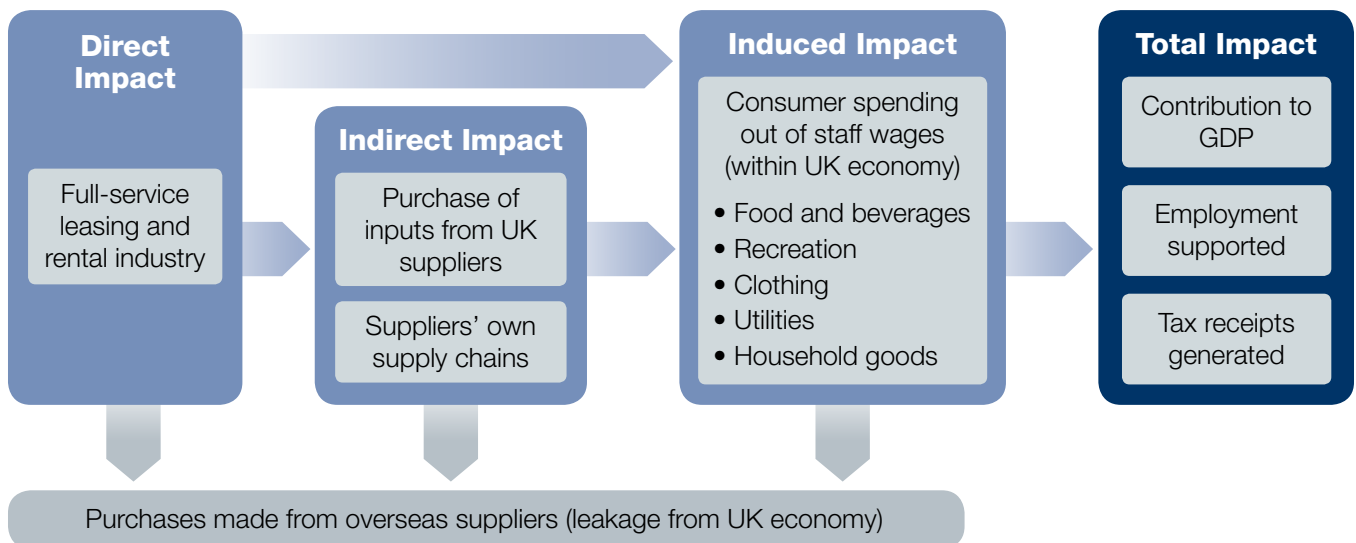
In accordance with standard economic impact assessments, the scale of the impact of the sector is measured using three metrics:

■ **Gross value added** – Gross value added (GVA) is the contribution an institution, company or industry makes to Gross Domestic Product (GDP).³ The sum of the gross value added of all UK organisations is – with minor adjustments for taxes and subsidies – equal to UK 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 on a full-time equivalent basis. This enables comparisons to be made with Office for National Statistics (ONS) data.

■ **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: The channels of economic impact



³ 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.

Direct impact of the full-service vehicle leasing and rental sector

The sector earned an estimated £21.1 billion in turnover through its full-service leasing and rental activities in 2013. Full-service leasing of vehicles provided the most income for the sector, accounting for over four-fifths of its revenue. Cars were the biggest earner compared to other vehicle types, with customers leasing or rental of cars delivering 86% of total revenue.

Table 1: Key metrics of the vehicle leasing and rental sector in 2013

Turnover (£ million)	21,079
Gross Value Added (£ million)	13,264
Jobs (headcount)	53,600
Wages and salaries (£ million)	1,398
Bought-in costs (£ million)	4,991
Of which from UK suppliers (%)	93%
Taxes paid (£ million)	1,113

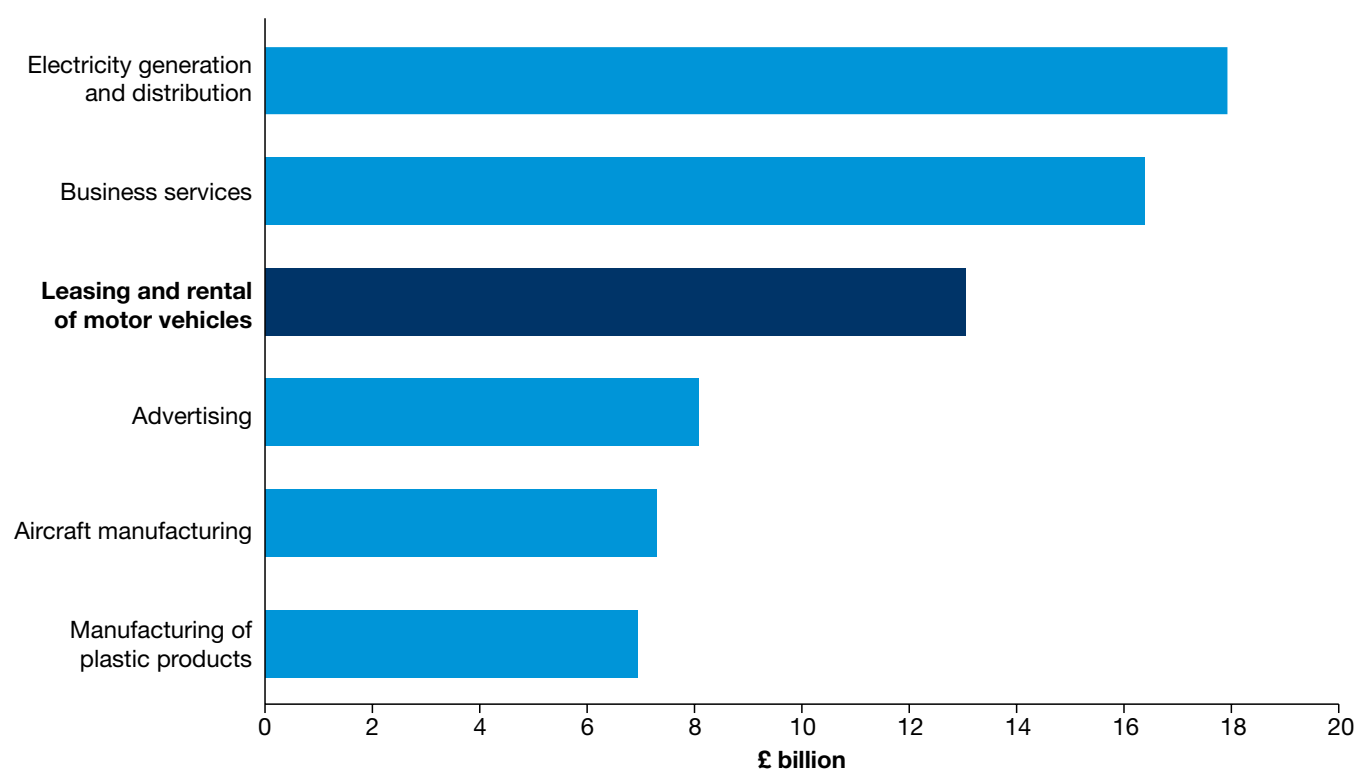
Source: BVRLA, Oxford Economics

From its turnover, the sector generated nearly £13.3 billion in gross value added for the UK economy.⁴ The sector's reliance on rapidly-depreciating capital goods to deliver its services mean it experiences levels of depreciation far higher than found in other, less capital-intensive industries. As depreciation is a component of value added, the proportion of turnover accounted for by gross value added in the sector (63%) is greater than the UK average (28%).

