



House of Commons  
Treasury Committee

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# Fuel Duty: Fiscal forecast fiction

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**Eleventh Report of Session 2022–23**

*Report, together with formal minutes relating  
to the report*

*Ordered by the House of Commons  
to be printed 16 January 2023*

**HC 783**

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## The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue and Customs and associated public bodies.

### Current Membership

[Harriett Baldwin MP](#) (Chair) (Conservative, West Worcestershire)

[Rushanara Ali MP](#) (Labour, Bethnal Green and Bow)

[John Baron MP](#) (Conservative, Basildon and Billericay)

[Anthony Browne MP](#) (Conservative, South Cambridgeshire)

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### Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

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### Committee staff

The current staff of the Committee are Morenike Alamu (Committee Operations Officer), Bayley Hockham (on secondment from the Bank of England), Timothy Holmes (on secondment from HM Revenue & Customs), Dan Lee (Senior Economist), Adam McGee (Senior Media and Communications Officer), Adam Mellows-Facer (Clerk), Aruni Muthumala (Senior Economist), Charlotte Swift (Second Clerk), Sam Upton (on secondment from the Financial Conduct Authority), Adam Wales (Chief Policy Adviser), Maciej Wenerski (Committee Operations Manager), Richard Whisker (on secondment from the Bank of England), and Marcus Wilton (Senior Economist).

### Contacts

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You can follow the Committee on Twitter using [@commonstreasury](https://twitter.com/commonstreasury).

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# Forecasting fuel duty

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## Scope of this report

1. The Office for Budget Responsibility (OBR) will now be in its usual 10 week preparation period for the forecast to accompany the Budget on 15 March 2023.<sup>1</sup> This Report deals with the ongoing Treasury policy assumption that Fuel Duty<sup>2</sup> will rise with inflation, which is then used by the OBR as a policy basis for its fiscal forecasts. It makes no comment on what the current or future level of fuel duty should be.

## The fuel duty assumption

2. Fuel duty is set as a cash charge per unit of fuel, meaning its real value will fall unless it is uprated with inflation. For almost 30 years, successive Governments have held varying policy assumptions about the future annual increases in fuel duty.<sup>3</sup> For example, in March 1993, the then Chancellor, Norman Lamont, stated that “We intend to raise road fuel duties on average by at least 3 per cent. a year in real terms in future Budgets”.<sup>4</sup> However, in November 1999, Gordon Brown removed the so-called “fuel duty escalator”, saying only that fuel duty would be decided Budget by Budget.<sup>5</sup> The Pre-Budget Report 1999 noted that “From [Q2 2000] the forecast adopts the conventional assumption of fuel and tobacco duty increases in line with RPI inflation, instead of previous escalator uprating, to maintain inflation neutrality”.<sup>6</sup> In Pre-Budget Report 2004, while announcing a continuing freeze on fuel duties, the then Government noted that “It remains the Government’s policy that in future years, fuel duties should rise at least in line with inflation [...]”.<sup>7</sup> Alistair Darling’s 2009 Budget announced “an increase in fuel duty of 2 pence per litre on 1 September 2009, and of 1 penny per litre in real terms each year from 2010 to 2013”.<sup>8</sup> In George Osborne’s Budget 2011, the new Government set out a ‘fair fuel stabiliser’, which was to see fuel duty rise by inflation alone if oil prices were determined to be ‘high’.<sup>9</sup>

3. The current underlying policy of the Treasury is that fuel duty will rise in line with inflation (as measured by the retail price index, RPI).<sup>10</sup> This does not have a statutory footing—any change to the rate of fuel duty requires legislation. But because it is the official policy of the Government, the OBR undertakes its fiscal forecasts with annual uprating as their underlying assumption.

4. However, the last fuel duty rise in cash terms was 12 years ago on 1 January 2011, when the duty on unleaded fuel rose from 58.19p per litre to 58.95p per litre.<sup>11</sup> Since then,

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1 HC Deb, 19 December 2022, [col 6WS](#); Letter to the Chair of the Treasury Committee from the Chair of the Office for Budget Responsibility, [Potential Emergency Budget](#), 26 August 2022

2 Duties charged per litre of unleaded petrol and diesel, under s6 of the Hydrocarbon Oil Duties Act 1979

3 For a detailed narrative, see House of Commons Library, [Research briefing: Taxation of road fuel](#), By Antony Seely, Published 24 June 2022

4 HC Deb, 16 March 1993, [col 183](#)

5 HC Deb, 9 November 1999, [cols 889–890](#)

6 HM Treasury, Pre-Budget Report, [Cm 4479](#), November 1999, para A33

7 HM Treasury, Pre-Budget Report, [Cm 6408](#), December 2004, para 7.32

8 HM Treasury, [Budget 2009](#), 22 April 2009, para 1.36

9 HM Treasury, [Budget 2011](#), 23 March 2011, para 1.146

10 Oral evidence taken on 22 November 2022, HC (2022–23) 740, [Q345](#), and most recently HM Treasury, Autumn Statement 2022: Policy Costings, [November 2022](#), Annex A

