

THE WAR
ON MOTORING
MYTH
OR REALITY?



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EXECUTIVE SUMMARY

There is a widely held perception that there is a war being waged on motorists and that government is using motorists as a 'cash cow'. There are frequent calls – often granted, as in June 2012 – for delays or reductions in fuel duty and other motoring taxes. These are often juxtaposed with calls for greater spending on roads. This paper sets out the costs of motoring both to individual drivers and to the public purse, compared to the cost of living and the costs of alternative transport modes. It considers whether there are justifiable reasons for increased taxes on motoring.

Road traffic, most of it consisting of cars, has been growing steadily since records began. Car traffic increased by nearly 15 per cent in the 20 years from 1990 to 2010, though with a slight decline from 2007.¹ Car ownership and the number of cars on the road have also increased. Government now recognises that the old 'predict and provide' policy of building roads to meet demand is not sustainable, and transport policy now aims to reduce traffic growth. However, there are no targets and government is forecasting significant increases in traffic by 2035. Although forecasts have historically overestimated growth, it provides pressure for investment in new road infrastructure.

The cost of motoring is a primary concern for drivers. Fuel costs drive perceptions about motoring costs, but there remains a gap between perception and reality. While fuel is the most obvious cost component of running a car, it is just part of the overall cost of motoring. In 2010, fuel accounted for one-third (£21) of an average household's weekly motoring costs of £77, or less than 5 per cent of average household spending (though obviously this proportion is higher for poorer car-owning households). Although fuel duty rates on petrol and diesel are high, they were actually 7 per cent lower in real terms in 2011 than in 2001. In the same time period, the real cost of motoring (including purchase) also fell, largely due to a decline in purchase costs. While the UK has generally higher rates of fuel duty than other EU countries, this is offset by lower motoring taxes and charges elsewhere – for instance, the UK has no car registration tax and very few motorway tolls. Compared to other EU countries, the British motorist is not highly taxed.

While spending on roads is not commensurate with motoring tax revenue, there is no good policy justification for making these two figures balance: road investment should be justified on grounds of wider transport objectives and needs. In 2010, government spent around £9 billion on roads, representing 40 per cent of total public spending on transport. In addition to this direct expenditure, the costs to society of car travel are considerable – these include congestion, road casualties, greenhouse gas emissions, air pollution, noise, and physical inactivity. Estimates of these social and environmental externalities range up to £56 billion in total – even excluding congestion costs, they are well over £32 billion. There are also many costs which are difficult to estimate but are not trivial, such as community severance, disruption to tranquillity and landscape, and waste and water pollution. While road pricing is a measure that would better address the congestion factor, fuel duty should not be replaced entirely as some have suggested, as this tax addresses greenhouse gas and pollution costs directly. Overall, the full costs of the environmental and social impacts of car and road traffic are not being fully paid by motorists.

¹ This paper refers to the most recent published statistics available from the Department for Transport (DfT) and the Office for National Statistics (ONS), which tends to be 2010 data published in 2011. Where possible this has been updated to include 2011 data. This means that some trends are expressed as 2000–2010 but in certain instances the period 2001–2011 is used.

The costs of public transport have risen disproportionately in the last 10 years, far more than the cost of motoring. Between 2001 and 2011, the cost of rail fares increased by 62 per cent in real terms; the cost of bus and coach fares increased by 69 per cent. Meanwhile, the economies of scale associated with car travel mean that the relative costs of public transport versus a car journey for a family are further magnified. But for some, public transport is the only option. The proportion of households without access to a car is 25 per cent overall, rising to 68 per cent for the poorest 10 per cent of households. People who use public transport are being hit twice by the high cost of fares and cuts in bus and other transport services. By contrast, households with cars can often cut their motoring costs by switching to smaller or more fuel-efficient cars, car sharing, driving less (by cutting out non-essential journeys) and adopting more fuel-efficient driving techniques.

As well as generating revenues, motoring taxes are used as environmental policy tools to encourage greater fuel efficiency and a shift to more sustainable transport modes. Although it is difficult to separate out the influence of motoring taxes specifically, the average fuel efficiency of new cars has increased significantly over the last 10 years. As levels of environmental awareness have increased, public support has grown for further reducing the impact of driving and for spending to improve bus and rail services. But there is little evidence that this is happening at the pace necessary to continue to reduce the level of traffic.

In 2010 the government raised around £32 billion from fuel duty and vehicle excise duty (VED). Revenue from these motoring taxes has increased in real terms by around 50 per cent over the last 20 years, but has actually decreased in the past decade. Due to increasing fuel efficiency, it is forecast that revenues from motoring taxes will decline in the long term and so they should be replaced. However, in the short to medium term, these taxes are an important source of revenue and help to address some of the environmental impacts of motoring.

While no one likes paying tax, the political pressure to reduce or delay the increases in fuel duty only results in further cuts in spending or increases in tax elsewhere. The decision to delay increases in fuel duties, recently extended to January 2013, has cost the exchequer nearly £2.8 billion in 2011/12 alone, and will amount to nearly £14 billion over the next five years. The question is whether waiving this potential revenue in a time of economic hardship is in society's best interests.

It is almost certain that oil prices will continue to rise over time. Rather than seeking to cushion this blow for UK motorists, planned annual increases in motoring taxes should be part of a rational government policy to make the transport system fairer, more sustainable and more resilient to oil price shocks. The recent downward trend in car traffic should be encouraged through support for more sustainable transport modes, interventions to reduce the need to travel, and better integration of transport with environmental, planning, health and education policies.

Put simply, there is no war on motorists. Fuel duty and VED are both effective and justifiable motoring taxes that not only encourage greater fuel efficiency but go some way to offsetting the environmental and social costs of motoring. Recent government reductions or delays to planned increases in fuel duty in particular are not justified in terms of sound public policymaking.

This report makes the following recommendations:

1. Motoring taxes are not as high as people think, yet pressure on politicians to reduce these costs is acute. Despite the fact that it is a progressive policy that facilitates government's environmental goals, there is little prospect of government reintroducing the fuel duty escalator in the short term. Nonetheless, since fuel duty revenues are an important tool to encourage fuel efficiency and address some of the impacts of motoring, and because they are an important revenue source at a time of government cutbacks, government should make every effort to avoid further delays in fuel duty increases.
2. New ways should be found to reduce the externalities caused by road traffic. Road pricing is the most effective way to address one of the externalities – congestion – and may gain public support once the benefits are explained. Government and local agencies should look for new ways to extend road pricing and congestion charging, particularly where these can provide a future revenue stream to finance improvements in public transport infrastructure and services. Road pricing could also become one means of replacing some of the income that is currently derived from fuel duty and VED.
3. Government should accompany this with a clear statement of the importance of encouraging modal shifts away from driving and towards more sustainable forms of transport, such as walking, cycling and public transport. Local transport authorities should be empowered and incentivised to implement such measures in the most cost-effective way appropriate to local conditions, for example by switching resources into the Local Sustainable Transport Fund. Measures to improve bus and coach services, which are the most accessible form of public transport, particularly in areas with poor rail connections, should also be prioritised. Given that bus fares have increased more than for any other mode of transport, priority should be given to bringing down these costs.
4. Improvements in public transport, walking and cycling facilities should also be supported through an increase in government support for transport capital projects. Given the current low interest rates, there is a real opportunity available now to make much-needed improvements in public transport and other infrastructure that can increase patronage and reduce the environmental impacts of existing fleets and stock. The nascent Green Investment Bank should be empowered to begin borrowing immediately to support these projects.
5. Government should update its account of the external costs of transport, including all externalities and incorporating new estimates and research.

1. INTRODUCTION

Motorists are feeling beleaguered – the cost of fuel at the pump remains high and the AA reports that an average family now spends more on petrol each week than on food (AA 2012a). The chancellor responded to calls to cut fuel duty in the 2011 budget and has since delayed increases further – these are now scheduled for January 2013. Motoring lobby groups argue for greater spending on roads. There are repeated calls to end the so-called ‘war on motorists’.

‘Drivers do not believe the “war on motorists” has ended. More than three quarters still believe they are being treated as a cash cow by the government. Just 1 per cent believe the “war” has ended and 8 per cent that the government is serious about ending the “war” but has yet to act.’

RAC 2011

The UK has two main motoring taxes: vehicle excise duty (VED, sometimes referred to as ‘car tax’ or, erroneously, as ‘road tax’)² and fuel duty. This paper examines the arguments used against increases in motoring taxes – that they are too high and that not enough of the revenue is subsequently spent on roads – and whether they are valid. It considers the following:

- the costs of motoring to individual drivers and how this has changed in the last 10–20 years
- government expenditure on roads, and the wider costs of car and other road traffic to society
- the costs of public transport compared to motoring costs
- the role of motoring taxes in changing driving behaviour
- government revenue from motoring taxes.

