LeasePlan

What's next?

# Autumn Budget 2018

LeasePlan UK Consultancy Services

# Guide to the Budget for Fleet Managers

## Foreword

Even by the usual standards of political oration, the Chancellor's latest Budget Speech was full of big assertions. His biggest – which he repeated several times – was that 'austerity is coming to an end'.

When it came to fleets, however, the Chancellor was not assertive enough. This was a Budget that left businesses and motorists unclear about some of the important changes that are heading their way.

Some of this inconclusiveness was understandable. For example, the Red Book informed us that the Government will instigate a review into the effect of the new emissions tests on vehicle taxes, and that we will have to wait until the spring for the outcome. And wait we shall.

But some of the inconclusiveness is almost unforgiveable. Previous Chancellors used to provide us with the rates of Company Car Tax for the next five years, but this Chancellor still hasn't revealed them for 2021-22 or beyond. The absence of this most basic information makes it difficult for fleets and their drivers to plan for the years ahead.

Philip Hammond did set out some fleet-related policies, though – including a new round of investment to improve the country's road network and to fill in some of its many potholes.

All these policies are disclosed and discussed in this brief guide to Budget 2018. As ever, we at LeasePlan want to prepare our customers for what's next – even when the Chancellor is being tight-lipped.

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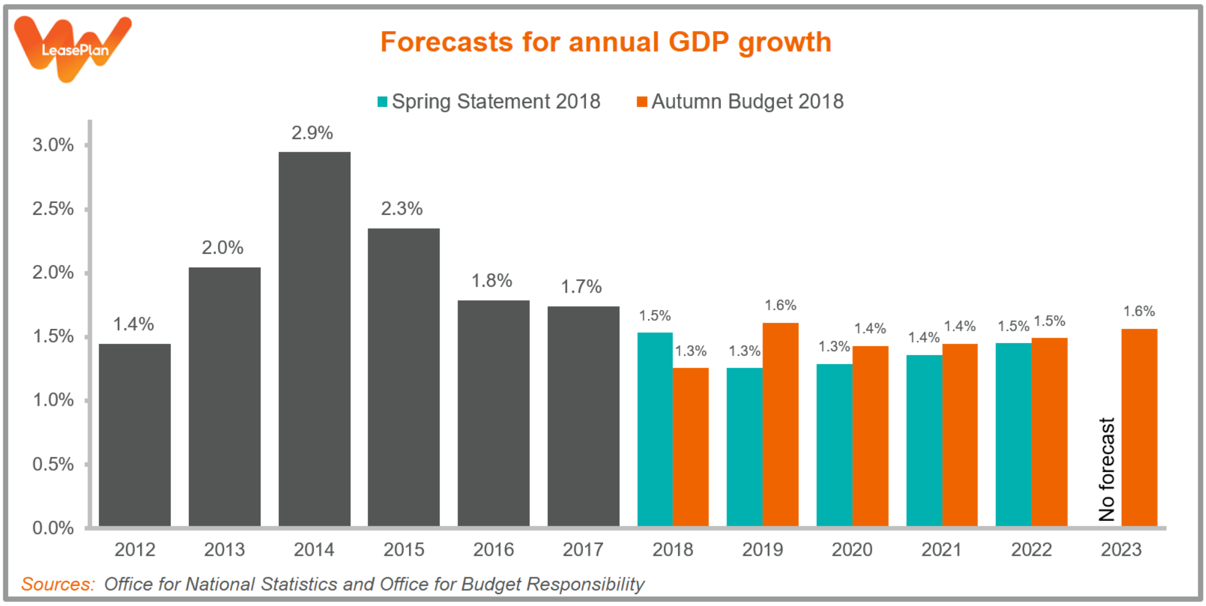
## The economic and fiscal forecasts

