Our submission is focused purely on the issue of what, if anything, might be done to address the impending decline in Treasury income from fuel duty consequent on the take-up of non-fossil-fuelled – principally electric – vehicles. Our view is based on the Foundation's involvement in the debate about motoring taxation dating back to the 1990s, and the current Foundation Director's involvement with motoring policy and road pricing specifically whilst working in the Department for Transport. The Foundation aims to bring and informed, constructive perspective to bear and would welcome the opportunity to engage further.

We note that fuel duty has proven to be simple and supremely cost-effective to collect, almost impossible to evade, and has been levied on a product – travel – which has exhibited extraordinarily inelastic demand in the face of repeated price hikes.

First, we feel obliged to observe that there is a perfectly legitimate option of plugging the fiscal gap by tweaking other tax or duty rates (or spending less). There is no hard and fast rule that decrees motoring should always be subject to its own special fiscal regime, it is just something we – as drivers – have grudgingly got used to, accepting that motoring imposes costs – environmental, safety, congestion – on society beyond those of maintaining, operating, improving, and building roads.

But if, as seems probably, Treasury thinking is that 'motoring' should in some way continue to contribute to the Exchequer at a similar level as in the recent past then we would wish to make the following observations.

Perhaps the most obvious route would be to raise the rate of fuel duty and other motoring taxes such as vehicle excise duty (VED).

Raising fuel duty would hit poorest motorists hardest. They tend to have the oldest, least economical vehicles and are still not in the market for alternatively fuelled replacements – electric cars not yet having penetrated at scale into the used car market. Then there are commercial vehicles that are still heavily dependent on diesel. Extra input costs for hauliers, delivery drivers, and tradespeople will either affect their ability to trade or result in higher prices for their customers.

There would be some logic to increasing the 'showroom tax' on the most polluting vehicles and aligning ongoing payments to emission levels more precisely. However, with VED currently raising only around £6 billion per annum, there would have to be sweeping changes to the system if it was to be a long-term alternative to fuel duty in terms of yield. Plus since VED is an ownership tax not a usage tax there would be a potentially unwelcome switch away from a payment that varies depending on how extensively vehicles get used.

If the aim was, as with fuel duty, to have a revenue stream that related to the use of the road network by users then we note some are proposing the adoption of road pricing as a solution, possibly as a replacement for the existing set of motoring-related taxes. By the term 'road pricing' we mean a system of charges for use of the public road network by motor vehicles that relates to a combination of the distance travelled, the time of travel and the location of travel, such that the 'price' might be set in such a way as to influence demand as well as reflecting some or all of a suite of externalities, such as carbon emissions.

We would urge great caution about contemplating such a move.

We foresee a huge headache in ensuring the sum of all the individual journeys – costed by distance, time, and place – would in any given financial year add up to yield the target revenue figure and at the same time deliver a beneficial policy outcome in terms of environmental impact and traffic management. Whilst advances in the technology of artificial intelligence suggest that such calculations are not impossible, our counsel would be to focus on a de-risked approach that addressed the revenue shortfall and demonstrated the practicability of a distance-based system for cars.

Basic distance charging could be introduced for vehicles not consuming fossil fuel, allowing the well-established (and carbon-focused) fuel duty system to stay in place for those requiring petrol and diesel. This would avoid the mammoth task of migrating the entire world of motoring onto a new taxation system at a stroke whilst building a platform for the future.

Implementing a new charge only for new, zero tailpipe emission vehicles from a fixed date would still be a major project, but a much more manageable one, more on a par with the scale of the various lorry road user charge schemes that are well established in many countries already.

New Zealand and Iceland have both adopted this approach, and several US states have started to take steps in this direction. Robust mileage data can be accessed in several ways: by accessing the vehicle's on-board data directly from the vehicle maker, via an app or telematic insurance policy, or simply by requiring an odometer reading. In the UK this could be built into the vehicle's annual service for the first three years and thereafter into the MoT check.

The creation of schemes offering different options has apparently helped US pilot programmes achieve public approval, along with good public communications about why the charges are made and engagement with the private sector to brand and run the charging systems at arms' length from Government.

A scheme could be developed for the UK such that drivers and fleet owners would have the option to pay upfront either in a single annual charge or monthly, as with household utilities based on projected mileage (derived from the historic average, or, as with many insurance policies, the driver's own estimate). At the end of the year any overpayment could be refunded and any shortfall made good. One option would be to allow drivers a quota of 'free' miles.

The rate-per-mile could be set by reference to the estimated fall in fuel duty income but with the qualification that it be set so that drivers opting to go electric would, on average, not be out of pocket compared to what they would have paid had they stuck with fossil fuels (this in turn would inevitably involve revisiting the differential VAT rate for electric car charging at domestic rates vs public chargepoints). Somesuch mechanism would almost certainly be needed in order to avoid stalling the take up of electric vehicles and fit with the broader strategy for achieving net zero carbon, including the zero-emission-vehicle mandate. Now would appear to be a sensible moment for establishing not just the desired trajectory for decarbonising road transport but also for providing clarity and certainty over how non-fossil fuelled motor vehicles will fit into the wider policy and fiscal framework in the coming years.

There would, of course, be much detail to be worked through. A solution would need to be found for plug-in hybrid vehicles.

But if, as seems to us likely, the imperative is to maintain motoring's contribution to the Exchequer then the sooner the means for doing so is made clear the better – as the take-up of pure electric cars increases so the window for making a change that need only apply prospectively (i.e. to newly registered cars) narrows.

SG

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