To put the scale of the sector's contribution to economic output into context, it is helpful to compare it to other industries. As shown in Figure 3, the value added it creates is greater than the advertising and postal industries and nearly as large as the UK's electricity production and distribution industry.⁵

It is estimated that the full-service vehicle leasing and rental sector directly employed 53,600 people to deliver its services in 2013. This makes the sector a larger employer than the UK's beverage manufacturing industry and fitness facilities. Nearly as many people were employed in the sector as were working in the UK's libraries, museums and archives – together classed as cultural activities (Figure 4).⁶

Figure 3: The gross value added created by the vehicle leasing and rental sector compared to other industries in the UK in 2013



Source: Oxford Economics, ONS (2014)

⁴ This is calculated as the sum of the sector's employee costs (total employee costs include agency staff costs but exclude contract workers whose costs should be counted as procurement of either professional or other services) and its earnings before interest, taxes, depreciation, and amortization.

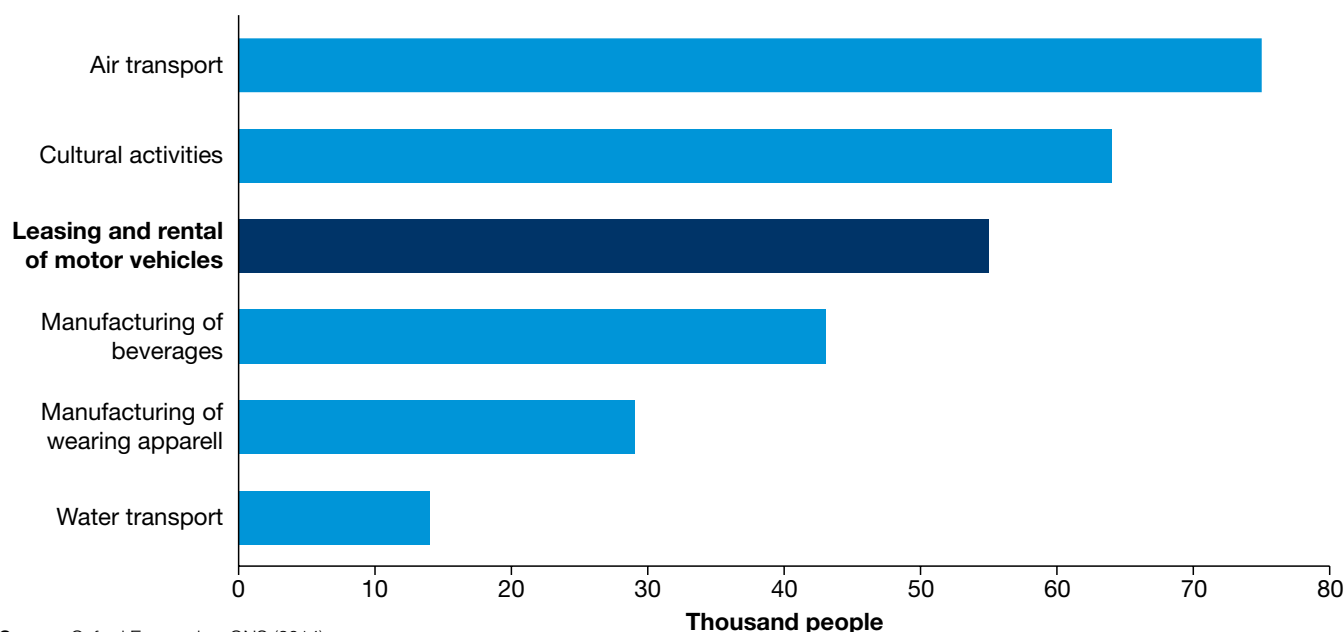
⁵ The other industries are defined at the three digit Standard Industrial Classification level.

⁶ The other industries are defined at the two digit Standard Industrial Classification level.

The workers in the sector are highly productive. The sector's labour productivity (measured as gross value added divided by employment) is £248,000 per worker. This is six-times the UK economy's average – in part due to the very capital intensive nature of the sector.

The final direct contribution the full-service vehicle leasing and rental sector makes to the UK is through the tax payments made by its firms and employees. It is estimated that the sector paid a total of £1.1 billion in taxes to the Exchequer in 2013. These payments included £389 million in Corporation Tax, £266 million in National Insurance Contributions and £192 million in employee income taxes.

Figure 4: Employment in the vehicle leasing and rental sector compared to other industries in the UK in 2013



Source: Oxford Economics, ONS (2014)

