September 2024

Budget Submission to HM Treasury

Road Haulage Association (RHA)

Foreword

Everything we eat, drink, wear and consume depends on road haulage services and the companies and drivers that operate them. Road freight moves 89% of all goods and 98% of agricultural and food products.

The road haulage industry is a key enabler and deliverer of economic growth. Yet when record numbers of hauliers are entering administration (with 500 insolvencies last year alone), and the remainder facing rising cost and regulatory pressures, we need the new Government to reduce the growing financial burden on operators to ensure our industry is there to deliver for the rest of the economy.

Road hauliers are facing a moment of acute challenge which requires decisive and urgent action both to protect this vital industry and tackle the rising costs of consumer goods transported by road. With net-zero alternatives not yet viable, the haulage industry remains reliant on diesel and are therefore greatly concerned about the reports of the likely increase in fuel duty. Coach operators also face pressures from increased fuel prices where contracts with fixed prices have already been agreed.

Diesel excise duty in the UK remains higher than in any other EU state and makes up a significant proportion of running costs for businesses, particularly on small and medium sized firms. While the industry hopes fuel duty will not rise, if that option is unavoidable, we hope measures can be taken to assist essential users of diesel like the road haulage industry.

The RHA has long advocated for an Essential User Rebate, as a way to reduce the competitive disadvantage that has long held back UK hauliers, limit cost pressures to keep a lid on inflation and provide much needed support to businesses that are the deliverers of economic growth. An essential user rebate is a quickly deliverable solution commensurate to support othered by comparable nations like Germany and France.

As part of the Government's Growth mission, it is also vital that the UK continues to invest in its logistics network to facilitate that growth. Frictionless movement of goods on our roads allows businesses to grow, local economies to thrive, and with that, new sectors and jobs to be created. Alongside the pursuit of new green technologies, bold and ambitious roads investment is vital to enabling this, with a focus on tackling the congestion and delays which increase both costs and greenhouse gas emissions.

Key to making Britain a clean energy superpower will be decarbonising the heavy commercial vehicle fleet but the cost of decarbonising HGVs and coaches, estimated to be £100bn, is astronomical. We need a clear, managed roadmap so that all haulage and coach businesses, particularly our vital SMEs who represent 95% of our sector, are able to make that journey on the road to net zero.

The most vital part of the road haulage industry is its people; the drivers, transport managers and technicians that keep the industry that moves business on Britain's roads moving. With the most significant technological changes we have ever seen on the horizon, it is vital to not only extend training options to more and more people but to ensure training includes the most up-to-date technological solutions. A skills revolution to break down barriers to opportunity, plug skills gaps and avert another HGV driver shortage is essential.

The upcoming Autumn Budget will be a challenging one for the Chancellor, but it will be an even more challenging twelve months for the road freight and logistics industry without measures to support it.

Summary of recommendations to boost economic growth

Continue the freeze on fuel duty. A 5p rise in duty would cut GDP after 5 years by £430 million per year; cuts employment by over 5000 and raises CPI by 0.2%.[1]
Introduce an essential user rebate for essential commercial vehicle operators to reduce the cost of supply chains and inflationary pressures.
Introduce a fuel duty rebate linked to emissions reduction This will encourage the use of low carbon fuels that can reduce emissions from the conventional diesel fleet by up to 90%.
Continue the freeze on Vehicle Excise Duty for HGVs and the HGV Levy to reduce cost pressures on the industry which is facing record insolvencies.
Extend full expensing to leased assets to drive investment. This will help small firms for whom rising interest rates have been an unavoidable burden on their bottom lines.
Make the HGV skills bootcamps a permanently option to avoid a future HGV driver shortage, meet the projected 180,000 new drivers required over the next 5 years, ensuring the resilience of supply chains.
Ensure the National Wealth Fund creates opportunities for investment in invest in zero emission vehicles and infrastructure.
Safeguard the £8bn allocation of Network North road maintenance funding over the next three years to reduce congestion, increase efficiency of journeys and drive growth.
Ensure that the forthcoming RIS3 contains a new raft of schemes, and avoids being primarily composed of schemes which are still undelivered from RIS2

[1] CEBR analysis (2024)

Freeze fuel duty to reduce inflation

The freeze in fuel duties since 2011 has been highly successful. Independent CEBR research has indicated that this has reduced consumer prices by 6.7% and has boosted household expenditure by over £24 billion[2]. Reports that the freeze in fuel duty is set to come to an end is causing significant concern in the industry, and we hope such reports do not come to pass.

