LeasePlan Consultancy Services

Budget Report

March 2017

LeasePlan

It's easier to leaseplan

Foreword by Matthew Walters, LeasePlan Head of Consultancy

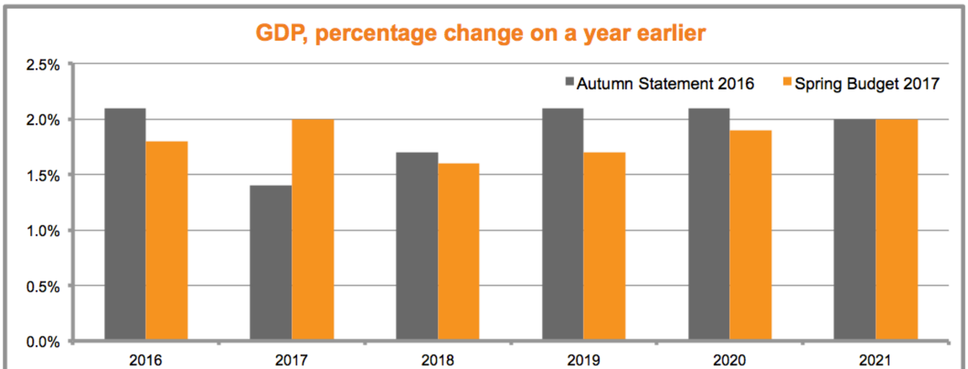
Philip Hammond's Autumn Statement made this a period of fast change for fleets and their drivers. It legislated, among other things, for a revised approach to Salary Sacrifice that will come into effect this April. This includes Optional Remuneration Arrangements predominantly in use by 'perk' drivers where employees have a choice between taking cash allowance or company car. LeasePlan are prepared for these changes - and we're confident about the future of Salary Sacrifice and the benefits it can bring for our customers.

Perhaps because of the magnitude of his Autumn Statement, the Chancellor's Spring Budget was relatively light in size and content - but this certainly doesn't mean that it was empty. We've summarised its most important policies and economic forecasts in this briefing document. We hope you find it a useful guide to the Chancellor's plans.

The economic and fiscal forecasts

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

Growth



Source: Office for Budget Responsibility

In November, the OBR significantly downgraded its forecasts for economic growth in 2017 and 2018, as a result of the vote to leave the European Union. However, it now says that 'the economy ended 2016 with greater momentum than we expected', and has therefore revised its forecast for growth this year back up slightly, from 1.4% to 2.0%. The medium-term picture is not so bright, though. The OBR expects growth to slow to 1.6% in 2018, and has revised down its forecasts for 2019 and 2020 as well.

The public finances

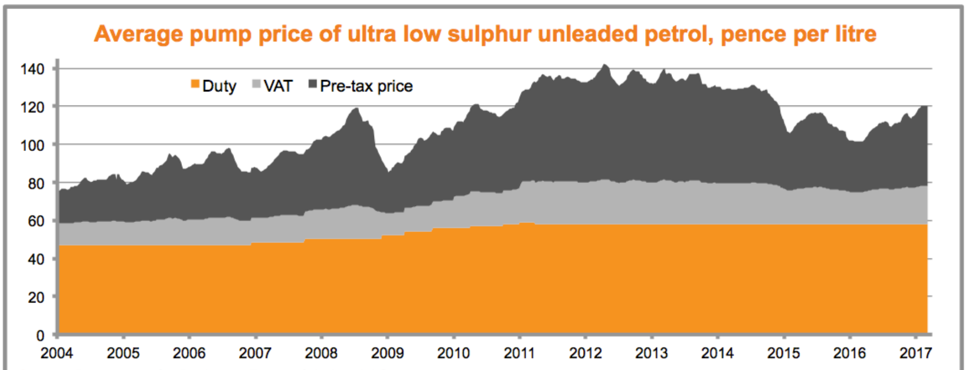
At the Autumn Statement, Hammond scrapped the fiscal rules set by his predecessor, George Osborne, and introduced three less stringent rules of his own. These were: to cut the structural deficit to less than 2% by 2020-21; to have Government debt falling as a proportion of GDP in the same year; and to keep welfare spending in 2021-22 below £126 billion. With neither significant changes to the medium-term economic forecasts nor big changes to tax and spending policies, the Chancellor remains on target to meet these goals.

As for the Government's overall deficit, that is now set to come in much lower this financial year than previously expected. The Government is forecast to borrow £51.7 billion this year, down from £71.7 billion in 2015-16. However, the deficit is then expected to rise to £58.3 billion in 2017-18, before falling each year thereafter, reaching £16.8 billion in 2021-22.

Policies for motorists

The Autumn Statement contained a number of policies that will directly affect motorists and fleet professionals. The Spring Budget confirmed some of these, while adding a few more. Here's our summary.

Fuel Duty



Source: Department for Business, Energy & Industrial Strategy

In his Autumn Statement, Hammond continued one of the favourite policies of his predecessor by freezing the main rate of Fuel Duty at 57.95 pence per litre until April 2018. It has been kept at this level since March 2011.

The Spring Budget made no change to this policy, meaning that Fuel Duty will remain frozen until April 2018, and is scheduled to rise in line with inflation thereafter. Will Hammond freeze Fuel Duty beyond next April? Or allow it to rise as scheduled? We now know that, either way, the answer will come in his second Budget of this year.

