House of Commons

Transport Committee

Road pricing

Fourth Report of Session 2021–22

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 25 January 2022

HC 789
Published on 4 February 2022
by authority of the House of Commons

Transport Committee

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Summary

The two principal motoring taxes, fuel duty and vehicle excise duty, make a significant contribution to HM Treasury revenues. Taken together, vehicle excise duty and fuel duty raise some £35 billion a year, which comprises approximately 1.5% of UK GDP. That sum is forecast to equate to approximately 4% of overall tax receipts in 2021–22. We estimate that the revenue raised by fuel duty is equivalent to approximately five pence on the rate of income tax. Policies to deliver net zero emissions by 2050 are likely to result in zero revenue for the Government from motoring taxation by 2040. In addition to generating taxation to fund essential public services, motoring taxation plays a key role in managing congestion by regulating demand to use public roads. If the Government fail radically to reform motoring taxation, the UK faces an under-resourced and congested future.

In our inquiry, we heard that the public are concerned how new forms of motoring taxation might affect their household budgets and mobility. We recognise those concerns. In designing a replacement for fuel duty and vehicle excise duty, the Government must ensure that any new motoring taxes entirely replace fuel duty and vehicle excise duty, rather than being added alongside those taxes, and result in most motorists paying the same or less than they do currently.

The Government must act now on this agenda. The taxes imposed by fuel duty and vehicle excise duty are increasingly duplicated by local schemes that charge motorists for entering congestion zones and clean air zones. The growing patchwork of devolved schemes may make it impossible to deliver a national road pricing scheme, because the simultaneous operation of local and national road pricing schemes would create confusion and unfair double taxation.

The Treasury is responsible for taxation policy, including motoring taxation; the Department for Transport is responsible for road connectivity. The Government must work on a cross-departmental basis to join up policy on maintaining tax revenues, facilitating road connectivity and supporting the shift to zero emission vehicles. To that end, the Department for Transport and the Treasury must work together to (a) set out their preferred options for replacing fuel duty and vehicle excise duty and (b) establish an arm's-length body with an appointed individual to evaluate the potential merits of those options.

The situation is urgent. The arm's-length body should be tasked with recommending an alternative road charging mechanism to replace fuel duty and vehicle excise duty by the end of 2022. One of those options should be a road pricing mechanism that uses telematic technology to charge drivers according to distance driven, factoring in vehicle type and congestion. If motoring taxation is linked to road usage, the Committee has not seen a viable alternative to a road pricing system (based on telematics).

1 Road pricing

Introduction

1. Road pricing involves direct charges levied on motorists for driving on public roads. It has two purposes: first, to generate revenue; and, secondly, to manage the costs of motoring such as pollution, emissions and congestion. Local road pricing schemes currently operate across the UK. They include toll roads, charges to enter bridges and tunnels, zonal charging schemes such as the London congestion charge, where drivers pay a fee to enter a certain area with a certain vehicle, and the HGV Road User levy, which is currently suspended.[1] Various road pricing schemes have been introduced in Sweden, Germany and the United States. Singapore has arguably implemented the world's most advanced scheme.[2]

Inquiry

2. We launched an inquiry in December 2020 called Zero emission vehicles and road pricing. We chose to split the inquiry into two parts. We reported our findings on Zero emission vehicles in July 2021. That Report addressed the opportunities and challenges presented by the advancement of the ban on the sale of new petrol and diesel vehicles to 2030.[3] This Report on Road pricing covers the second part of our inquiry. It examines the consequences of the shift to electric vehicles, including tackling the decline in fuel duty and vehicle excise duty. We held two oral evidence sessions on road pricing, at which we took evidence from four panels of witnesses. We received 148 written evidence submissions. We are grateful to everyone who contributed to our inquiry.

Vehicle excise duty and fuel duty

3. Drivers in the UK are currently subject to two principal motoring taxes.[4] Vehicle excise duty is levied on vehicles registered in the UK. Fuel duty is levied on fuel used by motor vehicles. Mike Williams, Director Business and International Tax, HM Treasury, told us that taken together vehicle excise duty and fuel duty raise some £35 billion a year, which comprises approximately 1.5% of UK GDP.[5] That sum is forecast to equate to approximately 4% of overall tax receipts in 2021–22.[6] We estimate that the revenue raised by fuel duty is equivalent to approximately five pence on the rate of income tax.[7]

1 HoC Library, Road pricing, CBP 3732, 6 August 2020; Midland Expressway Limited (EVP0071); Go-Ahead Group (EVP0108); TfL (EVP0138); RAC Foundation (EVP0045); BBC News, Birmingham's Clean Air Zone charging begins, 14 June 2021; DfT, "HGV Road User Levy", accessed 9 December 2021; HC Deb, 27 October 2021, col 275

2 Q48; HC 27 Qq49–50; Jacobs (EVP0030)

3 Transport Committee, First Report of Session 2021–22, Zero Emission Vehicles, HC 27, 20 July 2021

4 VAT is applied to fuel duty. It is arguable whether this is a tax on motoring or a tax on a tax. In addition, the electricity used to charge electric vehicles may be subject to VAT.

