

July 2025

UK Electric Car Grant Program:

New Car Market Impact and BEV Residual Value Analysis



The UK Government's Electric Car Grant program - launched in July 2025 and providing £650 million funding through to 2029 - represents a significant policy intervention in the electric vehicle market.

This white paper analyses the program's structure, eligibility criteria, and projected impact on Battery Electric Vehicle (BEV) sales and residual values.

The analysis reveals that while the program provides meaningful support to individual vehicle purchases, its overall market impact will be constrained by budget limitations. With funding sufficient to support only approximately 5.8% of annual BEV sales (at full support levels), the program's ability to drive broad market transformation is limited. However, the impact on specific vehicle segments, particularly young vehicles and lower-priced models, will be substantial, particularly in respect of Residual Values.

The residual value implications vary significantly by vehicle age. Young vehicles under 12 months will experience notable downward pressure on residual values, while vehicles aged three years or more will see minimal impact due to the weaker correlation between new and used vehicle pricing in mature market segments. The rental industry faces exposure to these dynamics, with significant risks around fleet timing and vehicle selection decisions.



£650m
Electric Car
Grant scheme

1. Program architecture and implementation

The Electric Car Grant establishes a tiered support system that reflects the government's desire to be seen to be promoting not just electric vehicle adoption but linking that to sustainable manufacturing practices.



Office for
Zero Emission
Vehicles

The program offers £3,750 for vehicles demonstrating the lowest carbon emission scores from manufacturing processes combined with the strength of future Net Zero commitments, while providing £1,500 for vehicles meeting basic environmental criteria. This structure creates a competitive incentive for manufacturers to improve their environmental performance across the entire production chain and encourages them to strengthen commitment to Net Zero.

The program's eligibility framework extends far beyond simple vehicle specifications. While basic requirements include zero tailpipe emissions and a minimum 100-mile range, the environmental criteria represent the program's most significant innovation. Manufacturers must hold verified Science Based Targets, demonstrating their commitment to evidence-based decarbonization goals. The carbon intensity scoring system weights battery production location at 70% and vehicle assembly location at 30%, reflecting the relative environmental impact of these manufacturing processes.

The application process requires manufacturers to undergo dual assessment by the Vehicle Certification Agency for technical criteria and the Office for Zero Emission Vehicles for environmental standards. This complex evaluation aims that vehicles meet both performance and sustainability requirements, though it also creates potential barriers for manufacturers without established environmental credentials.

2. Market volume and penetration analysis

The program's budget allocation reveals both its ambitions and limitations. With £650 million distributed from 17 July 2025 through to 2029, the theoretical maximum support ranges from 173,333 vehicles at the highest tier to 433,333 vehicles at the lower tier.

Assuming equal annual distribution, this translates to between 38,500 (based on 100% of vehicles at higher tier) and 96,250 vehicles per year (at lower tier). This represents for 2026, 5.8% or 14.4% of the anticipated annual BEV market based on current ZEV mandate targets (assuming a 33% of 2.0m Market). These percentages drop by half when considering 2029.

This coverage level suggests the program will function more as targeted support for specific market segments rather than a broad market transformation tool. The 2025 ZEV Mandate requires 33% of the 2.0 million vehicle market to be BEVs, creating demand for approximately 660,000 electric vehicles annually. Against this backdrop, the grant program's reach appears modest, though potentially significant for manufacturers and consumers within its scope.



“To put in comparison the Italian Government supported BEVs in Italy with an annual budget of €240m (£208m) with support up to €5,000 per unit (£4,350). This is materially an equivalent level of support, yet the Italian market remained flat in terms of BEV registrations at circa 4.2%.”

The effect of support can work in many ways.

