LeasePlan

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What you really need to know about the Autumn Budget 2021

Autumn Budget 2021

It is hard to overstate the significance of this moment for fleets and drivers.

After all, we are currently in the middle of one of the most significant changes in motoring history: the transition away from fossil-fuelled vehicles and into electric ones. This is happening ahead of one of the most significant deadlines in recent political history: the 2030 ban on sales of new, conventional petrol and diesel cars and vans. And it's all part of one of most significant challenges in human history: the fight against climate change.

Would Rishi Sunak's latest Autumn Budget be similarly significant? Overall, it certainly was a big occasion. The Budget, combined with a full Spending Review, gave Government departments tens of £billions more to spend over the next few years. It contained notable adjustments to the National Living Wage and to Universal Credit. It even established new fiscal rules for the Chancellor to abide by.

But when it came to fleets and drivers, this Budget actually felt quite small. It didn't contain anything like the major legislative changes – from Company Car Tax reforms to the Super Deduction – that we have seen in other recent Budgets. And it didn't answer any of the big questions that the Government has set itself along the Road to Zero, such as what might eventually replace the revenues that currently come from Fuel Duty.

This isn't to say that Autumn Budget 2021 contained nothing for fleets and drivers. We wouldn't be publishing this guide were that the case! We've been through the red book itself, the Chancellor's speech, and all the detailed supplementary annexes (which is often where the devil resides) to identify the changes that matter – and have summarised them in the pages that follow. From new rates of Vehicle Excise Duty to extra investment in charging infrastructure, we've got all the key announcements covered.

As always, we hope that you find this guide useful. Please do let us know what you think of it. We'd like your feedback to shape what we publish in future.

Because there will, of course, be other Budgets in future – and bigger ones than this. As I said, it's hard to overstate the significance of this moment for fleets and drivers. The Chancellor, in due course, is going to have to make some announcements that live up to it.

Matthew Walters, Head of Consultancy Services and Customer Value, LeasePlan UK

Policies for motorists

The Fuel Duty freeze

Ahead of the Spring Budget earlier this year, there was intense speculation that the Chancellor was going to increase the main rate of Fuel Duty by 5 pence a litre – in order to help plug the fiscal holes that had been opened up by the pandemic.

As it turned out, this increase didn't happen. Instead, Sunak decided to prolong the Fuel Duty freeze that has persisted since March 2011. The main rate of Fuel Duty would remain at 57.95 pence per litre until April 2022.

But what about after April 2022? The Autumn Budget provided our answer. Instead of a loosely scheduled increase in line with inflation, the main rate of Fuel Duty will now be kept at 57.95 pence per litre until at least April 2023. The freeze will persist into a 12th year.

Of course, this is good news for fleets and motorists – particularly at a time when the cost of living is rising quite sharply (see Inflation section, below).

But it ought to be set into a wider context. Thanks to increases in the price of oil and to general supply issues, the average price of petrol and diesel is pushing on to record highs. According to the Department for Business, Energy & Industrial Strategy's latest weekly spreadsheet, the average cost of a litre of petrol is currently almost 142 pence – the highest total since April 2012. The equivalent figure for diesel is almost 146 pence – the highest since March 2013.

So while the Fuel Duty freeze is welcome, it is not going to do much to ease the strain on businesses' wallets from high fuel prices. These are likely to be painful months for many, regardless of the Chancellor's actions.

Is there anything else that Sunak could do? There had been speculation that the Value Added Tax (VAT) on home energy – which currently stands at 5% – could be scrapped, in part to alleviate the pressure caused by energy price inflation in general, but also to remove some of the complexity around fleets reclaiming VAT for electric vehicles used for business purposes.

But there was no sign of this in any of the Budget documentation, so perhaps the Chancellor is saving the idea for the Spring Budget, or perhaps he has jettisoned it altogether. In interviews given since the Autumn Budget, he has criticised it as "not a particularly well-targeted measure".