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

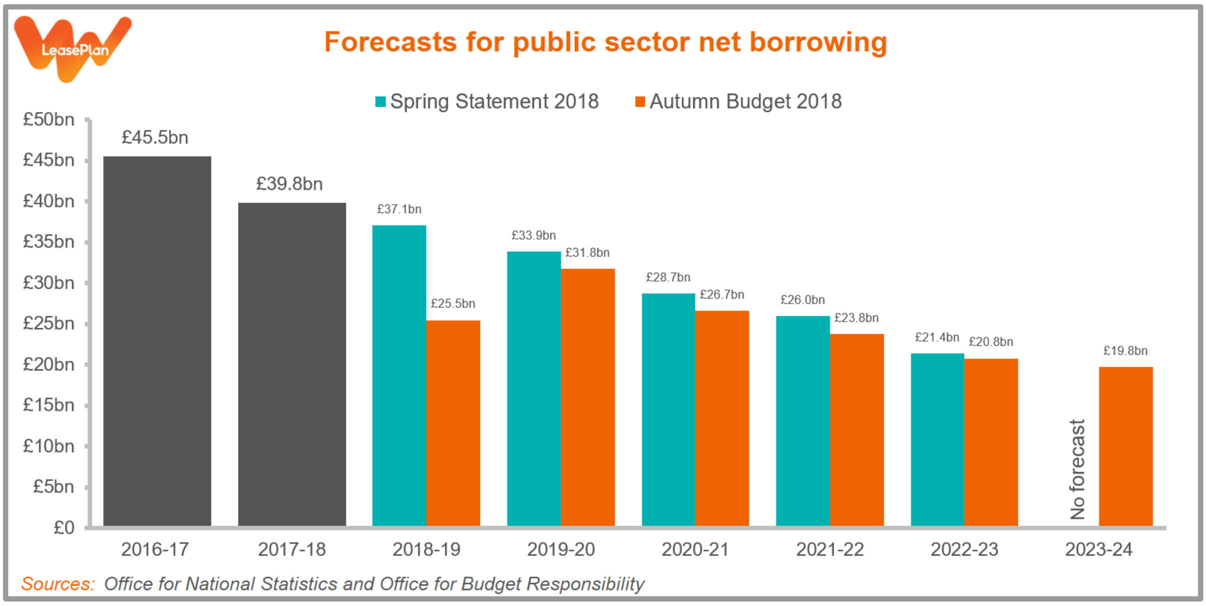
## Growth




Since its last set of forecasts, published alongside the Spring Statement in March, the OBR has barely altered its position on economic growth. Its expectations for this year have been slightly downgraded (from 1.5% growth to 1.3%), whilst those for next year have been slightly upgraded (from 1.3% to 1.6 %). But, otherwise, there has been practically no change – the UK economy is still forecast to grow by about 1.5% in each of the next five years.

This 1.5% isn't just significantly lower than the 2.9% achieved in 2014, it's also lower than the long-run average of 2.4%. It is also subject to a high degree of uncertainty. As the OBR points out, 'A disorderly [departure from the European Union] could have severe short-term implications for the economy, the exchange rate, asset prices and the public finances.'

## The deficit




Philip Hammond's main fiscal aim is to 'return the public finances to balance' – which is to say, reduce public sector borrowing to zero – by 2025. According to the OBR's latest forecasts, he is certainly managing to bring borrowing down. It is expected to decline from £31.8 billion next year to £19.8 billion in 2023-24. However, as the OBR points out, 'Achieving the broader balanced budget fiscal objective in 2025-26 looks challenging
(although this lies beyond our formal forecasting horizon).'