5 Q97. The Treasury's recent net zero review document gives a figure of £37 billion in 2019–20, equivalent to 1.7% of GDP: HM Treasury, Net Zero Review Analysis exploring the key issues, 19 October 2021, para 6.4. As Mr Williams explained the exact amount depends on "which year you use".

6 OBR, Economic and Fiscal outlook: Fiscal supplementary tables; receipts and other, 27 October 2021. That percentage is inflated, because fuel duty is levied on fuel for domestic heating in addition to fuel used for motoring.

7 Institute for Fiscal Studies, Options for raising taxes, 18 October 2018

4. Revenue from vehicle excise duty (£7 billion) is allocated to the National Roads Fund to fund local and strategic road upgrades. That guaranteed allocation to the National Roads Fund provides an important element of hypothecation in motoring taxation. In contrast, fuel duty (£28 billion) is disbursed across the whole of state spending to fund, for example, schools, hospitals and the armed forces.[8]

5. The £35 billion a year generated by motoring taxation is a significant sum when set against the cost of funding essential public services. For example, the Government committed £15.9 billion to fund policing in England and Wales in 2021–22.[9] Total funding allocated to schools in England was £47.6 billion in 2020–21.[10] In 2019–20, the Ministry of Defence disbursed some £39.8 billion to maintain the armed forces.[11]

6. The Treasury described fuel duty as almost a "perfect tax".[12] Duncan Buchanan, Policy Director for the Road Haulage Association, explained that "the fuel duty system, as a proxy for road use, is in itself reasonably transparent and reasonably fair. The more fuel you use and the heavier the vehicle, the more you pay".[13] However, the relationship between usage and taxation will be lost as drivers transition from petrol and diesel-powered vehicles to greener alternatives. The OBR described the growth in electric vehicle ownership as a "large and predictable tax cut on motoring".[14]

7. **Fuel duty and vehicle excise duty raise some £35 billion a year. Approximately 20% of that revenue is disbursed on maintaining and developing the roads. Neither fuel duty nor vehicle excise duty are currently levied on electric vehicles. The Government is phasing out the sale of petrol and diesel cars by 2030. Under the current system of fuel duty and vehicle excise duty, that policy will reduce tax revenues obtained from motoring to zero over the next 20 years. Without radical reform, policies to deliver net zero emissions by 2050 will result in zero revenue for the Government from motoring taxation. A failure to replace existing motoring taxes with an alternative road charging mechanism will lead to either decreased investment in public services, including road maintenance, or increased Government borrowing.**

8. ***The Government must start an honest conversation with the public on the funding implications for road development and maintenance and for other essential public services of decreased revenue from vehicle excise duty and fuel duty.***

9. ***To promote fairness and public acceptance, any alternative road charging mechanism must (a) entirely replace fuel duty and vehicle excise duty rather than being added alongside those taxes; and (b) be revenue neutral with most motorists paying the same or less than they do currently.***

8 Q97. In the 2018 Budget, the Government said it would "hypothecate English Vehicle Excise Duty to the National Roads Fund between 2020–25": HMT, Budget 2018, 29 October 2018.
9 Home Office, Police funding for England and Wales 2015 to 2022, 15 July 2021
10 DfE, School Funding Statistics 2020–21, 28 January 2021
11 HoC Library, UK Defence Expenditure, 21 June 2021
12 Q107
13 Q8
14 OBR, Fiscal risks report, CP 453, 6 July 2021, p151

Zero emission vehicles

10. In 2018, the UK Government published its The Road to Zero strategy, which set out the Government's long-term plans for the transition to zero emission road transport.[15] The strategy committed to ending the sales of all new petrol and diesel-powered cars and vans by 2040. In November 2020, the Government published The Ten Point Plan for a Green Industrial Revolution, which advanced the date for ending sales of petrol and diesel-powered vehicles to 2030.[16]

11. Electric vehicle owners pay no fuel duty or vehicle excise duty.[17] Mr Williams observed that tax revenues will decline as electric vehicle ownership increases.[18] Predicting the rate of decline in tax revenues from vehicle excise duty and fuel duty is problematic. In July 2021, the Office for Budget Responsibility (OBR) forecast that electric vehicles would comprise 16% of new registrations and 4% of total registered cars by 2025–26.[19] However, electric cars made up 10.9% and 11.6% of all new registrations in August and September respectively, which indicates that electric vehicle ownership may be growing more quickly that the OBR July forecast. In October 2021, the OBR adjusted its fuel duty forecasts to reflect "faster than expected take-up of electric vehicles reducing revenues".[20] In 2021, however, 11.6 % of new car registrations had a battery electric powertrain, which shows how far UK drivers will need to change their driving preferences before and after the 2030 ban on the sale of petrol and diesel-powered vehicles.[21]