- Reduced transaction prices directly improve affordability
- Government support can boost consumer confidence in electric vehicle technology
- The additional £63 million infrastructure investment further supports confidence

However, the reality of the scale of support, spread over many years and scoped on the Italian experiences, suggest that this EV Grant is not going to be a game changer, indeed the effect could be very minimal in generation of new volumes. The ZEV Mandate with all its negative side effects for the industry is going to continue to be the driving (and painful) force in the market.

OEMs, Dealers and Fleets...there is still no light at the end of the tunnel, just a politician with a flickering candle trying to shine a light on their environmental credibility.

3. Residual value impact framework

The relationship between new vehicle pricing and residual values exhibits significant variation based on vehicle age and market conditions.

This correlation forms the foundation for understanding the grant program's impact on the used vehicle market.

For young vehicles aged 0-12 months, the correlation between new and used pricing remains strong, with approximately 90% of new vehicle price changes flowing through to residual values. Consumers in this segment directly compare used vehicle prices against new alternatives, making them highly sensitive to changes in transaction price. The grant program's impact on these vehicles will therefore be substantial, with subsidised models experiencing significant downward pressure on residual values as the market adjusts to lower effective new vehicle prices.

Vehicles aged three years or more exhibit much weaker correlation with new vehicle transaction pricing, with only approximately 20-30% of price changes normally flowing through to residual values. Consumers purchasing older vehicles base decisions primarily on alternative options available at their target price point, with less reference to current new vehicle list prices.

Whilst a supported model may have some negative pressures cascading into three years, the consumer will look at that vehicle's price relative to the RV of the total market alternatives, the vast majority of which will have little support due to the programme's restrictions.

This dynamic suggests the grant program's impact on mature vehicle residual values will be limited, even for models receiving subsidies.

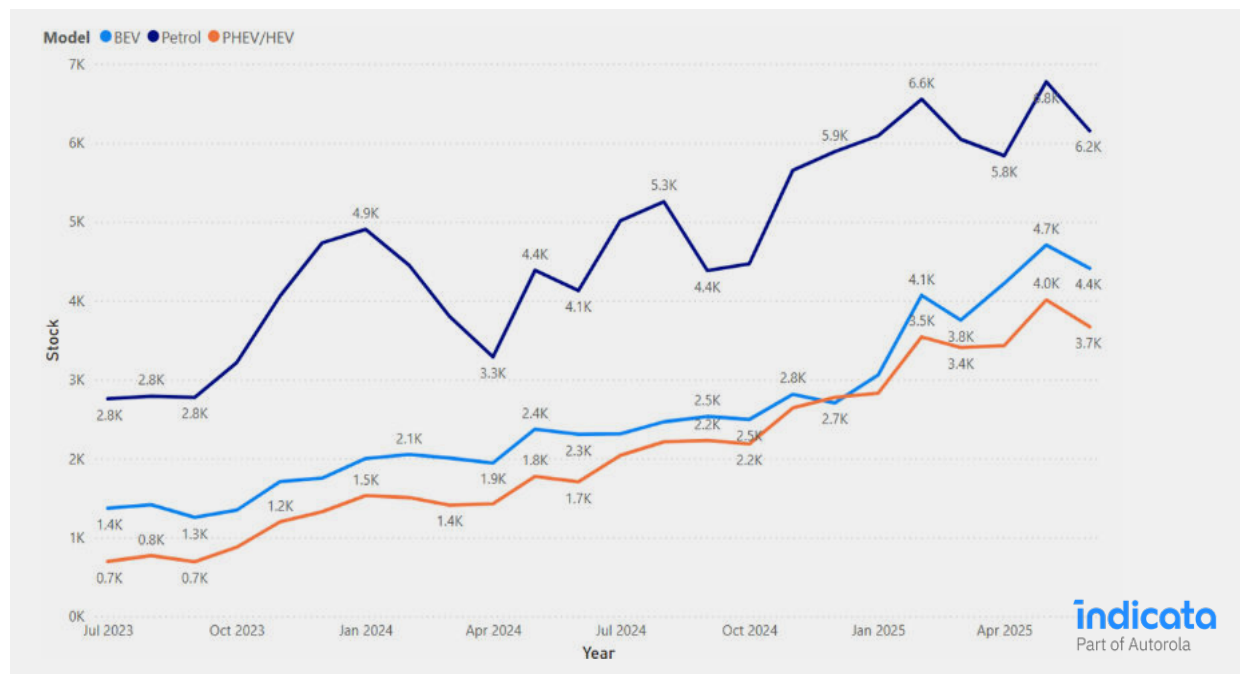
The current BEV market context amplifies these dynamics.