This paper argues that:

- there is no war on motorists, that motorists are not unfairly penalised and there are justifiable reasons for the planned increases on taxes on motoring
- expenditure on roads is a large part of the transport budget, and road traffic imposes significant costs on society that far outweigh revenues from motoring taxes
- public transport costs have risen even higher than motoring costs despite government policy to encourage modal shift and a general public willingness to switch to public transport if it were available and convenient.

Road and car traffic trends

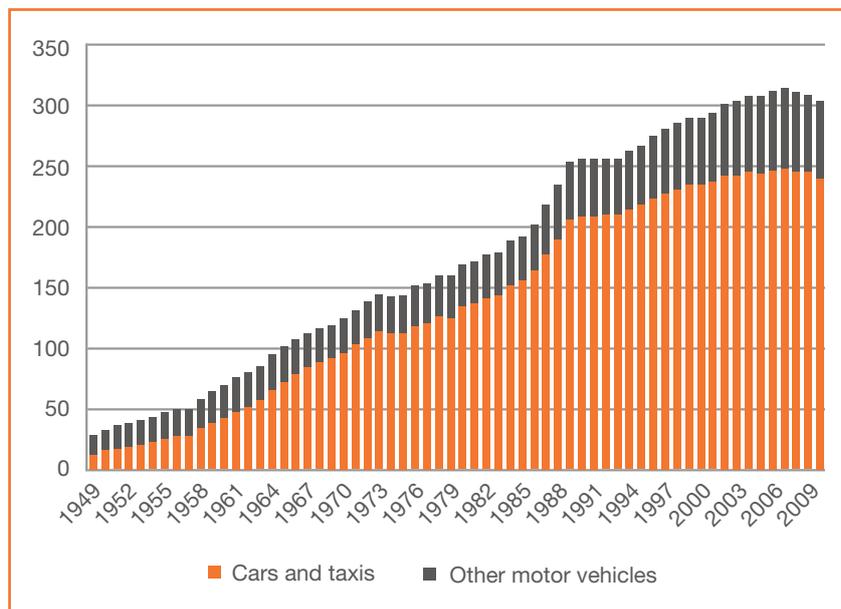
Road traffic has been growing since the 1950s. While there have been dips corresponding to periods of recession or high oil prices, the trend seems generally upwards (see figure 1.1). Most of the traffic (79 per cent in 2010) comprises cars and taxis. Although the rate of car traffic growth slowed down considerably in the 1990s,³ and car traffic has declined since 2007, between 1990 and 2010 car traffic still grew by 15 per cent (see table 1.1). Although the average number of car trips per person and trip length has declined in the last 10 years, the overall effect has been cancelled out by the greater increase in the number of cars and drivers on the road (see table 1.1).

2 There are a number of objections to the term ‘road tax’ in place of VED. In fact, neither VED or fuel duties are hypothecated. An actual road tax – a ringfenced pot of cash raised by motorists to be spent on roads – did exist between 1909 and 1937. Then-chancellor Winston Churchill, who opposed it, predicted: ‘It will be only a step from this for them to claim in a few years the moral ownership of the roads their contributions have created.’

3 The rate of car traffic growth in the 1950s and 1960s was over 100 per cent per decade, declining to 30 per cent in the 1970s. It crept back up in the 1980s to 54 per cent and then substantially declined to 12 per cent in the 1990s and 5 per cent in the 2000s.

It is not clear whether the decline in car traffic since 2007 will continue once the economy recovers, signalling a growing shift in public attitudes and behaviour, or whether car traffic levels will increase in line with the historical trend. But a number of academics now support the ‘peak car’ idea that motor vehicle distance travelled per person, predominantly by private car, has already peaked (Pearce 2011).

Figure 1.1
Motor vehicle and car traffic miles, 1949–2010



Source: Department for Transport data, table TRA0101: <http://www.dft.gov.uk/statistics/tables/tra0101>.

Table 1.1
Vehicle and car miles driven, number of drivers and numbers of cars 1990, 2000 and 2010

	1990	2000	2010	Change, 1990–2010
Total vehicle miles (billion vehicle miles) ¹	255.3	289.7	303.2	+19%
Car/taxi miles (billion) ¹	208.7	235.7	239.8	+15%
Car licence holders (million) ²	27.8	31.4	35.3	+27%
Licensed cars (million) ³	19.7	23.2	27.0	+37%
Car trips per person per year: Car driver ⁴	Not available*	434	405	-7%**
– Car passenger ⁴		238	213	-10%**
Distance of car trips, miles per year: Car driver ⁵	Not available	3,725	3,416	-8%**
– Car passenger ⁵		2,086	1,840	-12%**

Sources:

¹ DfT table TRA0101: <http://www.dft.gov.uk/statistics/tables/tra0101>.

² DfT table NTS0201: <http://www.dft.gov.uk/statistics/tables/nts0201>.

³ DfT table VEH0103: <http://www.dft.gov.uk/statistics/tables/veh0103>.

⁴ DfT table NTS0303: <http://www.dft.gov.uk/statistics/tables/nts0303>.

⁵ DfT table NTS0305: <http://www.dft.gov.uk/statistics/tables/nts0305>.

Notes:

^a Car driver

^b Car passenger

* National travel survey (NTS) data on a consistent basis is only available back to 1995. The timeseries since that point is weighted; any data prior to that is unweighted. Weighting was introduced in 2005 and backdated to 1995, so any NTS publications which were published prior to 2005 will contain inconsistent results. Unweighted results for the period 1989–91 obtained directly from the Department for Transport show number of car trips by car drivers as 387 and car passengers as 232.

** Decrease between 2000 and 2010 only.

For much of the 20th century, government built roads to meet demand, until it was eventually recognised in the late 1980s that the old 'predict and provide' policy of building roads to meet growth in traffic was unsustainable. Building more roads ultimately created more traffic, an effect known as induced demand.⁴ New legislation was passed to set targets on road traffic reduction⁵ and led to the introduction of a number of public service agreements (PSAs) on congestion and journey times (Butcher 2010).⁶

The 2004 transport white paper, *The Future of Transport: a network for 2030*, states: 'We cannot build our way out of all the problems we face on our road networks. And doing nothing is not an option' (DfT 2004).

Despite the recent decline in road traffic, latest government forecasts suggest a 44 per cent increase in road traffic over 2010 levels by 2035, and a 37 per cent increase in car miles over the same period (DfT 2012a).⁷ That said, it should be noted that previous forecasts⁸ have significantly overestimated the increase in traffic levels for the last 25 years, and there have been calls for an urgent review of the modelling (Goodwin 2012). Such forecasts serve to apply greater pressure for increased spending on roads.

4 This is a well-recognised phenomenon (see Goodwin and Nolan 2001).

5 Road Traffic Reduction (National Targets) Act 1998

6 A private members bill by former Plaid Cymru MP Cynog Dafis, which inspired the legislation, actually called for explicit targets to reduce traffic levels by 2010.

7 These figures are for England only and suggest car miles will increase from 208.6 billion vehicle miles in 2010 to 285.8 billion vehicle miles in 2035.

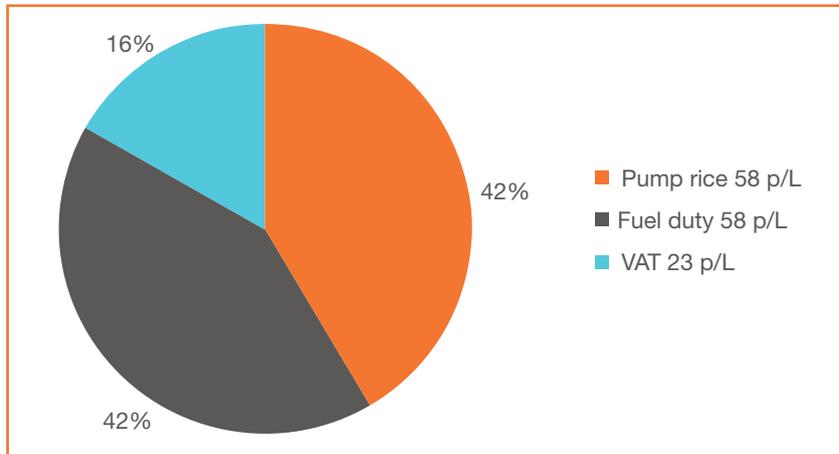
8 The 2004 white paper (DfT 2004) projected traffic levels in England to increase from 2000 levels by 26 per cent by 2010, whereas table 1.1 shows they increased by only 5 per cent.

