



Department for **Transport**

Consultation Document

Charging Heavy Goods Vehicles

Response from:

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Executive Summary

1. The BVRLA and its members welcome the opportunity to comment on the Department for Transport's consultation paper on, '*Charging Heavy Goods Vehicles*'. We share a wealth of experience to recognise the importance of ensuring that the Lorry Road User Charge (LRUC) is implemented effectively to deliver its key policy objective of ensuring that all hauliers, UK and overseas, pay towards the use of the UK road network.
2. We welcome the opportunity to offer our views to ensure that the proposed scheme does not create any unforeseen or unintended consequences against UK hauliers. We believe it to be paramount that industry strives with Government to help bring about a LRUC scheme which will ultimately help towards balancing competitiveness within the economy in an equitable and fair manner. We believe that a strong collaborative partnership between industry and Government will help to secure the key policy objectives underpinning the proposed changes.
3. While we support the objective of ensuring foreign-registered Heavy Goods Vehicles (HGVs) pay towards the use of the road network in the United Kingdom (UK), we believe that it is vital for the Government to ensure that this is done in such a manner so that UK HGV owners and operators are not adversely affected financially and that there are no new burdens imposed on them to operate or administer the proposed charging scheme.
4. As currently proposed, we do not believe the primary objective for introducing a LRUC in the UK will secure a fairer arrangement for UK HGV owners or operators. We have some profound concerns that the proposed scheme, in its current form, is likely to result in a high number of UK HGV owners being financially worse off. Specifically, we believe the proposals will adversely impact owners, with a fleet of 50 or more vehicles, as they may be unable to retain the current financial benefits arising from the Reduced Pollution Certificate (RPC). As outlined, the proposals state that the existing VED reductions for vehicles holding a valid RPC will be replaced with grants of the same economic value. However, we believe that doing so could leave some UK HGV owners being exposed to the prospect that the proposed grant system may be incompatible with European State Aid rules which describe the rules for providing "de minimis" aid. We have calculated the direct financial loss of the RPC on our members, who own more than 50 HGVs on their fleet, to be **£3.7 million per annum**. We have provided a detailed calculation on how we have arrived at this impact as part of our submission.
5. We also note that the proposed charge will, when paid by foreign hauliers, bring in an estimated gross revenue of £40 million and net revenue of £18-23 million each year. Whilst we appreciate the uncertainties in accurately estimating such figures, we wish to express our concerns over the cost effectiveness of the scheme and indeed question whether the proposed scheme will be effective enough to help to secure the Government's primary objective of ensuring foreign hauliers make a fair contribution for using the UK road network.



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6. Furthermore, we question whether the Government has given sufficient attention to the issue of non-compliance by foreign hauliers. We say this as we feel there is a real threat that foreign hauliers will simply find it cheaper to take the risk of being caught and then pay a fine rather than pay the proposed £10 daily charge. Our concern is supported by the fact that the consultation paper is silent on the level of the penalty for not paying the daily LRUC. From our informal discussions with departmental officials, we are led to believe that the penalty will have to be set at a level that is proportionate to the offence and as such it is unlikely to be set at more than £100. At £100, we believe that some foreign hauliers will simply find it cheaper to take the risk of not paying the daily charge and simply pay the fine, if and when they are caught. If the scheme is to have any real chance of securing high level of compliance, then the penalty will need to be substantially increased to ensure it is penal and will therefore act as a real deterrent. We would therefore suggest the penalty is set at a level of at least £1000.
7. We also believe that VOSA, as the lead enforcement agency, needs to be given a robust enforcement budget to help ensure a high level of compliance. It is vital that VOSA are visible to help reduce the threat of non-compliance. The department will also need to recognise that if the enforcement budget was to be substantially increased, then the overall net revenues would be reduced further. This of course would bring into question the overall cost benefit of introducing the scheme and move the dynamics from a financial contribution argument to a principles argument.
8. Having carefully reviewed the proposed scheme, we remain concerned that UK HGV owners could end up being financially worse off. Not only will they lose some of the financial benefits to the RPC, but will have to pay an additional £0.5 million in increased charges. This coupled with the potential costs that UK taxpayers will be required to pay towards the cost of operating and enforcing the scheme, we start to seriously question whether the estimated net revenue of £18 to £23 million is sufficient for the scheme to be introduced.
9. The BVRLA remains grateful to the Department for the opportunity to share our sectors underlying concerns with the proposed LRUC scheme. To assist the Department, we have provided a detailed explanation of how we believe these concerns could be best addressed and importantly we have provided practical suggestions on how the Department could better implement the proposed charge.
10. We hope our comments and suggested solutions will assist the Department's implementation of the Charge for Heavy Goods Vehicles.



