

Crestwood Environmental – Pledge to Net Zero – Year 1 Starting Steps

28 March 2023

Context

Crestwood Environmental Ltd. ('the Company') is a multidisciplinary environmental consultancy providing environmental survey, assessment, design, planning, management and monitoring services to a range of clients in the UK. It employs circa 18 full-time equivalent staff who primarily work from home as their working base (i.e. little commuting). Much of the work is 'desk-based' (using PCs etc.) although a notable proportion of our work is 'field-based' (i.e. 'on-site'). Travel associated with on-site work is primarily via road vehicles (cars) either staff-owned or hired.

The Company made the Pledge to Net Zero at the end of 2021 and has undertaken its baseline calculations and produced its targets to meet those considered to be science-based, i.e. where they are in line with what latest climate science says is necessary to meet the goals of the Paris Agreement (limiting climate change to 1.5°C or 2°C). The Company's Scope 1 - 3 targets are in line with limiting temperature rises to 1.5°C – aiming to (approximately) halve emissions by 2030 and to have reduced emissions by at least 90% by 2050. This equates to a reduction in emissions by circa 8% year-on-year.

Key Learnings

The CO₂-equivalent (CO₂e) emissions from Scope 1 and Scope 2 sources were found to be notably low in comparison to the Company's Scope 3 emissions, accounting for only 0.86% of the Company's total emissions. For Scope 3 emissions the biggest contributors relate to:

- Employees travel (notably cars);
- Employees power (electricity and heating); and
- Sub-contractors power usage and travel.

The largest contributor (48.5%) to emissions was employee's use of power at home. Whilst this is notably largely out of the control of the Company, efforts to minimise electricity and gas usage are set to focus on employees' knowledge – providing easy access to as much information as practicably possible to enable this. It was, however, noted that the sharp increase in the cost of energy during 2022 was, in itself, provided a considerable incentive to minimise energy use.

A key area that the Company felt it could help directly was in relation to employees' travel (accounting for 21.3% of total emissions). The Company operates one electric vehicle (EV, that is a vehicle purely powered by electric motors) but wanted to make this option available to all employees – noting that when combined with a home charger and a renewable energy tariff, there was potential for significant reductions in emissions to be achieved, and potentially significant financial savings for the employees themselves.

Business Travel

The Company supports the use of public transport (especially use of the rail network) but for 'site work' this is not usually practical, or even feasible in some cases. Most travel takes place via the road network.

The Company undertook some research into the possibility of providing access to EVs for employees – whether they be for short-term hire, as company vehicles or incentivised for consideration to be a personal vehicle choice, able to be used as both a personal and business vehicle.

Hired EVs: The Company uses hire vehicles periodically where it is cost-effective to do so, with a preference to choosing the most appropriate vehicle in terms of storage capacity (for equipment), range and safety (particularly in relation to

longer journeys), and cost effectiveness (in terms of hire and fuel cost). The current availability of the vehicle is also extremely important, with employees often needing to hire a vehicle at short notice. Inevitably, the availability of vehicles often becomes an overriding consideration.

The opportunities to hire suitable EVs were noted as being scarce and it was going to be important for the Company to keep abreast of increasing availability for EVs for hire from the current provider (and other potential providers) to allow this to become a more viable alternative. Availability of charging opportunities was also going to be a key consideration when choosing hired EVs – employees regularly travelling long distances and keeping ‘work time’ minimised (potentially affected by charging time required) – this being a factor in determining how the Company calculates the price of work to its clients. Some sites that employees travel to are in ‘remote’ rural locations also, so the charging infrastructure, whilst improving in geographical extent, is lacking in some areas still, so long-range EVs would need to be hired (probably at additional cost) to make these journeys feasible.

Overall, it was noted that using hired EVs was not likely to provide an immediate easy alternative solution, but was one the Company needed to keep a close eye on for rapid changes in availability and practicality.

Company EVs: The Company has only occasionally provided vehicles directly for employees, as part of their employment package – this generally incurring additional financial risks and administrative tasks that the Company found to be unattractive to provide on a ‘large scale’ basis. For the size of company that Crestwood Environmental is, and the significant changes that would be needed to be made (to financial burden, employment contracts, administrative duties etc.) to incorporate Company EVs, together with the preference towards public transport over road vehicles, this option was considered to not be able to be implemented quickly.

Incentivised EV take-up: The Company investigated the option of using ‘salary sacrifice’ schemes to give employees the opportunities to swap to an EV in lieu of their current vehicles. The schemes work by taking a portion of the employees’ salary before tax, and using this to fund repayments on the EV.

The EV would be leased from a third-party firm by the Company, who in turn leases it to the employees who want to use the scheme. Maintenance, servicing, tyres, road tax, breakdown cover and insurance are usually included as part of the scheme, which last for two to four years, and the cars can be for private or business use.