2. THE COSTS OF MOTORING

The cost of fuel

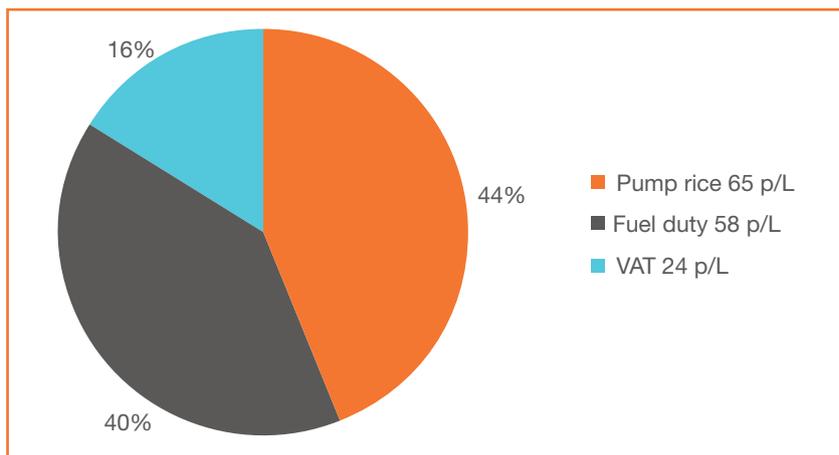
According to the RAC, the cost of motoring remains the primary concern for drivers (RAC 2011).⁹ Clearly, fuel costs are what drive public perception about motoring costs, with every increase in pump prices making news headlines. The charts below show the cost component breakdown for fuel, at March 2012 pump prices of £1.39 and £1.47 per litre for petrol and diesel respectively (figures don't necessarily add up due to rounding up).

Figure 2.1
Breakdown of petrol
pump price (March 2012
prices)



Source: Data from AA 2012b; cost breakdown author's own

Figure 2.2
Breakdown of diesel
pump price (March 2012
prices)



Source: Data from AA 2012b; cost breakdown author's own

The cost of fuel at the pump is made up of the pre-tax price of petrol/diesel plus fuel duty (see box 2.1), and then VAT is levied on the total.¹⁰ Fuel duty alone comprised 42 per cent of the petrol pump price or 40 per cent of the diesel price, while combined duty and VAT comprised 58 per cent of the petrol pump price or 56 per cent of the diesel price.

⁹ The top five was completed by drink-driving, the condition of roads, driving without tax or insurance, and mobile phone usage behind the wheel.

¹⁰ In January 2011, VAT increased from 17.5 per cent to 20 per cent.

Box 2.1: Fuel duty

Fuel duty is an excise tax imposed on the sale of fuel. The fuel duty escalator (an annual above-inflation increase in fuel duty), primarily aimed at reducing CO₂ emissions from road transport, was introduced by the Conservative government in 1993 set at an annual increase of 3 per cent above inflation, later rising to 5 per cent and 6 per cent. This was generally unpopular and it was abandoned by Labour in 1999. The policy then became that fuel duty should rise in line with inflation. However, successive governments have responded to lobbying efforts to delay or freeze increases in duty, and the duty stayed constant over the three years 2004–2007. The escalator was reintroduced by Labour in 2009 and it was proposed that it should apply at least until 2014/15.

However, in the 2011 budget chancellor George Osborne proposed three changes to duty rates: an immediate cut in the rate by 1p, abolition of the escalator (to be replaced with a 'fair fuel stabiliser'), and a delay in the two inflation-driven increases set for April 2011 and April 2012 (HM Treasury 2011a). These changes, estimated to cost around £1.9 billion in 2011/12, or £9.4 billion over five years, would be funded by a supplementary charge on North Sea oil and gas production (OBR 2011a).

In the 2011 autumn statement it was announced that the 3.02p-per-litre increase due to take effect in January 2012 would be deferred until August 2012, and the inflation increase planned for 1 August would be cancelled (HM Treasury 2011b). This cost a further £375 million in 2011/12, or £3.9 billion over five years (OBR 2011b).

In June 2012, the chancellor announced a further delay in the fuel duty rate rise until 1 January 2013, at a further cost of around £550 million to the exchequer (HM Treasury 2012a). This shortfall in government revenue is to be met through greater-than-forecast savings in departmental spending, with details to be confirmed in the 2012 autumn statement.

Currently, the two main categories of road fuel – ultra-low-sulphur petrol and ultra-low-sulphur diesel – are charged duty at 57.95p per litre (as of June 2012). Table A1 in the appendix shows the changes in rates over the last 10 years. Due to the repeated delays and freezes, fuel duty is in real terms now lower than it was 10 years ago.

The costs of motoring

While filling up the fuel tank is the most obvious cost component of running a car, this is just part of the overall cost of motoring. The Sustainable Development Commission (SDC) noted that:

'Many car owners are unaware of the real costs of their motoring. Vehicle excise duty, insurance, servicing and depreciation are all fixed costs which, once paid, tend to be forgotten. When comparing alternatives to car use for a specific journey many motorists look only at the cost of fuel.'

SDC 2011

In addition to fuel, the main other costs include:

- purchase of the car (new or second-hand) and depreciation
- repairs, servicing and accessories
- insurance
- vehicle excise duty (see box 2.2)

Box 2.2: Vehicle excise duty (VED)

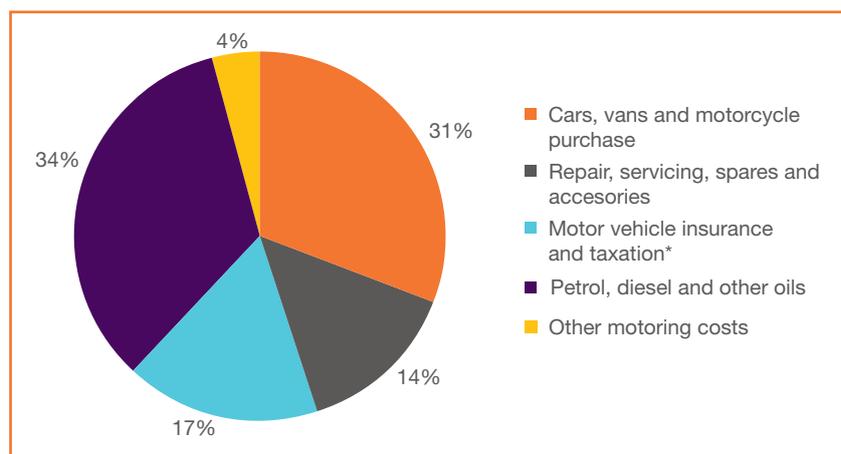
VED is a vehicle road-use tax levied annually as an excise duty that must be paid for most types of vehicle which are to be used (or parked) on the public roads in the United Kingdom. Since the 2005 budget, VED has been graduated according to carbon dioxide (CO₂) emissions, as an incentive to drivers to purchase vehicles with lower emission ratings. Over time more bands have been introduced so that the differential between the lowest and highest bands has increased from £100 in 2005/06 to £475 in 2012/2013.

This gap is even more pronounced for new cars, as a ‘first-year’ rate, introduced in April 2010, applies during the first year of ownership. New cars with CO₂ emissions of 130g/km or less (VED bands A–D) have a zero-rated first-year rate (no tax is charged) while cars with emission rates over 165g/km (bands H–M) pay more, up to a maximum first-year rate of £1030.

Table A2 in the appendix shows the change in VED rates over the last 10 years.

Figure 2.3 illustrates the breakdown of an average weekly expenditure of £77 on cars, vans and motorcycles by households in 2010.

Figure 2.3
Components of household expenditure on motoring, 2010



Source: ONS 2011: table A1

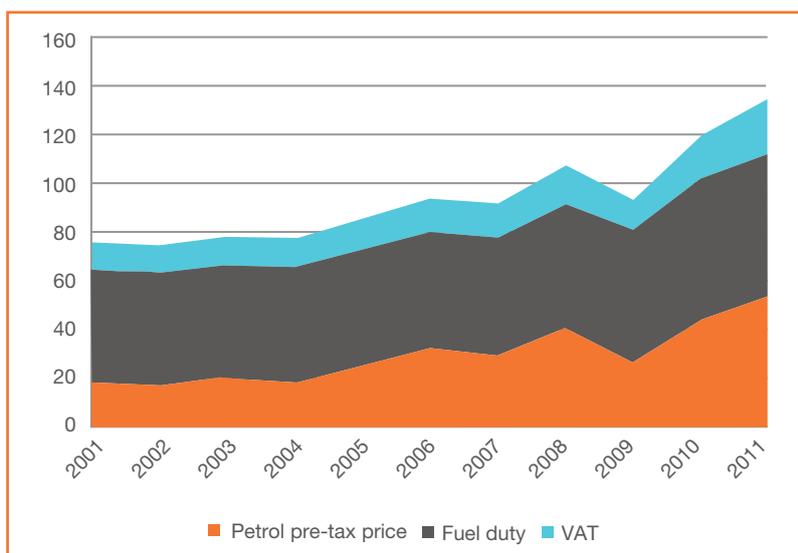
* VED is included in ‘motor vehicle insurance and taxation’, while fuel duty and VAT are included in ‘petrol, diesel and other oils’.

