House of Commons

Transport Committee

Oral evidence: Road pricing, HC 789

Wednesday 20 October 2021

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Watch the meeting

Members present: Huw Merriman (Chair); Mr Ben Bradshaw; Simon Jupp; Karl McCartney; Grahame Morris; Gavin Newlands; Greg Smith.

Questions 96–115

Witnesses

III: Mike Williams, Director for Business and International Tax, HM Treasury.

Examination of witness

Witness: Mike Williams.

Q96 **Chair:** Could I ask our final witness to introduce himself to us, please?

Mike Williams: Thank you, Mr Merriman. I am Mike Williams, the director of business and international tax at the Treasury. Within that remit are transport taxes.

Q97 **Chair:** Mr Williams, thank you very much for being with us. It is always the case that in our final panel we have someone from Whitehall, often a Minister, because we are talking about policy or a proposed policy. We are well aware that that is not what is on the table. Therefore, it is good to have an official who can talk to us about the current status. We are aware that you cannot speculate as to what policy may be. We have overrun, but the good news for you is that we have been doing nothing but speculate beforehand, so hopefully they have taken those matters in any event. Thank you for being with us from the Treasury.

Could I ask you first to set the scene in terms of what the current revenue generation is for roads coming from fuel and vehicle excise duty and other amounts, and how you foresee that those may decline in the years to come?

Mike Williams: Thank you, Chair. We are grateful to the Committee for its inquiry into zero emission vehicles and road pricing, and we welcome the opportunity to provide factual evidence outlining, as you said, current Government policy.

Before beginning, I ought to clarify that the Government have no announced policy on how declining motoring tax revenues will be replaced. As you have just said, I cannot speculate or comment about future policy direction. Of course, all taxes, including motoring taxes, are kept under review by the Chancellor and are considered in the round at fiscal events. Equally, any changes to the tax system are decisions for the Chancellor. The Government currently levy two principal motoring taxes: fuel duty and vehicle excise duty. Fuel duty currently raises around £28 billion a year, which contributes to funding public services such as schools and hospitals. Vehicle excise duty raises around £7 billion a year. English VED revenues from 2020-25 are allocated to the national roads fund.

The Government have, of course, committed to reaching net zero by 2050, and equally to support that the Government have brought forward the phase-out date for the sale of new petrol and diesel cars and vans to 2030, with all vehicles required to have a significant zero emissions capability from 2030 and to be 100% zero emissions from 2035. That, no doubt, links to your inquiry.

It has long been recognised that the transition to net zero will erode fuel duty and VED receipts on the basis of current policy. Obviously, an electric car does not pay fuel duty. The VED on zero emission vehicles is either zero or much reduced. Were, therefore, the current tax system to remain unchanged across the transition period to net zero tax, receipts from most fossil fuel related activity will decline towards zero across the first 20 years of the transition. Obviously, the decline in relation to cars will be quicker than the decline in relation to much heavier road vehicles, given the current policy.

In the Government's 10-point plan for a green industrial revolution, the Prime Minister stated that, as we move forward with the transition to net zero, we need to ensure that the tax system encourages the uptake of electric vehicles and that revenue from motoring taxes keeps pace with this change. Of course, that will be essential so that the Government can continue to fund public services and infrastructure.

In considering how to replace the loss of tax revenues, which of course are going to decline gradually rather than fall off a cliff, Ministers will need to consider both the ability of revenues to fund public services and the secondary impacts that currently result from fuel duty in particular. Those secondary impacts include reducing road congestion and promoting the uptake of electric vehicles. The choices about the balance of policy objectives are considerations that Ministers will need to take into account in considering how to replace the existing revenues.

Do you want me to go on, Mr Merriman, and say broadly where the money goes?

Q98 **Chair:** We will. That was one of the questions Ben was going to ask. It makes sense for you to do so, and then we will work out what we can come in on afterwards.

Mike Williams: Let me focus on 2021-22—

Q99 **Mr Bradshaw:** Can I ask for a quick clarification of the figures? The overall figures, if my arithmetic is right, that you gave us come to £35 billion, whereas there was a figure of £37 billion mentioned by the Treasury in the media today, and one of the previous witnesses said £37 million was the total of fuel plus VED. There is a slight discrepancy.

Mike Williams: I think, Mr Bradshaw, that will almost certainly depend on which year you use. Then there won't be a discrepancy. I am sure that we can pull that together if you would like us to.

