Moving On: Fairer motoring taxes and investment for growth and jobs

Brian Wadsworth
The Road Ahead Group

October 2011

The Royal Automobile Club Foundation for Motoring Ltd is a charity which explores the economic, mobility, safety and environmental issues relating to roads and responsible road users. Independent and authoritative research, carried out for the public benefit, is central to the Foundation's activities.

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Registered Charity No. 1002705

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About the author

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Brian also worked at British Airways and in BOC's transport business and has served as a project adviser to the World Bank. He is a Fellow of the Royal Institute of Navigation and of the Chartered Institute of Logistics and Transport

The members and supporters of the Road Ahead Group are Berwin Leighton Paisner LLP, the Freight Transport Association, Interel Consulting UK Ltd, May Gurney Integrated Services plc, Midland Expressway Ltd, Ringway/Eurovia Group Ltd and Vinci plc. The Group supports sustained investment in road network capacity and opportunities for private financing of road infrastructure.

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Executive summary

Britain urgently needs growth. But just when we most need investment to keep our economy moving, the state has run out of money. Unless we can find a new direction, we face a future of potholes, delays and ultimately gridlock on our roads and motorways. That's a future we simply can't afford. What can be done? Complex answers such as universal road pricing have become stalled in endless argument. There's little appetite amongst the public at large or our political representatives for solutions which entail substantial investment, burdensome administrative overheads and complex, unpredictable bills for drivers. We have to find an easier way ahead.

This report proposes a straightforward restructuring of a familiar motoring tax: Vehicle Excise Duty. It would make motoring taxes fairer, incentivise smart journey choices and provide guaranteed funding for investment in new capacity. It could be phased in and wouldn't entail massive start-up costs. From the driver's seat, the new system would be predictable and easy to understand. It's time to move on, to fairer motoring taxes and investment for growth and jobs.

Contents

1. The same old story

We may still smile at the old joke about death and taxes, but of late it has been wearing a bit thin at the pump. With petrol gushing to 140p a litre, the fuel duty escalator has had to yield, at least for a time, to popular concerns.

But while the British motorist may sometimes shout ‘enough!’, the fact is that few of us expect much change. For longer than we can remember, when the state has needed a bit more cash to balance its books, the words ‘fuel duty’ have tripped effortlessly off the Chancellor’s tongue. One can see why. It’s hard to beat a tax which is cheap to collect, difficult to evade and firmly attached to an essential, everyday commodity, demand for which is as recession-proof as one is ever likely to find.

Despite a widespread perception that motoring taxes are excessive – even unfair – any talk of reform seems to invite a hostile response. Weary acceptance is fertile ground for cynicism. Much as we may dislike the existing system of motoring taxes, it seems we’ve persuaded ourselves that the frying pan beats the fire.

2. Or maybe not

And yet, behind the scenes, it's not really the same old story after all. Change is already happening, and further change is on the way. We can count on it.

Fuel duty payments, which account for 80% of motoring taxes, are directly related to fossil fuel consumption. Vehicle excise duty is banded according to carbon emissions. Environmental policy is driving substantial improvements in the fuel efficiency of conventionally powered road vehicles and, in the medium term, will propel a shift in the fleet mix in favour of alternatively powered vehicles (electric or hybrid).

As a consequence, the pattern and structure of motoring taxes that we've lived with for decades has become unsustainable. Ironically, the more successful the government becomes in achieving one of its key public policy objectives – fighting climate change – the faster its motoring tax income will decline.

The impact of environmental policy on motoring taxes has been examined by the Office for Budget Responsibility (OBR) in its latest report, published in July 2011.[1] It's worth pausing to consider the OBR's findings, summarised below.

Assuming that:

- new car fuel efficiency meets EU targets by 2015 (130 gCO_2/km) and 2020 (95 gCO_2/km), and by 2030 reduces to the target proposed by the Committee on Climate Change (50 gCO_2/km);
- fuel duty rises each year by the RPI rate of inflation and oil prices rise somewhat more slowly;

1 Office for Budget Responsibility (2011). *Fiscal Sustainability Report.* London: TSO.

- vehicle excise duty bands remain the same as today;
- there are modest increases in mileage driven, in line with historical trends; and
- new car sales and scrappage rates continue in line with historical trends;

Then:

- fuel duty receipts will fall from 1.8% of GDP in 2010 to 1.0% by 2030;
- vehicle excise duty receipts will fall from 0.4% to 0.1% of GDP over the same period; and
- further falls in both taxes are likely beyond 2030, as emissions limits tighten and the proportion of alternatively fuelled vehicles in the fleet increases.