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General Comments

Aims of a Time Based LRUC

11. We note that the Government is proposing to implement a Lorry Road User Charge (LRUC) which will charge heavy goods vehicles (HGV's) of 12 tonnes or over, for the use of the road network in the United Kingdom. We note that the primary objective is to ensure a fairer arrangement for UK hauliers, especially as currently foreign-registered HGV's do not have to pay to use the UK road network, whereas UK-registered HGV's pay charges or tolls in most European countries.
12. Out of the two schemes proposed, we agree with the department that the most appropriate scheme is the time-based charge. It is clear that this solution is cost efficient to implement and operate when compared to a distance based charge scheme. In addition, under the proposed time based scheme it seems fairer that the charges should vary according to vehicle type, weight and number of axles. In this way, the charging scale would be linked to the amount of damage a HGV causes the road.

Financial Impact on the Registered Keeper

13. We are disappointed to note that the registered keepers of UK HGV's are expected to be liable to pay the annual (or six monthly) user charge as they do not always have the day-to-day operational responsibility and use of the vehicle.
14. We understand that it is the Government's intention to ensure that there is no additional cost on the UK haulage industry. We note that the Government's assumptions are that 98% of the current UK HGV fleet of **12 tonne** vehicles and over will pay no more than £50 extra per year and 94% will pay nothing extra at all.
15. We note from the Government's own estimates that UK goods vehicle keepers would, if the scheme was introduced today, end up paying an extra **£500,000** in increased Vehicle Excise Duty (VED) payments. We note that these estimates do not take into account the loss of RPC. The loss of RPC would be more profound on our members who, in the main, own and operate more than 50 HGVs on their respective rental or leasing fleet. As such, the resulting impact will see our members being hardest hit by the proposed charge. Furthermore, any such increases would have to be absorbed as it is commercially difficult to recover from their customers.
16. We estimate that our members own and operate one third of all HGVs over 12t that are subject to an RPC and as such pay the reduced VED rate. As 95% of our members operate more than 50 HGVs over 12t they would be unable to qualify for the grant system as per European State Aid rules. The direct financial loss of the RPC on our members, who own more than 50 HGVs on their fleet, will therefore be **£3.7million per annum**. The table below demonstrates our calculations and is based on RPC figures provided by the department.
17. We have calculated that one third (33%) of HGVs with an RPC over 12t are owned and operated by our members. Based on our industry fleet data at least 95% of our commercial vehicle members would own and operate in excess of 50 HGVs over 12tonnes.



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	Euro IV RPC	Euro V RPC	2011/12 Total	BVRLA Fleet with an RPC	BVRLA Fleet (More than 50 HGVs) with an RPC	RPC Reduction per eligible vehicle	Financial loss per VED Band on BVRLA members operating a fleet of more than 50 HGVs over 12t
Band A	379	478	857	283	269	£ 5.00	£ 1,343.35
Band B	172	702	874	288	274	£ 40.00	£ 10,959.96
Band C	182	286	468	154	147	£ 240.00	£ 35,212.32
Band D	3539	4522	8061	2660	2527	£ 370.00	£ 935,035.70
Band E	8185	8010	16195	5344	5077	£ 500.00	£ 2,538,566.25
Band F	147	70	217	72	68	£ 500.00	£ 34,014.75
Band G	498	397	895	295	281	£ 500.00	£ 140,291.25
Total Financial Loss of RPC on BVRLA Members							£ 3,695,423.57

Reducing Administrative Burdens

18. We welcome the fact that the proposed charge would be collected at the same time and for the same period as the amount paid for Vehicle Excise Duty (VED) as this will go some way to reduce the administrative burden of paying the LRUC on our members. We are also pleased to note that the scheme will be carried out by e-vignette and there will not be any requirement for an additional paper disc.

Future Tax Rises

19. We note that the LRUC is to be classed as a tax and understand that the level of LRUC and VED cannot be confirmed ahead of a Budget Statement. However, industry will require assurances that introduction of the proposed LRUC will not be used as a means of raising additional taxes from the UK haulage sector in the future. It is therefore vital to ensure that there is a clear and transparent approach for determining the proportions the LRUC and VED will be set at in the future, which should reflect the minimum rates set out in the Eurovignette Directive.