12. Government policy is predicated on the transition to net zero reducing fuel duty and vehicle excise duty receipts. The Net Zero Review Final Report argued that "were the current tax system to remain unchanged across the transition period, tax receipts from most fossil fuel related activity will decline towards zero during the first 20 years of the transition, leaving receipts lower in the 2040s by up to 1.5% of GDP".[22] The Ten Point Plan for a Green Industrial Revolution highlighted the "need to ensure that the tax system encourages the uptake of EVs and that revenue from motoring taxes keeps pace with this change, to ensure we can continue to fund first-class public services and infrastructure."[23]

13. If electric vehicle drivers become accustomed to no-tax motoring, it may become socially and politically difficult for the Exchequer to extract motoring taxes from them in future. Claire Haigh, founder and chief executive officer, Greener Transport Solutions, warned that

> if we do not move fast, people will just bank the fact that if you buy your electric vehicle you do not have to pay much in running costs. If that becomes part of the psychology of owning an electric vehicle […] we have no hope of filling that hole and changing how we pay.[24]

15 DfT, The Road to Zero, 9 July 2018
16 HM Government, The Ten Point Plan for a Green Industrial Revolution, 18 November 2020
17 Electric vehicles are zero rated for VED and exempt from the expensive car supplement until at least 31 March 2025: HC Deb, 3 July 2020 col 64046W
18 Q97; HM Treasury, Net Zero Review Analysis exploring the key issues, 19 October 2021, para 6.4
19 OBR, Fiscal risks report, CP 453, 6 July 2021, pp 111–112 & 147
20 OBR, Economic and fiscal outlook, CP 545, 27 October 2021, p170
21 SMMT, Covid stalls 2021 UK new car market but record EV sales show future direction, 4 January 2022
22 HM Treasury, Net zero review final report, 19 October 2021, p89
23 HM Government, The Ten Point Plan for a Green Industrial Revolution, 18 November 2020, p14
24 HC 27 Q68

14. **Zero fuel duty and vehicle excise duty help motorists to offset the higher purchase price of electric vehicles compared with petrol and diesel alternatives. Those prices are predicted to decrease as sales of new and second-hand electric vehicles increase. As prices decrease, more motorists will purchase electric vehicles, which will in turn decrease fuel duty and vehicle excise duty yields.**

15. ***In signalling a shift to any alternative road charging mechanism, the Government must make it clear to motorists who purchase electric vehicles that they will be required to pay for road usage, as is currently the case for petrol and diesel vehicles. It must ensure that any alternative road charging mechanism incentivises motorists to purchase vehicles with cleaner emissions while contributing tax revenues to support the maintenance of the road network.***

Congestion

16. Cheaper driving is likely to lead to more driving.[25] In September 2018, the Department for Transport (DfT) forecast that a shift to electric vehicles would increase national traffic levels by 51% between 2015 and 2050, with the amount of time drivers spend on congested roads rising from 7% to 16%.[26] The Institute for Global Change estimated that by 2040 the average driver will spend an extra nine hours a year in traffic compared with current congestion levels. In that 2040 projection, drivers who travel on A-roads or into major cities more than the average motorist will face even more congestion.[27]

17. Increased congestion will make it harder for the Government to achieve its transport policy objectives. Streets filled with idling petrol and diesel vehicles in major cities will add to air pollution.[28] A congested road network will inconvenience bus users and depress bus usage, because journeys will become longer and less predictable.[29] Go-Ahead Group told us that "a 10% decrease in bus speeds can reduce patronage by 10% or more".[30] Congestion has a negative effect on economic activity because it restricts and delays the movement of vehicles transporting goods and services. Of course, for some drivers, especially those in rural areas, increased congestion will have little impact and the lower running costs of electric vehicles will prove an unalloyed benefit.[31] The potential effect of a replacement charging mechanism for fuel duty and vehicle excise duty on drivers will vary across the regions and nations of the UK. For example, 27% of workers who live in London report using a car for their commute, compared with an overall percentage in England of 67%. Some 68% of workers in Scotland and 83% of workers in Wales commute by car.[32] But for other drivers, increased congestion will bring more delays and more pollution.

