Foreword

At the start of his Spring Statement, Philip Hammond was keen to set the parameters for this new fiscal event. Unlike the Spring Budgets that had preceded it, he said, the Spring Statement would not contain dozens of new tax and spending policies. It would instead be plainer and shorter.

And that is what the Chancellor delivered. The Spring Statement didn't contain new taxes for diesel vehicles, nor did it find more money for electric charging infrastructure. There were no tweaks to Company Car Tax or to Optional Remuneration Arrangements. After the constant changes of the past few years, fleets and their drivers may be grateful for this moment of respite.

But don't make the mistake of thinking that the Spring Statement was irrelevant for the fleet industry. There were several announcements that could impact your day-to-day business, including the latest growth forecasts and a new consultation into Vehicle Excise Duty for low-emission vans.

This white paper details all of these announcements, as well as summarising some of the previously-announced policies that will take effect this year. After all, whether it's the Autumn Budget or this shorter Spring Statement, LeasePlan's principles never change – we always want our customers to be prepared for *What's next*.

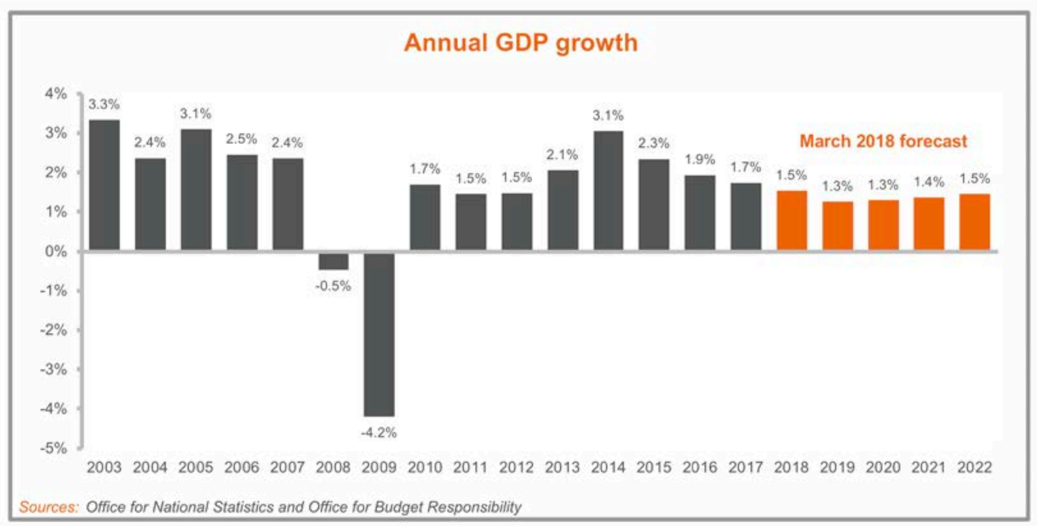
Matthew Walters, Head of Consultancy and Data Services, LeasePlan UK

Economic forecasts

The main purpose of the new Spring Statement is for the Chancellor to present and respond to the latest forecasts produced by the independent Office for Budget Responsibility (OBR). Here is a summary of its expectations for the economy.

Growth

The UK's economic growth has slowed significantly over the past three years, from 3.1% in 2014 to just 1.7% in 2017. And the OBR doesn't expect it to pick up again for the foreseeable future. It forecasts that economic growth will stay around 1.5% for the next five years – well below its long-run average of 2.4%.