The supply chain impact of the full-service vehicle leasing and rental sector

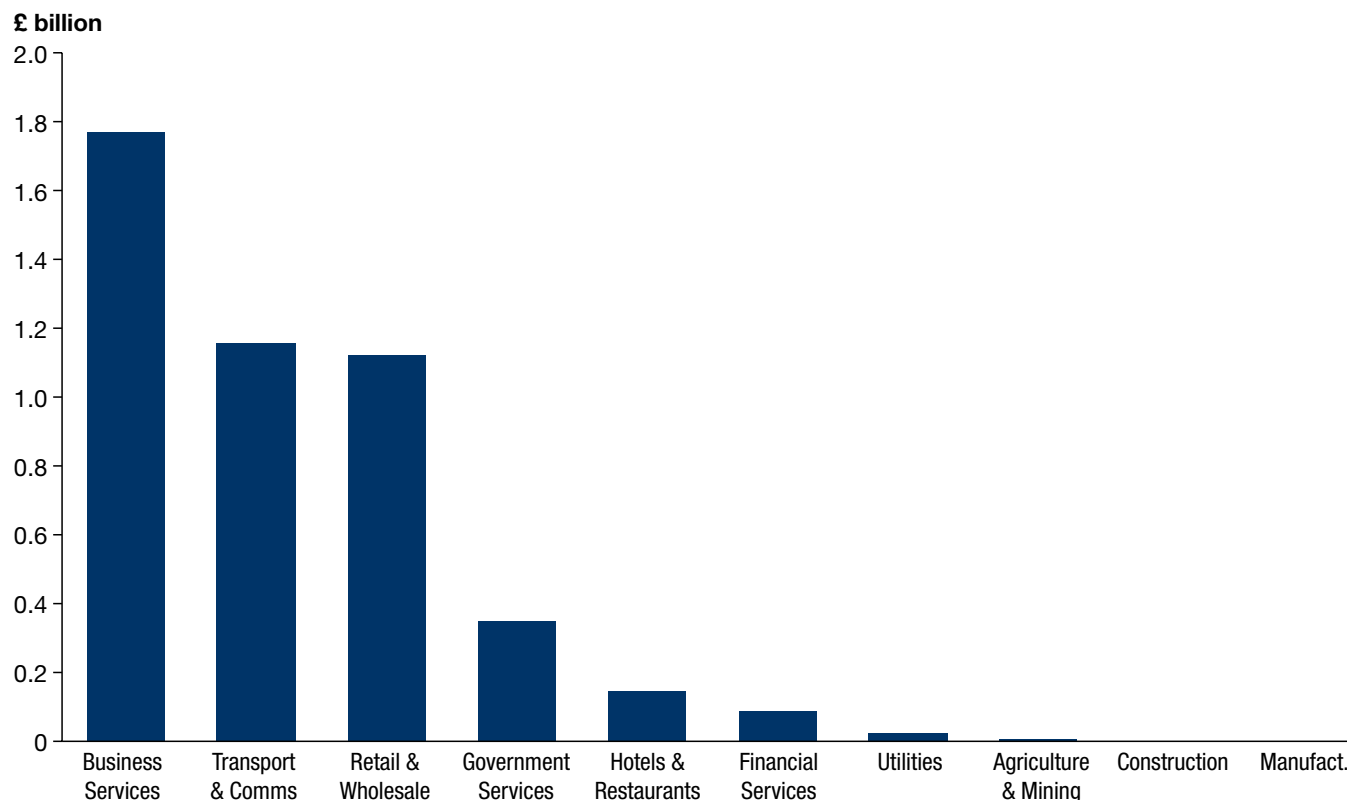
While sizable, the direct contribution of the full-service vehicle leasing and rental sector was not the limit of its impact on the UK's economy. The procurement the sector makes in the course of providing its services stimulates activity in the firms supplying these inputs, and their own supply chains. When the sector's suppliers are based in the UK this activity contributes to GDP, employment and tax receipts.⁷

It is estimated that the sector spent £5 billion on inputs of goods and services – excluding capital purchases – in 2013. Survey respondents indicate that 93% of spending on bought-in goods and services was made with domestic suppliers. This is significantly higher than the figure for all industries in the UK, which source 77% of their inputs of goods and services from domestic suppliers.⁸

A wide range of industries supply the full-service vehicle leasing and rental sector. Three industries accounted for nine-tenths of the sector's UK-based spending. Some £1.8 billion (38% of the total) was spent with firms in the business services sector, £1.2 billion (25%) with firms in the transport and communications sector and £1.1 billion (24%) with firms in the retail and wholesale sector, which encompasses many of the firms providing aftermarket support for leasing and rental businesses (Figure 5).

⁷ Spending with suppliers located outside the UK represents leakage from the UK economy.

⁸ ONS, (2014), 'United Kingdom input-output analytical tables, 2010', 12 February. Total intermediate demand sourced from UK-resident suppliers. Result for 2010.

Figure 5: Purchases of inputs of goods and services from UK suppliers in 2013

Source: BVRLA survey, Oxford Economics calculations

These purchases create value added, support employment and generate tax receipts in the businesses supplying the sector. Further activity is also supported in the firms supplying the sector's immediate suppliers, and so on down the supply chain. These inter-linkages between sectors are mapped by the input-output tables produced for the UK by the ONS. These tables enable the entire UK-based supply chain of the full-service vehicle leasing and rental sector to be traced and the indirect activity supported by the sector to be estimated.

Following this approach, it is estimated that the sector's procurement of inputs of goods and services supported a gross value added contribution to UK GDP of £3.8 billion in 2013. The expenditure is estimated to have supported 82,000 jobs in the sector's supply chain and raised £1.3 billion in tax receipts for the Exchequer.

The impact of wage-finance spending

In 2013, the sector and the firms in its direct supply chain are estimated to have paid £3.7 billion in wages to the 136,000 people they employ. Their staff will spend a proportion of this income at retail and leisure outlets.

In addition to mapping supply chains throughout the UK, input-output tables also demonstrate the consumption profile of the average UK consumer. By doing so, the tables enable the economic impact of wage-financed consumer spending to be mapped. In other words, the tables show how the spending employees make at various leisure and retail outlets flows through to the rest of the economy. This allows the induced value-added, employment and tax impact of the sector to be estimated.

The wage-financed expenditure supported by full-service vehicle leasing and rental companies, and companies in their direct supply chain is estimated to have supported a £2.3 billion gross value added contribution to UK GDP. This activity is estimated to have supported a further 64,000 jobs and delivered £900 million in tax receipts to the Exchequer.

The full-service vehicle leasing and rental sector's core economic contribution

Across the direct, indirect, and induced channels, the full-service vehicle leasing and rental sector is estimated to have supported a gross value added contribution to UK GDP of £19.3 billion in 2013 (Figure 6). This is equivalent to 1.3% of UK GDP. In other words, £1 in every £80 generated in UK GDP is in some way dependent on full-service vehicle leasing and rental activities.

Analysis of where this contribution was generated suggests that the sector had a GDP multiplier of 1.5. Put more simply, for every £100 the sector itself contributes in value added, £50 was created elsewhere in the economy.

Including direct, indirect, and induced impacts, the full-service vehicle leasing and rental sector is estimated to have supported 200,000 jobs in 2013. This equated to one job in every 143 in the UK and was equivalent to all of the employment in the city of Liverpool. The sector had an employment multiplier of 3.7 meaning that every 100 jobs in the sector supported a further 270 jobs elsewhere in the UK economy.

Finally, across all three channels of impact, the sector supported an estimated £3.4 billion in tax receipts in 2013, which was equivalent to £52 for every person in the UK.

Disaggregating the core impact by activity demonstrates the contribution of full-service leasing towards the sector's total economic contribution. Over three-quarters of the total value added contribution stems from leasing activities. Leasing accounts for similar proportions of the total employment and tax receipts supported (Figure 7).