Cost of Enforcement

20. We note that the enforcement of the scheme will be carried out by VOSA (DVA in Northern Ireland), using automatic number plate recognition and roadside inspections. However, the Government has failed to provide precise details of the additional enforcement budget that VOSA will be given to ensure the scheme can be effectively policed. The consultation paper states that the annual cost of administration and enforcement to be in the region of **£3 - £4.8 million** per year and simply explains that the Government has produced some initial estimates of enforcement costs, based on scaling up existing enforcement processes and targeting vehicles that had not paid the charge.
21. We note that the estimated gross revenue of **£40 million** from foreign hauliers has assumed 100% compliance, yet, we note that the net revenue indicates revenues accruing from enforcement activity. This does, prima facie, seem to be contradictory and requires clarification. Notwithstanding



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this clarification, and to ensure the Exchequer is protected, it is vital that the enforcement of the scheme is given the right level of financial support as this will help to send out a clear and strong message to deter non-compliance. We would also suggest that all fines collected from non-compliance under the scheme are hypothecated and used against future enforcement activity.

Behavioural Impact of the charge on foreign hauliers

22. We note that analysis based on the DfT's Survey of Foreign Road Goods Vehicles 2009, showed that in 2009, 123,000 foreign vehicles made 1.42 million trips to the UK, totalling 4.05 million days with an average of 11.5 trips per vehicle. We note that information on the precise pattern of trips to the UK is not readily available and that Government will consider such analysis in the future.
23. We question whether the Government has done any modelling which shows whether foreign operators will change their behaviour to mitigate or reduce the impact of the proposed charge. For example, will foreign operators make fewer trips to the UK or choose to operate in a slightly different way to reduce the income paid? If so, then we believe this should be reflected in the gross revenue and cost benefit analysis of the scheme.

VED Refund

24. While we appreciate and welcome the confirmation that the LRUC will be collected at the same time the VED is paid. We would welcome further clarity on how any grant system which the Government intends to use to replace the RPC would impact refunds.



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Specific Questions

Consultation questions on charging

Question 1

25. Do you agree with the proposal whereby keepers of UK-registered HGVs will pay the charge at same time and for the same period as Vehicle Excise Duty, and payments by operators of foreign-registered HGVs will be collected by a private contractor? If not, what would you propose?

Yes. However, we require the necessary assurances that the proposed scheme will not impose any new financial or administrative burden. As highlighted, we have specific concerns relating to the replacement of the RPC to a grant system as this could be incompatible with EU state aid rules. It is incumbent on the UK Government to provide clear assurances that there will be a mechanism to compensate UK firms paying the additional £0.5 million in increased VED and clarity on how the grant system that will replace the existing RPC will not breach EU state aid rules.

We also note that the scope of the planned reductions to the VED rates could be adversely impacted by exchange rate changes. We state this as VED minimum rates are set in European legislation in Euros, so changes in the exchange rate can change the VED rates that can be used. This is a potential risk only if the pound weakens against the Euro (the Euro strengthens), and then only for vehicles where the proposed VED rate is close to the minimum rate.

As an alternative proposal we would suggest that the department investigates the feasibility of having a cap on how much fuel can be brought back into the UK for all hauliers. We believe that fuel duty presents another way of ensuring that foreign hauliers contribute to the costs of maintaining the UK road network. By putting a cap on how much fuel can be brought in it would ensure that foreign hauliers have to buy fuel while they are operating in the UK and that UK hauliers who are returning from the continent also have to buy fuel shortly after entering the UK.

Question 2

26. Do you agree with the proposed charges and charge bands? If not, what would you propose?

Yes. We would also suggest that it would be inappropriate to assume that UK HGV owners and operators could simply down plate the tax class as a means of mitigating the financial impact of the proposed charge. We say this as the cost associated with down plating a HGV would far outweigh any financial benefits arising from paying a lower LRUC charge.

Question 3

27. Are you content with the proposals for enforcing the user charge?

No. The level of the fine should be set at around £1000. There should also be a defined and ring-fenced enforcement budget available to VOSA to enforce the proposed scheme. The enforcement should be set at level that would help to ensure VOSA is regarded as an effective enforcer and send out a clear deterrence message.



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Consultation questions on minimising the additional burden for UK registered hauliers:

Question 4

28. Do you agree that the effect of the charge on UK hauliers should be compensated as far as is possible within EU rules?

