LeasePlan Consultancy Services

Autumn Statement

November 2016

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Foreword

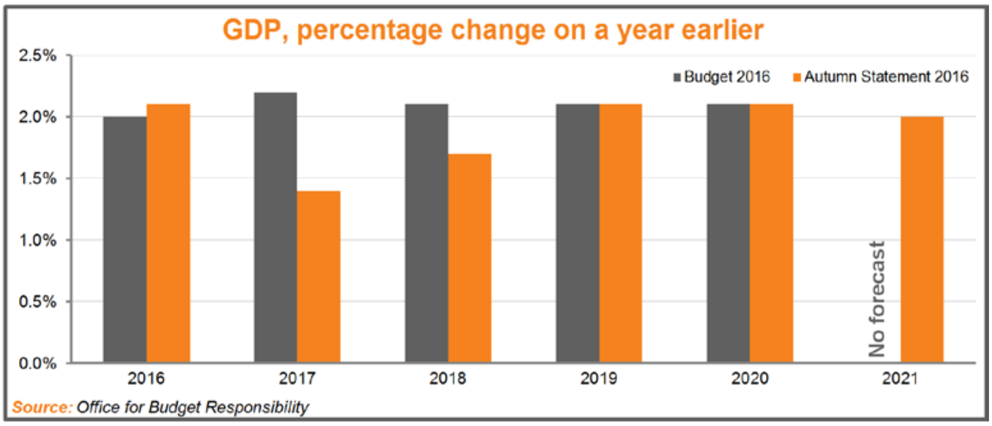
This year's Autumn Statement was special in many regards. It wasn't just the first of a new Chancellor, Philip Hammond. It wasn't just one of the first detailed policy documents of Theresa May's Government. It also looks ahead to a new landscape in which the United Kingdom is leaving the European Union.

All of which means that the Statement itself contained a lot to chew through – which is why we at LeasePlan have produced this short guide to make it more digestible. This isn't intended to be a comprehensive account of everything that was announced, but it does touch on all of the major forecasts and policies. We hope you find it useful.

The economic and fiscal forecasts

Alongside every Budget or Autumn Statement the independent Office for Budget Responsibility publishes a new set of economic and fiscal forecasts that underpin the Government's decisions. Here is a summary of the latest.

Growth



These were more significant economic growth forecasts than usual – after all, they are the first to be released since the EU referendum. The OBR now expects growth to be much slower for the next two years than it predicted back in March. The figure for 2017 is now 1.4%, down from 2.2%. The figure for 2018 is 1.7%, down from 2.1%. Why? According to the OBR, there are two underlying factors. First, the general economic uncertainty following the referendum result. Second, the depreciation of the pound will push up prices and limit consumer spending.

The public finances

Lower growth forecasts in turn affect the public finances. The Government cannot rely on as much tax income, and so they have to borrow more. Accordingly, the OBR expects that public sector net borrowing will be £110 billion higher across the next five years than was forecast in March. This means that Hammond will still be presiding over a budget deficit of £21.9 billion in 2019-20 – and thus will break the Conservatives' manifesto promise to be running a surplus in that year.

In light of this, the Chancellor has established three new fiscal rules to follow: to cut the structural deficit to less than 2% by 2020-21; to have Government debt falling as a proportion of GDP in the same year; and to keep welfare spending in 2021-22 below £126 billion.

Policies for motorists

This was a relatively slim-line Autumn Statement from Hammond – the one from 2014 had almost double its page count – but it still contained a number of policies of interest to motorists.

Salary Sacrifice

One of George Osborne's last acts as Chancellor was to announce a review of Salary Sacrifice schemes. Even with the change of personnel in No. 11, this process still went ahead with HMRC launching a consultation in August. The proposal that they put forward in their consultation document was to effectively treat various benefits gained through Salary Sacrifice – including cars – as income for tax purposes.