Now let's calibrate this. In 2010–11, receipts from fuel and vehicle excise duties combined amounted to about £33 billion – roughly a third of what we spend on the NHS. So the future of motoring taxes matters to all of us, not least in an ageing society heavily reliant on public spending. One way or another, motoring taxes – and probably other taxes too – are going to have to change.

3. Some big issues

The challenge of planning for fiscal sustainability in an age of demographic and technological change is well beyond the scope of this paper. The Exchequer's income is under pressure and solutions will have to be found, but there's no law that says the overall pattern of taxation must remain the same, or that transport, as an activity, should contribute a fixed proportion of Exchequer funds. Indeed, as the environmental impact of mobility shrinks, so does the case for taxing it.

While emissions are set to fall, we can be confident that our demand for mobility will endure. Indeed, all the historical evidence indicates that it will continue to grow as our economy grows – and that's a goal we must all believe in. (If we don't have sustained growth, the challenge of funding good public services will become an impossible dream.) More goods and services may be purchased on the internet, but they still have to be brought, somehow, to the consumer's door. And the connectivity of our economy means that people at work will still need to travel, to meet customers and develop business opportunities.

Of course, we should strive to make the best use of all available transport modes, but given that 90% of inland passenger and freight transport is by road, building high-speed railway lines won't change the pattern of movement dramatically. Therefore improving roads and maintaining them will continue to present a significant call on public budgets. In addition, allocating space for traffic will still have environmental consequences, even when tailpipe emissions have spluttered into memory.

4. A question for today

So as we've seen, transport taxes are changing. They'll have to evolve further over time, given the dwindling relevance of our present, carbon-based system. The question addressed in this paper is whether we can turn this challenge into an opportunity.

The Road Ahead Group believes we can. In fact, we have an historic opportunity to make motoring taxes fairer, to invest for growth and to create jobs. These are vital national priorities, and they've never been more important than now.

5. Evolution, not revolution

We don't recommend scrapping existing motoring taxes or introducing something completely new like universal road pricing. It's clear that neither the British public nor our politicians have the appetite for this. We don't want to make motoring taxation more complicated, or costlier to administer, or riskier to collect. These are sentiments that even the tax collectors will share.

Instead, we advocate simplifying and modestly re-engineering an existing and long-familiar motoring tax: vehicle excise duty (VED). We believe VED can and should be made fairer, reflecting the differing costs that diverse patterns of motoring impose on taxpayers and society at large. We also recommend taking the opportunity to reconnect what motorists pay in tax with what they receive in motoring-related services.

The changes we describe below are motivated partly by economic advantage and sound finances. They're also driven by how people feel about paying for public services. Any tax system relies ultimately on a social consensus, as governments have found throughout history, sometimes to their cost. The case for change needs to win hearts as well as minds. This premise is reflected in our proposals.

6. Fairer motoring taxes

So how will our new system differ from today? And how will it make motoring taxes fairer?

Some things won't change. Once you've paid your VED and your vehicle is taxed, insured and tested, you'll still have the right to drive anywhere, anytime on our national and local road network, throughout the year, just as you do now. There'll be no hidden charges. The standard rate of VED will be the *maximum* you'll pay, regardless of how often you use the road network, or where, or when.

But when you come to pay your VED, whether online or at the Post Office, the government will give you a number of discount points, which you can choose either to spend or to save. It's this new feature that will make motoring taxes fairer. Let's explain how.

We all use transport systems in different ways. In so doing, we consume resources differently and impose different levels of cost on those who fund the systems and on our fellow users. (This holds true across every mode of transport, whether road, rail, sea or air.)

In most transport systems, these differences in cost are reflected in fares. We're all used to paying more to travel by train at peak times, or to catch the most popular scheduled air service or ferry. It's what we expect, and it's logical from a financial and economic standpoint. Peak capacity is most in demand and costliest to provide. It determines how many aircraft or train sets or ships you need and how much you have to spend on tracks, runways, docks and people to man and operate the system. When we board the most popular train or aircraft flight, we take up space that other users are queuing to fill.