In any case, it should be noted that there are fuel-related increases elsewhere in the Autumn Budget: both the car and van fuel benefit charges (as well as the van benefit charge) will rise in line with the CPI measure of inflation in 2022-23.

The bigger question of Fuel Duty

Fuel Duty came into focus ahead of the Autumn Budget in a different way. In the summer, the Tony Blair Institute released a report which suggested that, thanks mostly to falling Fuel Duty revenues caused by the shift to electric vehicles, the Exchequer stands to lose £30 billion by 2040.

In response, a spokesman for Boris Johnson said: “We need to ensure that the tax system encourages the uptake of electric vehicles and that revenue from motoring taxes keeps pace with that change. We will set out our further plans in due course.”

There was a chance that these “further plans” could at least be outlined in the Autumn Budget, perhaps with the start of a review into alternative forms of taxation that can be applied to both fossil-fuelled and electric vehicles. Informed observers have suggested that some form of Road Pricing – i.e. charging people for using roads – could be one of those alternatives.

But the Autumn Budget didn’t hint at those “further plans” in the slightest, meaning that they will have to come in future – perhaps in the forthcoming Spring Budget. In this respect, and others, Sunak’s latest statement felt like something of a stopgap.

Vehicle Excise Duty

Just like last year, the rates of Vehicle Excise Duty (VED) for cars, vans and motorbikes will be increased in line with RPI measure of inflation in the forthcoming financial year, starting April 2022.

As for lorry drivers and operators, the Autumn Budget froze VED for HGVs in 2022-23, while suspending the HGV Levy until at least August 2023.

But we might have expected to hear more on VED in general. In 2018, a consultation was set up to look into how road taxes could better incentivise the uptake of cleaner vans. And, in Spring Budget 2020, Sunak did likewise for cars, publishing a call for evidence on how the Government “can use VED to further encourage the uptake of zero and ultra-low emission cars”. Neither of these steps has resulted in actual policy changes – yet.

And there are other (non-VED) consultations and reviews that the Government has set up but that haven’t yet officially concluded. These include one, announced this summer, into which new hybrid vehicles should be permitted to remain on sale after the 2030 ban comes into force, and another on whether vehicle manufacturers should be mandated to sell a certain proportion of zero-emission vehicles.

Of course, these processes should be given time to reach proper conclusions. But the point remains: there is a lot of potential legislation hiding in the background at the moment. The Autumn Budget did nothing to reveal it.

Investment in electric vehicles

Unlike other recent Budgets, there were no tax measures announced for increasing the uptake of electric vehicles – but there were some spending measures. A further £620 million has been made available for “public charging in residential areas and targeted plug-in vehicle grants”. And a separate £817 million has been set aside “to support investment in zero emission vehicle manufacturing, gigafactories and the electric vehicle supply chain”.

The Budget doesn’t confirm what “targeted plug-in vehicle grants” will benefit from the extra money, but that could well be because the Treasury has mostly devolved those sorts of decisions to another Government department, the Office for Zero Emission Vehicles (OZEV).