Fuel duty and fuel costs represent a significant amount of turnover for hauliers – 22.8% of running costs for the average 44 tonne HGV, with average annual fuel costs for hauliers currently at £47,011 at 114.44 ppl excluding VAT[3].

A 5p rise in fuel duty would be an additional £2,758 per annum for the operating costs of an HGV, based on average mileage of 85,000. These costs would drive up prices on everyday and essential items, with transportation costs passed on to businesses who will have little option but to pass these costs onto consumers.

If the external environment were stable, the effects of such taxes would be incremental. However it is not. The sector has experienced many additional pressures including the introduction of Direct Vision Standard in London, increased enforcement penalties and Clean Air Zone charges and increasingly complicated border controls and the congestion from these actions.

The situation in the HGV road haulage industry is not stable. Insolvencies in the sector are at record levels – 500 haulage firms went into administration last year and there is an ageing workforce with the average age of an HGV driver is 49; but over-60s represent 13% of all drivers while only 2% are under 25s. The market is highly competitive and the average margins are only 2%.

A rise in fuel duty would create economic damage. A 5p rise in duty cuts GDP after 5 years by an annual £430 million; cuts employment by over 5000 and raises the CPI by 0.2%[4]. A rise in fuel duty is also regressive. The poorest 10% who use vehicles spend twice as much of their income on fuel as the richest 10%.

A national poll run by More in Common of 2000 adults found that 76% of respondents thought fuel duties should remain the same or be reduced. 71% believed prices would increase if fuel duty increased.

Raising fuel duty is not an efficient way of raising tax revenue. It is important to note that the current fiscal crisis is long term and will need up to 50 years of revenue raising and expenditure constraint. Given that any revenue gains from higher fuel duties will be only temporary and will evaporate over time, it seems unnecessary to take the political and economic damage from raising fuel duty in return for very little long-term revenue. Independent CEBR analysis shows that 62% of any initial annual revenue raised from a 5p rise in the rate will disappear within 5 years and 84% within 15 years. Effectively the

[2] CEBR analysis (2024)
[3] RHA Annual Costs Survey
[4] CEBR analysis (2024)

government gets all the negative impacts of raising the tax rate without most of the tax revenues that the higher rate is meant to raise.

A 5p rise in fuel duty, which might in theory have been expected to raise £2.8 billion in receipts (itself well below the HMRC forecast) even in the first year only raises £2.59 billion and after 5 years this falls to £1.0 billion; after a further 10 years this virtually disappears to £0.4 billion.

An Essential User Rebate

UK hauliers and coach operators also face a competitive disadvantage across the European market. UK diesel prices at the pump remain significantly higher than most European nations and well above the EU 27 average. Diesel prices are higher than in any other major economy including Germany, Japan, Canada, USA and China.

An essential user rebate would bring the level of taxation per litre on diesel in line with the Republic of Ireland and would significantly reduce the competitive disadvantage faced by UK commercial vehicle operators compared to European counterparts. Whilst a rebate of 15ppl will not cover all the increased costs for hauliers, it would provide support to mitigate growing pressures and help to counter inflation caused by costs passed on by hauliers to consumers.

We estimate, using data from BEIS and the Office for Budget Responsibility, that an essential user rebate would cost a further £1bn per year in comparison to the £2.385bn that the 5p reduction for all vehicles is projected to cost.

There is significant precedent for the Chancellor to introduce an essential user rebate, with the existing Bus Service Operators Grant (BSOG) mechanism currently offering a rebate of 34.57ppl for bus operators to recover some fuel costs based on the amount of fuel that they use and the Rural Fuel Duty Relief scheme also reflects that the Government has and continues to intervene where fuel duty is having a damaging impact on motorists and businesses. This scheme provides support for rural motorists through a 5ppl reduction to fuel retailers to help those in remote areas where fuel prices are often higher.

Our recommendation to Government is that it immediately introduces an essential user rebate of at least 15ppl that would be available to all hauliers, HGV drivers and coach operators. For those that are fulfilling roles of national importance that currently have no other choice than to use diesel, such a measure would provide much needed support. Extra consideration must be given to this measure in the event fuel duty starts to rise again.

Extending Full Expensing to Deliver Growth

Full expensing is a welcome policy that allows businesses, including the UK’s vital SMEs, to thrive. For hauliers, van and coach operators vehicles are their most important asset. Yet, at a time where vehicle costs are rising, companies who lease their vehicles are currently excluded from this benefit. We therefore recommend that the Government extend full expensing to leased assets as committed to by the previous Government.

Typically, SMEs are more likely to lease their vehicles instead of owning them outright as they are less likely to hold significant capital. This makes them more susceptible to inflation which has caused significant damage to the industry over the past two years.