The outcome of this consultation was revealed in the Autumn Statement. The Government has decided to go ahead with HMRC's original proposals for the most part. As of April 2017, any new Salary Sacrifice car will be subject to Income Tax (for the employee) and National Insurance Contributions (for the employer). These levies will be imposed on the highest of either the salary sacrificed or the taxable value of the car itself. This change will also apply to employees who take a company car where they could have taken a cash alternative instead. A total of 600,000 workers could be affected.

However, there are some important exceptions. Those employees who already have a car through Salary Sacrifice will not be hit by the changes until April 2021. And ultra-low emission vehicles – those emitting less than 75 gCO_2/km – will also be exempt.

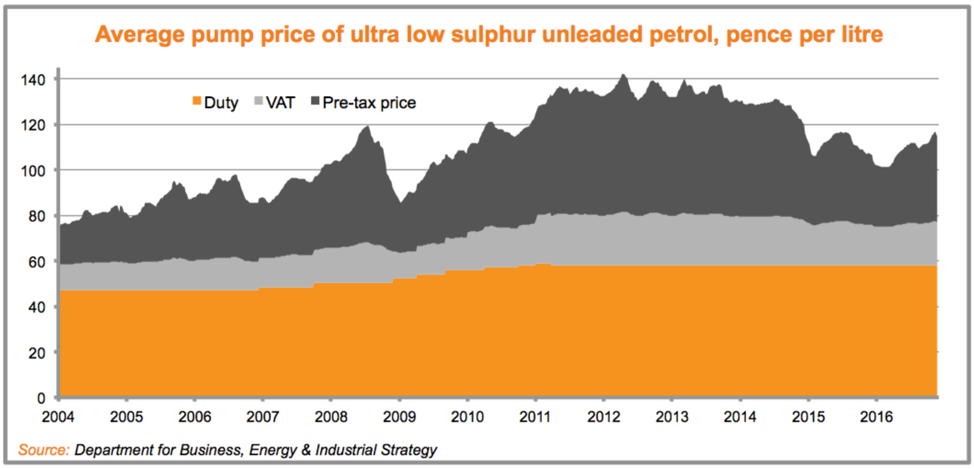
Whilst these exceptions are welcome, they are not enough. Alongside others in the automotive industry, we argued before the Autumn Statement that cars should be exempted from the changes entirely. Through the payment of Benefit-in-Kind tax, those in Salary Sacrifice car schemes are already giving their fair share to the Exchequer. And, because Salary Sacrifice cars are newer than most others on the road, they are also greener. Moving to a more complex, less advantageous system is wrongheaded.

Ultra-low emission vehicles

Excluding ULEVs from the Salary Sacrifice changes isn't the only way that the Government is trying to incentivise their uptake. Although he didn't mention it in his speech, Hammond is also legislating to introduce new Company Car Tax bands for ULEVs from April 2020. The detail was actually contained within the separate Policy Costings document published by the Treasury. It says that 'The appropriate percentages for zero emission cars will be 2%, while those for cars with CO_2 emissions between 1g/km and 50g/km will vary between 2% and 14% depending on the number of zero-emission miles the vehicle can travel.' As for more polluting cars, they will be taxed more heavily. Again, in the Treasury's words: 'The measure also increases appropriate percentages by 1 percentage point to a maximum value of 37% for cars with CO_2 emissions of 90g/km and above.'

On top of this, the Autumn Statement allocated £390 million to support various ULEV schemes – including more charging points and the provision of cleaner buses and taxis – as well as the development of autonomous and connected cars. A new 100% First-Year Allowance has also been introduced to give tax relief on business expenditure on charging points for electric vehicles, which will remain in effect until April 2019. These measures will no doubt encourage more fleets to go green.

Fuel Duty



One of Osborne's favourite policies was to freeze the rate of Fuel Duty. He cut it to 57.95 pence per litre in March 2011 and then kept it at that level throughout the rest of his Chancellorship – even though, according to the Institute for Fiscal Studies, he could have netted an extra £6 billion a year by letting it rise as previously planned. Some expected Osborne to break this habit, and raise Fuel Duty, in his last Budget, given that pump prices were at their lowest for over six years at the time. Yet still he resisted. The Budget extended the freeze on Fuel Duty until April 2017.