By contrast, the marginal (i.e. incremental) cost of off-peak capacity is typically much lower: in some cases, close to zero. Crowding is not a problem, so our journey doesn't inconvenience fellow travellers. We expect to pay discounted, off-peak fares at off-peak times and so we should.

Strangely, when we join the most popular and intensively used transport system of all – the road network – our present tax system leaves this basic economic logic behind. Motorists in rural Wales and night shift workers who travel in the dead of night pay the same as someone who drives round the M25 every day in the morning and evening rush hours. This makes no sense and, bluntly, it isn't fair.

This is where our proposed discount system comes come in. Let's suppose there's just a single standard rate of VED for cars and vans. Purely for the sake of illustration, we'll fix this at £275 a year.

When you pay your £275, the government will give you 25 discount points, each worth £3. (Again, these are illustrative figures.) As we said earlier, you'll be able to choose whether to spend or save your discount points. On each day you drive through a 'peak zone' on the national road network, you'll spend one discount point. The most congested parts of the network at the busiest times will be designated as 'peak zones'. They'll be clearly marked and publicised, so you'll know in advance exactly where and when they apply. Each discount point will cover a 24-hour period, so you won't use more than one a day.

If you live in rural Wales or you're a pensioner or shift worker and you simply don't need to use the most congested sections of the road network, you'll be able to save *all* your discount points and cash them in when you renew your VED. With 25 unspent points, each worth £3, you'll be rewarded with £75 off next year's road tax, reducing your bill from £275 to £200.

If you've spent some but not all of your discount points, you'll get a smaller discount. If you've spent all your points, you'll pay the standard rate of £275 again next year.

It bears repeating that under our proposals, the standard rate of VED will set the *ceiling* on your annual tax bill, however intensively you use the network. If you drive round the M25 in the rush hour several times a week, you'll use your 25 discount points long before the year is over, but there won't be any unwelcome tax surprises. A valid tax disc covers anytime, anywhere use of the road network - just like today. And £275 will be the most you can pay.

What's the advantage of this idea? Well, *everyone* gains something from the system we propose:

- motorists who don't need to consume expensive peak capacity get a financial reward for not doing so;

- motorists who have to be on the busiest parts of the network at rush hour experience less congestion, because those who don't need to be there have an incentive to use other routes or travel at other times; and
- everyone (even people who never drive) gains from making the road network work better, improving the efficiency and productivity of our economy.

Our environment wins too. Managing peak capacity better eases pressures to yield more land to traffic and cuts fuel and energy wastage by vehicles stuck in traffic jams. (By contrast, our existing motoring tax system has nothing left to offer, environmentally speaking, once the emissions problem has been tackled.)

7. Keeping Britain moving

Now we've shown how to make motoring taxes fairer, let's make a link to investing for growth and jobs.

For far too long, the roads budget has served as a fiscal shock absorber. Every time there's a problem balancing the books, the roads budget gets squeezed. This may be practical politics, but from an economic standpoint it's just robbing the next generation to pay for today's public services.

Never mind the old chestnut about how many economists you need to reach an agreement. In reality, nearly all informed commentators agree that an early return to sustained growth offers the best way out of our current economic predicament. We need growth to create jobs, reduce dependency on tax-funded benefits, boost consumer spending and output and pay down our national debt. We need growth to support decent public services in an era of demographic change.

Efficient transport systems are vital to growth, because distribution (whether of goods, services or people) is as crucial to economic output as manufacturing and value creation. Even in the internet age, much of our economic output continues to require physical distribution. And in Britain today, 90% of that distribution is by road (again, this is true for people and for goods). The relationship between transport efficiency, investment and economic performance and growth was amply explored and confirmed in the Eddington Transport Study, commissioned by the previous government and published at the end of 2006. It remains unchallenged.[2]

The Eddington Study calculated that road congestion already costs us the equivalent of £7 billion to £8 billion of GDP each year. Without new investment and measures to manage congestion, this cost could rise by £22 billion a year by 2025. As a nation striving to succeed in an unforgivingly competitive world, we simply can't afford to let our economy grind to a halt. As Sir Rod Eddington's report concluded, we should be investing *more* in our road network, not less. This has strong support from our major business organisations, including the Confederation of British Industry, British Chambers of Commerce and Institute of Directors. Regrettably, it isn't happening.