Figure 6: The core contribution of the full-service vehicle leasing and rental sector to the UK economy in 2013

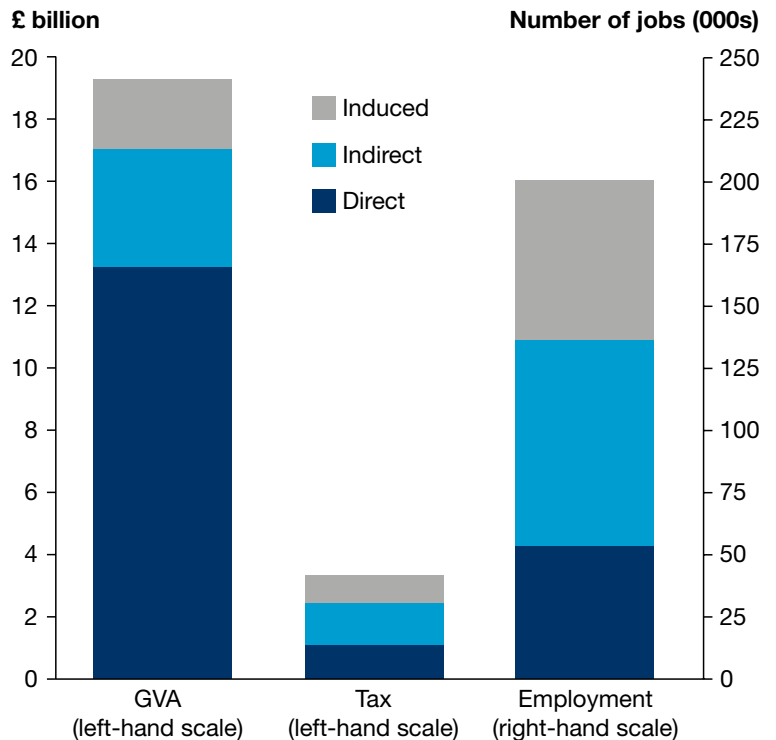
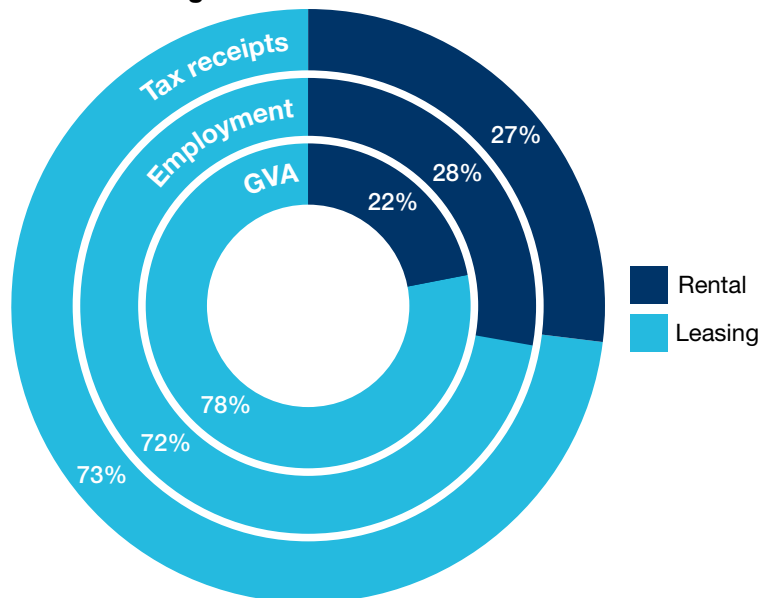


Figure 7: Breakdown of the core contribution by rental versus leasing



3 The impact of the full-service vehicle leasing and rental sector through vehicle manufacturing and distribution

The economic contribution of the full-service leasing and rental sector stretches beyond its core impact described in the previous chapter. Every year the sector makes significant purchases of vehicles, but as these capital purchases lie outside of the standard economic impact assessment framework they are not included in its core impact. However, these purchases have a substantial impact on the UK economy, even if the vehicles are not made in the UK. Equally, when vehicles reach the end of their useful life for the sector, their disposal generates further activity in the UK. This chapter analyses four additional economic contributions of the UK full-service vehicle leasing and rental sector. In each case the impact is quantified in terms of gross value added contribution to GDP, employment and tax receipts.

Key points

- The impact of the full-service vehicle leasing and rental sector extends beyond the industry's core economic contribution.
- In 2013, the sector spent an estimated £5.2 billion on new vehicles manufactured in the UK. The sector's purchase of new UK vehicles is estimated to have supported £4.3 billion in gross value added, 90,000 jobs, and £1.4 billion in tax receipts.
- The sector's expenditure on foreign-made vehicles containing UK-made engines is estimated to have supported £600 million in gross value added, 13,000 jobs, and £200 million in tax receipts for the UK Government in 2013.
- In 2013, the sector spent £15.9 billion on foreign-made cars purchased through UK dealerships. This expenditure is estimated to have supported £124 million in gross value added, 2,500 jobs, and £40 million in tax receipts.
- The full-service vehicle leasing and rental sector disposed of 30% of its entire fleet in 2013. The sale of these 1.1 million vehicles at auctioneers and dealerships supported an estimated £550 million in gross value added in 2013. It also supported 12,000 jobs and £160 million in tax receipts.

UK-made vehicles

The full-service leasing and rental sector purchases significant numbers of vehicles each year in order to maintain the quality of its fleet. It is estimated that the sector spent more than £21 billion on the purchase of over 1.5 million vehicles in 2013. Cars dominated this acquisition, accounting for 93% of the total.

UK-made vehicles are popular, accounting for one-fifth of all purchases (assuming that companies in the sector bought UK-made vehicles if there are manufacturing plants in the UK that build the acquired makes and models). That is over 80% of UK-made vehicles sold to domestic customers. As such, the sector is an important customer for the UK's motor industry: the 308,000 UK-made vehicles purchased by the sector represented nearly 20% of all vehicles manufactured in the UK in 2013.⁹ However, the purchase of UK-made vehicles was highly concentrated, with only six models – the Vauxhall Astra, Nissan Qashqai, Ford Transit¹⁰, Nissan Juke, MINI and Honda Civic – accounting for four-fifths of the total (Figure 8).

9 SMMT, (2014), 'The Society of Motor Manufacturers and Traders motor industry facts 2014'.

10 Production of the Ford Transit in the UK ceased on 26 July 2013. See Ford, (2013), 'Ford meets commitments on UK restructuring', 16 July.