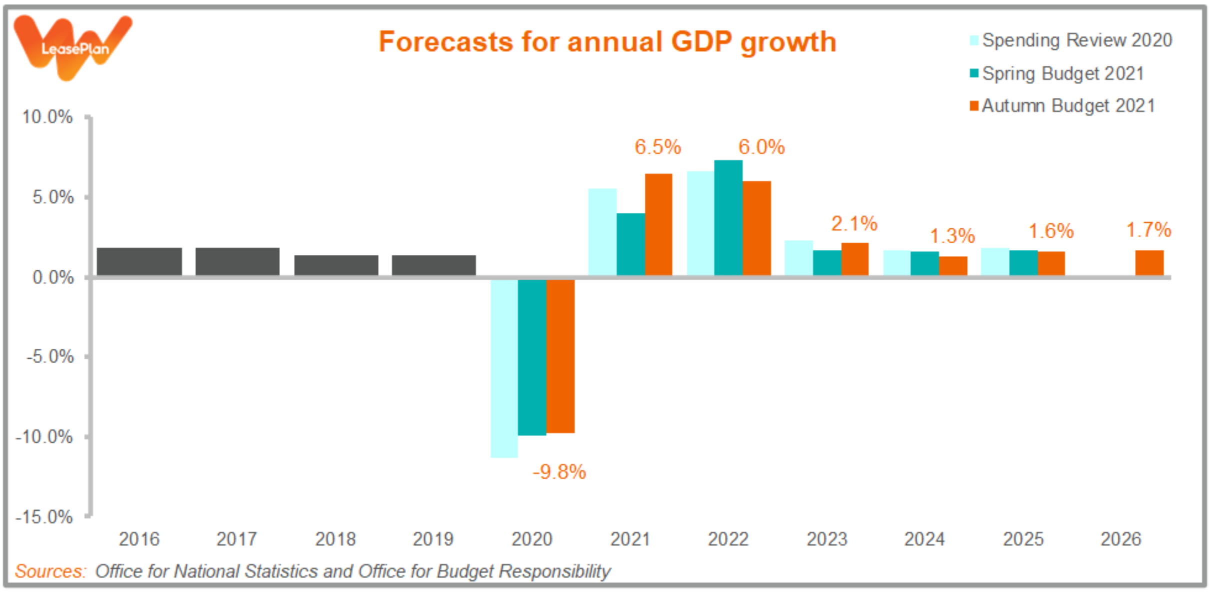
It was OZEZ that announced recently, for example, that the main grant for residential chargers, the Electric Vehicle Homecharge Scheme (EVHS), the main grant for residential chargers, will be ended in its current form on 31st March 2022 – and retargeted towards "renters, leaseholders and those living in flats".

We do know that this new form of the EVHS will be funded until at least 2025, so perhaps the Treasury's new money will go towards that.

Economic forecasts

Alongside every fiscal statement, the independent Office for Budget Responsibility (OBR) publishes its latest set of forecasts for Britain's economy and public finances. Here is a summary of its expectations for the economy.

Growth



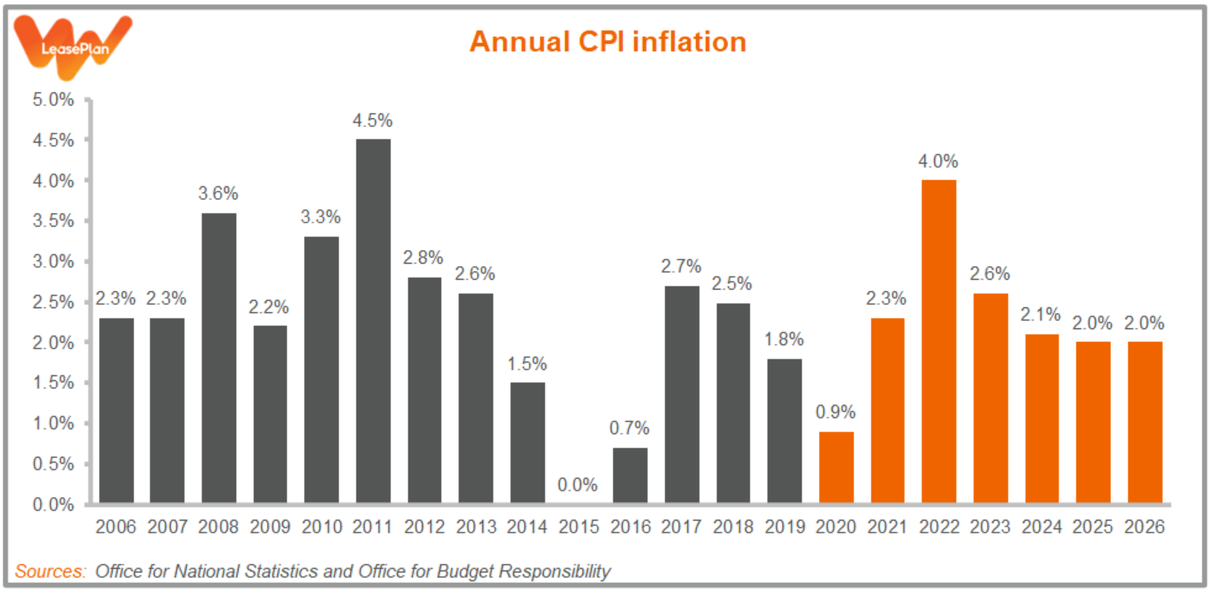
The OBR expects the UK economy to bounce back from the challenges of the past two years. It has upgraded its growth forecast for this year quite markedly, from 4.0% at the time of the last Budget to 6.5% now. And while the forecast for next year has been downgraded, from 7.3% to 6%, that's still strong growth overall.