However, for those for whom leasing is the only option, they have not been able to benefit from one of the most generous tax allowances in the world. Indeed, for those leasing, costs have also increased significantly given the rapid rise in interest rates over the last 2 years.

The announcement in the 2024 Budget that full expensing would be extended to leased assets “when fiscal conditions allow” was welcomed by the RHA and its members. It would particularly assist the smaller hauliers upon whom the industry and economy rely and would serve as an effective measure to assist those businesses for whom rising interest rates have been an unavoidable burden on their bottom lines.

Plugging skills shortages

The skills shortage in the road transport sector is a chronic issue that continues to affect supply chains. There is still a significant shortage of HGV drivers, which is compounded by an ageing workforce. The industry is also struggling to recruit and train vehicle technicians, to ensure the safe operation of vehicles. The long-term viability of road haulage is dependent on recruiting and training a new generation of skilled workers.

Avoiding another HGV driver shortage

HGV drivers are vital to the smooth running of logistics. In 2021, the driver shortage crisis highlighted the imperative of managing the demand for HGV drivers.

Since 2021, the economic downturn has resulted in a reduction in freight movements and has shielded the sector from further driver shortages.

Our analysis shows that the sector will need over 180,000 new HGV drivers over the next 6 years to maintain supply chains. This driver demand is due to an ageing driver workforce which will see a significant number retire over the next 5 years and an expected upturn in the economy.

Freight movements have been lower over the past couple of years and we have seen record numbers of haulier insolvencies. With only 1.6% of drivers under the age of 24, there is a significant difference in the age profile of HGV drivers compared to the average for people working in general.

We support the continuation of the HGV driver skills bootcamps. The original funding allocated for the HGV driver bootcamps was £34 million and further funding has been made available for 2024/25. However, there are no funding commitments past 2025. HGV Driver Bootcamps were oversubscribed when first launched and have continued to be the preferred funded training route.

Prior to the bootcamps, the only funded route for driver training was apprenticeships, which businesses have struggled to make work for them.

Recruiting for workshops in road transport businesses, maintenance providers, and dealerships has long been a challenge, particularly in finding new apprentices. There were

4,700 vacancies for HGV mechanics[5] over the past year and vehicle technicians have decreased by 30%, or 60,000, since 2019.[6]

One key factor contributing to the shortage of heavy vehicle technicians is the reduction of specialised courses in colleges over the last decade.

Recommendations to Government:

- Make the HGV skills bootcamps a permanently funded option to ensure the resilience of the future HGV driving workforce and supply chains.
- Given the success of the HGV driver bootcamp, we recommend that bus and coach licence acquisition be added and for the bootcamp to become a ‘heavy vehicle driver bootcamp’, rather than simply an HGV Driver one.
- Additional tyre fitter and vehicle inspection skills bootcamps should be created to create entry level training options to ease technician shortages.

[5] Adzuna job vacancy analysis
[6] ONS Labour Force Survey 2022

Supporting the transition to Net Zero

When HGVs and coaches account for around 20% of UK transport greenhouse emissions, we know our sector must play its part to decarbonise. However, the cost of decarbonising the HGV fleet is estimated to be £100bn and presents a formidable barrier.

There are just over 300 UK-registered electric HGVs[7] on our roads out of a UK-fleet of 535,000 lorries.8 There are currently no registered hydrogen-powered HGVs on UK roads, and just one public electric HGV rapid-recharging point.

The new Government has an opportunity to be much bolder in supporting road transport businesses, especially micro-businesses, by ensuring that they can access the National Wealth Fund to invest in the transition to Net Zero. This would build on welcome commitments from the previous Government, such as the £200m investment in the Zero Emission and Hydrogen Infrastructure Demonstrator (ZEHID) to provide essential research and development support into how battery electric and hydrogen fuel cell lorries perform.

Incentivising the take up of low carbon fuels

The RHA believes we cannot wait for a perfect zero emission solution. In the interim, the use of low carbon fuels such as hydrotreated vegetable oil (HVO) should be promoted.

Whilst zero emission solutions such as battery or hydrogen-powered vehicles are developed, low carbon fuels offer an interim solution that help HGV and coach operators to reduce CO2 emissions from existing fleets – potentially - by up to 90%.