Although a number of the highest priority road schemes have been spared, once again the roads budget overall has fallen victim to the over-riding imperative of fiscal retrenchment. The consequences may not be too obvious this year or next, but the long-term impacts are altogether more worrying. With present trends it is quite conceivable that twenty years from now half the traffic on the M1 will experience levels of congestion seen by only 1 in 10 users today. The next time you're crawling up the M1, think about that.

This would be *catastrophic* for our economy, even assuming High Speed 2 (HS2, the proposed high-speed railway) goes ahead and is used to its potential. For the sake of all of us, and most particularly the next generations of UK citizens and taxpayers, we *must* identify a stable and resilient way of funding critical road capacity enhancements. (While the NHS or schools may be more emotive issues for voters on polling day, the fact is we won't be able to fund the kind of NHS people want or give our children a better education if our economy grinds to gridlock.)

The Road Ahead Group accepts that decisions about tax and decisions about spending are separate and distinct. We understand why the Treasury has, for

2 Eddington, R. (2006). *The Eddington Transport Study*. London: TSO.

the most part, resisted arguments for 'hypothecation'.[3] However, the Budget flexibility so prized by Chancellors of the Exchequer comes at a price. It makes it easier to bow to short-term political pressures when times get tough, hoping that when the chickens come home to roost it will be someone else's problem. But chickens do come home to roost. Eventually, it'll be our problem.

We don't advocate a return to the fully hypothecated 'road fund' that existed in the early years of the 20th century, but we do believe our national interests would be better served if a significant element of motoring taxes were formally tied to investment in network capacity. If, as we propose, motorists using network peak capacity pay a higher rate of VED than those who don't, we think the state should commit to providing them with the best possible service. This is an important aspect of the social contract underpinning changes in the tax system, as we noted earlier. It's a fair bargain.

3 Hypothecation is the technical term for linking a particular tax to a particular spending programme, so that the tax and spending decisions are tied together.

8. A new 'Network Capacity Fund'

Therefore we propose that a 'network capacity fund' should be established when the new VED system is introduced. This would comprise the sum total of tax revenues raised through discount points that motorists choose to spend (when driving through 'peak zones'), rather than save.

For example, on the illustrative figures used earlier in this paper:

- a motorist spending all his or her discount points during the year would contribute £75 to the network capacity fund (25 points at £3 each);

- a motorist spending ten discount points but saving 15 would contribute £30; and
- a motorist saving all 25 discount points and claiming the maximum discount would contribute nothing to the fund.

Under our proposals, those making most use of peak capacity would contribute most to the fund, which would benefit them directly. Those making no use of peak capacity would not be asked to contribute – nor should they. Furthermore, those making occasional use of peak capacity would contribute something, but less than frequent users.

The network capacity fund would be used as its name implies: to invest in managed motorways and other appropriate measures to increase peak capacity and ease congestion at the busiest times, in the busiest locations. Thus the new fund would be targeted precisely at the highest priority investments with the greatest economic returns – investments which drive economic growth and job creation. Schemes financed by the new fund would benefit not only the frequent users of peak network capacity, but every citizen and taxpayer in the country. A guaranteed and ring-fenced network capacity fund would protect us from the disaster of transport and economic gridlock, through bad times and good.

The fund could be used for public spending, or it could defray private investment costs for projects financed by the markets. Road infrastructure investment (and particularly peak capacity projects) presents an attractive opportunity for long-term, low risk investors, such as pension schemes. Our network capacity fund could be used to position the UK as an attractive destination for inward investment in key economic infrastructure, in accordance with present government policy as set out in the Treasury's National Infrastructure Plan.[4]

4 HM Treasury (2010). *National Infrastructure Plan 2010.* Retrieved 25 August 2011 from www.hm-treasury.gov.uk/d/nationalinfrastructureplan251010.pdf

9. Too good to be true?

If it's as straightforward as we suggest, why hasn't somebody taken the steps that we recommend before now? That's a fair question. Let's look at some areas where practical and political challenges could arise and how they would be resolved.