Fuel accounted for around a third (£21.60) of motoring costs, equivalent to less than 5 per cent of average weekly household spending in 2010. Note this proportion will be higher for poorer car-owning households.

Changes in fuel and motoring costs

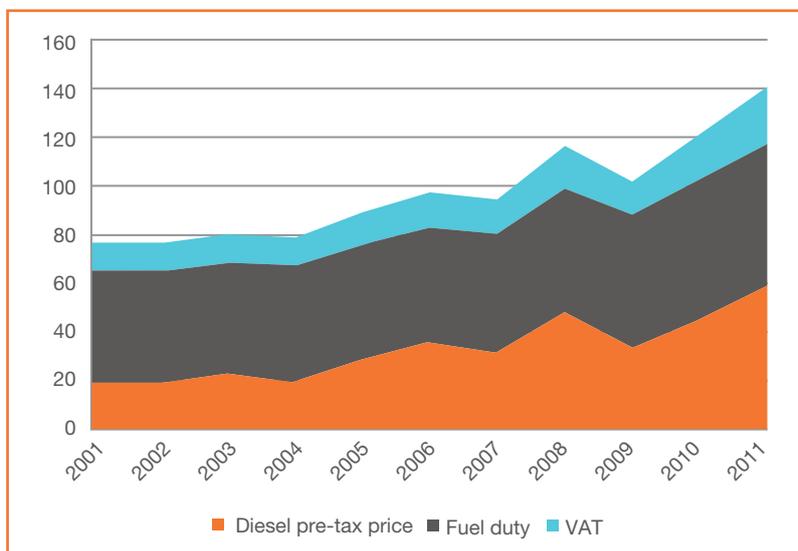
Certainly the pump price of fuel has increased dramatically in nominal and real terms over the last 10 years. Although fuel duty is a large part of that cost, it has actually come down over the last 10 years both as a percentage of the pump price and in real terms. In this time, the sharp rise in pre-tax fuel prices over the last couple of years has meant that total tax as a proportion of the pump price has come down: between 2001 and 2011 total tax (duty plus VAT) reduced from 75 per cent of the pump price to 60 per cent for petrol and from 74 per cent to 58 per cent for diesel. In real terms (taking inflation into account) the duty (p/L) on petrol and diesel in 2011 was actually 7 per cent lower compared to 2001 levels (although because of the increase in VAT in 2011, total duty-plus-VAT tax was 4 per cent higher in real terms).

Figure 2.4
Components of petrol
pump price, 2001–2011
(p/L)



Source: DfT table ENV0105: <http://www.dft.gov.uk/statistics/tables/env0105>

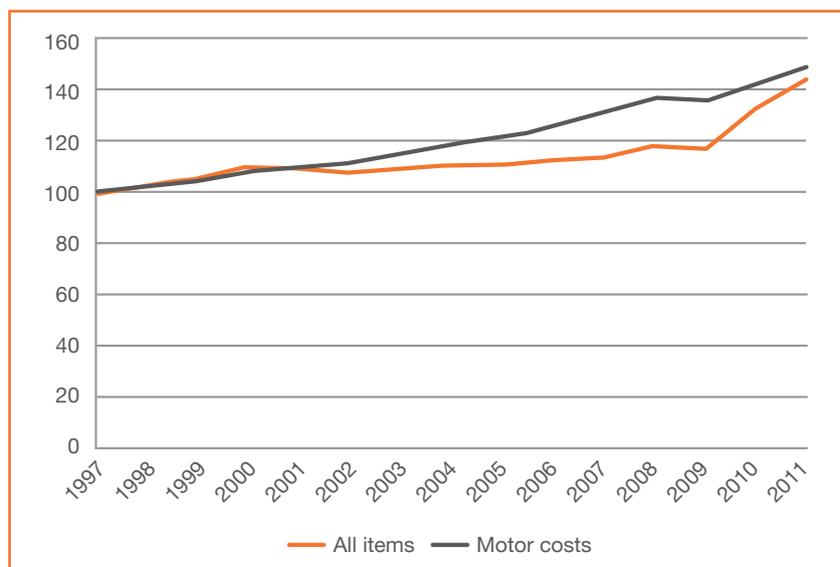
Figure 2.5
Components of diesel
pump price, 2001–2011
(p/L)



Source: DfT table ENV0105: <http://www.dft.gov.uk/statistics/tables/env0105>

Taking motoring costs as a whole (purchase and running costs), between 1997 and 2011 the cost of motoring rose less than the cost of living (see figure 2.6) – in real terms the total cost of motoring went down by 5 per cent. While insurance costs, taxes for less fuel-efficient cars, fuel and maintenance may have gone up significantly during this time, purchase costs (which comprise around a third of household motoring expenditure – see figure 2.3) have decreased considerably in real terms, so that overall costs have fallen. Up until a few years ago, both purchase and running costs had fallen in real terms: ‘Indeed, it is now 18 per cent cheaper to run a car now than it was 20 years ago’ (HCTC 2009). It has been suggested that the spiralling cost of fuel ‘makes us feel that the costs of motoring have increased significantly’ but ‘our perception and reality differ over the 20 years’ (RAC 2008).

Figure 2.6
Retail prices index (RPI),
all items versus motoring
costs (index 100 = 1997)



Source: DfT, personal communication, 2012 – updated version of DfT table TSGB0122

This perception is not helped by grossly misleading analysis from some motoring proponents. The AA, for example, claimed earlier this year that an average family spends more on petrol per week (£71.24) than on food (£70) (AA 2012a). However, these figures are based on the cost of filling up a 50-litre family car at a petrol price of 142.48p per litre. This kind of expenditure assumes either significantly above average mileage or significantly below average car fuel efficiency.¹¹ Based on typical mileage and car fuel efficiency figures, the average family car requires 13.4 litres a week, at a cost of £19, much less than the suggested AA figure. The ONS weekly household expenditure survey shows that the average household in 2010 spent £21.60 per week on petrol, diesel and oil and £53.20 on food and non-alcoholic drinks (ONS 2011: 2–3). Even allowing for a 15 per cent increase in petrol prices between April 2010 and 2012, this fuel cost might increase to roughly £25 all other things being equal – again, much less than the AA figure.

¹¹ Based on the fuel efficiency of a typical eight-year-old family car (a 2004 Ford Focus with a fuel economy of 7.1L/100km), 50 litres of petrol per week would fuel a distance equivalent to 27,000 miles per year, which is nearly four times the average yearly mileage of 7,370 miles per year for petrol cars (DfT table NTS0902: <http://www.dft.gov.uk/statistics/tables/nts0902/>).

Costs of motoring compared to EU countries

There is a perception in the UK that the cost burden on motorists is disproportionately high. Certainly UK fuel prices are high compared with other EU countries. In June 2012, the UK's petrol price was the sixth-highest among the 27 EU countries, while the UK diesel price was the highest (Bolton 2012). This is partly driven by higher fuel taxes: across the EU, petrol duty plus VAT averaged 51 per cent of the pump price, compared to 61 per cent in the UK.

But these higher rates of duty are offset by lower motoring taxes and charges compared to some other European countries. In 2009, the transport select committee found that: 'In terms of total taxation on both ownership and use, British drivers are taxed at the European average and pay, in relative terms, similar amounts to drivers in Finland, Denmark, Ireland, Italy and France' (HCTC 2009).

Indeed, a European Commission study (2002) on vehicle taxation described the UK as a 'low tax country'. For example, other than the M6 toll, there are no motorway tolls in the UK – in at least five EU countries, including France and Italy, most motorways are toll roads.¹² Unlike many EU countries the UK has no registration tax¹³ – in Denmark, registration taxes can be over 100 per cent of the value of the vehicle.¹⁴

The transport committee report concluded that: 'taken overall, the taxes and charges paid by drivers in comparable European countries, are not so different to those in the UK. We support the UK emphasis on car use taxes, as opposed to car ownership taxes.' Therefore, while it is true that fuel duty in the UK is generally high compared to other EU countries, British motorists are not uniquely highly taxed.

¹² In France, Hungary, Italy, Portugal and Spain most motorways are toll roads.

¹³ A one-off tax at the time of first registration.