## The debt

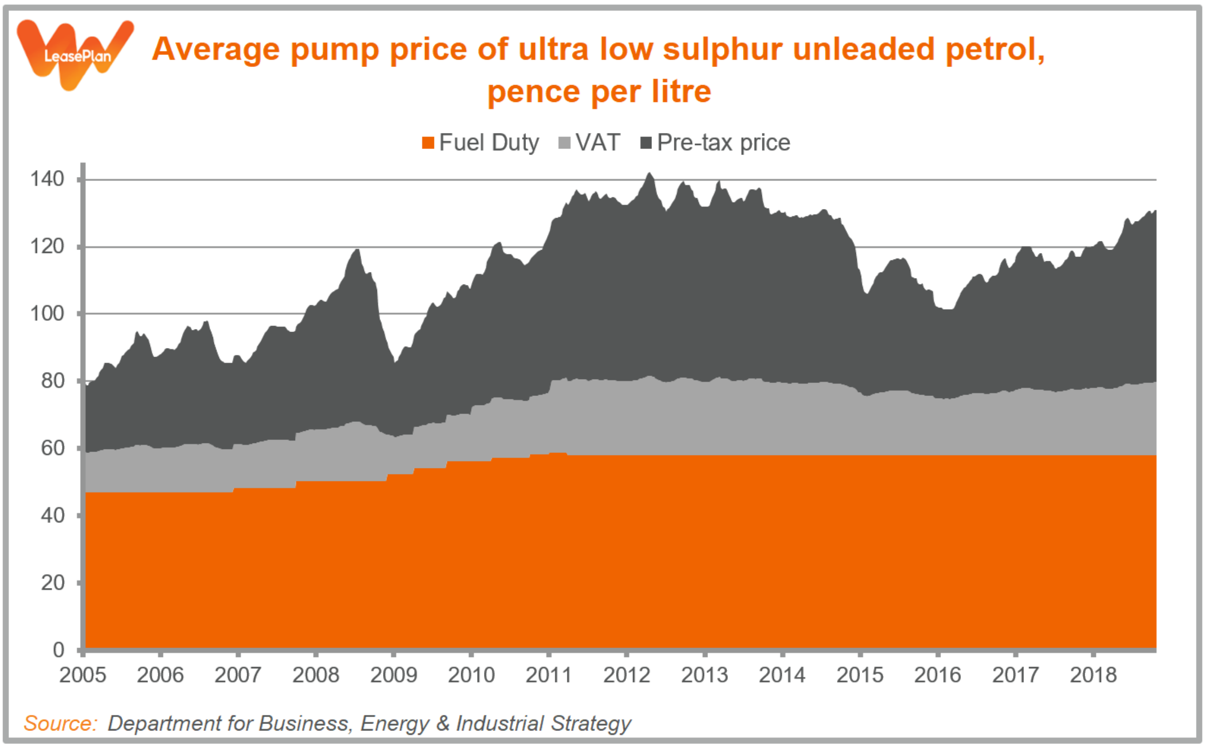
Another of Hammond's fiscal targets is to have public sector debt falling, as a share of GDP, in 2020-21. In fact, the OBR expects it to fall in every single year of the current forecast window – from 85% now to 79.9% in 2020-21, and then to 74.1% in 2023-24.

However, this still means that the public debt will total £1.9 trillion in 2023-24, and that the Government will be paying more than £40 billion each year in interest on that debt.

## Policies for motorists

Philip Hammond stuck true to his promise to keep the Spring Statement relatively light on policy announcements – meaning that this Autumn Budget is his biggest intervention of the year. Even so, from a fleet perspective, it was as notable for the policies that it didn't contain as for those that it did.

## Fuel Duty




In his speech, Philip Hammond joked that some of his announcements had already been revealed by other ministers. One of these was the extension of the Fuel Duty freeze for another year, which was revealed by the Prime Minister herself in her recent speech at Conservative Party Conference. And so, the Budget simply confirmed that, yes, Fuel Duty for petrol and diesel will be kept at 57.95 pence per litre until April 2020.

This means that Fuel Duty has now been frozen for nine consecutive years, since it was cut to that level in March 2011. This has been a welcome and ongoing relief for motorists and fleets.

However, as our graph above shows, the freeze has done little to contain the prices that are actually paid at the pump. A litre of petrol now costs around 131 pence, which is 29% higher than it cost at the start of 2016. The cost of diesel has risen by a similar amount over the same time period. If the Chancellor really wants to spare people's wallets, then he may have to consider cutting Fuel Duty, rather than just freezing it.

## A review into the effects of WLTP

The Worldwide Harmonised Light Vehicle Test Procedure (WLTP) is the new emissions testing regime that has replaced the previous New European Driving Cycle (NEDC). It is designed to more accurately capture the $CO_2$ emissions and fuel consumption of cars on the road – which is a good development.

However, there's a catch. Because WTLP emissions figures will generally be higher than NEDC figures, the transition could push some cars into higher tax brackets than they occupied previously. The Government is holding off on using WLTP data for tax purposes until April 2020, but even the interim 'NEDC-correlated' data that they are using could see some cars face higher rates of taxation. This means that company car drivers could effectively be penalised for decisions they have already made.

Thankfully, the Treasury appears to be aware of this problem. The Budget established a review into the effects of WLTP on Company Car Tax (CCT) and Vehicle Excise Duty (VED), which will report on its findings in the spring. Of course, we shall have to wait until then to discover what – if any – mitigating policies the Chancellor will introduce, but this review is at least a start. We can be hopeful that it will be followed by action.