Monitoring Peak Zone Usage

Managing peak capacity more effectively is already an established priority for the government's roads budget. Through the 'managed motorways' programme, the most congested sections of the national network are being targeted for investment in advanced traffic management technologies, enabling variable speed limits and use of the hard shoulder as a fourth running lane at peak times. Overhead gantries, communications infrastructure, monitoring cameras and the associated power supplies are all funded under this programme.

Through the network capacity fund this investment, together with other measures to enhance peak capacity, will be accelerated, expanded and *guaranteed*. We propose that the designation of 'peak zones' should move broadly in parallel with the deployment of managed motorways investments. As well as the logistical and financial advantages of piggybacking on existing infrastructure, this approach conforms to economic and tax equity goals, by focusing on route sections prioritised for new peak capacity investment. Our proposal is not a new way of paying for existing roads: it's a new way of paying for *better* roads.

Using tried and tested technologies, there are two main options for monitoring peak zone usage. The most straightforward is 'automated number plate recognition' (ANPR) – the system used for London's Congestion Charge. This involves vehicle number plate recognition by cameras and computer software. If implemented in the managed motorway context, as we recommend, roadside investment costs will be marginal (essentially, additional cameras and communications links) and vehicle-specific costs will be zero. There will be some initial costs for computer systems enhancement and linkages, but the systems architecture and performance requirements are not onerous. (Essentially, the system will have to capture the first 25 instances of peak zone use by any vehicle in any year and link to the online and Post Office VED renewal systems to verify discount entitlements.) Currently available ANPR systems can and do operate to high standards of accuracy, integrity and reliability.

The second leading technology option is 'digital short range communications' (DSRC) – essentially in-vehicle transmitters with roadside detectors. The vehicle's identity (registration details) are encoded in an inexpensive, battery-powered electronic device, which would be integrated in a VED disc holder secured inside the vehicle windscreen. The cost of the in-vehicle device, produced on the scale required, will be well under £5 per unit. It will be detected by unobtrusive, roadside transponders, installed at low marginal cost on the back of communications and power infrastructure already present in managed motorway installations. Computer systems requirements and investment costs will be similar to those for ANPR.

DSRC systems are extensively used around the world and can offer security advantages relative to ANPR. (They cannot be 'gamed' by number plate fraud and could also be used to check vehicle tax, insurance and MoT status automatically, if desired.) However, the production and logistical issues associated with the distribution and renewal of in-vehicle transponders will require careful planning, although the costs per unit are low, as already noted.

Revenue Security

A tax system isn't much good if it leaks.

Our new system takes no chances with revenue security. As now, VED will be collected annually, in advance. As now, it will be unlawful to operate a vehicle on the public road network without a current tax disc. (Safeguards such as the SORN would remain in place.) Discount entitlements will be assessed and awarded retrospectively and will have to be re-earned each year. There are no transactional complications, apart from the automated calculation of discount entitlement at the time of renewal. There is no additional paperwork. The Road Ahead Group's proposal is compatible with the online and Post Office counter VED renewals processes.

As noted above, DSRC detection technology can be deployed to enhance revenue security compared with VED today, if desired, increasing the chances of detecting untaxed vehicles on the road network. (This is a collateral policy opportunity, not a core element of our proposals.)

Armies of Clerks?

Some proposals to reform motoring taxation have collapsed under the weight of their own bureaucracy. Our proposal avoids this pitfall. Each year, for each VED payer, there will only be one transaction, as is the case today, either online or over the counter. Discount entitlements will be assessed and calculated automatically, supported by time/date evidence which the VED payer can see. (By analogy, think of a mobile phone statement with a maximum of 25 itemised calls on it.) There will be one annual payment, through one channel (whether by credit or debit card, cheque or other means) – no ‘money-go-round’ or vexatious correspondence. The linked systems for verifying insurance and MoT status will continue to function as they do today.

While discount eligibility will be a new and additional factor in the transaction, under the Road Ahead Group proposal the basic structure of VED would be much simpler, with fewer vehicle-related tax bands.

Will Motoring Taxes Have to Rise?