25 HC 27 Q62; Institute for Global Change, Avoiding Gridlock Britain, 31 August 2021, p10; IFS, A road map for motoring taxation, 2 October 2019, para 9.2

26 DfT, Road Traffic Forecasts 2018, 14 September 2018, pp 48 & 62. The forecast assumed all car and LGVs sold are zero emission by 2040 and 97% of car and LGV mileage powered by zero emission technologies by 2050. In April 2021 the Department said it had "no immediate plans to publish an update" to the traffic forecasts: HC Deb, 27 April 2021, 185812W

27 Institute for Global Change, Avoiding Gridlock Britain, 31 August 2021, p10

28 HC 27 Q55; TfL (EVP0138); Institute for Global Change, Avoiding Gridlock Britain, 31 August 2021, p4

29 HC 27 Q70; Go-Ahead Group (EVP0108); Jacobs (EVP0030)

30 Go-Ahead Group (EVP0108)

31 Qq11–12

32 DfT, Transport Statistics Great Britain: 2021, 16 December 2021

18. The Government accepted that it must ensure that "revenue from motoring taxes keeps pace" with the transition away from petrol and diesel vehicles, so that it can "continue to fund the first-class public services and infrastructure that people and families across the UK expect".[33] However, Mr Williams told us that the Government currently has "no announced policy" on how it will achieve that objective.[34]

19. ***In designing a replacement for fuel duty and vehicle excise duty, the Government must examine how an alternative road pricing mechanism can use price as a lever for change while subjecting motorists to fair levels of taxation. To that end, it may seek to make concessions in the interests of societal fairness, such as providing an annual allowance of free travel miles or gearing the system to support vulnerable groups, such as those with mobility issues, and people who reside in the most remote areas.***

20. **The introduction of an alternative road charging mechanism that supported motoring and motorists might work against the Government's ambition for half of all journeys in towns and cities to be walked or cycled by 2030.** ***In designing an alternative road pricing mechanism to vehicle excise duty and fuel duty, the Government must ensure that any road pricing scheme does not undermine progress towards its targets on active travel and public transport modal shift.***

Replacing fuel duty and vehicle excise duty

21. The Government could implement a range of potential policy responses to the decline in fuel duty and vehicle excise duty. For example, it could allow those duties to decline. However, that would mean non-drivers subsidising drivers and might result in significant increases to other taxes or reduced public services.[35] Alternatively, a way might be found to price electricity used by vehicles differently. That could be done by introducing a roads surcharge on electricity used to charge vehicles.[36] Yet, as Mr Williams pointed out, this would require potentially costly new infrastructure, because there is currently "no mechanism for my supplier to know if I am using the washing machine or charging a car".[37]

22. Those potential replacements for fuel duty and vehicle excise duty would all introduce inequity for particular groups of people. In addition, effective congestion management requires a demand- and usage-sensitive, equitable system of motoring taxation. None of those potential policies would deliver an equitable system of motoring taxation predicated on usage and environmental impacts.

23. The Committee explored whether introducing some form of national road pricing system could replace declining tax revenues and reduce congestion. A broad range of organisations and individuals submitted written evidence to our inquiry. The majority expressed support in principle for the introduction of a road pricing mechanism to replace vehicle excise duty and fuel duty.[38] Professor Philip Booth, Director of the Vinson Centre at the University of Buckingham, told us that road pricing is the best way to ensure that

33 HC Deb, 1 July 2021, col 23288W
34 Q97
35 HC 27 Q45; Smarter Cambridge Transport (EVP0126)
36 Q61 [Professor Goodwin]
37 Q107
38 For example: BVRLA (EVP0052), Chartered Institute of Logistics and Transport (EVP0096), Jacobs (EVP0030) and Green Alliance (EVP0125) .

"road users are charged for the costs that they impose on the system […] and the costs they impose on other road users".[39] John Siraut, Director of Economics at Jacobs, argued that "the big advantage of road user charging is to tackle congestion, and congestion has a huge economic cost for UK plc."[40] Eamonn Ives, Head of Energy and Environment Policy at the Centre for Policy Studies, observed that the advantages of road pricing include better connectivity for tradespeople, reduced congestion, improved road maintenance and enhanced environmental outcomes.[41]

24. Road pricing would support other Government policy priorities, such as encouraging active travel, decarbonising transport and increasing transport infrastructure investment.[42] Caterina Brandmayr, Head of Climate Policy at Green Alliance, told the Committee that a well-designed road pricing system could deliver "a wealth of benefits, including reducing congestion, improving air quality and improving health through greater walking and cycling".[43] TfL argued that "national road pricing could accelerate mode shift to achieve zero carbon targets".[44] Jacobs speculated that some revenues could be set aside to restore the condition of its road network to an agreed national standard within 10 years.[45]

25. Introducing road pricing is an opportunity for the UK to be a world leader, setting an example of what we can achieve as a country and building valuable commercial expertise to boost future UK exports.[46] John Siraut stated:

> Every country in the world is tackling the same problem. How do they replace vehicle excise duty and fuel duty with something else? There are models that I do not think capture everything that road user charging can do. Singapore probably comes the nearest, but I think there is an opportunity for the UK to push the boundaries and develop its own model.[47]

26. ***The Government must set out a range of options to replace fuel duty and vehicle excise duty. Those options should be revenue neutral and not cause drivers, as a whole, to pay more than they do currently. One of those options should be a road pricing mechanism that uses telematic technology to charge drivers according to distance driven, factoring in vehicle type and congestion. If motoring taxation is linked to road usage, the Committee has not seen a viable alternative to a road pricing system based on telematics. The Government's preferred options should be submitted to an arm's-length body for evaluation [see paragraph 44].***

National and local

27. Witnesses were generally in favour of a nationally run system, rather than implementing a range of local schemes. They cited cost, user friendliness and clear governance as key benefits of a national scheme.[48] Mr Buchanan said:

39 HC 27 Q69
40 Q55
41 HC27 Q86
42 Q77; HC 27 Qq44, 54 & 76; TfL (EVP0138); Jacobs (EVP0030); ASI (EVP0107); RAC Foundation (EVP0045)
43 HC 27 Q42
44 TfL (EVP0138)
45 Jacobs (EVP0030) para 66
46 Qq89–91; HC 27 Q49
47 Q89
48 Qq 22 & 57 & 71–72; HC 27 Q74; BVRLA (EVP0052)

> Our members work nationally and cross-regionally. They deliver everywhere. One of the enemies for us is local complexity. You have different rules in London, different rules in Manchester, different rules in Birmingham, and it just adds more and more complexity.

Some witnesses highlighted the potential virtues of introducing local road pricing schemes. Steve Gooding, Director of the RAC Foundation, argued:

> If there is to be a congestion charge, I think it would make more sense for it to be locally designed […] My preferred model would be that it was a local decision as to whether the charge should be there, a local decision as to what that charge should be, and, almost certainly, that there should be some local benefit from the income, otherwise the package is not going to work locally.[49]

The Adam Smith Institute suggested that Metro Mayors should be able to decide how road pricing revenue raised in their area will be spent on transport.[50]

28. The devolution of road pricing could lead to the introduction of clunky, unconnected schemes that charge users the same price for driving one mile into the zone as those who drive across it for hours in a day. The more regional schemes that are created, the harder it will eventually be for the Government to implement a functional national system. Fuel duty and vehicle excise duty are Treasury taxes that require a national-level replacement rather than a patchwork of incongruous local schemes. Indeed, the introduction of a range of more-or-less-generous local road pricing schemes would risk engendering regional inequality and driving economic disadvantage.

29. **The taxes imposed by fuel duty and vehicle excise duty are increasingly duplicated by local schemes that charge motorists for entering congestion zones and clean air zones. New taxes, and particularly those that rely on new technology, take many years to introduce. The patchwork of devolved schemes may make it impossible to deliver a national road pricing scheme. The simultaneous operation of local and national road pricing schemes would subject drivers to confusion and unfair double taxation.**

30. ***The Government must examine how an alternative road pricing mechanism can be delivered alongside devolved local road charging schemes, while respecting the existing devolution settlement. Any alternative road pricing mechanism must be revenue neutral to the Government rather than causing drivers, as a whole, to pay more than they do currently. Such a mechanism should be phased in before fuel duty and vehicle excise duty decline to zero. The situation is urgent; work must begin without delay.***

Technology

31. Various forms of road pricing operate successfully across the world.[51] We heard that the technology required to facilitate an efficient system of road pricing is currently available.[52] Professor Phil Goodwin, Senior Fellow at the Foundation for Integrated

49 Qq21 & 45

50 ASI (EVP0107)

51 HC 27 Q50; Jacobs (EVP0030); ITS (EVP0119). See the second panel of our second oral evidence session for a detailed discussion of existing international road pricing schemes.

52 Q39; Q51; HC 27 Qq 57–58

Transport, explained: "Anything that, politically, is realistic to design […] the technology can deliver already".[53] Onboard vehicle telematic technology currently permits insurers to charge for the number of miles travelled by a motorist. Mr Siraut stated that "you could have a single unit in your vehicle for both insurance and road user charging payment systems".[54]

32. New technology has the potential to move beyond a simple charge for miles travelled. Mr Siraut discussed dynamic road pricing. He stated that a system where charges vary dynamically based on the road being used and the time of travel are "certainly perfectly feasible to do", even though they do not exist at the moment.[55] Telematics inside vehicles allows real-time data to be recorded and transferred to a pricing mechanism. That technology can, for example, dynamically set the price of insurance policies for young people based on the time and duration of travel.