If we look at 2021-22, which obviously we are still in the middle of so this is to an extent projection and to an extent spent already, the total road spending—this will be Department for Transport spending—is around £6.4 billion. That includes £1.2 billion for strategic roads operations and maintenance; £3.8 billion for upgrades to strategic roads; £1.1 billion for local roads maintenance; and £0.3 billion for local roads upgrades. That is slightly above the English share of projected vehicle excise duty. Of the £7 billion total, the English share is about £5.6 billion. That reflects the position that roads investment will exceed English VED revenues over 2020-25. Of course, it is not that much above the VED revenue, so the money from fuel duty, which is the greater proportion, is just going into the consolidated fund and, apart from the slight excess that I have just highlighted, is going to fund other public services, not roads.

Q100 **Chair:** There is something relevant there, Mr Williams, and it is an interesting comparison. By and large, vehicle excise duty is roughly the same amount as road funding. Obviously, fuel duty is a lot greater and that goes into the general pot. How much of that figure goes into other transport projects? When we talked to the other witnesses, they said that road pricing would not just be used to fund the roads but could also be used to fund other transport schemes, and then it would have its advantage. Do you know what the breakdown is and how fuel duty goes to fund other forms of transport—the non-road side?

Mike Williams: I can only help you a bit on that, Mr Merriman. The money goes into the consolidated fund, like any other tax. There is no hypothecation.

Q101 **Chair:** I suppose a better way of asking it is to ask what the sum total each year is on other transport projects apart from road. That will tell us if it is near the £27 billion on fuel duty.

Mike Williams: I am afraid I don't know because I am not responsible for public spending, just tax things. You could easily find out by looking at the Department for Transport's budget.

Chair: Yes, I think we will.

Q102 **Mr Bradshaw:** But it is not just the Department for Transport, is it? I am not expecting you to be able to give us this figure, but it would be really helpful for the Committee if we had the overall amount of money that is raised, not just through fuel duty and vehicle excise duty, but air passenger duty and all the transport and travel sector stuff, and how much of that goes back into the overall travel and transport stuff, including for example subsidising cheap fares in London. In a way, unless you have the whole ballpark thing, the public cannot get a figure as to whether the taxes raised are being used for transport and travel related things or whether the NHS and social care spending depends on them.

I think the experts suggest that, if you exclude the costs of congestion and the health costs of pollution, the revenue raised is more than the amount spent, but if you include those two things, that equation changes. Is that an equation that you are familiar with or that you think anyone in the Treasury could help us with?

Mike Williams: It depends on the basis on which you factor in the indirect impacts. We have always been clear that, if you look at CO_2 emissions from vehicles paying fuel duty, fuel duty at current levels of carbon price is the sort of price that you would factor in to get to net zero in the short term. Fuel duty exceeds that. To what extent it then compensates for health impacts is less clear and probably harder to trace through.

Mr Bradshaw: We did a joint inquiry on the cost of pollution when I was on Health. There was a £20 billion a year cost to the health service of pollution and congestion, which is not included in those calculations.

Q103 **Chair:** Taking this on, Mr Williams, my understanding when you look at hypothecation is that neither vehicle excise duty nor fuel duty had been hypothecated. Right at the very start they may have been. Now there is a commitment on vehicle excise duty that the amount it raises will go into roads. Has there been any discussion in the Treasury of looking at the fuel duty as a hypothecated towards transport duty in order to get the public to see the benefits of paying fuel duty, or have those conversations never really come up?

Mike Williams: It would obviously be for Ministers to decide if they wanted to go for more hypothecation. You are right that if you look into the mists of time there was hypothecation of fuel duty. Quite interestingly, and slightly surprisingly certainly when I looked back in preparation for this hearing, the removal of hypothecation was very early on—in the 1930s. That gives you a hint that there are quite good reasons why we do not hypothecate things. Let us take last year during the period when the lockdown was most severe. Receipts from fuel duty inevitably went down a lot because nobody was driving, or fewer people were driving, or people were driving less. Let us say you are funding some other activity that needs to carry on. What do you do when that happens? It does not necessarily—

Q104 **Chair:** Conversely, what do you do when you end up with more receipts than you expected? Do you have to quickly go out and build another road?

Mike Williams: I wonder if that is the dilemma that they faced in the 1930s. There would not have been many cars originally. Motoring became much more popular, but by then, to a fair extent, they had created roads infrastructure with tarmacked roads. They were almost certainly generating more revenue than they wanted to spend on transport.