As we’ve seen, the Treasury’s income from motoring taxes is set to fall, assuming there’s no change in the structure or rates of fuel duty or VED. As the case for taxing motoring has a strong environmental underpinning and the climate change impacts of motoring are reducing, this is both rational and defensible.

We make no proposal as to the future of fuel duty, which (as previously noted) accounts for over 80% of motoring taxes by value. Accordingly we are not arguing that the overall trend of decline in motoring taxes should be reversed or even stabilised. In fact there is nothing in our proposal that requires or presumes a specific level of motoring-related taxes, taken overall. This is a decision for the government and must be taken in the light of wider considerations, including public spending levels and the balance between different forms of taxation.

Under our system, VED levels will take into account both discount entitlements and the requirements of the new infrastructure capacity fund. There’s no free lunch, as we all know, so we aren’t saying that everyone will be better off financially just from the changes in VED, although everyone *will* benefit, in the ways described earlier. However, even if we stick to a narrow financial calculation, the ultimate impact of tax changes and trends on each of us can only be judged in the round. For example, if fuel duty payments are falling but VED rates increase, it is quite possible that we may still end up paying less tax on our motoring overall, or no more than we pay now. As we say, the outcome will depend on how future Chancellors decide to balance the public books – a subject open to endless inconclusive speculation (and, thankfully, well beyond the scope of this paper).

Whether or not future Chancellors decide to let motoring tax income decline, our proposal delivers a fairer tax outcome and ensures – even in an age of low tailpipe emissions – that taxation will continue to reflect real external costs, such as congestion impacts and land take.

Will Simplifying VED Threaten Environmental Gains?

Combining our proposal with the complex VED bands structure that exists today would create a yet more complicated tax system. This is not desirable in itself. We believe it is unnecessary.

As we have already noted, throughout the European Union manufacturers are being *compelled* by regulation to deliver substantial reductions in emissions from conventionally fuelled vehicles, taken as an average across their new vehicle fleets. Regulated targets have already been set up to 2020. We confidently expect these to be extended and further tightened, up to 2030 and beyond.

Therefore, new vehicle buyers will have progressively less freedom to choose inefficient vehicles, as EU regulations govern the performance of new vehicles which manufacturers can build and offer for sale. Meanwhile, for the majority of motorists, high pump prices for petrol and diesel present a powerful incentive to own a more fuel-efficient vehicle and drive economically.

This means VED can be simplified without materially diluting the incentives for environmentally-friendly motoring.

I Can Choose When to Travel: How Will I be Affected?

The Road Ahead Group proposal will not dictate anyone's travel behaviour. It will be up to you to decide when, where and how to drive, just as it is today. As we've said, once you've paid your VED for the year, you will have 24/7/365 access to the road network at no further charge – just as you do now.

The difference is that for the first time you'll be rewarded for not adding to traffic congestion at peak times and in the busiest locations. If you adjust your driving behaviour, whether by changing the time of your journey or choosing a different route, we'll reflect that in your tax bill. This is fair. If you drive on uncongested rural roads or on the motorway network at 03:00, the marginal cost of your journey (in terms of its infrastructure resource costs, congestion impacts on other road users and other 'externalities') is very low. It's in everyone's interests that we make better use of off-peak capacity, so that we minimise delays at peak times.

That said, it's worth re-emphasising that we won't force you to make a journey choice you don't want to make, or stop you making a choice that best suits your needs. It will be entirely up to you whether to save your discount points and claim your discount on next year's VED bill, or save some of them, or spend them all and pay the standard VED rate in full at your next renewal.

I Have to Travel at Peak Times: Will I Lose Out?

There are almost as many different circumstances and situations as there are drivers on the roads. Some won't go near a motorway in rush hour from one year to the next. Others have choices about how, when and where to drive, whether every day, or on some days but not others. And yes, there are road users whose commitments leave them with relatively little effective choice.

So let's assume you have to drive on a congested motorway every weekday during the morning and evening rush hours. Your employer doesn't offer flexible working hours, there's no realistic alternative route by road and there isn't a convenient public transport option. Will you lose out?

Clearly you will spend all your discount points, so you won't get a VED discount. However our proposal gives you two benefits that you don't get now.