The employees pay tax on the ‘benefit-in-kind’ (BIK), as HMRC refer to it, but no National Insurance. The tax rate for EVs is currently very low (2% of the value of the EV ‘taxable list price’) meaning that tax paid by the employee on an EV with a taxable list price of £30,000, for example, would be calculated on a ‘salary equivalent’ amount of 2% of £30,000 (i.e. £600 per annum would be taxable, which @ 20% tax = **circa £10/month**, or **circa £20/month** @ 40% income tax rate). This 2% rate is set until April 2025, after which point it is set to increase by 1% per annum – which is still significantly less than petrol or diesel vehicles.

For comparison, an efficient petrol or diesel car which emits around 100g/km of CO₂ is likely to have a current BIK rate of 25% (so for a vehicle with a taxable value of £30,000, it would cost **circa £125/month in tax** @20% income tax rate, or **£250/month** @40% income tax rate).

How it works in practice: If the Company offers a salary sacrifice scheme for an EV, and the lease deal on this is £500 a month; that is the amount that is taken out of the employee’s gross salary (i.e. before income tax). If the employee generally otherwise pays income tax @40%, the net pay to the employee after tax on the £500 would normally be circa £300 (but with further National Insurance (NI) contributions taken also), but if it is used to pay for the EV as part of the salary sacrifice scheme, the £200(+) that would have been paid in tax and NI goes towards the lease payment instead, making a £500/month lease price cost less than £300/month instead. Company car tax (@2%, as described above) would be taxed instead – a much lower amount.

This makes the use of an EV ‘company car’ via the salary sacrifice scheme a very tax efficient way of owning an EV, providing a great financial incentive for the employee, and reducing NI contributions to HMRC by the Company also. It

is, however, a personal choice by the employee as to whether they want to spend this amount of their salary on a vehicle.

There were lots of questions that the Company wanted to ask prospective providers about this service, however one service provider came through as providing the most transparent information and most comprehensive support (e.g. with through agreements). The key points, from Company's point of view, that were accommodated by the preferred EV salary sacrifice scheme provider were:

- No deposits were required.
- Road Fund Licence and MOT are included in the price.
- Breakdown cover by a reputable company is included in the price.
- Tyres and maintenance are covered in the price.
- A home charger was available included in the price (noting that not all homes are suitable for electric chargers).
- There were no third parties involved – meaning that agreements / arrangements were straightforward.
- Financial protection is provided to the Company, should the employee leave (or be made redundant).
- At early termination, the car would be handed back.
- The insurance excess was limited to £250.
- Up to 3 drivers would be covered by the insurance.
- Gap insurance is included in the price.
- Free 12 months parental leave cover is included in the price.
- Free 3 months sick leave cover is included in the price (with option of a 'free return of the vehicle' thereafter).
- £500+VAT of damage is covered at point of return of the vehicle.
- Driving / Parking fines are the responsibility of the driver.

This went a long way to limiting the Company's financial exposure, giving a new adopter like Crestwood a lot of confidence to set-up the scheme. The administrative requirements were also considerably reduced by the work undertaken by the preferred supplier.

The added advantage, over the savings in CO₂e emissions, is the additional 'perk' being able to be offered to our employees. In addition to the vehicle itself, 8p per mile can be claimed by the employee for business use, before incurring tax, which whilst being less than some public chargers would cost, is still more than the best current overnight tariff equivalent at home. This provides substantial savings over petrol and diesel fuel costs per mile which are likely to be double that cost or more – thus personal use of the EV also costs less per mile, whilst additionally reducing CO₂e emissions, local exhaust emissions pollution and noise, when outside of business use also. Employees upgrading to a more modern vehicle may also get the benefit of additional safety features not available on their existing vehicle – potentially reducing the risks involved with driving.

EV range is often cited as a source of concern for those thinking of adopting EVs, but more affordable EV options are becoming available all the time, providing a range of over 280 miles (depending on temperature and driving style) with

cars of taxable values of less than £30,000 (e.g. MG4 SE Long Range¹). Anyone travelling that distance in one go should be taking driving breaks, so will allow charging to be done concurrently to the break. At home (assuming a single-phase supply, as found in the majority of homes) charging can add circa 31 miles per hour, and is usually done overnight. When charging from fast chargers, available on the public network, the charge rate is high enough to take the battery from 10% to 80% capacity (on the example MG4 vehicle) in 35 minutes. Charging the last 20% takes a disproportionately longer duration, so isn't advised unless one isn't in a hurry.

Another current concern is availability of vehicles. Waiting periods for new vehicle can run to months, so early decisions will reap earlier benefits.

Conclusion

For a small private Company of the size of Crestwood Environmental, that has a significant proportion of its CO₂e emissions sourced from road vehicles, adoption of a salary sacrifice EV scheme provides a quick, viable and low risk way to facilitate opportunities for change within the business. It does require employees to personally embrace and commit financially to having an EV and so won't be a viable or preferred choice for everyone. Good communication of the benefits of a change to an EV (via a salary sacrifice scheme or otherwise) will be useful in garnering support and overcoming preconceptions, but the potential to rapidly reduce CO₂e emissions from road vehicles is substantial.

¹ <https://ev-database.org/uk/car/1708/MG-MG4-EV-Long-Range#:~:text=The%20maximum%20rapid%20charge%20power,80%25%20in%20around%2035%20minutes>