But what about the new Chancellor? Hammond may have been tempted to raise Fuel Duty in the Autumn Statement to help make up for lost revenue elsewhere. Instead, he decided to stick to Osborne's approach. The rate of Fuel Duty will remain at 57.95 pence a litre until at least April 2018.

This is particularly welcome at a time when the financial pressures on motorists are mounting. As our graph shows, the changing cost of oil has meant that petrol prices have risen by 13 pence per litre – or 12.8% – since the Budget. The OBR also expects general inflation to rise to 2.3% next year.

Transport infrastructure

A lot of money has already been earmarked for new transport infrastructure. According to the National Infrastructure Delivery Plan that was published in March, some £134 billion of public and private money will be spent on 329 projects in the coming years – including £13 billion to renovate the country's road network.

Hammond supplemented this with another £1.3 billion for road improvements, along with £535 million to upgrade the rail network. In addition, he committed to completing the new East-West Rail line joining Oxford and Cambridge, as well as a special expressway between the two cities. This was recently advocated by the National Infrastructure Commission as a means of creating 'the UK's Silicon Valley'.

Insurance Premium Tax

To help pay for some of this spending, Hammond also announced that the Insurance Premium Tax will rise by 2 percentage points in June 2017 to 12%. This amounts to a doubling of the rate since 2015 – a burden that is imposed on the insurance industry, but is ultimately borne by consumers. The cost of premiums, including car insurance, will rise to reflect it.

Other policies

Of course, an Autumn Statement contains policies that aren't just designed for motorists, but will nonetheless affect people in and around the leasing industry. These include:

Infrastructure

The Chancellor's infrastructure spending didn't just go towards transport. He established a new National Productivity Investment Fund, which adds up to £23 billion worth of spending on various projects; including £3.7 billion for 140,000 new houses, £740 million for the roll-out of broadband and 5G, and £4.7 billion for research and development.

Taxes

The Autumn Statement's two biggest tax policies were actually to confirm that the new Chancellor is following the path established by the old one. Hammond will cut Corporation Tax from its current rate of 20% to 17% in 2020 as planned. He will also raise the Income Tax Personal Allowance from £11,000 to £12,500 across the same period.

Pensions

Hammond didn't make any major changes to pension policy in the Autumn Statement, but he did hint at major changes to come. In his speech, he announced that the Government will review the existing 'triple lock' that ensures that the state pension rises by the highest of either earnings growth, inflation or 2%. This would be a major departure from the governments of David Cameron, who was especially committed to protecting pensioner incomes.

The abolition of the Autumn Statement

Hammond's Autumn Statement speech ended by abolishing future Autumn Statements. There will be a full Budget in March as usual, but after that Budgets will come in the autumn, with a shorter, supplementary statement in the spring. The extent to which this matters in practice depends on how much Chancellors decide to include in the new Spring Statements. For his part, Hammond has indicated that he would like to keep them brief.

Sources and further reading

- *Autumn Statement 2016*, HM Treasury
- *Autumn Statement 2016: policy costings*, HM Treasury
- *Economic and fiscal outlook: November 2016*, Office for Budget Responsibility
- *Budget 2016*, HM Treasury
- *National Infrastructure Delivery Plan 2016-2021*, Infrastructure and Projects Authority
- *Cambridge – Milton Keynes – Oxford Corridor: Interim Report*, National Infrastructure Committee, 16 November 2016
- Paul Johnson's introductory remarks to the Institute for Fiscal Studies' briefing on Autumn Statement 2013, 6 December 2013
- *Fuel Duty: September 2016*, LeasePlan
- 'Why the Government should leave Salary Sacrifice well alone', Matthew Walters, easiertoleaseplan.co.uk, 4 November 2016
- More coverage of Autumn Statement 2016 can be found at http://www.easiertoleaseplan.co.uk/autumn-statement-2016/

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