11 HM Revenue and Customs, [Historical hydrocarbon oils duty rates, Updated 28 October 2022](#)

successive Chancellors have refrained from raising fuel duty. The Treasury went further in the 2022 Spring Statement, announcing “a temporary 12-month cut to duty on petrol and diesel of 5p per litre”.<sup>12</sup>

5. Because Governments have consistently not raised fuel duty with inflation, contrary to the underlying policy assumption provided to the OBR, the OBR considers fuel duty a risk to its fiscal forecast. In its November 2022 *Economic and Fiscal Outlook*, the OBR noted the assumption as one of its “main adverse economic and fiscal risks”.<sup>13</sup>

The planned 23 per cent increase in the fuel duty rate in late-March 2023, which adds £5.7 billion to receipts next year. This would be a record cash increase, and the first time any Government has raised fuel duty rates in cash terms since 1 January 2011. It is expected to raise the price of petrol and diesel by around 12 pence a litre.<sup>14</sup>

6. Paul Johnson, Director of the Institute for Fiscal Studies (IFS), commenting on the 2022 Spring Statement’s temporary reduction in fuel duty, noted that:

Not only do the public finance forecasts depend upon the 5p cut being reversed, they assume an increase in line with the RPI on top of that. The odds against the former feel long. I reckon an RPI increase on top is about as likely as my winning the National Lottery. And I don’t play the Lottery.<sup>15</sup>

7. When it was put to the Treasury’s Permanent Secretary that the continued underlying assumption was a “mockery of forecasting”, given that rises in duty were assumed but never materialised, Mr Bowler replied that it was “a reasonable point”.<sup>16</sup>

**8. The repeated failure of Governments to follow their own stated policy on fuel duty undermines the credibility of the OBR’s fiscal forecasts.**

**9. *We recommend that the Treasury, for the purposes of providing the OBR with a policy assumption for future forecasts, should assume there will be no inflation-linked rise in fuel duty over the forecast horizon. This would more accurately reflect the recent path of fuel duty and make for a more credible forecast. As ever, the Chancellor would be free to propose changes in duty rates at fiscal events.***

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12 HM Treasury, [Spring Statement 2022](#), para 2.13, p24. The temporary reduction was given statutory effect by the Excise Duties (Surcharges or Rebates) (Hydrocarbon Oils etc.) Order 2022.

13 Office for Budget Responsibility, *Economic and Fiscal Outlook*, [November 2022](#), p52

14 Office for Budget Responsibility, *Economic and Fiscal Outlook*, [November 2022](#), pp52–53

15 Institute for Fiscal Studies, [Spring Statement 2022: Paul Johnson’s opening remarks](#), 24 March 2022

16 [Qq173-174](#)

# Formal minutes

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**Monday 16 January 2023**

**Members present:**

Harriett Baldwin, in the Chair

Rushanara Ali

John Baron

Dame Angela Eagle

Emma Hardy

Danny Kruger

Alison Thewliss

Draft Report (*Fuel Duty: Fiscal forecast fiction*) proposed by the Chair, brought up and read.

*Ordered*, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 9 read and agreed to.

*Resolved*, That the Report be the Eleventh Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjourned till Tuesday 24 January at 9.30 am.

## Witnesses

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The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

### Wednesday 01 December 2021

**Sir Tom Scholar**, Permanent Secretary, HM Treasury; **Charles Roxburgh**, Second Permanent Secretary, HM Treasury; **Cat Little**, Director General, Public Spending, HM Treasury; **Anna Caffyn**, Finance Director, HM Treasury

[Q1-98](#)

### Monday 12 December 2022

**James Bowler CB**, Permanent Secretary, HM Treasury; **Beth Russell**, Second Permanent Secretary, HM Treasury; **Cat Little**, Second Permanent Secretary, HM Treasury; **Anna Caffyn**, Finance Director, HM Treasury; **Phil Duffy**, Director-General, Growth and Productivity, HM Treasury

[Q99-226](#)



# List of Reports from the Committee during the current Parliament

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All publications from the Committee are available on the [publications page](#) of the Committee's website.