As Sunak put it in his Budget speech, "[The OBR] forecast the economy to return to its pre-Covid level at the turn of the year – earlier than they thought in March."

But it's not all good news. After the next couple of years, economic growth is expected to simmer down to a much less impressive level – around the 1.5% mark. This is, of course, better than the economy sinking into recession, but it can't really be described as world-beating.

And it ought to be remembered that these forecasts are subject to a huge degree of uncertainty. Thanks to the ongoing effects of the pandemic and Brexit, it's very possible that the OBR will have to downgrade its expectations in the near future.

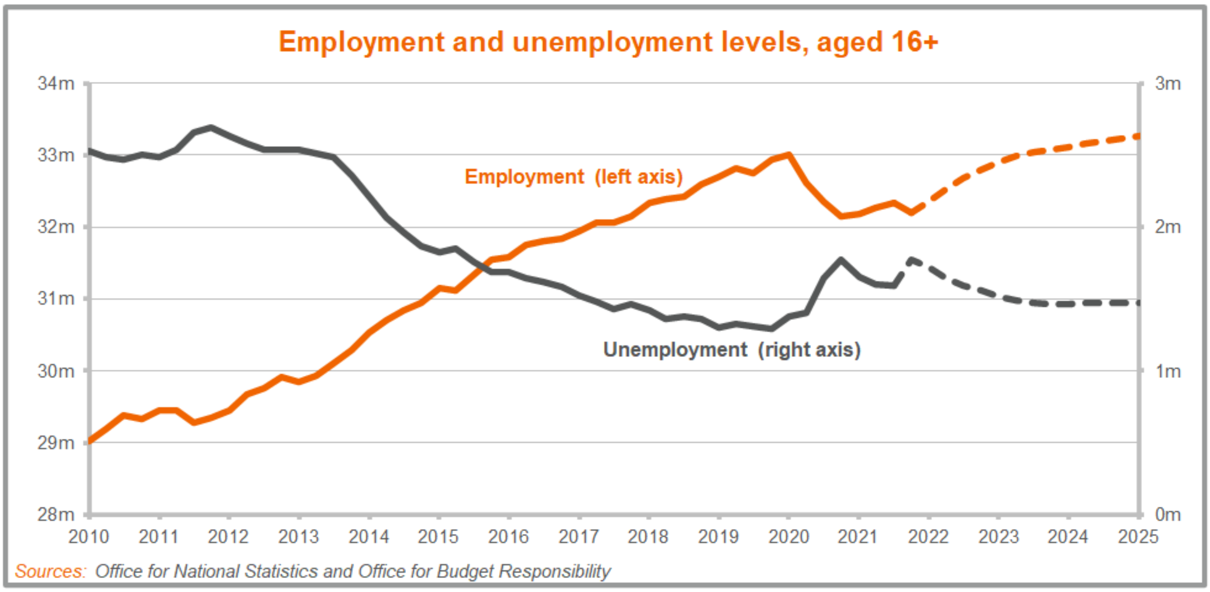
Inflation



The Chancellor led his speech by talking about inflation, and with good reason: thanks in large part to supply problems brought on by the pandemic, the cost of living is going up quite sharply. In fact, the OBR now expects that the main measure of inflation, the Consumer Prices Index (CPI), will rise by an average of 4% next year, which is twice the level targeted by the Bank of England.