¹⁴ Vehicle registration tax on a new passenger motor car is 105 per cent of the value up to 76 400 DKK and a marginal rate of 180 per cent on the remainder of the price above that level. CFE website, checked 4 July 2012. <https://www.cfe-eutax.org/taxation/road-tax/denmark>

3. THE COST OF ROADS TO GOVERNMENT AND SOCIETY

It is often pointed out, in the context of arguments against motoring tax increases, that spending on roads does not rise in step with increases in revenue from motoring taxes. While this is true, it is no sound basis for argument: there is no reason why taxes on motorists should cover the costs of roads, any more than taxes paid by the sick and injured do or should cover the costs of the national health service. As the transport committee noted in its 2009 report:

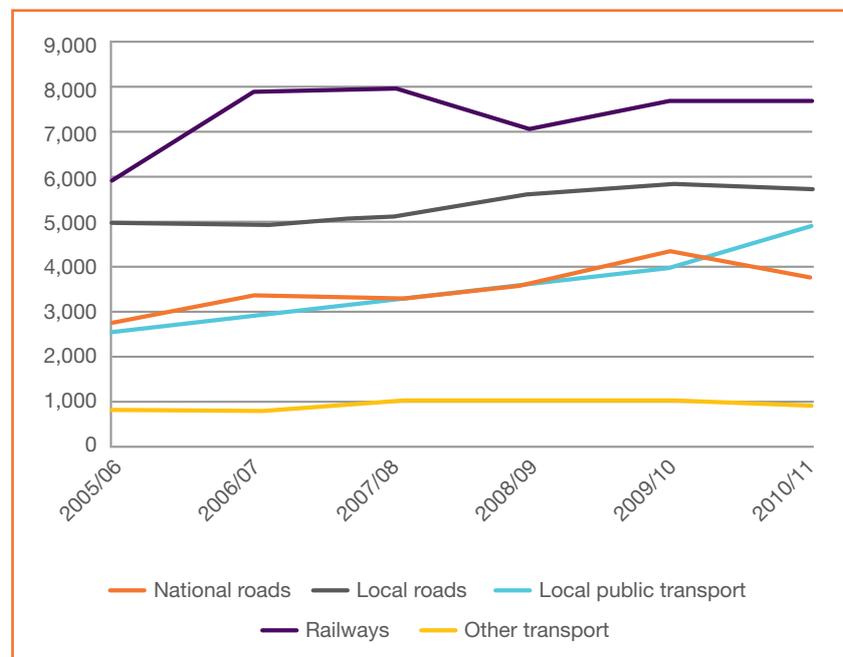
‘We entirely understand that motorists do not like paying tax – nobody does. However, trying to create a balance between motoring taxes and expenditure on roads is not a good way to make public policy or a basis for major public expenditure decisions. Road investment should be justified on wider transport policy objectives, needs and benefits.’

HCTC 2009

Furthermore, while revenue from motoring taxes does indeed outweigh the direct costs of road building and maintenance, this does not take account of the many indirect costs of road traffic to society.

Expenditure on roads by central and local government in the UK¹⁵ increased in real terms by 5 per cent from £8,990 million in 2005/06 to £9,449 million in 2010/11 (in 2010 prices). Expenditure on roads represented around 40 per cent of total public spending on transport in 2010/11.¹⁶

Figure 3.1
Government expenditure on transport in the UK, 2005/06–2010/11



While spending on public transport has caught up with spending on roads to some extent – local public transport spending overtook national road spending for the first time in 2010 – the latter is still a sizeable part of the transport budget.

¹⁵ This figure includes a tiny (<1 per cent) expenditure on roads by public corporations.

¹⁶ DfT table TSGB0118: <http://www.dft.gov.uk/statistics/tables/tsgb0118/>.

However, as well as the direct costs of road construction and maintenance to government and local authorities, the wider costs of car travel to society – the externalities – are considerable:

‘[A]ccount should be taken of the full cost of road use, including social and environmental externalities, when considering the structure of taxes and charges on road users.’

HCTC 2009

The externalities of car and other road travel include increased congestion, road casualties, greenhouse gas emissions, noise, air pollution and other social and environmental external costs. Some estimates of the costs of these other impacts are summarised in table 3.1. While these figures are not directly comparable and cannot be summed together, due to differences in included factors, methodologies and timeframes, the table nevertheless illustrates the scale of some of these impacts.

Table 3.1
Summary of various estimates of the external costs of car and other road traffic

Impact	Source	Estimated cost
Costs of traffic in English urban areas (excess delays, accidents, poor air quality, physical inactivity, greenhouse gas emissions and some noise impacts)	Cabinet Office Strategy Unit 2009	£38–49 billion (£28–39 billion excluding delays)
Costs of traffic in the whole of the UK (as above, scaled up)	SDC 2011	£43–56 billion
Value of prevention of road casualties*	DfT 2011	£15–32 billion**
Marginal external cost of driving a car (includes congestion, infrastructure, accidents, local air quality, noise and greenhouse gases)	Based on DfT marginal external cost of driving (15.5p/km, 2010, 2002 prices (DfT 2010)) multiplied by 2010 total car vehicle kilometres travelled (see table 1.1)	£37 billion (of which congestion is £31 billion and other costs £6 billion)
Greenhouse gas emissions for cars and taxis in 2009 (latest available) multiplied by a 2009 non-traded central carbon value of £54/tonne CO ₂ -equivalent.	2009 greenhouse gas figures: DfT table ENV0201 2009 carbon value: DECC 2011	£3.8 billion
Greenhouse gas emissions for all road traffic (as above, using 2009 emissions for all traffic)		£6.1 billion

* Including costs for loss of output due to injury and the human costs of casualties – that is, beyond direct costs to the public purse in strict terms.

** In 2010 there were a total of 154,414 road casualties in the UK, of which 1,713 were fatal and 20,440 were serious. However, a considerable proportion of accidents are not reported. The DfT’s current best estimate is that around 57,000 and 466,000 serious and slightly injured casualties, respectively, go unreported each year. Also, deaths that occur more than 30 days after an accident are not tied to that accident.

It should be noted that the DfT casualty estimates represent the *benefits* of avoiding the risk of a road accident, rather than values of the consequences of an accident. Yet while only a small proportion of their estimate (around £495 million) is related to direct public costs (police, medical, ambulance) even personal costs, such as lost output, will not be borne exclusively by the casualties themselves, since the taxation and social security systems will ensure that the burden is shared by the public at large.

There are also many costs which are difficult to estimate and for which robust figures are not currently available. These include severance of communities (that is, the social impacts caused by a barrier such as a busy road reducing community interaction and cohesion), loss of tranquillity, degradation of landscape and countryside, the opportunity cost of land

used for roads and parking, waste disposal (cars, tyres, used oil), diffuse water pollution from oil runoff, and wildlife casualties. These are not trivial costs. Research cited by the SDC suggests that the cost of community severance is almost equal to the cost of air pollution (SDC 2011).

The scale of these impacts, as well as the discrepancies in their estimation, clearly indicate the need for an updated review of all such externalities.

When these costs are added to the direct costs of road building and maintenance, it is clear that the total costs associated with car and road travel, even discounting the costs of congestion, far outweigh the £32 billion revenue from motoring-related taxes. Indeed, one could argue that the approximately 5.7p/km¹⁷ in fuel duty and VAT constitute a green tax to partly account for the externalities of car travel estimated (or underestimated, in the author's opinion) at 15.5p/km.

In addition to providing revenue (an income effect), VED and fuel duty have historically been regarded by the government as an environmental tax to encourage a reduction in emissions (a substitution effect).

The 2004 transport white paper notes:

'We have also introduced a package of financial and tax incentives that is delivering cleaner vehicles and fuels. Company car tax and vehicle excise duty have been reformed and linked to vehicle CO2 emissions ... We have introduced fuel duty differentials to promote new, cleaner fuels.'

DfT 2004

This clearly indicates that VED and fuel duty were being used as environmental policy tools. It also states:

'Current evidence suggests that the most cost-effective ways of reducing total CO2 emissions from the transport sector are *measures affecting the cost of fuel*, the cost of energy inefficient vehicles, or the efficiency of road haulage.'

ibid, author's emphasis

In 2007 the government published a policy review, *Towards a Sustainable Transport System: Supporting Economic Growth in a Low Carbon World*, following the Stern report on climate change and the Eddington report on improving transport's contribution to economic growth. This stated, in relation to motoring costs:

'A core component of our strategy will be for the government to continue giving price signals to encourage lower carbon transport. These can take a number of forms. Fiscal measures are one mechanism for doing this. For example Vehicle Excise Duty (VED) for cars is already banded according to CO2 emissions – the best-performing cars pay no VED at all and the most polluting pay more. Fuel duty also sends a signal to motorists that driving less fuel-efficient vehicles will be more expensive.'