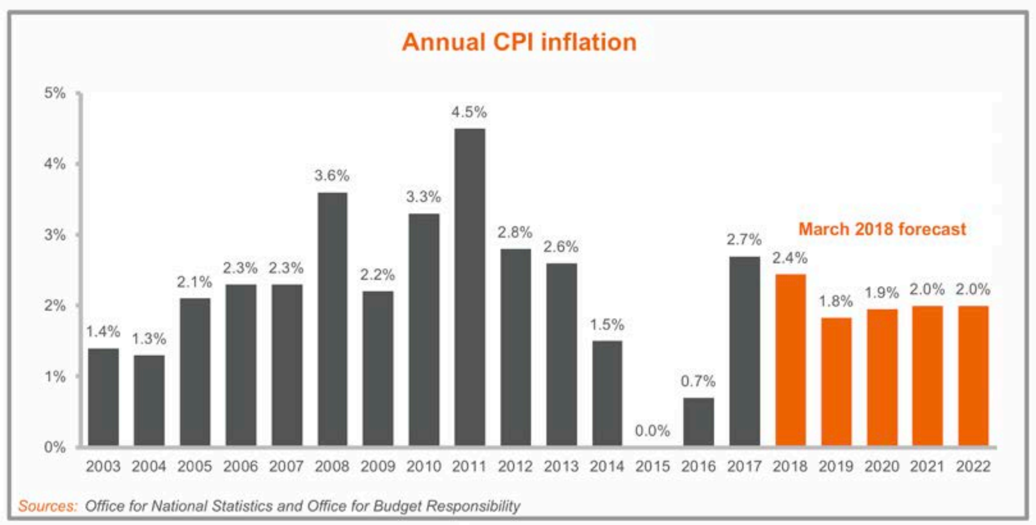


Since its last set of forecasts in November, the OBR has slightly upgraded its expectations for 2018 (from 1.4% growth to 1.5%), but it has also slightly downgraded its expectations for 2021 and 2022 (from 1.5% to 1.4% and 1.6% to 1.5%, respectively). The result is a very similar economic outlook to that presented in the Chancellor's Autumn Budget.

Inflation

2017 saw household budgets squeezed as prices rose dramatically. Inflation (as measured by the Consumer Prices Index) hit 3% in the 12 months to January 2018 – well above the growth in average earnings.

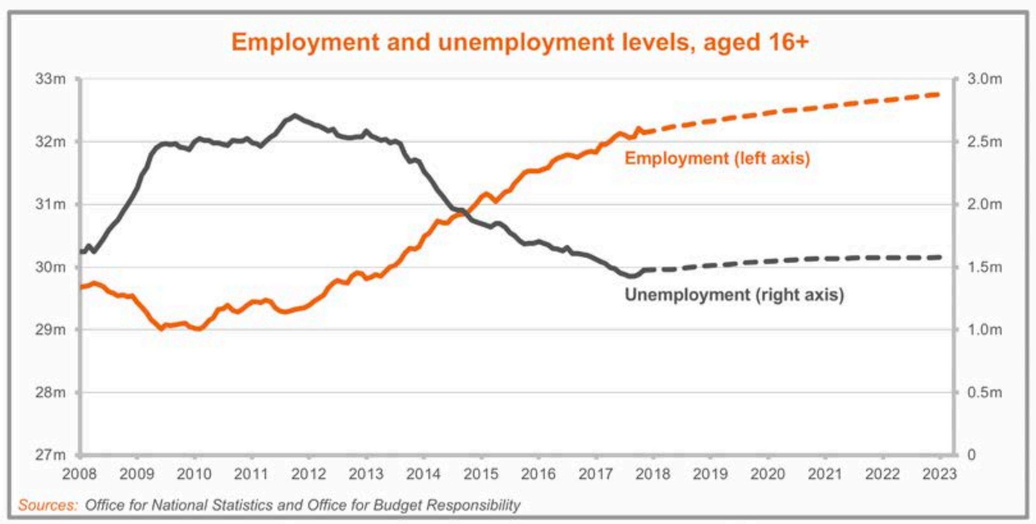
Fortunately, the OBR predicts that inflation will soon start to fall steadily, before reaching the Bank of England's target of 2% in early 2019.



Employment

A strong labour market has been one of the great success stories of the British economy in recent years. The number of people in work has risen by 2.2 million over the past five years, to a record 32.2 million.

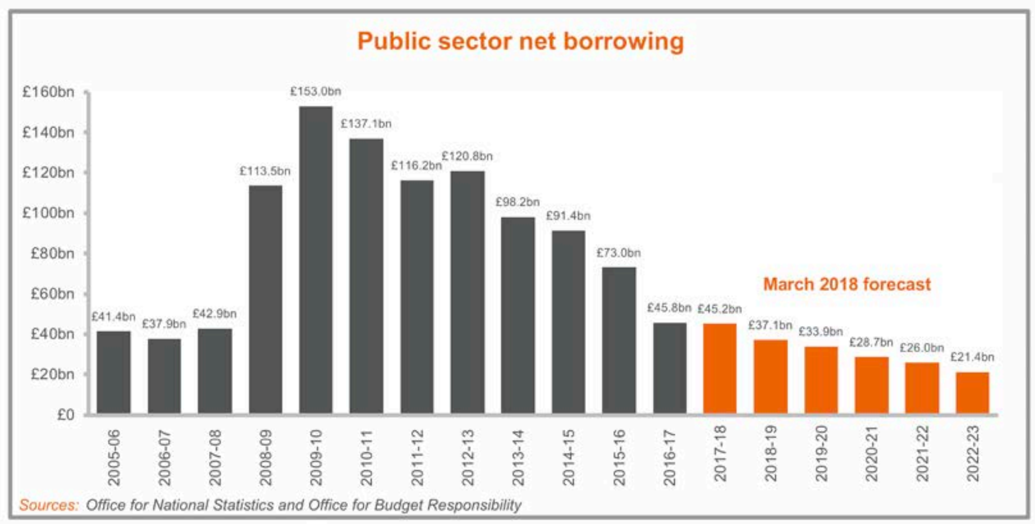
The OBR expects that this happy trend will continue. Its forecast is for another 590,000 people to join the country's workforce between now and the end of 2022. However, this is not enough to keep up with population growth, and the OBR therefore also expects unemployment to creep up in the coming years.



