Written evidence submitted by Campaign for Better Transport

1. Thank you for the opportunity to input into your committee's inquiry. Understandably your terms of reference are wide-ranging, but given the remit of our organisation, our contribution is limited to the role and impact of taxes as they affect, and influence behaviour within, the transport sector. Transport is of course an essential element of a modern economy, as well as at present a major contribution to carbon emissions and so climate change, and air pollution and so health.

2. While the arrival of the coronavirus has done much to damage the economy, it also clears the way for fundamental changes to the approach of government, including within taxation policy. In particular, it provides an opportunity to make changes to achieve stated government objectives, including its 2050 net zero carbon target, and its levelling-up agenda.

Background

3. Although governments have introduced some taxes for express environmental reasons, such as the landfill tax, a great deal of taxation has simply had the central objective of raising monies for the Treasury, to provide an income stream for the funding of health, education, defence, and other expenditure lines where it has been unrealistic or undesirable or both to raise sufficient funds for these areas on a self-sufficiency basis.

4. In terms of transport taxes, the main one has been fuel duty, which is expected to bring in £28.4 billion in 2019/20, according to the Office for Budget Responsibility (OBR). Fuel duty rates have been frozen at 57.95p per litre since 2011/12, representing an effective drop of 12% against inflation, though the government has said it may raise the rate each year from 2020/21 in line with the Retail Prices Index (RPI). Value Added Tax (VAT) is added afterwards, hence fuel duty is subject to VAT. Actually, the freeze in fuel duty since 2011 has already cost the Treasury more than £50 billion in foregone revenue, which could have been invested in sustainable transport options and other carbon reduction measures.

5. Road vehicles are also subject to Vehicle Excise Duty (VED), though a small number, such as heritage vehicles, are zero-rated.

6. Bus operators are able to reclaim duty payable on diesel fuel through the Bus Service Operators Grant (BSOG), a mechanism operated by the Department for Transport.

7. There is no tax payable on kerosene for aircraft, but the OBR estimates some £3.76 billion will have been raised in 2019/20 from the application of Air Passenger Duty (APD). There was a fall in income from this source after 2015/16 when the distance bands C and D were merged into B.

The Impact of Transport Taxation

8. We believe the government should make the tax system work harder, not simply to raise funds for essential expenditure but also that tax should be raised in a way that encourages desirable behaviour. All taxation should therefore seek to deliver this double purpose.

9. The freezing of fuel duty since 2011, as well as limiting the income that the Treasury might have expected to receive, has also made it more attractive in relative terms to use the private car rather than the bus or train, where fares have continued to rise.

10. This undermines the policy of the Department for Transport, which is to encourage modal shift to active travel – walking and cycling – and to public transport.

11. It also undermines the country's economic performance by creating unnecessary congestion on our roads. After the lockdown was introduced in March, we saw traffic fall back to 1955 levels. By late July, HGV traffic had returned to 95% of what it had been, with the corresponding figures for vans being 90% and cars 75%. But even at these late July levels, it was noticeable that there was still a significant reduction in idling and the stop-start of hitherto crowded roads, which shows that even a modest reduction in vehicle movements can produce a marked reduction in congestion, with all the economic (and air quality) benefits that free-flowing traffic can bring, including time saving and better journey predictability.

12. The VED changes made after the 2015 General Election also undermined the Department for Transport's objective of reducing the carbon emissions of road transport. Furthermore, the strong commitment of the government between 2010 and 2014 to the development of electric cars gave carmakers the confidence to invest here in the UK, and helped make the country a net exporter of cars for the first time in decades. Unfortunately the VED changes subsequently introduced in 2015 helped create uncertainty and so damaged the car industry.

13. We welcome the statement in May from the Transport Secretary when he said: "Our national recovery can also become a green recovery." We also

note the conclusion in a report earlier this year by the World Wild Fund for Nature and Vivid Economics that transitioning to net zero would provide a large economic boost, supporting over 200,000 jobs in 2030 and generating over £90bn of annual benefits to the UK.

14. In addition, we welcome the DfT's recent decarbonisation document, which in our view is both helpful and sensible, aiming as it does to encourage active travel, and modal shift to public transport. **Yet we doubt the ambitious aims of the plan can be realised without the correct taxation decisions being made, and economic signals being sent, by the Treasury.**

The Way Forward

15. In terms of specific taxation measures, we urge the Treasury to take the following actions:

(a) We urge a fundamental change to the nature of motoring taxes, away from VED and fuel duty, to a system based on **road-user charging** for the strategic road network managed by Highways England. Psychologically, the motorist, having paid for a year's VED, can feel they wish to get the "best value" from this by driving more, when the need is to persuade them to drive less. A move to electric vehicles would in due course resolve the pollution aspect of driving, but would do nothing to deal with the increased congestion or the unwelcome societal effects, such as increased isolation, that would flow from any modal shift away from public transport towards the private car.

Such a scheme might sensibly charge based on variables: the type and emission levels of the vehicle, the distance covered, perhaps also the time of day, and local pollution levels. This would be fairer to the consumer and to society, reflecting more closely the impacts of individual journeys, while supporting the transition to cleaner vehicles and encouraging people to make informed travel decisions. We are happy, if it is helpful, to provide further details as to how we see a road-user charging scheme working.

It is also the case that, as the vehicle fleet moves from diesel and petrol to electric and hydrogen, a huge hole will develop in the Treasury's income stream, so impacting on the government's ability to deliver its expenditure programme. The adoption of a road-user charging scheme would obviate this, and if introduced early, could be fairly presented as a switch in motoring taxation rather than as an extra tax.

(b) We commend the Nottingham **workplace parking levy** scheme which has not only cut pollution, but raised funds for public transport, and led to an above average economic performance for the city. We urge the government to give all directly elected mayors, county councils and unitary councils the right to introduce such schemes without the requirement that currently applies to secure bespoke central government permission first.

(c) The financial support provided by the government to the bus industry through **Bus Service Operators Grant (BSOG)** needs to be recast. At present it provides support for diesel fuel and so actually disincentivises zero carbon buses. There should instead be paid a basic supplemental payment on a per passenger or per mile basis, with an additional incentive payment on top that only zero emissions buses are eligible for. (We recognise that this element within government is a DfT lead).

(d) There is a need to consider mitigation measures for the train operating companies who have seen levies on electricity to power trains more than double in the past four years. Taxes now make up almost 40% of the total electricity costs for train operators.

16. We are happy to provide any further clarifications you may require.

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