But there is some relief anticipated: the OBR forecasts that the growth in average earnings – at 3.9% next year and 3.0% the year after – will mostly keep pace with the heightened levels of inflation.

Employment



In the decade up until the pandemic, the strength of the labour market had been one of the great success stories of the British economy. The number of people in work rose by around 4 million in the ten years to the first quarter of 2020, up to a record level of 33 million.

Of course, the pandemic then took its toll: the number of people in employment has declined by over 800,000 between the first quarter of 2020 and now.

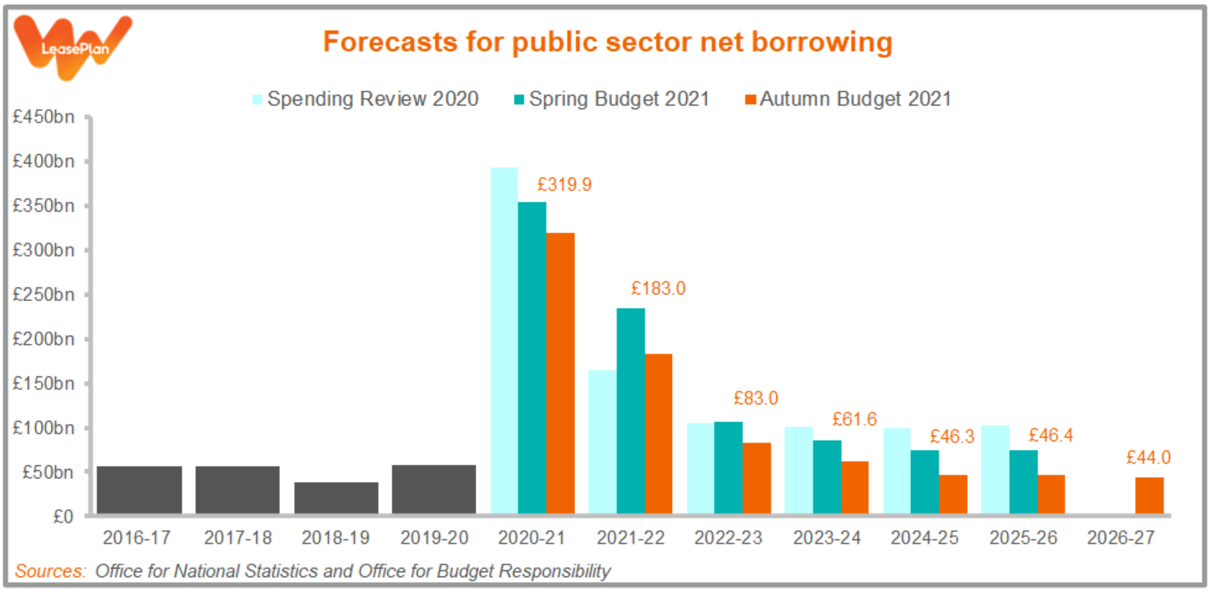
But, even so, the labour market is still showing its strength. The decline in employment (and concurrent rise in unemployment) is much less severe than many feared at the start of the pandemic; an outcome that was secured, in part, by the Chancellor’s various job retention schemes.

And, looking ahead, the OBR expects that employment levels will rise consistently from now on – and eventually break the old record around the middle of 2023.

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.