## CCT rates (or the lack of them)

One of the most notable aspects of the Budget was actually something that it omitted: the CCT rates for 2021-22 and 2022-23. Perhaps the Chancellor is now waiting for the findings of the WLTP review before he decides on those rates, but that is a new and feeble excuse. It used to be the case the fleets and their drivers were informed of the CCT rates for the next five years, so that they could make decisions accordingly. As it is, we've been waiting to discover what lies beyond 2020-21 for the past two years – and the wait goes on. Philip Hammond should rectify this situation as soon as possible, preferably ahead of the publication of the new draft Finance Bill next summer.

## Forthcoming VED changes

One of the few announcements that the Chancellor did make in his Spring Statement was to set up a consultation into a new system of VED for vans, which would encourage the uptake of cleaner vehicles. A summary of the responses to that consultation was published alongside the Budget, along with the Government's own response to those responses.

The upshot is that the VED regime for vans is likely to be reformed so that it is based on $CO_2$ emissions – but, again, we're left waiting on the final details of that policy. The Budget suggests that the actual bands and rates will be revealed ahead of next year's Finance Bill.

The consultation document does confirm, however, that the Government has made three decisions with regards to the new VED system for vans. First, to take into account the effect of WLTP on emissions data. Second, to develop a system that divides vans into two weight categories. And, third, to provide further incentives, beyond first-year VED rates, for van drivers to choose cleaner vehicles.

There was VED news elsewhere in the package of Budget documents, too. The Red Book revealed that the existing rates for cars, vans and motorcycles would increase in line with inflation (as measured by the Retail Price Index [RPI]) as of 1 April 2019, whilst the rates for HGVs will be frozen for another year.

Similarly, fuel benefit charges will also rise in line with RPI, whilst the van benefit charge will rise in line with the Consumer Price Index (CPI).

## Infrastructure spending

The Budget set aside a massive £30 billion to improve the country's road infrastructure. A large part of this sum – £28.8 billion – will be allocated to major road projects. Some of it, such as the £420 million that Hammond found to help councils tackle potholes, will be put towards everyday repairs.

It is easy to quibble with this spending. For example, the £28.8 billion is simply a result of George Osborne's decision, in his Summer Budget of 2015, to reform VED so that its revenues are ring-fenced within a special 'Roads Fund'. That fund is now available for Hammond to spend – so it's not exactly new money nor a new policy.

However, with the UK's road infrastructure in drastic need of improvement – it is ranked only 26th in the World Economic Forum's latest Global Competitiveness Index, well behind comparable economies such as France and Germany – those quibbles are pointless. What matters is that the necessary investment is now taking place. The national economy, as well as individual businesses and motorists, stands to benefit.

## Grants for electric vehicles

Only a few months ago, the Government published its 'Road to Zero' strategy for encouraging low-emission motoring. It is strange, then, that so many of the grants that made it easier for people to invest in electric vehicles are now beset by uncertainty. Just ahead of the Budget's publication, and earlier than expected, the Plug-in Car Grant was cut back to its reduced rate. It is also increasingly doubtful whether the home and workplace charging grants will persist beyond next year.

The Budget did little to reassure consumers about the futures of these grants, but it did include one boost for companies looking to go electric. The Enhanced Capital Allowances for electric vehicle charge points – by which business can claim 100% first-year tax relief on any charge points they install – has been extended until 31st March 2023.

## Sources and further reading


- Budget 2018, HM Treasury
- Budget 2018: Philip Hammond's speech, HM Treasury
- Economic and fiscal outlook: October 2018, Office for Budget Responsibility
- Spring Statement 2018: Philip Hammond's speech, HM Treasury
- Weekly road fuel prices, Department for Business, Energy & Industrial Strategy
- Prime Minister: Our future is in our hands, The Conservative Party
- WLTP & RDE: What the new emissions tests mean for fleets, LeasePlan UK
- Vehicle Excise Duty for vans: summary of responses, HM Treasury
- Global Competitiveness Index: Quality of roads, World Economic Forum
- The Road to Zero, HM Government
- More coverage of Autumn Budget 2017 can be found at insights.leaseplan.co.uk.

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