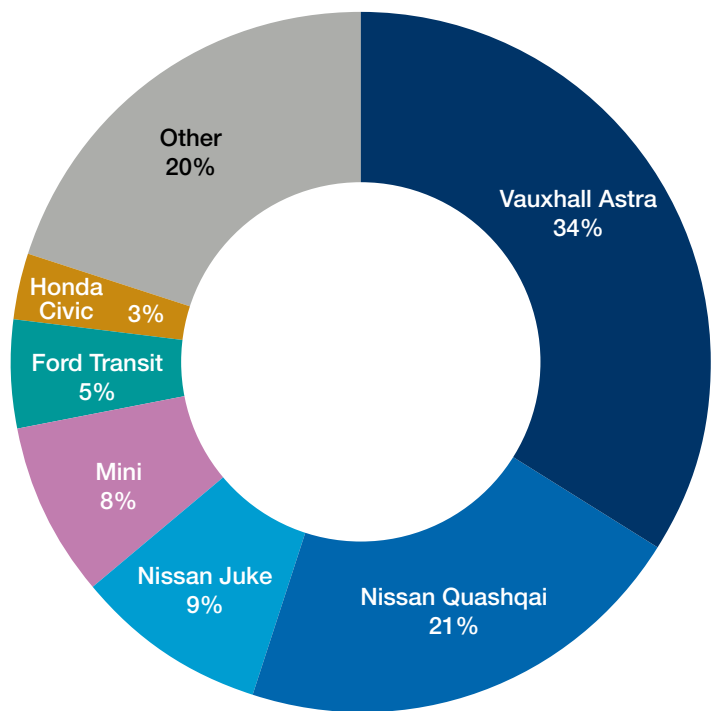
By purchasing UK-made vehicles, the full-service vehicle leasing and rental sector supports activity in the UK's motor vehicle manufacturing industry. This generates value added, sustains employment and raises tax revenues not only in the industry itself, but also in its domestic supply chain. Employees in the vehicle manufacturing industry itself and across its supply chain will also spend their wages on goods and services, adding to the upstream economic impact of the sector's vehicle purchases.

In 2013, the full-service vehicle leasing and rental sector spent an estimated £5.2 billion on new, UK-made vehicles. This expenditure created £1.2 billion in gross value added at vehicle manufacturers, representing nearly one fifth of the total industry's activity. The motor industry's procurement from domestic suppliers and payment of wages are estimated to lead to an additional £3.1 billion value added contribution.

In total, the full-service vehicle leasing and rental sector's spending on UK-made cars is estimated to have supported a £4.3 billion gross value added contribution to GDP in 2013, and supported nearly 90,000 jobs (Figure 9). Many of the direct and induced jobs will have been located in Dagenham, Ellesmere Port, Luton, Southampton, Sunderland and Swindon where the six most popular models are made.¹¹ The jobs in the supply chain will be more diversely spread across the UK. This activity is estimated to have supported £1.4 billion in tax receipts for the Exchequer.

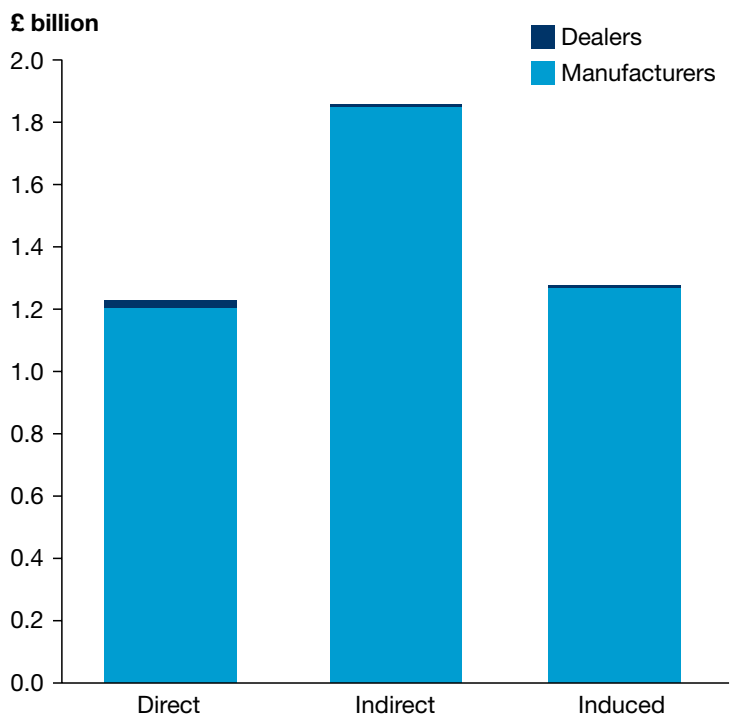
The full-service leasing and rental sector purchases vehicles from manufacturers' dealerships. This expenditure generates value added, employment and tax receipts at these businesses and their suppliers. It is estimated that the sector's purchase of UK-made vehicles in 2013 generated £22 million in value added at dealerships, supported the employment of 400 people and raised £6 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 supported a £41 million gross value added contribution to GDP in 2013, employed 800 people and generated £13 million in tax receipts.

Figure 8: The sector's purchases of UK-made vehicles by model in 2013



Source: BVRLA survey

Figure 9: The gross value added supported by the sector's purchases of UK-made vehicles in 2013



Source: Oxford Economics

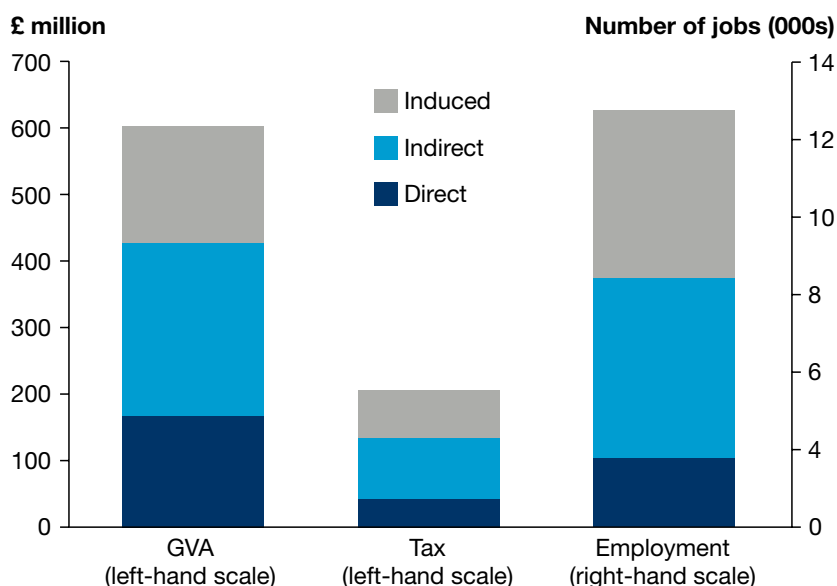
¹¹ The locations of where various vehicles are made are sourced from SMMT, (2014), 'The Society of Motor Manufacturers and Traders motor industry facts 2014'.

UK-made engines

The impact on the UK motor industry of the full-service leasing and rental sectors' purchase of vehicles is not limited to just those made domestically as the UK is a major manufacturer of vehicle parts, particularly engines.¹² In 2013, 2.6 million engines were manufactured in the UK.¹³ Of these, 60% were made by Ford, 16% by BMW, 10% by Nissan, 8% by Toyota, and 5% by Honda. As neither Ford nor BMW manufacture cars in the UK, these engines were exported and inserted into cars at assembly plants in other countries.

Just over a fifth of all the vehicles bought by the full-service vehicle leasing and rental sector in 2013 were BMWs and Fords, featuring UK-made engines. The purchase of these vehicles creates economic activity at the UK engine plants, mostly in Bridgend and Dagenham (Ford) 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.