DfT 2007

¹⁷ Based on current petrol fuel duty and VAT at 80.4p/L and an average car fuel efficiency of 7.1L per 100km.

While analysis by the Institute for Fiscal Studies (IFS) suggests that the current tax system does a poor job of targeting the external costs of road traffic, and suggests road pricing as a better alternative (Johnson et al 2012), this analysis assumes that road congestion is the most significant impact, based on DfT figures of marginal external costs. However, there are many external costs other than congestion, some of which (climate change, pollution) can be addressed through motoring taxes, while others which may need different policy approaches – road casualties, for example, may be better addressed through lowering speed limits and better enforcement). Road pricing, though considered politically unpopular,¹⁸ is certainly the fairest and most effective way to internalise congestion costs, and it has been consistently recommended as a way forward by countless government and external studies since the 1960s. While the introduction of road pricing is desirable, and may merit the reduction of fuel duty to some extent, it should not *replace* fuel duty entirely since, as the IFS acknowledges, tax on fuel is a highly effective way of internalising the climate change costs associated with greenhouse gas emissions (ibid). As the 2009 transport committee report stated:

‘All the motoring organisations that appeared before us agreed that fuel tax is the most efficient, equitable and effective way to tax road users ... Fuel duty is the most effective way of encouraging fuel efficiency and reducing carbon emissions. Those who consume the most and pollute the most, pay the most.’

HCTC 2009

¹⁸ Though polling suggests that public opinion swings in support of road pricing when people are informed about how the revenues could be used to bring benefits (Ipsos Mori 2007).

4. THE COSTS OF PUBLIC TRANSPORT

While the costs of motoring have fallen in real terms over the last 10 years, the costs of public transport have risen dramatically over the same period. Between 2001 and 2011 (during which time motoring costs fell by 5 per cent in real terms), the cost of rail fares increased by 62 per cent and the cost of bus and coach fares by 69 per cent in real terms.¹⁹

While undoubtedly there are many benefits of car travel, society's increasing dependence on the car as the dominant mode of travel has led to increasing unfairness (SDC 2011). On one hand, many people do not have access to a car and so are limited in their access to places and services; on the other, some are forced to have a car by a lack of public transport options. In general, those with the most limited access opportunities also suffer the worst effects of other people's travel – for example, deprived areas suffer disproportionate rates of road deaths and injuries. They are both 'less travelled' and more 'travelled-upon'.

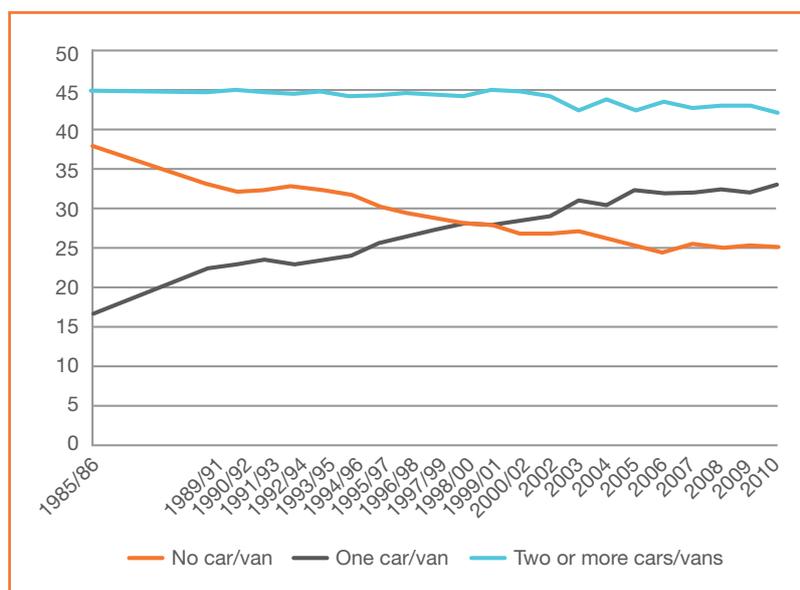
'Increasingly, people do not have real choices. For many people using a car is now no longer a choice but a necessity. For those who rely on public transport it is all too often inadequate, suffering from declining standards and services.'

DfT 2004

The number of households in Great Britain without access to a car fell from 38 per cent in 1985/86 to 30 per cent in 1995–97 and to 25 per cent in 2005. Since then, it has remained static at this surprisingly low level. Non-drivers under the age of 40 cite the cost of learning to drive as the main reason for non-ownership, while over-40s cite a lack of interest in driving.²⁰

These factors are exacerbated by poverty. In 2010, 68 per cent of households in the lowest income decile had no car, while in the highest income decile this figure is just 5 per cent (ONS 2011: table A47).

Figure 4.1
Household car
availability,
1985/86–2010



Source: DfT table NTS0205: <http://www.dft.gov.uk/statistics/tables/nts0205/>

19 DfT table TSGB0123: <http://www.dft.gov.uk/statistics/tables/tsgb0123/>

20 DfT table NTS0203: <http://www.dft.gov.uk/statistics/tables/nts0203/>

There are also economies of scale to using a car – a family of four or five can travel by car for the same cost as an individual driver – while the costs of public transport for a family rise almost proportionately to the number of passengers (with some limited economies of scale for under-12 or family discount tickets). This means that public transport cost increases are generally magnified for families. Table 4.1 shows that travelling for a family of four is generally cheaper by car, including parking, than by public transport for both long and medium distances (even allowing for advance or discount group fares). At the higher end, buying walk-up fares, public transport can be four or five times more expensive than car travel.

Table 4.1
Travel cost comparison
for selected journeys, car
versus public transport

Journey	Return distance (km)	Typical cost for family of four			
		By car including parking ^a	By rail ^b	By rail ^c	By bus/coach
London–York	677	£78.00	£145.00	£423.00	£122.00 ^d
Birmingham–Manchester	279	£38.00	£52.00	£121.00	£70.00 ^d
Liverpool–Blackpool	178	£28.00	£29.00	£29.00	£59.00 ^d
Sheffield–Matlock	75	£18.00	£34.00	£40.00	£20.00 ^e

^a Based on a Ford Focus with a fuel mileage of 7.1L per 100km, petrol costs of 142.48p/L and parking at a nominal figure of £10; does not include the cost of car ownership or depreciation.

^b Off peak advance return, with family railcard

^c Ordinary return, peak fare (before 9am), with family railcard

^d National Express, with family coachcard, open return

^e Local Stagecoach bus using Derbyshire County Council 'Wayfarer' ticket

Note: Rail/bus fares are indicative only, based on typical fare types available on various dates July–August 2012; all costs rounded to whole pounds.

While there has been investment in rail and other public transport in recent years²¹ this follows a long-term tendency to underinvest in these areas, and public transport services are far from adequate in many parts of the country. Many people who use public transport have no alternative means and are being doubly hit by the rise in fares and cuts in local buses and other services. The Campaign for Better Transport's interactive bus cuts map²² shows the extent of local authority funding cuts to services, as a result of an overall 28 per cent cut to local authority transport revenue funding. Nearly two-thirds of public transport trips are made by bus,²³ with the biggest users being the under-20s and over-60s.²⁴ While many among the latter group have free bus passes, they are nevertheless affected by cuts to services – a free bus pass is not much good when there is no longer a bus to where you need to go.

21 Between 2005/06 and 2010/11, spending on local public transport and railways increased more than spending on roads, equivalent to a 26 per cent increase in real terms (DfT table TSGb0118: <http://www.dft.gov.uk/statistics/tables/tsgb0118/>).

22 <http://www.bettertransport.org.uk/campaigns/save-our-buses/>

23 DfT table NTS0303: <http://www.dft.gov.uk/statistics/tables/nts0303/>

24 Collectively, these age-groups take a higher-than-average number of trips per person per year by local and non-local buses (DfT table NTS0601: <http://www.dft.gov.uk/statistics/tables/nts0601/>).

‘The poorest and most vulnerable older people are most dependent on bus services. People who are already isolated and who do not have friends and family to help with transport or who cannot afford taxis face particular hardship when bus services are withdrawn.’

CBT 2011

While government has recently announced a welcome £9.6 billion programme of improvements to the rail network to take place between 2014 and 2019, including £4.2 billion for new schemes (DfT 2012b), this will be funded in part by above-inflation fare rises for rail passengers – thus exacerbating further the cost gap between driving and public transport.

On the other hand, households with cars can often cut their motoring costs by switching to smaller and/or more fuel-efficient cars, car-sharing, driving less (by cutting out non-essential journeys) or driving more efficiently. (The Energy Saving Trust estimates that drivers can save 20p/L on every litre of fuel bought by adopting fuel-efficient driving techniques.²⁵) These behavioural changes are encouraged by fuel duty and VED, and many households are adopting them.