Stabilised residual values Following the significant residual value decline since 2023, the market has recently stabilised as prices reached competitive parity with ICE vehicles. However, ongoing pressures from ZEV Mandate and Chinese manufacturer competition have created additional volatility.

Three-year BEV residual values currently sit approximately 10-15% below overall market levels as a percentage of list price, reflecting both oversupply conditions and consumer uncertainty about electric vehicle technology.

These dynamics remain and will far outweigh any further negative effect on RV the programme might have on older vehicles.

Pre-Reg stock is already hitting the market



4. Sectoral Impact Analysis

Short cycle players (Rental companies, Dealer demos etc) face particular exposure to the grant program's residual value effects.

These players purchasing non-subsidised vehicles risk significant losses if those models subsequently gain subsidy eligibility, as the market will adjust residual values downward to reflect the reduced new vehicle transaction prices. This risk is compounded by the program's complex eligibility criteria, which as manufacturers improve their environmental credentials and bring more models into eligibility.

Running vehicles sub-12 months of purchase, places short cycle players squarely within the high-correlation segment where subsidy impacts will be most pronounced on RV of specific models.

That said, operators purchasing already subsidised vehicles will benefit from the offset between subsidy receipt and residual value decline, potentially sustaining overall fleet economics despite lower resale values. Indeed, if the scheme runs out of cash there may be an uplift of RVs and subsidised cars.

Long cycle fleets have minimal downside, and the potential of reduced transaction prices, spell good news for that sector. That said BEV volatility from other factors is a material negative risk.

Original Equipment Manufacturers face strategic pressures extending beyond traditional vehicle development. The Science Based Target requirement compels manufacturers to establish and verify comprehensive decarbonisation commitments, potentially requiring significant organisational changes.

Manufacturing location decisions become strategic considerations, with assembly and battery production locations directly affecting subsidy eligibility through their carbon intensity ratings.

These environmental requirements create competitive dynamics that may reshape market positioning. Manufacturers with established sustainability credentials gain first-mover advantages, while those lacking environmental commitments face potential market share losses. The tiered support structure further intensifies competition, as manufacturers achieving the



highest environmental standards can offer more attractive pricing to consumers.

OEMs may consider the scale of the financial benefit insufficient to respond and increase their current commitments and Net Zero aims. This would be a mistake.

The program will brand BEV cars “Environmental” (i.e. receiving a subsidy), and “Non environmental” (i.e. not getting subsidy), despite being Zero Emissions. Consumer behaviour will likely shift toward subsidised models.

These dynamics may influence manufacturer product development priorities and market segmentation strategies.

5. Historical Context and Market Precedents

The Tesla price reduction program of Q1 2023 provides valuable insights into how individual manufacturer's pricing decisions affect broader market dynamics.

When Tesla implemented price reductions of up to £7,000, coinciding with the post-COVID BEV residual value correction, the market response revealed important patterns applicable to the current grant program.

Analysis of this period demonstrates that Tesla's price reductions did not disproportionately affect Tesla-specific residual values. Instead, both Tesla and overall market residual values declined at identical rates, suggesting that significant pricing changes by major manufacturers create market-wide effects rather than model-specific impacts (at the 3-year segment).