Figure 10: The impact of the sector's purchases of imported vehicles with UK-made engines in the UK in 2013



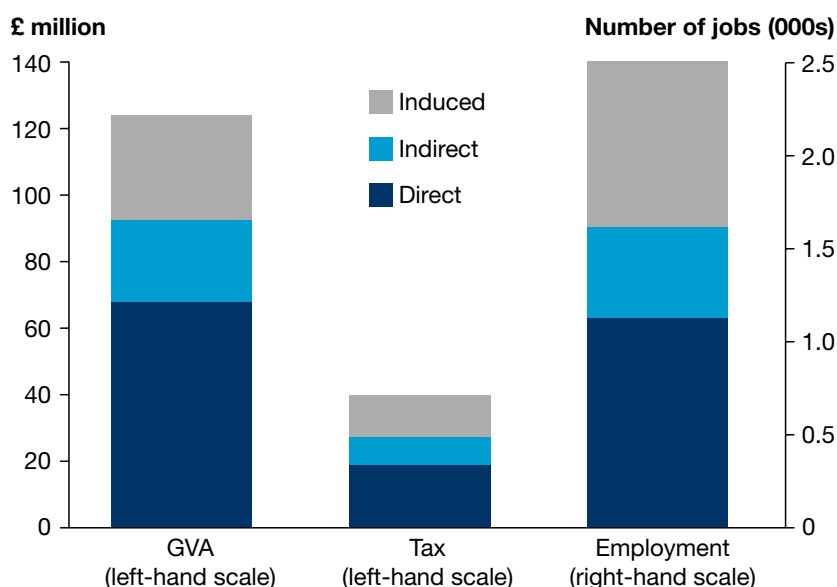
Source: Oxford Economics

The purchase of imported vehicles with UK-made engines is estimated to have supported a £600 million gross value added contribution to GDP, 13,000 jobs, and £200 million in tax receipts in 2013 (Figure 10).

Car dealerships' sales of imported vehicles

As with the purchase of UK-made cars, the full-service vehicle leasing and rental sector's purchases of foreign made cars supports activity at UK-based dealerships. In 2013, the sector spent £15.9 billion on foreign-made vehicles purchased through UK-based dealerships. This expenditure generated economic activity and employment at the dealers. This expenditure is estimated to have supported £124 million in gross value added, 2,500 jobs, and £40 million in tax receipts for the UK Government in 2013 (Figure 11).

Figure 11: The impact on UK car dealerships from the sector's purchases of imported vehicles in 2013



Source: Oxford Economics

¹² 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.

¹³ SMMT, (2014), 'The Society of Motor Manufacturers and Traders motor industry facts 2014'.

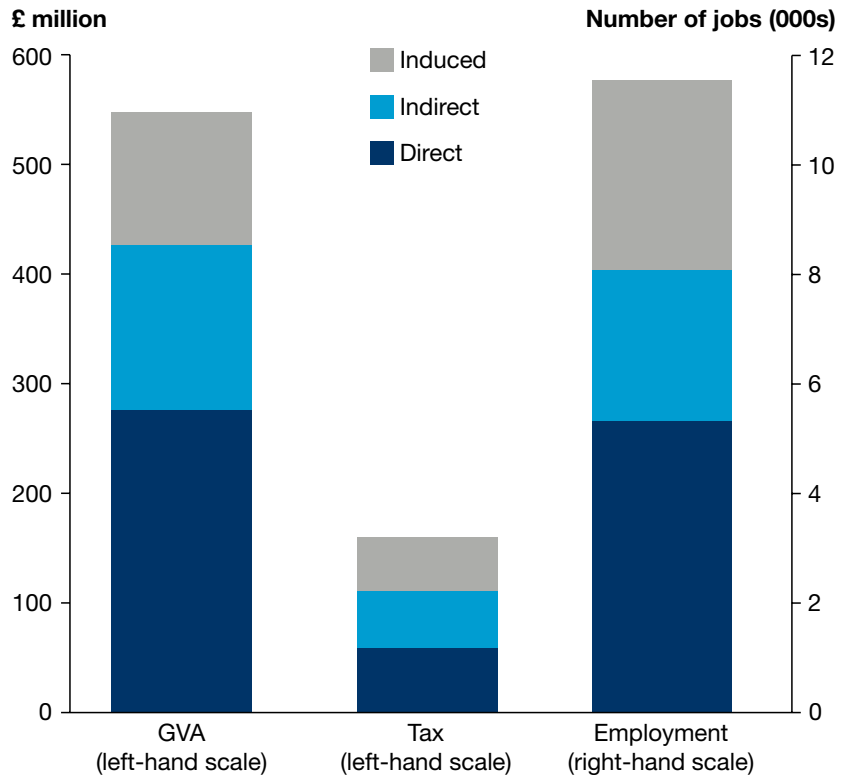
Auctioneers' and car dealerships' sales of used cars

The full-service leasing and rental sector regularly refreshes its fleet to ensure that its vehicles represent the highest quality and most fuel efficient models available. It is estimated that the sector disposed of 30% of its fleet in 2013. This high level of vehicle churn means that the sector is a major supplier of vehicles into the UK's used vehicle market through used-car auctioneers and dealers. It is estimated that there were 6.8 million used car sales in the UK in 2013.¹⁴ Consequently, the 1.1 million cars disposed of by the full-service leasing and rental sector represent 16% of total sales.

By channelling disposals into the used vehicle market, the sector supports economic activity for auctioneers and car dealerships selling used inventory, and their supply chains. It also provides the used vehicle market with relatively new vehicles incorporating improvements in safety technology and environmental standards. This raises the overall quality of used vehicles available in the market.

Sales of used vehicles originating from the full-service vehicle leasing and rental sector supported an estimated £550 million gross value added contribution to UK GDP in 2013 (Figure 12). The sector also supported 12,000 jobs and £160 million in tax receipts.

Figure 12: The impact on auctioneers and car dealerships from selling ex-lease and ex-rental vehicles in UK in 2013



Source: Oxford Economics



¹⁴ Experian and DVLA (2014), 'Used car sales: Q1 2014'

Wider catalytic benefits¹⁵

There are a number of economic benefits to leasing that fall outside the core economic impacts of the full-service vehicle leasing and rental sector, and impacts through manufacturers and distributors. These benefits cannot be quantified in the context of gross value added, employment and tax contributions, but are nonetheless important for the sector's clients, and by extension, for the UK economy.

The opportunity to lease and rent vehicles provides companies with the ability to access modern, fuel-efficient vehicles without the strain of up-front capital expenditure. It also gives them some certainty about their costs going forward. These benefits can be particularly important for small and medium sized enterprises (SMEs).