25 <http://www.energysavingtrust.org.uk/Transport/Consumer/Fuel-efficient-driving>

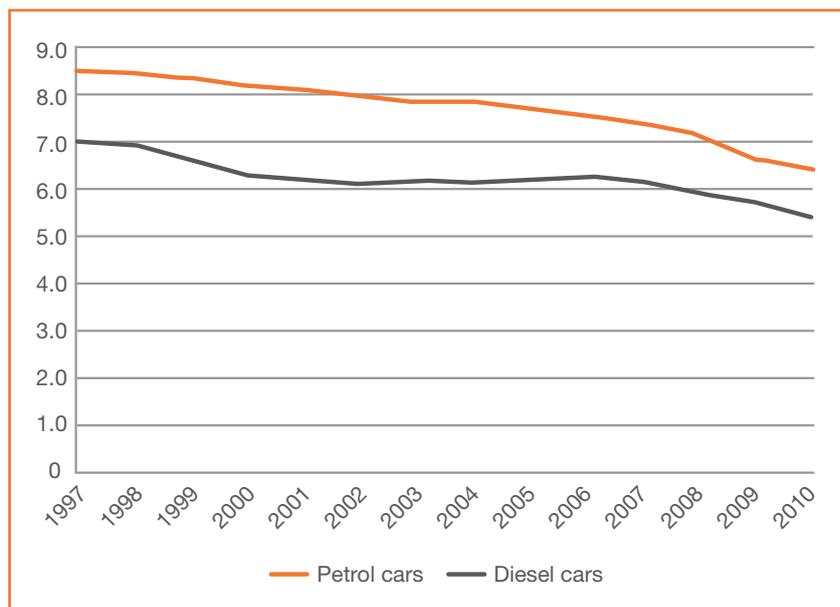
5. CHANGING DRIVING BEHAVIOUR

It is a central objective of government transport policy to reduce the impacts of road traffic and to promote a shift to more sustainable forms of transport such as walking, cycling and public transport.²⁶

In terms of the first objective, both VED and fuel duty have been used by government as a means of encouraging greater fuel efficiency in order to reduce CO2 emissions.

VED in particular has been successively increased for larger, less fuel-efficient cars, while the most fuel-efficient cars pay no tax (see table A2 in the appendix). While VED is just one of many factors influencing purchasing decisions, the Society of Motor Manufacturers and Traders (SMMT) acknowledges that government policy has played a part in a significant increase in the market share of more fuel-efficient cars in 2011 compared to 2000, and a similar fall in the market share of higher-emitting cars (SMMT 2012).²⁷ Between 2000 and 2010, average new car fuel efficiency increased by 22 per cent for petrol vehicles and 18 per cent for diesel vehicles.²⁸

Figure 5.1
Average new car fuel efficiency, 2000–2010
(L/100km)



Source: DfT table ENV0103: <http://www.dft.gov.uk/statistics/tables/env0103>

Similarly fuel duties, originally introduced as a green tax, are a way of encouraging a shift to greater fuel efficiency and reducing greenhouse gas emissions. The absolute amount of greenhouse gas emissions from cars and taxis declined by 9 per cent between 1999 and 2009, around a peak in 2004, in large part due to improved fuel efficiency.²⁹

Encouragingly, there has been a shift in driving behaviour and attitudes over the last 10–20 years and, as levels of environmental awareness have increased, genuine public

26 Two of the DfT's five stated priorities are to 'encourage sustainable local travel' and 'tackle carbon and congestions on our roads': <http://www.dft.gov.uk/about/vision>

27 In 2011, cars emitting less than 130g/km accounted for almost half the market (46.8 per cent), compared with 10.6 per cent in 2007. Similarly, the market share of cars with emissions over 200g/km was 23.2 per cent in 2000, falling to 3.2 per cent in 2011.

28 DfT table ENV0103: <http://www.dft.gov.uk/statistics/tables/env0103>

29 See note 33

support for reducing the impacts of driving has emerged. According to the British Social Attitudes survey in 2011 (DfT 2012c):

- 42 per cent of people agreed they could just as easily walk many of the journeys of less than 2 miles that they currently travel by car
- 65 per cent of people were concerned about the effect of transport on climate change
- 70 per cent of people agreed that they were willing to buy a car with lower CO2 emissions
- 40 per cent agreed they were willing to reduce the amount they travel by car to reduce emissions.

In addition, there are high levels of public support for spending to improve rail and bus services. Between 1995–97 and 2010, trips per person by private modes of transport fell by 14 per cent while trips by public transport modes increased by 8 per cent (largely surface rail and trips within London).³⁰ So even as (or perhaps because) driving has become more prevalent and the roads have become more crowded (due to more drivers/cars on the road), more individual drivers are willing to consider changing their lifestyles and use public transport, were it available and convenient.

‘[T]he fact that it is 18 per cent cheaper to run a car now than 20 years ago combined with increases in the real level of bus and rail fares over the same period, makes it more difficult to encourage modal shifts from cars to public transport. The basis of government policy should be to reverse these trends.’

HCTC 2009

There is widespread recognition that different types of transport need to be better integrated within Britain’s transport system, and that the transport system should be better integrated with the environment, land-use planning, and policies for education, health and wealth creation in order to support more sustainable travel choices, reduce the need for travel and create a fairer society.

However, there is little evidence that this is happening on the ground at the pace necessary to reduce the levels of traffic year-on-year. It is beyond the scope of this paper to identify the specific measures required, but there are numerous studies that have done just that, and it is worth noting the evidence presented to the transport select committee in 2010:

‘By far the best value for money is currently coming from spending on ‘smarter choices’ (travel planning, car-reduction policies, telecommunications as alternatives to some travel, etc), local safety schemes, cycling schemes, and the best of local bus and some rail quality and reliability enhancements.’

Goodwin 2010

At local transport authority level there has also been significant uptake of funding through the £1 billion Local Sustainable Transport fund, with every eligible local authority applying for funding. However, there is considerable scope for further action and funding, as not every authority was successful and there was a limit of one bid per authority (DfT 2012d).

30 DfT table NTS0303: <http://www.dft.gov.uk/statistics/tables/nts0303/>

6. GOVERNMENT REVENUES FROM MOTORING TAXES

It is a common perception that motorists contribute more than their fair share towards the cost of roads and, similarly, that they are somehow a cash cow for government.³¹ The RAC have stated that this is compounded by ‘the fact that the government’s annual tax take from Britain’s motorist – through fuel duty, VAT, new car tax and the road fund licence³² – totals some £45 billion’ (RAC 2008). This figure exaggerates the cost since they include VAT, which is a general tax not specific to road users.³³ Nonetheless, revenue in 2010 prices from fuel duty and VED was around £22 billion in 1990 and rose to around £32 billion in 2010 in real terms, a 46 per cent rise (see table 6.1). That said, they have actually fallen since 2000.

Table 6.1
Revenues from fuel duty
and VED, 1990, 2000
and 2010 (£m)

	1990	2000	2010	Increase, 1990–2010
Revenue from fuel duty (nominal prices)	9,466	23,041	27,013	185%
Revenue from VED (nominal prices)	2,971	4,604	5,130	73%
Total revenue (nominal prices)	12,437	27,645	32,143	158%
Total revenue (adjusted to 2010 prices)	22,013	36,353	32,143	46%

Source: DfT table TSGB0125: <http://www.dft.gov.uk/statistics/tables/tsgb0125/>.

The delays to increases in fuel duty introduced by this government (see box 2.1) have cost the exchequer an estimated £2.8 billion in 2011/12 alone, or nearly £14 billion over five years. These are funds that could have been used to make the transport system more sustainable, for example, by improving public transport services.

There is no accessible record of revenue from other motoring taxes, although the House of Commons estimated that around £0.3 billion (gross) was obtained from certain bridges and tunnels and a further £0.3 billion (gross) from the London congestion charge in 2007/08. These taxes, while a cost to certain motorists, are not discussed further as the revenues fund specific infrastructure and are not generally available as a revenue source to central government.³⁴

Whether the trend in increasing revenues from motoring taxes will continue has been questioned. The Office for Budget Responsibility suggests that by 2029/30 revenues from fuel duties and VED will decline as a percentage of GDP (OBR 2011) which the IFS has estimated to be equivalent to a reduction in revenue of £13 billion in current terms (Johnson et al 2012). This is largely due to improved vehicle efficiency and the growth in electric vehicles. The IFS suggests that the government needs to address this erosion

31 The House of Commons transport committee (2009) distinguished between general taxes which may fall on road users but are not specific to road users (such as VAT) and taxes that are levied only on road users, notably fuel duty and VED.

32 ‘New car tax’ refers to first-year VED while ‘road fund licence’ is another misleading term for VED.