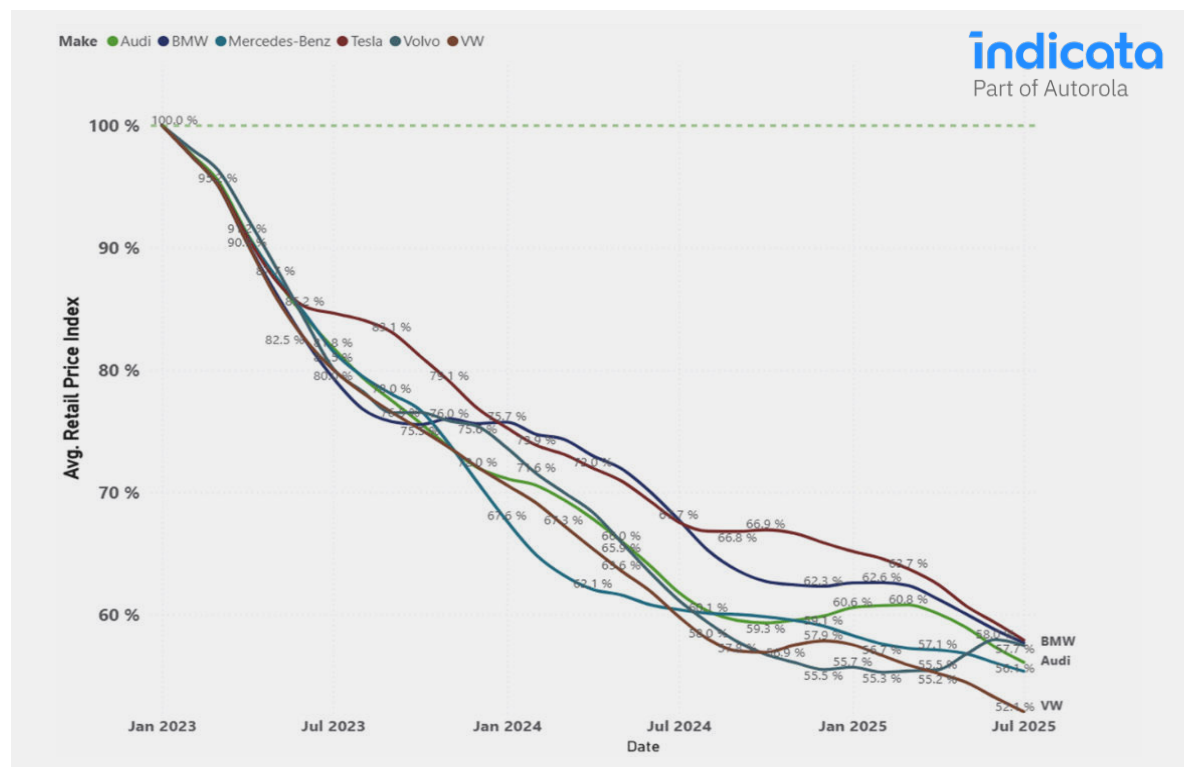
This finding implies that the Electric Car Grant program's impact may extend beyond directly subsidised vehicles to affect the broader BEV market.

The timing of Tesla's intervention, occurring simultaneously with manufacturing oversupply conditions and over-inflated residual values, accelerated an inevitable market correction rather than creating new dynamics. This precedent reinforces the assumption that the grant program's impact will be shaped by underlying supply-demand fundamentals, with the subsidy serving to amplify existing market forces rather than creating entirely new trends.

The early 2024 market stabilisation, achieved through price reductions that brought BEVs to competitive parity with ICE vehicles, demonstrates the market's ability to find equilibrium despite significant interventions.

However, as started before, recent additional declines due to ZEV pressure and Chinese competition indicate that stability remains fragile and susceptible to new disruptions.

Effect of Tesla's Price action from 2023 vs other BEV OEMs



6. Risk assessment and strategic implications

The program's success will depend largely on managing budget utilisation to avoid market disruption while maximising policy objectives.