Equally, leasing vehicles allows firms to focus on their core business activities. Companies often prefer to lease vehicles for the same reason they prefer to rent or lease real estate: they recognise that their core competencies lie elsewhere. Paying a specialist to take care of value added services, like insurance and vehicle maintenance, reduces the time companies are required to dedicate to these issues and can therefore improve productivity.

Some confirmation of the benefits leasing vehicles brings to firms comes from Lex Autolease's 2014 survey of the senior managers of small and medium-sized enterprises.¹⁶ One of the questions for the respondents who worked for firms that leased commercial vehicles was their motive for leasing. Some 52% of respondents did so to avoid the initial capital outlay of purchasing the vehicle. The perception that leasing was less hassle was cited by 42%. Other popular reasons were access to the latest vehicles and regular upgrades which was cited by 33%, and to avoid the depreciation of assets by 28%.

Leasing also provides benefits to private customers. Credit-constrained households may be unable to afford to purchase vehicles outright, leaving them with limited access to private transport. A lack of ownership, or regular, unimpeded access to a car, can adversely affect individuals' employment prospects.¹⁷ Leasing can help households overcome these barriers by providing affordable access to vehicles.

Finally, the leasing sector delivers wider benefits to the UK by enhancing its capital market competitiveness. It also helps to reduce the level of emissions generated by the UK's vehicle stock by ensuring the presence of environmentally-friendly vehicles on the country's roads. Indeed, all leasing companies surveyed for this study actively promote low-emission vehicles to customers as a means of reducing their carbon footprint.



¹⁵ This section of the report summarises Chapter 3 of Oxford Economics, (2013), 'The economic impact of the motor vehicle full-service leasing and rental sector'.

¹⁶ Lex Autolease, (2014), 'The leasing revolution: Leasing vs vehicle ownership for British SMEs', Summer.

¹⁷ Raphael, S. and Rice, L., (2000), 'Car Ownership, Employment, and Earnings and Gautier, P. and Zenou, Y., (2010), 'Car ownership and the labour market of ethnic minorities'.

4 Total impact of the full-service vehicle leasing and rental sector

The UK's full-service vehicle leasing and rental sector makes a significant impact on the UK economy. This contribution flows from the activities of the sector itself, and the impact of its capital spending and disposal of vehicles.

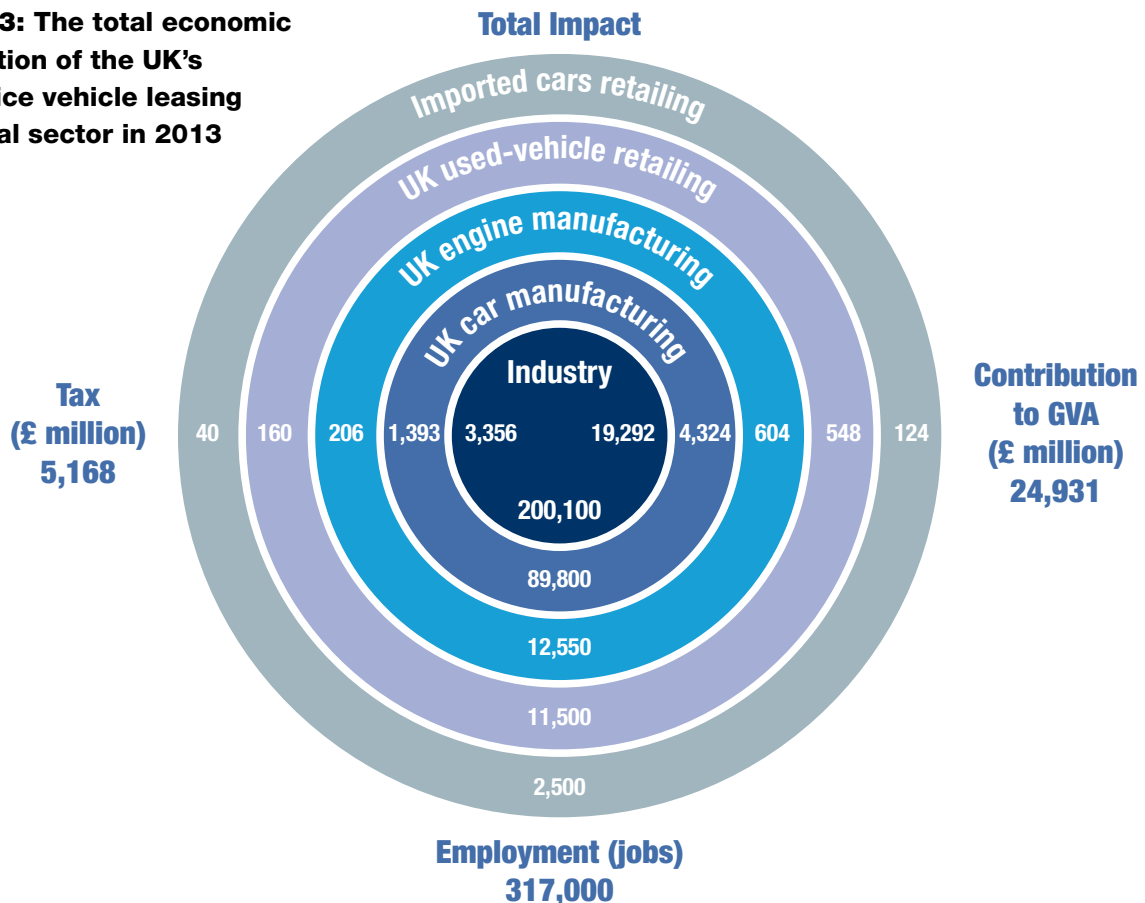
The sector, its supply chains and the wage-financed spending of those it employs make a major contribution to the UK economy. In 2013, it is estimated that these three channels of impact supported a £19.3 billion gross value added contribution to UK GDP, 200,000 people in employment and £3.4 billion in tax receipts for the Exchequer (Figure 13).

When the sector's purchase and disposal of vehicles is also considered, its impact grows further still. Including all of these factors saw the sector support an estimated £24.9 billion gross value added contribution to UK GDP in 2013. To place this into context, it is equivalent to the scale of the entire economies of Edinburgh and Leicester combined.

The sector's activities are estimated to have supported 317,000 jobs in 2013, representing one job for every 88 people employed in the UK. And the tax receipts collected by the Exchequer from activities supported by the sector's presence were equivalent to the payment of an additional £81 in tax by every UK resident.

But the benefits the UK economy derives from the leasing and rental of vehicles extend beyond those quantified above. Importantly, the services offered by the full-service vehicle leasing and rental sector provide a means for credit-constrained businesses and households to access vehicles, increasing their productivity and ability to work. Moreover, by maintaining a fleet of modern vehicles, the sector is a key player in reducing the environmental impact of vehicles on the UK's roads.