Fiscal forecasts

As well as its outlook for the economy, the OBR also produces forecasts for the public finances, which underpin all of the Government's decisions on taxes and spending. Here is a summary of the latest ones.

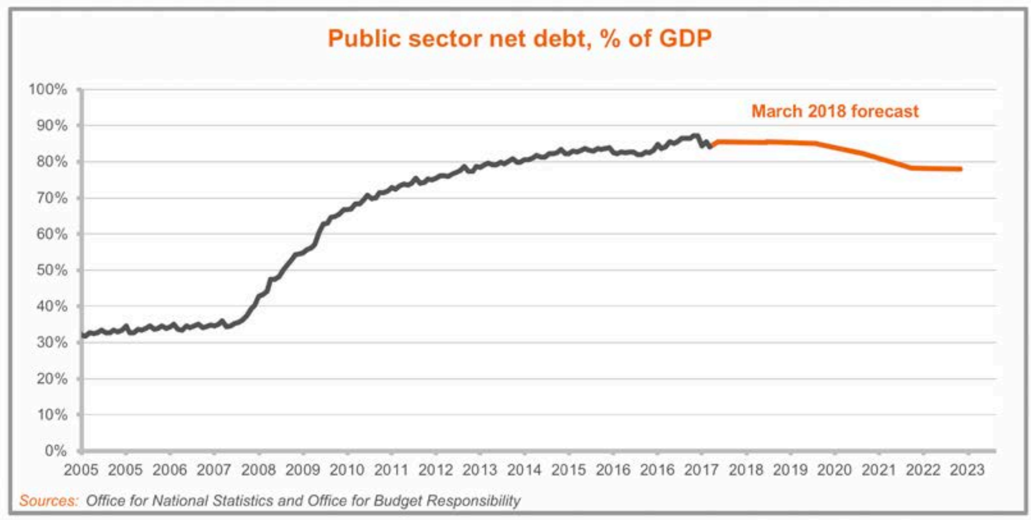
The deficit



The main goal that Philip Hammond has set himself is to eliminate the deficit by 2025. He is succeeding in bringing it down: the OBR expects the Government to borrow a total of £45.2 billion in this financial year (2017-18), slightly less than the £45.8 billion it borrowed last year. It also forecasts the deficit to come down in each of the next five years, falling to £21.4 billion in 2022-23. However, that doesn't mean Hammond is on track to meet his target. Although the OBR's forecasts don't extend to 2025, it does say that 'meeting this objective appears challenging', especially given the fiscal pressures caused by an ageing population.

The debt

Hammond was able to boast that government debt as a percentage of GDP will fall in each year from now on. The OBR forecasts it to peak at 85.6% of GDP in March 2018, before falling steadily over the next five years, to 77.9% in March 2023.



In his Statement, the Chancellor called this 'A turning point in the nation's recovery from the financial crisis of a decade ago. Light at the end of the tunnel.' However, it still means that the public debt will total £1.89 trillion in 2022-23, and that the Government will be paying more than £40 billion each year in interest on that debt alone.

Policies for motorists

When Philip Hammond announced that he would replace the Spring Budget with a Spring Statement, he argued that there should only be one set of major fiscal policy announcements each year – and that this should come in the Autumn Budget.

He therefore kept his first Spring Statement deliberately light on new policies. However, he did announce several new consultations – including one that will be of particular interest to commercial vehicle fleets. And there are a few previously-announced policies that will affect motorists in the year ahead. These are summarised below.