- By offering a financial reward to drivers who *can* avoid your route during the rush hour, we'll fight congestion more effectively, so you'll spend less time stuck in traffic jams. For most peak capacity users, time is money.
- By creating our 'network capacity fund' from the discount points you spend during the year, we *guarantee* investment to ease road congestion where and when needed, so the tax you pay won't just evaporate in the vastness of public spending. Part of it – the discount points you spend – will be put to work directly for *you*.

Whether you pay more VED than today will depend on what kind of vehicle you drive now and on budget policy decisions that the government will make in years to come. We're not assuming that the Treasury will want to lose revenues in the transition, and as noted earlier, the new system needs to allow for the discounts that we propose for off-peak motorists and the costs of the new network capacity fund. However, whether your *overall* motoring tax bill falls, rises or remains the same will depend on what happens to fuel duty, as well as VED, as we explained earlier. Remember, fuel duty accounts for 80% of motoring taxes.

We do firmly believe that motorists who pay the full VED rate deserve to be treated as priority users of the network. Premium customers should get a premium service – that's a key aspect of our new deal. It's how other transport systems work, it's logical and it's fair. This is what our network capacity fund will deliver.

Migration

How will the new system be introduced?

In our view it should be phased in over time, as the network capacity fund builds up and more capacity-enhancing projects are delivered on the ground. This is fair. It also makes financial and logistical sense, given that the technology needed to verify discount entitlements would piggy-back on managed motorway programme investments, as noted earlier. It also gives everyone time to adjust.

It also fits with the scenario described by the Office for Budget Responsibility in its report on fiscal sustainability. As the carbon-intensity of our transport system declines in the years ahead and carbon-based tax revenues fall, there is an opportunity to migrate to a new and fairer tax system in a managed and progressive way. That's exactly what we recommend.

10. A new policy, a new story

The most important tests for a new tax system are that it should be logical, economically literate, fiscally and administratively sound and equitable to taxpayers (allowing that no practical tax system can ever perfectly discriminate according to the vast diversity of individual circumstances). We believe that our proposals pass these tests.

However, we recognise in addition that politicians need to feel comfortable with selling tax changes to a sceptical public. We have specifically been asked whether the present Coalition Government, which has made a commitment not to proceed with road pricing during the present Parliament, could justify adopting our recommendations.

Our answer is 'yes', without hesitation. Here are six reasons why:

- What we are proposing is *not* road pricing. As we explain in this paper, we have taken great care to avoid all the difficulties and pitfalls – both practical and political – which road pricing poses.
- The Coalition's concerns about the inequities of the present motoring tax system are on record. Our proposals would address that issue directly, by offering rural and off-peak motorists a discount off their tax bill. We do so in a way that is administratively deliverable and would not destabilise the tax system.
- Our proposal supports productive investment, economic growth and job creation: the Coalition's most important priorities. It is fully compatible with the policies set out in the National Infrastructure Plan.
- Philip Hammond, until recently Secretary of State for Transport, is on record as saying that he would consider new ways of paying for *new capacity*. That's exactly what our network capacity fund is about.
- Our system can be phased in progressively over several years, without the practical and political risks associated with a 'big bang' changeover.
- We have ensured that *everyone* will benefit directly from the changes we propose, including those who pay the full rate of VED, those who pay less and even those who never drive at all.

So there is a new political story to tell and it makes good listening.

11. In conclusion

Our journey towards a low carbon transport system presents us with the challenge and the opportunity to devise a new way of paying for the costs of mobility, from which we derive so much economic value.

The Road Ahead Group believes that we should seize this opportunity, to make motoring taxes fairer, support economic growth and create jobs. We can take time to complete the transition to the new system, but now would be a great time to start.

In this paper we have shown how motoring taxes can be more fairly distributed, according to the costs that different groups of road users impose on others wanting to use the same road space, and on society at large. We have shown how fairness can be enhanced and economic growth supported, now and in the future, by linking motoring taxes and roads investment through our network capacity fund. We have also pointed to the opportunity to encourage inward private investment in our key economic infrastructure.

The approach we propose is practical, feasible and affordable, whether viewed from a political, fiscal or technological perspective. It won't solve every problem confronting our nation or our transport system at a stroke, and we aren't offering something for nothing. But we can have fairer motoring taxes and investment for growth and jobs.