The deficit

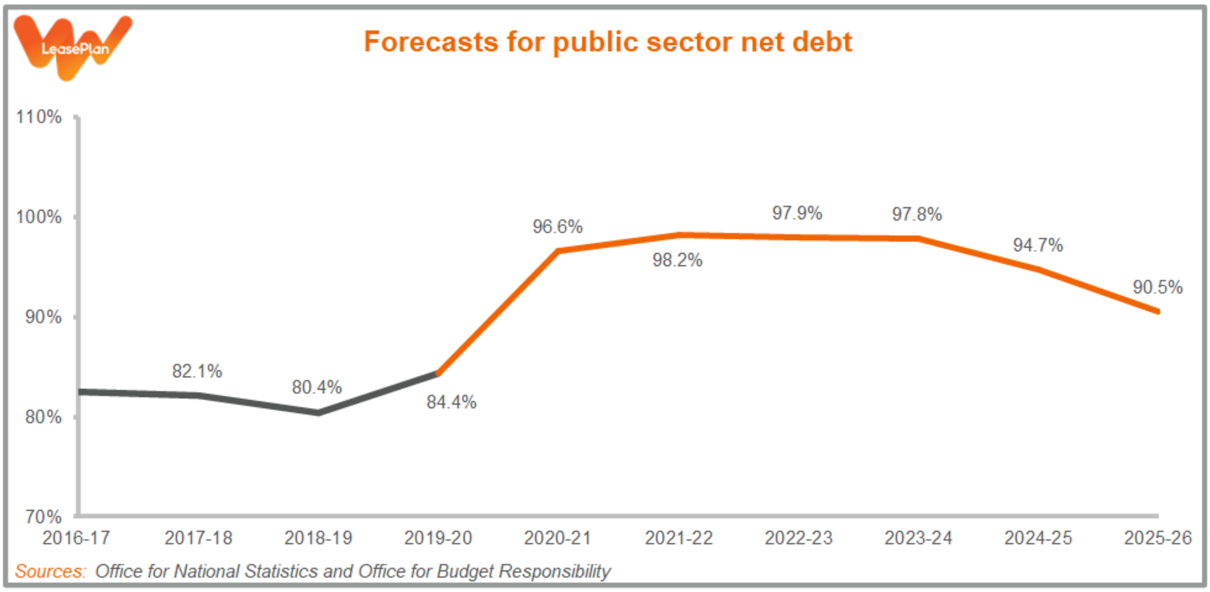


When Boris Johnson succeeded Theresa May as Prime Minister, he inherited a target to eliminate the deficit – which is effectively the Government's annual borrowing – by 2025. Even before the pandemic struck, that target was disregarded as the Johnson Government decided to invest in big spending programmes.

But due to the measures taken to support businesses and individuals through the pandemic, that target was completely blown away. The deficit won't be eradicated in 2025. According to the OBR's latest forecasts, it will stand at almost £50 billion in that year.

That said, the Chancellor took the opportunity of this Budget to set himself a new set of fiscal targets on both borrowing and debt. According to the OBR, he is currently expected to meet these new targets – but, in their words, "the headroom he has left himself is small" when compared to the headroom under which previous Chancellors operated.

The debt



All of the Government's borrowing accumulates to make up our national debt. This debt is now almost the size of the UK's entire economy, although the latest forecasts are significantly lower than those made at the time of the Spring Budget. Back in March, the OBR expected that the debt would peak at 109.7% of GDP in 2023-24. Now it expects the peak to be 97.9% in 2022-23.

What explains this improved position? In large part, the stronger-than-expected economic bounce-back, which has increased tax revenues and reduced borrowing.

Sources and further reading

- Autumn Budget and Spending Review 2021, HM Treasury
- Autumn Budget and Spending Review 2021: Rishi Sunak's speech, HM Treasury
- Economic and fiscal outlook: October 2021, Office for Budget Responsibility
- Weekly road fuel prices (25th October 2021), Department for Business, Energy & Industrial Strategy
- Avoiding Gridlock Britain, Tony Blair Institute for Global Change
- More coverage of Budget 2020 can be found at insights.leaseplan.co.uk/

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