The supply of low carbon fuels for road transport use in the UK is currently very low due to a lack of refuelling infrastructure and high cost. In 2022, HVO constituted 1% of the UK fuels market, with CNG and LNG together constituting 0.3%. This compares with diesel (57%) and petrol (31%).9

Recommendations to Government

- Introduce a fuel duty rebate linked to emissions reduction to encourages the use of low carbon fuels that can reduce emissions from the conventional diesel fleet by up to 90%
- Work with the road freight industry on how it can access the National Wealth Fund to invest in zero emission vehicles and infrastructure
- Extend the Rapid Recharging Fund (RCF) to also ultra-rapid recharging units up to 350Kw suitable for HGVs and coaches
- Reform the scope and deadlines for the ‘plug-in van and truck grants’, to match similar schemes in Europe, increasing grant contributions from 20% to at least 50% (with incentives for group vehicle purchases) and extend the program beyond March 2025
- Accelerate investment in the energy infrastructure needed to power zero emission HGVs and coaches

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[7] Source: Department for Transport statistics – Table VEH1111
[8] Source: Department for Transport statistics – Table VEH1111
[9] Source: DfT Statistics, Table RF0101, November 2023

Infrastructure to deliver growth

The new Government has key decisions to make on the future of our road network. Investment in our road network throughout the last decade has significantly boosted national productivity, allowing businesses to grow, local economies to thrive, and new sectors and jobs to be created. This autumn, there has been a need to halt progress on schemes such as the A303 Tunnel Stonehenge due to short-term financial pressures. However, looking to the future, there are huge opportunities throughout this country to unlock further economic growth through such ground-breaking schemes as Lower Thames Crossing.

Investing in our road network is a significant economic enabler, with transformational benefits. A typical highways scheme, which costs £100m is estimated to provide up to 2000 jobs in the Construction and Logistics sectors alone, as well as up to an additional 3000 jobs in the supply chain[10]. Recent projects, such as the A14 Cambridge to Huntingdon improvement scheme are currently expected to deliver economic benefits worth over £2.5 billion in reduced congestion and improved productivity[11].

The current levels of road congestion result in unpredictable and longer journey times which leads to decreased productivity, increased emissions, more unnecessary cost, and damages the competitiveness of the UK economy at a cost of £30.8bn a year[12]. Maintaining investment in road infrastructure is vital for the economy, and ultimately the environment.

In the road transport sector, congestion alone estimated to account for 16% of the cost of road freight, equivalent to around £6bn a year[13]. The cost of an HGV stuck in stationary traffic for an hour is £120 [14], a crippling cost at a time when hauliers are under significant financial pressures. Congestions delays HGV journeys by 23% now and projected to be 35% by 2050 [15].

According to the Asphalt Industry Alliance, the rate of pothole repairs in England and Wales has reached an eight-year high, with a staggering £16.3 billion needed to fix the country's roads16. The annual Alarm survey found that local authorities expect to fix 2 million potholes in the current financial year, up 43% compared with 1.4 million during the previous 12 months. This trend is not financially sustainable[17].

When local authorities are properly financed, they are not only able to undertake more repairs, but longer-term more resilient road maintenance. This offers far better value to the taxpayer, and results in more effective repairs.

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[10] Calculation based on methodology used throughout "The skills construction needs", CITB, 2022.
[11] "Drivers reap benefits of Britain's biggest road upgrade", National Highways, July 2020

[12] Inrix, Traffic Scorecard 2016
[13] The value of freight, vivideconomics (for NIC), Page 12
[14] £120 figure provided by National Highways officers
[15] The value of freight, vivideconomics (for NIC), Page 7

[16] Annual Local Authority Road Maintenance Survey Report 2024, Asphalt Industry Alliance, Page 2
[17] Annual Local Authority Road Maintenance Survey Report 2024, Asphalt Industry Alliance, Page 16

Recommendations to Government:

- Safeguard the £8bn allocation of Network North road maintenance funding over the next three years.
- Ringfence local authority pothole funding so that it does not become rediverted into other funds, through the restoration of the Pothole Action Fund.
- Ensure that the forthcoming RIS3 contains anew raft of schemes, and avoids being primarily composed of schemes which are still undelivered from RIS2
- Designated funds are included within RIS3 to support delivery of key freight and logistics infrastructure, such as lorry parking, driver facilities and green refuelling stations.
- Schemes which have already been given consent in the DCO process, such as the A66 and A1 (Northumberland) are protected and included in RIS3.

About the Road Haulage Association

The Road Haulage Association (RHA) is a major trade association representing 8,500 road haulage, coach, and van operators across the UK, 85% of whom are small and medium-sized enterprises (SMEs). Our members operate around 250,000 HGVs (half of the UK fleet) out of 10,000 operating centres and range from a single-truck company to those with thousands of vehicles

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RHA

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