33. ***The Government must examine the role that telematic technology can play in delivering a replacement road pricing mechanism that sets the cost of motoring based on the duration and time of the journey and vehicle type and size.***

34. ***The Government must assess the potential effect of telematic technology on changing drivers' behaviour and delivering its wider policies on air quality, congestion, public transport and public health.***

35. ***The Government must assess the potential effect of a road pricing mechanism based on telematic technology on high-mileage drivers, such as road hauliers and those in rural communities, and on those least able to adapt to increased motoring costs.***

Data protection

36. Several witnesses stressed the importance of a strong legal framework to protect drivers' privacy.[56] Vivacity Labs argued that to

> maintain public support for any technological solution, it is […] imperative to not just engineer a solution that cannot be used to track individuals, but also to educate the public specifically on why it cannot be mis-used, and how introducing the system will specifically benefit them as citizens.[57]

Other witnesses argued that the significance of data protection has been overstated and that the topic is not a top-level for concern for the public, who are prepared to provide data access in exchange for efficient services and systems.[58]

37. **The successful implementation of a national, technology-based road pricing scheme is contingent on the Government explaining how data capture will work in practice, ensuring that data management is subject to rigorous governance and oversight and reassuring the public that their privacy will be protected.**

53 Q51
54 Q61
55 Q50
56 Q74; Vivacity Labs (EVP0088)
57 Vivacity Labs (EVP0088)
58 Qq75–76

Departmental responsibility

38. The Treasury funds the DfT to maintain and develop the road network for motorists, which allows the economy to function and the Treasury to collect taxes. Simultaneously, the DfT depends on the Treasury to impose motoring taxes to regulate demand for motoring and to manage congestion. The interconnected challenges associated with motoring taxation can only be overcome by functional cross-departmental, joined-up government. DfT policy includes promoting the benefits and increasing take-up of electric vehicles. More electric vehicles imply reduced receipts from fuel duty and vehicle excise duty. The resultant lost tax revenues could have serious implications for the maintenance and development of the road network, on which all vehicles travel. There is a danger that the DfT and Treasury's respective responsibilities might lead them to work towards differing and competing policy outcomes.

39. ***The Government must work on a cross-departmental basis to ensure that equal focus and policy ownership is placed on the delivery of more zero emission vehicles and the continued funding and maintenance of the road network. The Treasury and the DfT should set up a joint unit including Ministers and officials from both Departments to co-ordinate that shared policy space.***

Devolution

40. The UK Government develops the policy and provides the bulk of the funding for local transport in England, including buses, walking, cycling and local highways and rail. In Scotland, Wales and Northern Ireland, those policies and funding are delivered by the relevant devolved Administration. Westminster retains reserved powers in relation to national transport, including aviation, maritime and strategic road and rail. Fuel duty and vehicle excise duty, the principal motoring taxes, are national taxes levied by the Treasury.

41. **Bearing in mind the partial devolution of transport policy, consultation and agreement between the UK Government and the devolved Administrations will be key to developing and implementing an alternative road charging mechanism.**

The way forward

42. Road pricing is not a new idea. UK policymakers first raised it in the Smeed Report in the 1960s.[59] However, the history of road pricing is a history of public unpopularity. Fifteen years ago, for example, a petition against the introduction of road pricing attracted more than one million signatures.[60] As a result, road pricing has acquired the reputation as a policy that is too unpopular to implement.[61] In October 2014, Professor Stephen Glaister, a member of the advisory panel to the 2004 Road Pricing Feasibility Study, pointed out that

> It has become a standing joke that even if any UK politician is unable to deny the logic of the case for some form of road pricing, they are never willing to implement it within the next ten years—by which time they will be long gone.[62]

59 Qq69–70; HC 27, Q44
60 "Roads petition breaks a million", BBC News, 10 February 2007
61 Qq 21 & 70 [Phil Goodwin]; HC 27, Qq44–45
62 UCL, The Smeed Report at Fifty, 7 October 2014

43. Many informed witnesses observed that the greatest barriers to introducing road pricing are political.[63] In the course of British history, several Governments have foundered on the rocks of introducing new taxes. Democratically elected politicians are painfully aware that advocating the introduction of new taxes, however well intentioned, is unlikely to engender general popularity. The political risks associated with road pricing have made it too toxic a prospect for successive Governments. However, fuel duty and vehicle excise duty are increasingly unfit for purpose. The consequences for both the public finances and congestion management are too severe for inaction. New systems of taxation, and particularly those based on innovative technology, can take years to devise and deliver. Botched and rushed taxation policies can and will fail to operate efficiently and to secure public acceptance. The introduction of local charging schemes and the predicted drop in fuel duty and vehicle excise duty from drivers switching to electric vehicles mean that time is not on the Government's side.