33 The House of Commons Transport Committee defined the principal taxes and charges on road users as fuel duty, VED, tolls for bridges, tunnels and the M6 Toll and the London congestion charge. They excluded VAT as one of a number of general taxes which anyone might pay on a wide range of income and expenditure and which are not specific to road users.

34 The M6 toll road is operated by a private company that has consistently made a loss since it opened in 2004. The London congestion charge accrued a net revenue of £137 million in 2007/08 (the latest figures available: TfL 2008) but by law all surpluses are reinvested into London’s transport infrastructure. Other bridge/tunnel tolls are generally set to repay the loan for financing their own construction.

of the motoring tax base, and recommends road pricing as a better way of targeting the external costs of motoring and securing a more robust source of revenue. The IFS analysis and their case for road pricing is sound, but until there is political support for the reform, motoring taxes will continue to represent a significant and important source of revenue to the government, and a way of addressing some of the environmental impacts associated with motoring. Furthermore, the main motoring taxes are also broadly progressive, though with a noticeably smaller impact on the very richest households and a higher impact on the poorest 10 per cent of car owners (ibid).

7. CONCLUSIONS

This paper has examined the claims that motoring taxes are too high and that insufficient revenue from them is spent on roads. We conclude that neither is true.

Fuel costs are often seen as a proxy for all motoring costs. While it is certainly the case that fuel costs have risen in recent years, this is largely due to increases in pre-tax prices – factors largely outside the control of the government. Fuel duty is high, but it is lower in real terms and as a percentage of the pump price than it was 10 years ago. Fuel represents only one-third of total motoring costs – which include purchase, parts, insurance and maintenance – and total costs are also lower in real terms than they were 10 years ago. Critics rightly argue that the UK's fuel duties are generally higher than those of other EU countries but do not recognise or acknowledge that this is offset by lower taxes and charges elsewhere.

Over the last decade, public transport fares have gone up in real terms, hitting the less well-off hardest, and leading to increased unfairness in terms of access to the means to travel. Government delays to the introduction of fuel duty tax increases give no benefit to the 25 per cent of households that do not have access to a car, which includes two-thirds of the poorest households.

Road spending, though not equal to revenue from motoring taxes, is still 40 per cent of the overall transport budget. But beyond this, there are wider environmental and social costs to society associated with road traffic. The costs of road casualties, climate change, air pollution, noise, and wider impacts on communities, cities and the countryside all far outweigh any tax revenue.

Differential VED rates have helped to shift the car fleet towards greater efficiency, and it is generally agreed that fuel duties are an effective way of encouraging fuel efficiency, since those who consume the most fuel pay the most. Cutting fuel duty or VED therefore undermines the environmental policy objectives of encouraging more fuel-efficient cars and modal shifts to public transport, walking and cycling.

The question is whether waiving this potential revenue in a time of economic hardship is in society's best interest. While no one likes paying tax, the political pressure to reduce or delay increases in fuel duty only results in further cuts in spending or tax increases elsewhere. The decision to cut and delay introduction in fuel duties, recently extended to January 2013, has cost the exchequer nearly £2.8 billion in 2011/12 alone and will amount to nearly £14 billion over the next five years – a sum that the government can ill afford to lose right now.

It is almost certain that oil prices will continue to rise over time. Rather than seeking to cushion this blow for UK motorists through continuing to delay increases in fuel duty the government would do better to use that revenue to make the transport system fairer, more sustainable and more resilient to oil price shocks. While growth in car traffic has slowed in recent years, this trend should be further encouraged through support for more sustainable transport modes (such as walking, cycling and public transport), reducing the need to travel through better use of technology, and better integration of transport with environmental, planning, health and education policies.

Planned annual increases in motoring taxes should be part of a rational government policy designed to change behaviour and raise much needed revenue to fund sustainable transport measures. There is a large and unprecedented public appetite for using cars less and public transport more, and facilitating this approach would also have synergies

with many other public policy areas, including tackling climate change and air pollution and improving many health-related outcomes, such as obesity.

In short, fuel duty and VED are both effective and justifiable motoring taxes that not only encourage greater fuel efficiency but go some way to offsetting the environmental and social costs of motoring. Recent government reductions or delays to planned increases in fuel duty in particular are not justified in terms of sound public policymaking.

Recommendations

1. Motoring taxes are not as high as people think, yet pressure on politicians to reduce these costs is acute. Despite the fact that it is a progressive policy that facilitates government's environmental goals, there is little prospect of government reintroducing the fuel duty escalator in the short term. Nonetheless, since fuel duty revenues are an important tool to encourage fuel efficiency and address some of the impacts of motoring, and because they are an important revenue source at a time of government cutbacks, government should make every effort to avoid further delays in fuel duty increases.
2. New ways should be found to reduce the externalities caused by road traffic. Road pricing is the most effective way to address one of the externalities – congestion – and may gain public support once the benefits are explained. Government and local agencies should look for new ways to extend road pricing and congestion charging, particularly where these can provide a future revenue stream to finance improvements in public transport infrastructure and services. Road pricing could also become one means of replacing some of the income that is currently derived from fuel duty and VED.
3. Government should accompany this with a clear statement of the importance of encouraging modal shifts away from driving and towards more sustainable forms of transport, such as walking, cycling and public transport. Local transport authorities should be empowered and incentivised to implement such measures in the most cost-effective way appropriate to local conditions, for example by switching resources into the Local Sustainable Transport Fund. Measures to improve bus and coach services, which are the most accessible form of public transport particularly in areas with poor rail connections, should also be prioritised. Given that bus fares have increased more than for any other mode of transport, priority should be given to bringing down these costs.
4. Improvements in public transport, walking and cycling facilities should also be supported through an increase in government support for transport capital projects. Given the current low interest rates, there is a real opportunity available now to make much-needed improvements in public transport and other infrastructure that can increase patronage and reduce the environmental impacts of existing fleets and stock. The nascent Green Investment Bank should be empowered to begin borrowing immediately to support these projects.
5. Government should update its account of the external costs of transport, including all externalities and incorporating new estimates and research.

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APPENDIX: DUTIES DATA

	April 2001	April 2002	April 2003	April 2004	April 2005	April 2006	April 2007	April 2008	April 2009	April 2010	April 2011
Petrol											
Total price	75.9	75.0	78.2	77.8	85.4	94.1	91.9	107.6	93.6	119.8	134.7
Fuel duty	45.8	45.8	45.8	47.1	47.1	47.1	48.4	50.4	54.2	57.2	58.0
VAT	11.3	11.2	11.7	11.6	12.7	14.0	13.7	16.0	12.2	17.8	22.5
All tax	57.1	57.0	57.5	58.7	59.8	61.1	62.0	66.4	66.4	75.0	80.4
All tax as % of total price	75%	76%	73%	75%	70%	65%	67%	62%	71%	63%	60%
Diesel											
Total price	77.3	76.9	80.9	79.2	89.6	97.6	94.7	116.6	101.9	121.0	141.1
Fuel duty	45.8	45.8	45.8	47.1	47.1	47.1	48.4	50.4	54.2	57.2	58.0
VAT	11.5	11.5	12.0	11.8	13.3	14.5	14.1	17.4	13.3	18.0	23.5
All tax	57.3	57.3	57.9	58.9	60.4	61.6	62.5	67.7	67.5	75.2	81.5
All tax as % of total price	74%	74%	72%	74%	67%	63%	66%	58%	66%	62%	58%

Table A1: Petrol and diesel prices and duties, 2001–2011 (p/L except % as noted)
Source: DfT table ENN0105: <http://www.dft.gov.uk/statistics/tables/eny0105>

VED band	CO ₂ emissions (g/km)	VED bands and rates for cars registered on or after March 2011 (graduated VED)					
		Tax year 2011/12 (£)			Tax year 2012/13 (£)		
		Standard rate	First-year rate	Standard rate	First-year rate	Standard rate	First-year rate
A	Up to 100	0	0	0	0	0	0
B	101–110	20	0	20	0	20	0
C	111–120	30	0	30	0	30	0
D	121–130	95	0	100	0	100	0
E	131–140	115	115	120	120	120	120
F	141–150	130	130	135	135	135	135
G	151–165	165	165	170	170	170	170
H	166–175	190	265	195	275	195	275
I	176–185	210	315	215	325	215	325
J	186–200	245	445	250	460	250	460
K	201–225	260	580	270	600	270	600
L	226–255	445	790	460	815	460	815
M	Over 255	460	1,000	475	1,030	475	1,030

Table A2: VED rates for 2011/12 and from 1 April 2012
Source: HM Treasury 2012a: annex B: <http://www.hmrc.gov.uk/budget2012/ootlar-rates.pdf>