Figure 13: The total economic contribution of the UK's full-service vehicle leasing and rental sector in 2013



Appendix

Methodology for capturing direct impacts

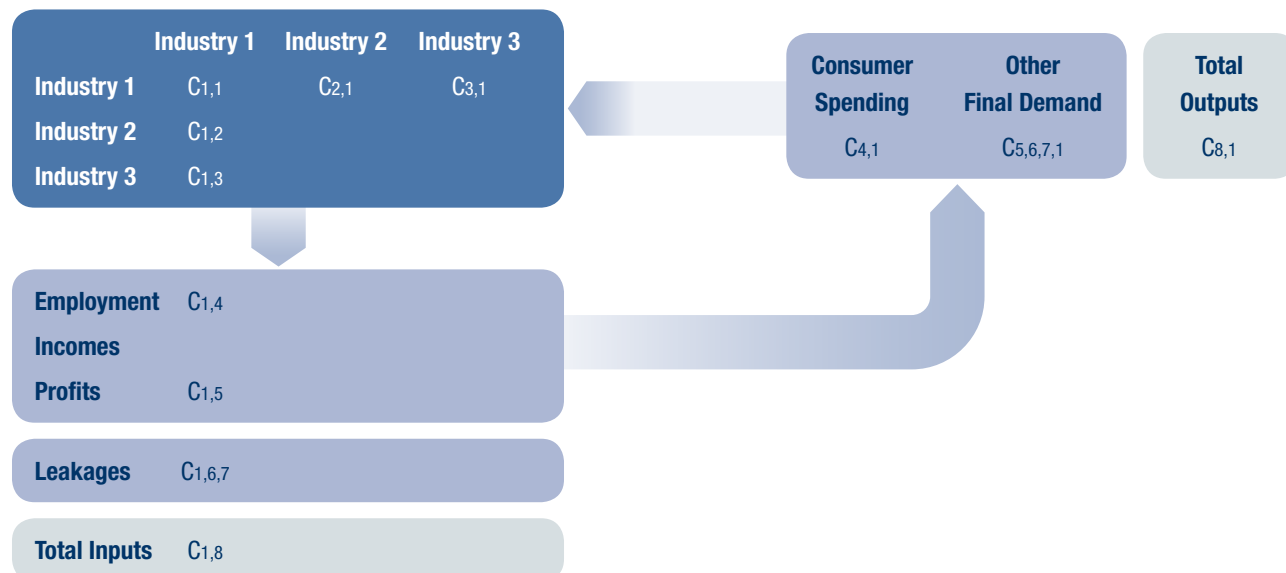
The direct impact of the UK's full-service vehicle leasing and rental sector – including gross value added, jobs created, and taxes paid – are estimated from data provided by 14 BVRLA members. The data included information that members reported in a survey administered by BVRLA and their annual accounts. These 14 companies represent 39% of the entire sector in the UK in 2013 (by fleet size). Estimates for the total sector were obtained by scaling up for the missing percentage using fleet size.

Methodology for capturing indirect and induced impacts

To estimate the indirect and induced impacts of the vehicle leasing and rental sector, Oxford Economics utilised the input-output models of the UK economy produced by the ONS.

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.

A simple Input-Output model



The input-output model can be used to generate industry multipliers by using the Leontief system.¹⁸ Under the Leontief system industry multipliers are calculated through a series of manipulations of the input-output matrix. The first of these manipulations is the creation of a base coefficients matrix (A matrix) for the UK (where each cell is expressed as a proportion of that industry's output, for example any values in the agriculture column are expressed as a proportion of agricultural output, and so on for each different sector). The second manipulation is the creation of an identity matrix (I matrix), within which all values are zero except for when the consuming industry (columns) and the producing industry (rows) are the same; these cells are given a value of 1. The third stage of the manipulation is the subtraction of the A matrix from the I matrix. The final stage is the inversion of the matrix produced in the third stage. The result of these manipulations is a matrix in which the values represent the individual cross-multipliers for each industry, showing the impact on each producing industry (row) of an increase in 1 unit of output in a consuming industry (column). The total multiplier for each consuming industry is the sum of the multipliers in the relevant column.

The purchases the full-service vehicle leasing and rental sector makes from domestic suppliers represent the first tier of its supply chain. Using data supplied by BVRLA members, Oxford Economics aligned purchases with the sectors from which they were purchased. For example, purchases of advertising services are allocated to the business services sector and outsourced repairs to the wholesale, retail and repairs sector. By allocating all spending items to their respective industries, the sector's purchases from UK suppliers can be inputted in to the input-output model. The model is then used to calculate the subsequent supply chain purchases that occur within the economy (through the use of Type I multipliers). The summation of these purchases represents the total expenditure that is generated by the sector's procurement, however this does not equate to the value-added contribution to GDP. To calculate the indirect contribution to GDP, the total expenditure effect is divided by sector-level value-added to output ratios.

The employment supported as a result of the indirect contribution to GDP is estimated by dividing the value-added indirect impact by sector-level labour productivity data obtained from the ONS' Annual Business Survey.

To estimate the sector's induced impact the modelling used for calculating the indirect impact outlined above is extended to incorporate the Type II multipliers. This gives the induced expenditure impact, which is translated into value-added and employment impacts using the same process as used for the indirect impact.

Finally, from estimates of employment and output, HMRC tax bands (for national insurance and payroll taxes), VAT and excise duties as a share of earnings by quintile, and average tax rates by industry (for corporate taxes) are used to estimate total tax contributions.

¹⁸ Leontief, W., (1986), 'Input-Output Economics'.

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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:

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OXFORD

Abbey House, 121 St Aldates
Oxford, OX1 1HB, UK
Tel: +44 1865 268900

LONDON

Broadwall House, 21 Broadwall
London, SE1 9PL, UK
Tel: +44 207 803 1400

BELFAST

Lagan House, Sackville Street
Lisburn, BT27 4AB, UK
Tel: +44 2892 635400

NEW YORK

5 Hanover Square, 19th Floor
New York, NY 10004, USA
Tel: +1 (646) 786 1879

PHILADELPHIA

303 Lancaster Avenue, Suite 2e
Wayne, PA 19087, USA
Tel: +1 (610) 995 9600

CHICAGO

980 N. Michigan Avenue, Suite 1412
Chicago, IL 60611, USA
Tel: +1 (312) 214 3545

LOS ANGELES

2110 Main Street
Santa Monica, CA 90405, USA
Tel: +1 (310) 310 4596

SINGAPORE

Singapore Land Tower, 37th Floor
50 Raffles Place
Singapore 048623
Tel: +65 6829 7068

PARIS

9 rue Huysmans
75006 Paris, France
Tel: +33 1 45 49 60 85

SYDNEY

Level 4, 95 Pitt Street
Sydney, 2000
Australia
+61 (0)2 8249 8286

email: mailbox@oxfordeconomics.com

www.oxfordeconomics.com



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