## Session 2022–23

Number	Title	Reference
1st	Future of financial services regulation	HC 141
2nd	Future Parliamentary scrutiny of financial services regulations	HC 394
3rd	The appointment of Dr Swati Dhingra to the Monetary Policy Committee	HC 460
4th	Jobs, growth and productivity after coronavirus	HC 139
5th	Appointment of Marjorie Ngwenya to the Prudential Regulation Committee	HC 461
6th	Appointment of David Roberts as Chair of Court, Bank of England	HC 784
7th	Re-appointment of Sir Dave Ramsden as Deputy Governor for Markets and Banking, Bank of England	HC 785
8th	Autumn Statement 2022 - Cost of living payments	HC 740
9th	Appointment of Ashley Alder as Chair of the Financial Conduct Authority	HC 786
10th	The work of the Sub-Committee on Financial Services Regulations	HC 952
1st Special	Defeating Putin: the development, implementation and impact of economic sanctions on Russia: Government Response to the Committee's Twelfth Report of Session 2021–22	HC 321
2nd Special	Future of financial services regulation: responses to the Committee's First Report	HC 690
3rd Special	Jobs, growth and productivity after coronavirus: Government response to the Committee's Fourth Report	HC 861

## Session 2021–22

Number	Title	Reference
1st	Tax after coronavirus: the Government's response	HC 144
2nd	The appointment of Tanya Castell to the Prudential Regulation Committee	HC 308
3rd	The appointment of Carolyn Wilkins to the Financial Policy Committee	HC 307

<b>Number</b>	<b>Title</b>	<b>Reference</b>
4th	The Financial Conduct Authority's Regulation of London Capital & Finance plc	HC 149
5th	The Future Framework for Regulation of Financial Services	HC 147
6th	Lessons from Greensill Capital	HC 151
7th	Appointment of Sarah Breedon to the Financial Policy Committee	HC 571
8th	The appointment of Dr Catherine L. Mann to the Monetary Policy Committee	HC 572
9th	The appointment of Professor David Miles to the Budget Responsibility Committee of the Office for Budget Responsibility	HC 966
10th	Autumn Budget and Spending Review 2021	HC 825
11th	Economic crime	HC 145
12th	Defeating Putin: the development, implementation and impact of economic sanctions on Russia	HC 1186
1st Special	Net Zero and the Future of Green Finance: Responses to the Committee's Thirteenth Report of Session 2019–21	HC 576
2nd Special	The Financial Conduct Authority's Regulation of London Capital & Finance plc: responses to the Committee's Fourth Report of Session 2021–22	HC 700
3rd Special	Tax after coronavirus: response to the Committee's First Report of Session 2021–22	HC 701
4th Special	The Future Framework for Regulation of Financial Services: Responses to the Committee's Fifth Report	HC 709
5th Special	Lessons from Greensill Capital: Responses to the Committee's Sixth Report of Session 2021–22	HC 723
6th Special	The appointment of Professor David Miles to the Budget Responsibility Committee of the Office for Budget Responsibility: Government response to the Committee's Ninth Report	HC 1184
7th Special	Autumn Budget and Spending Review 2021: Government Response to the Committee's Tenth Report	HC 1175
8th Special	Economic Crime: responses to the Committee's Eleventh Report	HC 1261

### Session 2019–21

<b>Number</b>	<b>Title</b>	<b>Reference</b>
1st	Appointment of Andrew Bailey as Governor of the Bank of England	HC 122
2nd	Economic impact of coronavirus: Gaps in support	HC 454
3rd	Appointment of Richard Hughes as the Chair of the Office for Budget Responsibility	HC 618

<b>Number</b>	<b>Title</b>	<b>Reference</b>
4th	Appointment of Jonathan Hall to the Financial Policy Committee	HC 621
5th	Reappointment of Andy Haldane to the Monetary Policy Committee	HC 620
6th	Reappointment of Professor Silvana Tenreyro to the Monetary Policy Committee	HC 619
7th	Appointment of Nikhil Rathi as Chief Executive of the Financial Conduct Authority	HC 622
8th	Economic impact of coronavirus: the challenges of recovery	HC 271
9th	The appointment of John Taylor to the Prudential Regulation Committee	HC 1132
10th	The appointment of Antony Jenkins to the Prudential Regulation Committee	HC 1157
11th	Economic impact of coronavirus: gaps in support and economic analysis	HC 882
12th	Tax after coronavirus	HC 664
13th	Net zero and the Future of Green Finance	HC 147
1st Special	IT failures in the financial services sector: Government and Regulators Responses to the Committee's Second Report of Session 2019	HC 114
2nd Special	Economic Crime: Consumer View: Government and Regulators' Responses to Committee's Third Report of Session 2019	HC 91
3rd Special	Economic impact of coronavirus: Gaps in support: Government Response to the Committee's Second Report	HC 662
4th Special	Economic impact of coronavirus: Gaps in support: Further Government Response	HC 749
5th Special	Economic impact of coronavirus: the challenges of recovery: Government Response to the Committee's Eighth Report	HC 999
6th Special	Economic impact of coronavirus: gaps in support and economic analysis: Government Response to the Committee's Eleventh Report	HC 1383