Firstly, we believe the question warrants clarification as the charge is payable by the registered keeper of the affected HGV class, who may not always be the person who is operating or using the vehicle on a day-to-day basis. It is therefore important that any planned compensatory measures is made payable to the registered keeper or the owner of the vehicle. One option for example, may be to look at reducing the annual test fee to the same economic value.

The Government should also note that of the 4% of the HGVs affected by the proposed charge, our members are likely to have a higher concentration of these HGVs on their fleet. We would therefore be keen to work closely with the Government on the development of the grant system aimed at replacing the existing RPC scheme and other compensatory measures planned.

Question 5

29. Do you agree with the option presented here of reductions in VED rates? If not, please offer alternative proposals.

Yes. However, this is of course subject to the issues raised in Question 4 being addressed satisfactorily.

Consultation questions on the impacts of charging

Question 6

30. The Department is not aware of any specific evidence on the price sensitivity of transport by foreign-registered HGVs in the UK, or whether there are markets which are particularly price sensitive. Do you have any information on this issue?

We do not have any specific evidence. However, we would add that any cost rise our members incur will be difficult to pass on to their customers due to the price sensitive and competitive nature of market conditions.

Question 7

31. If you are a road transport operator licensed elsewhere in the EU or a customer of such an operator, how might the HGV user charge affect your business (please justify by evidence where possible)?

Not directly applicable to our members.



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Consultation questions on other options for HGV road charging

Question 8

32. What do you consider to be the likely advantages and disadvantages of a charging system based on distance travelled (as in Germany) as opposed to a time-based charge?

Distance basis of charging

Advantages: offers a far more accurate correlation with the environmental and social costs imposed by HGVs using UK roads, especially when benchmarked against the time-based charge. Under a time-based charge, for example, two identical HGVs travelling different distances would pay the same daily charge, but impose different levels of environmental and social costs clearly helps demonstrate the inequity point. A distance-based charge would help to ensure that the HGV travelling the furthest would contribute more fairly towards the environmental, economic and social cost for using the UK road network.

Disadvantage: This method of charging is complex and expensive to implement and administer. The scheme would disproportionately impact UK taxpayers. This method of charge would be expected to be administered electronically and would therefore be reliant upon every HGVs being fitted with the appropriate equipment and such we anticipate the compliance cost to be much higher when compared to the time-based charge.

Question 9

33. If a distance-based charging system were adopted, should it apply to all roads or only certain categories of roads?

Yes – the German scheme highlights how operators will avoid using the federal roads and instead use local roads.

Question 10

34. Would you prefer a distance-based system even if this meant large cost increases or UK operators?

No.

Consultation questions on overall proposals

Question 11

35. Do you consider that the principle objective of charging should be to ensure a fairer arrangement for UK hauliers?

Yes. However, as we have explained in our response, we have some serious concerns that the scheme will not achieve the Government's principle aims. It is vital to ensure the Government does not lose sight of the real benefit and costs the scheme will have and that its judgement is not clouded by simply focusing purely on the aim of seeing foreign operators paying a charge for using UK roads to gain political credence. It is vital not to lose sight of the cost the proposed scheme is likely to have on UK taxpayers.



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Question 12

36. If not, what should be the principal objective?

Cost neutrality and Cost Benefit

We believe the scheme is unfairly balanced at attempting to ensure foreign operators make a contribution for using UK roads. However, this aim needs to be put into perspective and the Government must not lose sight of the cost of implementing and running the scheme will have on the UK and critically UK fleet owners are not financially penalised.

Question 13

37. Do you consider that the charging proposals outlined above should be implemented?

Not in its current form for the reasons outlined in our response.

Closing Comments

38. We trust our comments add value to the deliberations of the Department for Transport's proposal to introduce the Lorry Road User Charge. We hope our response helps to clarify our concerns and we would be happy to assist with any additional information the Department may require.



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About the Industry

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Bona-fides BVRLA, the Industry and its Members

- The BVRLA is a trade body for companies engaged in the leasing and rental of cars and commercial vehicles. Its Members provide short-term self-drive rental, leasing and fleet management services to corporate users and consumers. They offer a combined fleet of 2.5 million cars, vans and trucks, buying 44% of all new vehicles sold in the UK.
- Through its members and their customers, the BVRLA represents the interests of more than two million business car drivers and 10 million people who use a rental vehicle each year. As well as informing the Government and policy makers on key issues affecting the sector, the BVRLA regulates the industry through a mandatory code of conduct.