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Transport Committee

Taxes and charges on road users

Sixth Report of Session 2008–09

Report, together with formal minutes, oral and written evidence

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The Transport Committee

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The current staff of the Committee are Annette Toft (Clerk), Jyoti Chandola (Second Clerk), David Davies (Committee Specialist), Marek Kubala (Inquiry Manager), Alison Mara (Senior Committee Assistant), Jacqueline Cooksey (Committee Assistant), Stewart McIlvenna (Committee Support Assistant) and Hannah Pearce (Media Officer).

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1 Introduction

Background

1. The surge in world oil prices in 2007 and 2008 focused attention on the Government's policy regarding fuel duty increases. Changes to Vehicle Excise Duty announced in the 2008 Budget, designed to help meet climate change commitments, also proved to be contentious. At the local level, a number of authorities have been developing plans for congestion charge schemes, which are required in order to access the Government's Transport Innovation Fund. Most have been abandoned after failing to win public support.

2. Taxes and charges on motorists and the freight industry can have a substantial impact on individuals and companies and shape transport outcomes. Taxes and charges are—or should be—integral to transport policy. The purpose of our inquiry was to examine the links between taxation and transport policy. We report our findings and recommendations in two parts: those relating to motorists and those to freight.

3. HM Treasury is responsible for taxation matters and the Department for Transport for charges on road users. Whereas taxes remain the responsibility of HM Treasury throughout the UK, legislative powers regarding some road charges are devolved to Scotland, Wales and Northern Ireland.[1] We explain the distinctions between taxes and charges later in the report.

4. A valuable part of our inquiry was our visit to the Netherlands and Germany in November 2008. We went to the Hague to learn more about the Dutch proposals to introduce a national price-per-kilometre charge for all vehicles; and in Hannover we examined the experience of the lorry toll scheme that operates on German motorways. A note on our visit is provided in the Annex.

5. We are grateful to all those who provided written and oral evidence to our inquiry, both within and outside the UK. We also wish to acknowledge the contribution of Professor Chris Nash of the University of Leeds who advised the Committee throughout.[2]

The purpose of motoring taxes

6. Taxes can serve three general purposes:

- *To finance Government spending.* There is normally no relationship (hypothecation) between the activity on which the tax is levied and the area of expenditure.

1 Ev 215 and Ev 219

2 Professor Chris Nash declared the following interests as of July 2009:(a) Posts held: Research Professor at the Institute for Transport Studies, Leeds University; Visiting Professor, Molde University College, Norway; Guest Researcher, VTI Sweden. (b) Current projects: an EPSRC funded project on understanding rail costs and the role of technology in reducing them; a European Commission (DGTREN) project on road and rail infrastructure cost allocation; advising Department for Transport on the valuation of sensitive lorry miles; advising the World Bank on rail investment in China; advising the Chinese Ministry of Railways on the social costs of transport; advising Network Rail on its study of New Lines, and advising the Community of European Railways on progress in implementing the 2001 White Paper and its impact. (c) Memberships: Fellowship at the Chartered Institute of Logistics and Transport, and a member of its Strategic Rail and Road Capacity and Charging Forums.

- *To reduce or manage demand for 'undesirable' goods and services*. Typical examples are taxes on alcohol, tobacco and gambling. The consumption is usually deemed undesirable because of the negative externalities. In this sense, taxation can help to improve economic efficiency through improved resource allocation.

- *To reduce inequality*. Progressive rates of tax on income, inheritance or wealth, or, potentially, on goods and services, can be used to reduce inequalities.

Raising revenue for Government expenditure

7. A major purpose of taxes on road users is to raise revenue to finance government expenditure, not only for roads but also for other purposes. As the Exchequer Secretary, Angela Eagle MP, told us:

> I do not think we have ever tried to pretend that motoring taxes should merely be used to cover the costs of providing the road infrastructure. They do contribute to our general revenue-raising capacity.[3]

8. Some charges go directly to fund infrastructure—usually bridges and tunnels—such as tolls on the Dartford crossing and the M6 Toll. Local authority parking charges fund car park provision and enforcement and may indirectly contribute to other public services. The net revenue from the London congestion charge—£137 million in 2007–08—must, by law, be spent on measures to further the Mayor's Transport Strategy.[4] Later in this Report (paragraphs 63–64) we show how the Government's justification for increases in fuel duty has varied.