Q105 **Mr Bradshaw:** This looming gap in receipts is clearly a challenge for the Treasury and for the country as a whole. Are clever people in the Treasury talking to the kinds of experts whom we have just heard from behind you as to how you might devise a scheme that would satisfy your revenue-raising needs and also deliver the policy objectives that the Government overall seek to achieve?

Mike Williams: We have quite widespread engagement with stakeholders, particularly interested and knowledgeable stakeholders. Of course, we also look at what is happening in the rest of the world. You can see in some instances that the first mover does not necessarily get the long-term advantage. Look at something like the French toll motorways where, because they were done very early, they had a very elaborate infrastructure of tollbooths every 10 km to 20 km or something like that.

Q106 **Chair:** How does it work in terms of cross-government? I suppose we have cross-government ministerial, but also, there is you, with your fellow officials in the Department for Transport. I dare say if there was a Department for Transport official with us they would want to focus more on the incentives of taking up zero emission vehicles because there is not the tax there, but obviously the Treasury is concerned to make sure that the books balance. How does it work across Departments in terms of sharing the concerns as well as the promotions of these new vehicles?

Mike Williams: We work closely with Department for Transport officials, not just on roads but on things like APD and rail expenditure. The key point is that you have to factor in all the interactions, which links a bit with Mr Bradshaw's point just now. You could massively advantage electric cars, and if we did not replace fuel duty over time there would be more and more cars paying distinctly less than, say, petrol cars are paying now. If you did that, you would change the current equilibrium in relation to railways or use of road public transport. It would be much cheaper to use a car than it is now, so more people would use cars. It is that that we have to factor in. Then if you wanted to maintain the same level of public transport it would cost you more in either subsidy or higher fares, but, in reality, probably in subsidy.

Q107 **Mr Bradshaw:** This has all been about road pricing, but there is an alternative, is there not? You could whack it on the electricity for recharging your electric vehicles. Does the Treasury currently have a view as to which of those alternatives or which model would be preferable for revenue-raising and delivering policy objectives?

Mike Williams: A difficulty with that is that fuel duty on petrol is almost an ideal tax. Basically, only cars use petrol and they only really use it on the road, so there is a very direct link. Equally, because it is a refined product that is flammable, the number of suppliers is very small. You can tax it at the point it leaves the oil supplier. In a sense, it is almost perfect and you do not come across that very often. With electricity, you already start with the fact that there are far more suppliers of electricity and you then have the issue that electricity is used for other purposes. If you are thinking of people charging in the home, and certainly if I were to do that, at the moment there is no mechanism for my supplier to know if I am using the washing machine or charging a car. You would have to put in that infrastructure if you were to go down that road, which is new infrastructure that is not there, which would have to be paid for.

Q108 **Mr Bradshaw:** Is there a current view in the Treasury that road pricing is the way forward?

Mike Williams: As I said in my opening remarks, Ministers will have to decide the way forward on replacing the revenues as they gradually decline.

Chair: On your advice.

Mike Williams: Yes, but it is for them to decide, weighing up all the evidence and considering what objectives they wish to apply.

Q109 **Grahame Morris:** I am not sure, Mr Williams, whether you were in for the earlier panel—the innovators and academics—but Ben raised the question I wanted to raise. The academics told us that the kind of perfect tax is a fuel tax and that it is not a leap of faith with smart metering and developments in technology coming forward every day to come up with a model to address this transitional problem where, over time, the Treasury will lose revenue from traditional fuel tax. That could be replaced by looking at raising revenue from a tax on the electricity going into the vehicles. I am a bit surprised you are so dismissive of the potential of doing that. Is the Treasury modelling the prospects for it, because there are so many new developments, with smart metering and modern developments linked to mobile phones and so on, that seem to offer all sorts of potential in this regard?

Mike Williams: I am sorry if I came over as dismissive of it, Mr Morris, because I didn't mean to. It is what happens currently with fuel duty. You are basically taxing the import and, of course, to an extent you are creating a proxy for a per mile charge, but that is quite crude because it depends on whether you are stuck in traffic or what sort of car you have—things like that. We need to be open. Is there some way of replicating that? What I was saying is that it is not nearly as easy as, say, taxing petrol that goes into cars and doesn't go anywhere else.

Q110 **Grahame Morris:** It is also suggested that taxing insurance is a means of raising revenue, which is something we do not do but other countries currently do. Is that on your radar?

Mike Williams: We charge insurance premium tax on insurance premiums for motoring insurance. To that extent we are already taxing it.

Q111 **Grahame Morris:** Could you try to link that, with technology, to journeys, to the number of miles travelled by a particular user?

