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From the Director

27 September 2018

The Rt Hon Philip Hammond Esq, MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor,

Budget 2018

The RAC Foundation is an independent transport policy and research organisation which explores the economic, mobility, safety and environmental issues relating to roads and motoring.

The Government has rightly recognised the value of a reliable, affordable, safe, environmentally friendly transport system for the health of the economy, for getting people to work and goods to market, and for making the UK an attractive option for inward investment.

Department for Transport figures suggest that some two thirds of workers commute by car or van, and British roads also carry 89% of domestic freight by weight. Our strategic roads, managed by Highways England and the devolved administrations, are particularly important for business-to-business flows, not least due to the prevalence of just-in-time processes in manufacturing and retail.

We would therefore urge that you consider four issues in particular in drawing up your Autumn budget:

- i) Though it is still early days for the new framework, we would argue that the first Road Investment Strategy is proving to be a success, but for that success to be fully realised it needs to be sustained – both for maintenance work and for enhancement projects. The guarantee of high, stable and guaranteed funding is important for building the confidence of Highways England's contractor supply-chain, and, in turn, for those companies to invest in plant, machinery and the development of a skilled labour force. We believe the case for recognising and funding roads of national and regional strategic

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significance beyond the current strategic network – the so-called Major Road Network – is strong, but not if doing so undermines the integrity of RIS2.¹

- ii) Concern about the condition of local roads is high and rising, and for good reason. For example, our research found that in Britain almost 3,500 council-managed structures over 1.5 metres in span as so-called substandard. The total maintenance backlog on all local authority bridges alone is estimated to be in the region of £5 billion. The National Infrastructure Commission has recognised the need to address the maintenance backlog in its first infrastructure needs assessment. Meantime local authority budgets continue to be squeezed by pressures on social care services. Announcing a sizeable additional boost to ramp up between 2020-21 and 2024-25 would give both councils and their contractors the confidence to plan ahead, and at least start to make some inroad to the maintenance backlog in advance of the boost advocated by the National Infrastructure Commission for 2025 and beyond. Such funding could be linked to conditions such as requirements to demonstrate innovation in contracting, multi-authority procurement, and the use of advanced design and material techniques.
- iii) On motoring taxes generally we would counsel caution - the cost of motoring disproportionately hits low-income households and the cost of fuel is a burden for the still largely road-based logistics sector. The cost of transport – and for most people most of the time that means travel by car - is routinely listed by the Office of National Statistics as the biggest single area of household expenditure. And ONS figures also suggest that motoring costs have risen sharply in recent years for car-owning households in the lowest of the ten income brackets they track. We have noted your, and your fellow ministers', comments on fuel duty and the scale of revenue foregone from freezing the rate. But that surely must be set alongside the fact that ONS figures reveal average weekly earnings to be lower today, in real terms, than they were when duty was frozen in March 2011.

We would also point to the 'windfall' in income from VAT on fuel generated by the fall in our exchange rate since the Brexit vote in June 2016 and movements in the barrel price of oil over the same period which, by our calculation will have generated around an extra £1 billion of revenue, equal to the impact of a 1p per litre increase in fuel duty. With some commentators projecting further increases in the barrel price of oil (JP Morgan this week suggested a price of \$85 a barrel within the next six months, with a spike as high as \$90, which would push pump prices towards record levels given our current exchange rate) a fuel duty hike on top of this would be a hit to households and to businesses reliant on road transport.

¹ In June 2018 the RAC Foundation was a joint signatory with the AA, FTA, RAC Motoring Services and RHA of a letter to the Chief Secretary to the Treasury and the Roads Minister giving our support for the Road Investment Strategy framework and laying out our ambitions for RIS2. See attachment.

- iv) We recognise that the Treasury is faced with a long-term decline in fuel duty income as even conventionally-fuelled vehicles become markedly more fuel efficient. Projections for the take-up of ultra-low and zero tailpipe emission vehicles vary, but the fact is that we are starting from a very low base with just 152,000 plug-in grant eligible vehicles on the UK's roads out of a total of 32 million cars. Manufacturers are bringing new models to market but are struggling to ramp up the showroom supply to meet the market demand, and for larger vans and lorries (and ambulances and fire engines) diesel looks set to be main fuel for the next decade. Demonising diesel risks hurting businesses.

Near term we would advocate your looking again at the benefit in kind rules applying to company car tax – our concern is that well-intentioned moves to sharpen the incentive for choosing low-carbon, low-emission vehicles is instead resulting in people opting-out of having a company car with the result that they then buy and rack up business miles in a more polluting vehicle.

Beyond that, recognising the long-term issue, we suggest that instead of focusing on the rate of fuel duty you announce that you are commissioning a major exercise to look beyond the current suite of motoring taxes – we would be happy to work with your officials on different approaches in order to iron out the practicalities in good time for what seems to be an inevitable need for fundamental change.

We would be pleased to discuss any of these points or issues further with you or your officials. I am copying this letter to Chris Grayling, Secretary of State for Transport.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'SG', with a long, sweeping underline that extends to the right.

Steve Gooding, CB

Director, RAC Foundation