Rapid budget exhaustion could create uncertainty for manufacturers and consumers, potentially undermining confidence in long-term policy support. Conversely, overly restrictive and complex eligibility criteria might limit the program's effectiveness in stimulating adoption.

Environmental criteria evolution presents ongoing risks for all stakeholders. Changes in standards may affect vehicle eligibility retrospectively, creating uncertainty for manufacturers investing in compliance and consumers making purchase decisions. The cost of maintaining compliance may increase over time, potentially affecting the program's attractiveness to manufacturers.

Market participants must develop adaptive strategies to navigate these uncertainties. Fleet operators (particularly short cycle players) should prioritise subsidised vehicle purchases while avoiding non-subsidised vehicles with potential future subsidy eligibility. Enhanced residual value monitoring and forecasting capabilities will become essential for managing fleet economics in this environment.

Manufacturers face strategic imperatives extending beyond traditional vehicle development. Early compliance with environmental criteria provides competitive advantages, while strategic manufacturing location decisions can optimise carbon intensity ratings. Proactive Science Based Target implementation may become a prerequisite for market participation rather than a voluntary commitment.

7. Conclusions and Future Outlook

The Electric Car Grant program represents a carefully structured intervention designed to optically support electric vehicle adoption while promoting sustainable manufacturing practices. However, its scale is very limited and based on the Italian market as a benchmark will be ineffective.

It is more about government optics than material effect. Its limited scale relative to the total BEV market constrains its potential for broad market transformation. The program will provide meaningful support to only approximately 5.8% of annual BEV sales, creating some material effect for specific vehicle segments and manufacturers while leaving broader market dynamics largely unchanged.

The residual value implications reflect this. Young vehicle segments will experience significant localised impacts, with subsidised models facing substantial downward pressure on residual values. However, the broader used vehicle market, particularly vehicles aged three years or more, will see minimal effects due to the weak correlation between new and used vehicle pricing in mature segments.

The program's most significant long-term impact may be its role in accelerating manufacturer commitment to sustainable practices. The Science Based Target requirement and carbon intensity scoring system create competitive pressures that extend far beyond the immediate subsidy benefits, potentially reshaping industry approaches to environmental responsibility.

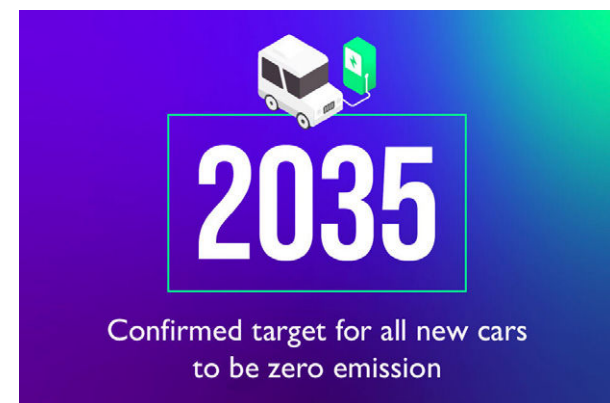
Looking forward, the program's effectiveness will depend on adaptive management that balances market stability with policy objectives. The transition to mandatory ZEV targets will ultimately drive market transformation, with the grant program serving as a sticking plaster to support this painful transition.

The short cycle and rental industry's exposure to timing risks and the potential for cascade effects across the broader BEV market underscore the importance of careful program implementation. Success will require ongoing monitoring of market response and willingness to adjust criteria and funding distribution to optimise outcomes while avoiding unintended consequences.

As the UK moves toward its Net-Zero commitments, whilst of limited use, the Electric Car Grant program provides a template for policy intervention. The ZEV mandate targets despite the April adjustment and this new Grant is likely to get even more unsustainable for the UK automotive industry.

The government will have to respond again.

This structure is the most likely framework for any further support if the Government are not going to walk away the Net Zero in the auto industry.





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