Mike Williams: You cannot use insurance premiums as a crude proxy. My nephew, who has just passed his test, is faced with huge motor insurance premiums; I am not. The same will be true everywhere. The reality is that I probably drive more than he does. That would not work. It has been proposed that insurance companies could collect the money by monitoring how much you drive in a year, and maybe they could. Whether people would be keen on a single annual charge as opposed to paying for fuel when they put fuel in the tank is not clear, but you could fix it so that it was not a single annual charge.

Q112 **Chair:** I completely agree with you. At the moment, you cannot really tell the difference if you are plugging in your car at home or elsewhere. Certainly when we had our evidence on zero emission vehicles, we were shown that it was a lot more expensive to charge on the street than it was at home for the reasons you have just described.

I asked Gavin Newlands if he wanted to come in at all, but he does not. In that case this will be the last point and again it comes back to the factual situation that you are able to give to us or, indeed, the projections. You talked about the £35 billion that is currently raised and brought into the Treasury, trending down towards zero in the next 20 years. How does that pathway look? You said it won't fall off a cliff, but are there estimates as to where it goes? I am also conscious of inflation.

Mike Williams: If we focus on fuel duty because it is bigger—if you look at the March 2021 OBR forecast—in 2019-20 the fuel duty outturn was £27.6 billion. We should then probably forget about last year because of the pandemic, which distorts things. This year, the forecast is £26.0 billion. It then rises to £29.2 billion in 2022-23. That will partly be recovery from the pandemic and partly the restriction on the use of red diesel. Then, if we jump forward to 2025-26, it rises to £31.2 billion, but you are getting inflation. The assumption that the OBR adopts is that fuel duty will be increased by RPI each year, so there is a significant inflation impact on that. If you strip out inflation, you will get some decline.

Q113 **Chair:** Excellent. That was why I was keen to get that part on the record, because it looks as if it goes up, but it is not taking inflation into account. Of course, it is very difficult for anyone to predict because we do not know what the take-up of electric vehicles will be. We do not know whether the recent fuel shortages will encourage shift across to electric vehicles, which itself will make the decline greater as far as the Treasury is concerned. I assume that the Treasury, like everybody else, has to speculate on a number of factors in order to properly give those figures.

Mike Williams: You can see what the factors are, such as the move to electric vehicles, although of course you then have to introduce an assumption about how quickly that will happen. Equally, as people are sticking to internal combustion engines, there is a move from diesel to petrol. That then tends to increase fuel consumption a bit at the margin, and that tends to inflate the figures. There is that effect going on as well in the background.

Chair: The very last point comes from Ben.

Q114 **Mr Bradshaw:** You said something very interesting earlier, Mr Williams, about France and the danger of being the first one out of the traps, so to speak, whereas the previous expert panel, whom I think you heard, said that this is an opportunity for the UK to be world leaders. There is obviously a tension in those two positions. Are you having discussions with your international counterparts who sit in Treasuries around the world, and are probably ahead of us on EV so they will be coming up against this problem more quickly, as to what sorts of models and systems they are thinking of adopting, so that we can, hopefully, both be world leading but also not make mistakes and learn from other people?

Mike Williams: We do that. Quite often, it is not about getting good ideas but finding out the things that were tried that did not work, which in a sense is most useful. The difference over time is the level of infrastructure. On French toll roads now, you can use transponders instead, but it requires everybody to have a transponder if you are going to do it that way. Equally, you can do number plate recognition but you have to set up accounts for that, and you still need an infrastructure because of the cameras. You see that on the Portuguese motorways where they have gantries with cameras.

Q115 **Mr Bradshaw:** The other panel were unanimous that the model we should be looking at is the long-distance motorway model operated in central and eastern Europe. Is that something we are looking at as part of this policy development?

Mike Williams: We are looking at all sorts of different models, but if you were to look at using an app, you face the problem that only some current cars have apps. Your problem then is that the car fleet turns over quite slowly. You are talking about 10 to 15 years. That then creates an issue. Of course, in a sense that helps. It means that the decline in fuel duty is not as marked as it would be if the car stopped—turned over every two to three years.

Chair: Mr Williams, thank you so much for concluding our evidence. We are looking to get a report out before COP26 transport day, which is 10 November. I am very grateful indeed to you for coming and giving us the factual situation. As you say, you are unable to speculate and talk about policy, because that is for Ministers, but we are very grateful indeed for your time and apologies for delaying you giving your evidence as well. Thank you.