Low-emission van consultation

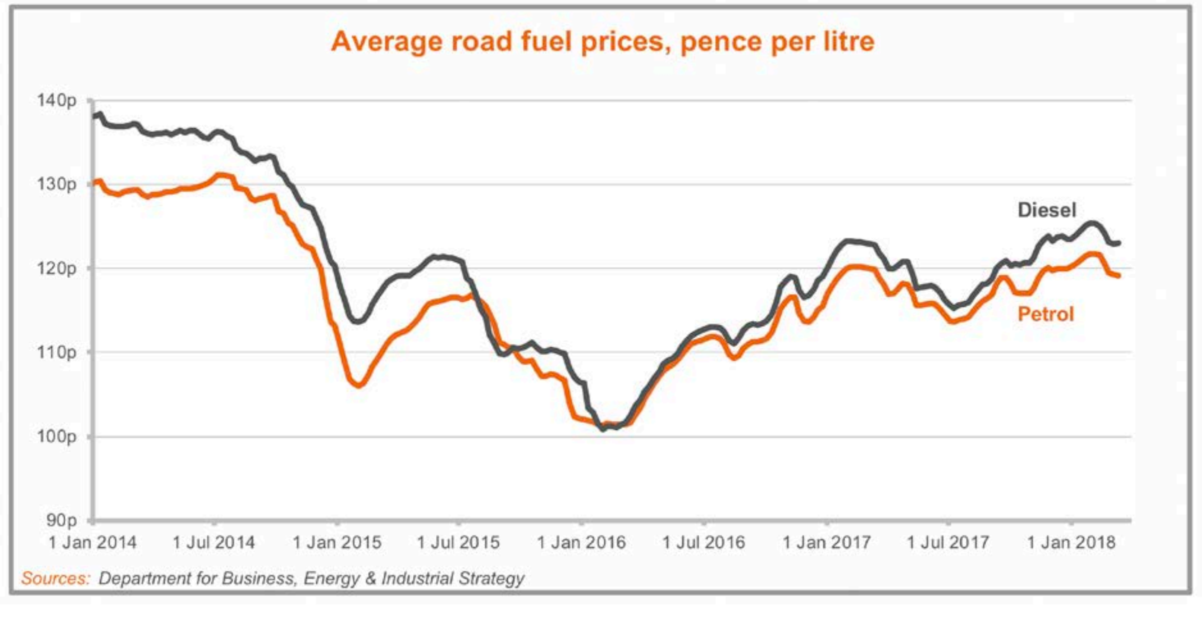
The Chancellor announced a government consultation on 'reduced VED [Vehicle Excise Duty] rates for the cleanest vans' to 'help the Great British White Van driver go green'. This is welcome news. Reducing vehicle emissions is a crucial part of the fight against climate change and air pollution, and vans must be part of that conversation.

However, we will have to wait until the consultation document is promised to learn what the Government actually has planned. It remains to be seen what these lower VED rates will be, and whether they will be reserved for ultra-low emission vans – mainly electric ones – or will also apply to petrol and diesel ones that meet the latest emissions standards.

Fuel Duty

The rate of Fuel Duty for petrol and diesel has been frozen at 57.95 pence per litre since March 2011. It was scheduled to rise in line with inflation in April 2018, but, in Autumn Budget 2017, Hammond once again cancelled that rise and extended the freeze for an eighth consecutive year. The rate will therefore remain at 57.95p per litre until April 2019.

This year's Autumn Budget should reveal whether the freeze will persist beyond that date. That decision will depend largely on what happens to fuel prices over the next few months. Although they rose sharply in 2016, average pump prices have remained relatively flat over the past 12 months. They now stand at 119.1 pence per litre for petrol and 123.0p per litre for diesel.



Diesel taxes

In his Autumn Budget, the Chancellor also announced two sets of tax rises for diesel cars: higher first-year VED rates and an increase to the existing diesel supplement for Company Car Tax (CCT).

People buying diesel cars registered after 1 April 2018 will face higher first-year VED rates than those buying petrol cars with the same carbon dioxide (CO_2) emissions. The new first-year rates are shown in the table on the right.

In addition, the Chancellor has increased the diesel supplement applied to CCT rates from 3 percentage points to 4. This will apply not only to new diesel company cars, but to all those registered since 1998.

However, there are two important exemptions to these diesel tax rises. The first is that they will not apply to vans. The second is that new, cleaner diesels that meet the Real Driving Emissions step 2 (RDE2) standard will not have to pay the higher VED rates, nor the CCT supplement.

First-year VED rates for cars registered on or after 1st April 2017

CO_2 emissions (gCO_2/km)	2017–18	2018–19	
		Petrol	Diesel
0	£0	£0	£0
1–50	£10	£10	£25
51–75	£25	£25	£105
76–90	£100	£105	£125
91–100	£120	£125	£145
101–110	£140	£145	£165
111–130	£160	£165	£205
131–150	£200	£205	£515
151–170	£500	£515	£830
171–190	£800	£830	£1,240
191–225	£1,200	£1,240	£1,760
226–255	£1,700	£1,760	£2,070
>255	£2,000	£2,070	£2,070

The diesel rate only applies to those diesels that do not meet the RDE2 standard.
Source: HM Treasury

Sources and further reading

- Spring Statement 2018: Philip Hammond's speech, HM Treasury
- Economic and fiscal outlook: March 2018, Office for Budget Responsibility
- Autumn Budget 2017: A Guide, November 2017, LeasePlan Consultancy Services
- More coverage of Autumn Budget 2017 can be found at insights.leaseplan.co.uk.

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