The old tax system doesn't fit today's priorities. It's time to move on.

RAC
Foundation

The Royal Automobile Club Foundation for Motoring Limited is a charity which explores the economic, mobility, safety and environmental issues relating to roads and responsible road users. Independent and authoritative research, carried out for the public benefit, is central to the Foundation's activities.

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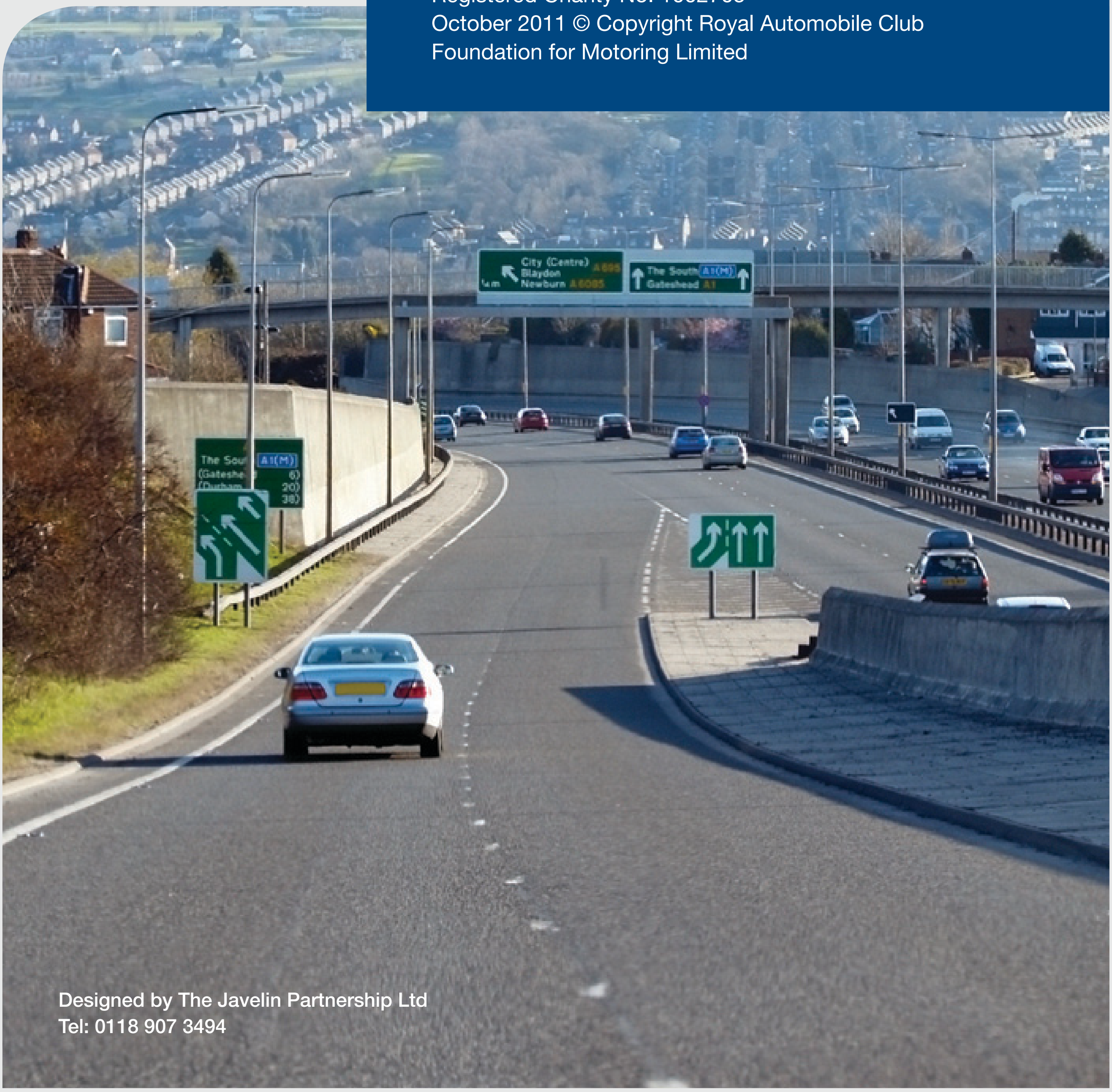

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