In the meantime, the Chancellor will no doubt face pressure from his party and from the general public to keep the freeze in place – particularly given the OBR's forecast that inflation will increase from 0.7% in 2016 to 2.4% this year. Motorists and families are set to have their wallets squeezed by rising prices, and the Government will be urged to help where it can.

Diesel

A lot of the Government's automotive policies are designed to incentivise the uptake of cleaner vehicles. For a long time, this meant taxing carbon dioxide emissions – and it still does. But, more recently, politicians have also set their sights on other air pollutants, such as the NOx that is given off by diesel engines. From a fleet perspective, the prime example of this legislative shift has been the 3 percentage point 'diesel surcharge' that is added to Company Car Tax rates.

There were no such policies announced in the Budget, but it did hint at further action on diesel in future. The Red Book revealed that the Government 'will continue to explore the appropriate tax treatment for diesel vehicles', with changes likely to be included in Hammond's next Budget later this year.

We don't yet know how far these changes will go. Is the Government thinking about applying a diesel surcharge to VED? Or does it have something more ambitious in mind, such as reshaping the entire car tax system around NOx? The Government has promised to listen to the views of stakeholders as part of a consultation process. LeasePlan will work to make sure that the views of our customers are heard, so that emissions can be reduced in a way that is fair to motorists.

Vehicle Excise Duty (VED)

Another of the legacy policies of Osborne's Chancellorship is a new system of Vehicle Excise Duty that will come into effect on 1st April 2017.

Vehicle Excise Duty rates, April 2017 onwards

Emissions (gCO_2/km)	First year	Each year after
0	£0	£0
1 – 50	£10	£140
51 – 75	£25	£140
76 – 90	£100	£140
91 – 100	£120	£140
101 – 110	£140	£140
111 – 130	£160	£140
131 – 150	£200	£140
151 – 170	£500	£140
171 – 190	£800	£140
191 – 225	£1,200	£140
226 – 255	£1,700	£140
255+	£2,000	£140

A supplement of £310 applies to cars *with a list price higher than £40,000, in their second to sixth years.*
Source: HM Revenue & Customs

However, this system will only apply to vehicles registered after that date. Vehicles registered before that date are still subject to the old system.

Which is where Hammond's Spring Budget comes in. It confirmed that, in 2017-18, the VED rates for cars, vans and motorcycles registered before April 2017 will rise in line with inflation, as recorded by the Retail Prices Index. The new rates for cars and vans are shown in the table below.

But the Budget also revealed that Heavy Goods Vehicles will be exempted from this rise. Their VED rates will be frozen, as will the Road User Levy that is imposed on HGVs weighing 12 tonnes or more. The Government will also consult on updating this Levy, so that it better rewards hauliers who plan their routes efficiently.

VED standard rates for vehicles registered before 1st April 2017

Cars		2016–17	2017–18
VED band	CO_2 emissions		
A	≤100 gCO_2/km	£0	£0
B	101–110	£20	£20
C	111–120	£30	£30
D	121–130	£110	£115
E	131–140	£130	£135
F	141–150	£145	£150
G	151–165	£185	£190
H	166–175	£210	£220
I	176–185	£230	£240
J	186–200	£270	£280
K	201–225	£295	£305
L	226–255	£500	£520
M	>255	£515	£535
Vans			
Early Euro 4 and Euro 5 compliant		£140	£140
All other vans		£230	£240

Cars registered before 23rd March 2006 and emitting over 225 gCO_2/km pay the band K rate.
Source: HM Treasury

Road improvements

There wasn't actually any new money for infrastructure investment in this Budget. The Chancellor had already put £23 billion into a new National Productivity Investment Fund in his Autumn Statement. The Budget simply provided more details on how this money will be spent.

In terms of roads, £220 million will be spent tackling pinch points on the network, including £90 million in the North of England and £23 million in the Midlands. Local Authorities will also be invited to compete for a share of a £690 million pot to improve local transport links and relieve congestion.

Although none of this is new money, it still ought to be welcomed. The World Economic Forum's latest World Competitiveness Report ranks the United Kingdom 27th in the world on the quality of its road infrastructure, well behind other major economies. Investment to improve this situation is badly needed.

Further information

To help fleets prepare for the changes, LeasePlan will once again be publishing its comprehensive 'LeasePlan Funding & Taxation Guide'. The guide uses real world scenarios to illustrate what the Chancellor's budgeting means in practice, not just on paper, and to clarify how fleet costs and policies will be affected by tax changes.

Pre-order your free copy of the guide by signing up to Fleet Insights here

Sources and further reading

- *Spring Budget 2017*, HM Treasury
- *Spring Budget 2017: Overview of Tax Legislation and Rates*, HM Treasury
- *Economic and fiscal outlook: March 2017*, Office for Budget Responsibility
- *Autumn Statement November 2016*, LeasePlan Consultancy Services
- *Fuel Duty: September 2016*, LeasePlan
- *The Global Competitiveness Report 2016-2017*, World Economic Forum
- More coverage of Spring Budget 2017 can be found at www.easiertoleaseplan.co.uk/blog

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