44. ***To fulfil their respective and connected responsibilities for managing congestion and maintaining the public finances, the DfT and the Treasury must jointly establish an arm's-length body with an appointed individual to evaluate its preferred options to replace fuel duty and vehicle excise duty [see paragraph 26]. The body should consult experts on road planning, taxation and telematic technology, and it should consider international experience. It should be tasked with recommending an alternative road charging mechanism to replace fuel duty and vehicle excise duty by the end of 2022.***

63 Qq 2, 7 & 52–53; HC 27 Q81; ASI (EVP0107)

Conclusions and recommendations

Road pricing

1. Fuel duty and vehicle excise duty raise some £35 billion a year. Approximately 20% of that revenue is disbursed on maintaining and developing the roads. Neither fuel duty nor vehicle excise duty are currently levied on electric vehicles. The Government is phasing out the sale of petrol and diesel cars by 2030. Under the current system of fuel duty and vehicle excise duty, that policy will reduce tax revenues obtained from motoring to zero over the next 20 years. Without radical reform, policies to deliver net zero emissions by 2050 will result in zero revenue for the Government from motoring taxation. A failure to replace existing motoring taxes with an alternative road charging mechanism will lead to either decreased investment in public services, including road maintenance, or increased Government borrowing. (Paragraph 7)

2. *The Government must start an honest conversation with the public on the funding implications for road development and maintenance and for other essential public services of decreased revenue from vehicle excise duty and fuel duty.* (Paragraph 8)

3. *To promote fairness and public acceptance, any alternative road charging mechanism must (a) entirely replace fuel duty and vehicle excise duty rather than being added alongside those taxes; and (b) be revenue neutral with most motorists paying the same or less than they do currently.* (Paragraph 9)

4. Zero fuel duty and vehicle excise duty help motorists to offset the higher purchase price of electric vehicles compared with petrol and diesel alternatives. Those prices are predicted to decrease as sales of new and second-hand electric vehicles increase. As prices decrease, more motorists will purchase electric vehicles, which will in turn decrease fuel duty and vehicle excise duty yields. (Paragraph 14)

5. *In signalling a shift to any alternative road charging mechanism, the Government must make it clear to motorists who purchase electric vehicles that they will be required to pay for road usage, as is currently the case for petrol and diesel vehicles. It must ensure that any alternative road charging mechanism incentivises motorists to purchase vehicles with cleaner emissions while contributing tax revenues to support the maintenance of the road network.* (Paragraph 15)

6. *In designing a replacement for fuel duty and vehicle excise duty, the Government must examine how an alternative road pricing mechanism can use price as a lever for change while subjecting motorists to fair levels of taxation. To that end, it may seek to make concessions in the interests of societal fairness, such as providing an annual allowance of free travel miles or gearing the system to support vulnerable groups, such as those with mobility issues, and people who reside in the most remote areas.* (Paragraph 19)

7. The introduction of an alternative road charging mechanism that supported motoring and motorists might work against the Government's ambition for half of all journeys in towns and cities to be walked or cycled by 2030. *In designing an alternative road pricing mechanism to vehicle excise duty and fuel duty, the Government must ensure that any road pricing scheme does not undermine progress*

towards its targets on active travel and public transport modal shift. (Paragraph 20)

8. *The Government must set out a range of options to replace fuel duty and vehicle excise duty. Those options should be revenue neutral and not cause drivers, as a whole, to pay more than they do currently. One of those options should be a road pricing mechanism that uses telematic technology to charge drivers according to distance driven, factoring in vehicle type and congestion. If motoring taxation is linked to road usage, the Committee has not seen a viable alternative to a road pricing system based on telematics. The Government's preferred options should be submitted to an arm's-length body for evaluation [see paragraph 44].* (Paragraph 26)

9. *The taxes imposed by fuel duty and vehicle excise duty are increasingly duplicated by local schemes that charge motorists for entering congestion zones and clean air zones. New taxes, and particularly those that rely on new technology, take many years to introduce. The patchwork of devolved schemes may make it impossible to deliver a national road pricing scheme. The simultaneous operation of local and national road pricing schemes would subject drivers to confusion and unfair double taxation.* (Paragraph 29)

10. *The Government must examine how an alternative road pricing mechanism can be delivered alongside devolved local road charging schemes, while respecting the existing devolution settlement. Any alternative road pricing mechanism must be revenue neutral to the Government rather than causing drivers, as a whole, to pay more than they do currently. Such a mechanism should be phased in before fuel duty and vehicle excise duty decline to zero. The situation is urgent; work must begin without delay.* (Paragraph 30)

11. *The Government must examine the role that telematic technology can play in delivering a replacement road pricing mechanism that sets the cost of motoring based on the duration and time of the journey and vehicle type and size.* (Paragraph 33)

12. *The Government must assess the potential effect of telematic technology on changing drivers' behaviour and delivering its wider policies on air quality, congestion, public transport and public health.* (Paragraph 34)

13. *The Government must assess the potential effect of a road pricing mechanism based on telematic technology on high-mileage drivers, such as road hauliers and those in rural communities, and on those least able to adapt to increased motoring costs.* (Paragraph 35)

14. The successful implementation of a national, technology-based road pricing scheme is contingent on the Government explaining how data capture will work in practice, ensuring that data management is subject to rigorous governance and oversight and reassuring the public that their privacy will be protected. (Paragraph 37)

15. *The Government must work on a cross-departmental basis to ensure that equal focus and policy ownership is placed on the delivery of more zero emission vehicles and the continued funding and maintenance of the road network. The Treasury and the DfT should set up a joint unit including Ministers and officials from both Departments to co-ordinate that shared policy space.* (Paragraph 39)

16. Bearing in mind the partial devolution of transport policy, consultation and agreement between the UK Government and the devolved Administrations will be key to developing and implementing an alternative road charging mechanism. (Paragraph 41)

17. *To fulfil their respective and connected responsibilities for managing congestion and maintaining the public finances, the DfT and the Treasury must jointly establish an arm's-length body with an appointed individual to evaluate its preferred options to replace fuel duty and vehicle excise duty [see paragraph 26]. The body should consult experts on road planning, taxation and telematic technology, and it should consider international experience. It should be tasked with recommending an alternative road charging mechanism to replace fuel duty and vehicle excise duty by the end of 2022.* (Paragraph 44)

Formal minutes

Tuesday 25 January 2022

Members present:

Huw Merriman, in the Chair

Mr Ben Bradshaw

Simon Jupp

Robert Largan

Chris Loder

Karl McCartney

Grahame Morris

Gavin Newlands

Greg Smith

Draft Report (*Road pricing*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 44 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Fourth 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 tomorrow at 9.30 am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website. Written evidence from our inquiry on Zero Emissions Vehicles is relevant to this inquiry, and has been included in this list.

Wednesday 28 April 2021

Ed Birkett, Senior Research Fellow in Energy and Environment Policy, Policy Exchange; **Caterina Brandmayr**, Head of Climate Policy, Green Alliance; **Sarah Owen-Vandersluis**, Head of Public Sector Mobility and Trade Lead Partner, KPMG	Q1–42
Mr Eamonn Ives, Head of Energy and Environment Policy, Centre for Policy Studies; **Edward Leigh**, Chair, Smarter Cambridge Transport; **Ms Claire Haigh**, Founder and Chief Executive Officer, Greener Transport Solutions; **Professor Philip Booth**, Director, Vinson Centre, University of Buckingham, Senior Academic Fellow, Institute of Economic Affairs	Q43–86

Wednesday 20 October 2021

Duncan Buchanan, Policy Director (England and Wales), Road Haulage Association (RHA); **Steve Gooding**, Director, RAC Foundation; **Toby Poston**, Director of External Affairs, British Vehicle Rental & Leasing Association (BVRLA); **Dr Nina Skorupska CBE**, Chief Executive, Renewable Energy Association	Q1–46
Professor Phillip Goodwin, Senior Fellow, Foundation for Integrated Transport; **John Siraut**, Director of Economics, Jacobs; **Alistair Hunter**, Highways Business Leader, Arup	Q47–95
Mike Williams, Director, Business and International Tax, HM Treasury	Q96–115

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2021–22

Number	Title	Reference
1st	Zero emission vehicles	HC 27
2nd	Major transport infrastructure projects	HC 24
3rd	Rollout and safety of smart motorways	HC 26
1st Special	The impact of the coronavirus pandemic on the aviation sector: Interim report: Government Response to the Committee's Fifth Report of Session 2019–21	HC 28
2nd Special	Road safety: young and novice drivers: Government Response to Committee's Fourth Report of Session 2019–21	HC 29
3rd Special	Trains Fit for the Future? Government Response to the Committee's Sixth Report of Session 2019–21	HC 249
4th Special	Safe return of international travel? Government Response to the Committee's Seventh Report of Session 2019–21	HC 489
5th Special	Zero emission vehicles: Government Response to the Committee's First Report	HC 759
6th Special	Rollout and safety of smart motorways: Government Response to the Committee's Third Report	HC 1020
7th Special	Major transport infrastructure projects: Government Response to the Committee's Second Report	HC 938

Session 2019–21

Number	Title	Reference
1st	Appointment of the Chair of the Civil Aviation Authority	HC 354
2nd	The impact of the coronavirus pandemic on the aviation sector	HC 268
3rd	E-scooters: pavement nuisance or transport innovation?	HC 255
4th	Road safety: young and novice drivers	HC 169
5th	The impact of the coronavirus pandemic on the aviation sector: Interim report	HC 1257
6th	Trains fit for the future?	HC 876
7th	Safe return of international travel?	HC 1341