Managing demand: Green taxes

9. Taxation policy can have a significant effect on the impact of transport on the environment. Transport contributes about 23% of UK domestic carbon dioxide (CO_2) emissions and road transport is responsible for 93% of this.[5] The Climate Change Act 2008 commits the Government to reducing emissions CO_2 by 80% by 2050 and transport will have to contribute to this reduction. The Department for Transport's objectives include commitments to reduce congestion, CO_2 emissions and pollutants, as well as road casualties.[6] Fuel duty, Vehicle Excise Duty (VED) and other taxes and charges can, to varying extents, be used to help achieve these objectives.

10. Fuel duty has proven to be an effective way to reduce CO_2 emissions from road vehicles. It influences the amount of fuel purchased, the types of vehicles purchased and, to a lesser extent, mileage driven. The changes to VED rates were a further move by the Government to encourage purchase of cars that emit less CO_2.

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3 Angela Eagle Q 552

4 Ev 190

5 Department for Transport, *Towards a Sustainable Transport Strategy*, October 2007, p 29

6 Department for Transport, *Delivering a Sustainable Transport Strategy*, November 2008, p 19

Equality

11. The reduction in income or wealth inequalities amongst people in the UK has not been a purpose of taxes and charges on road users. However, there may be unintended impacts on equality and we considered this possibility in our inquiry.

12. Transport is important to people at all levels of income, including those on low incomes. The RAC Foundation pointed out that even the poorest 10% of households spend £10 of their £140 household budget on motoring and taxis.[7] Some groups, such as shift workers, may depend on the private car to travel to work. Expenditure on transport averages 8% of gross income (10% of disposable income) and varies only marginally across the income groups, according to the data provided by HM Treasury.[8] Unlike expenditure on some basic necessities, which diminishes as a proportion of expenditure as income rises, the proportion spent on transport remains fairly stable. HM Treasury's figures include public transport expenditure and therefore do not relate directly to levels of motoring taxation paid by each group. Those people on the lowest incomes will tend to use buses more—for which most tax is rebated—and those on higher incomes tend to drive more. On this basis, it does not appear that taxes and charges on motoring fall disproportionately on lower income families, although some low income families will be affected by higher motoring taxes.

13. As car ownership and use become more widespread, so the tax base widens and the burden is spread more evenly through society. Changes to company car tax over recent years have largely taken away the 'perk' element and made taxation more equitable.

14. HM Treasury's figures show the differences between transport expenditure in urban and rural areas. HM Treasury states that "Average weekly spending on transport in urban areas is £58 (9% of gross income) and £73.80 (11% of gross income) in rural areas." Fuel duty impacts disproportionately on rural dwellers who are more dependent on their cars as public transport is sparse. In addition, fuel prices tend to be higher in rural areas. There have been calls for lower rates of fuel duty in rural areas but these have been rejected as impractical and possibly contrary to EU tax legislation.[9] Research suggests that people living in rural areas drive more than those in urban areas. However, the distance driven relates very much to income, with those people on lower incomes living in rural areas driving much less.[10] The Local Government Association states that rural drivers pay too much and urban drivers pay too little in relation to the pollution and congestion costs that they impose on others. The Commission for Rural Communities has called for Department for Transport research into road pricing to be "rural proofed by the Department of Environment, Food and Rural Affairs".[11]

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7 Ev 140

8 Ev 219

9 *Taxation of road fuels*, Standard Note SN/BT/824, House of Commons Library, May 2009, pp 17-19

10 Stokes, G, *Assessing the effects of new transport policies on rural residents - an analysis of National Travel Survey data*. Transport Studies Unit, Oxford, 1995

11 Commission for Rural Communities, *Thinking about rural transport. The potential impacts of road pricing on rural areas*, 2008

An inconsistent message

15. The purposes of the various taxes and charges on road users have not been clearly or consistently articulated by the Government. Fuel duty increases have sometimes been justified in terms of environmental objectives and, at other times, in terms of revenue needs. Angela Eagle told us that she did not see fuel duty as a "green tax".[12] Similarly, in his 2009 Budget speech, the Chancellor said that the rises in excise duties were "to secure Britain's economic future and to provide help for people now when they need it most". Yet changes to fuel duty have often been presented as green taxes. Indeed, along with VED and taxation of business travel, they are set out in the 2009 Budget under the heading of *Delivering on Environmental Goals*.

16. Motoring organisations have emphasised how British motorists do not trust the Government on motoring taxes. The changes to VED announced in the 2008 Budget were perceived by many as complex, retrospective and unfair. There are suspicions that the objective of VED increases is as much about replacing revenue lost from declining fuel sales as it is about reducing CO_2 emissions. The Automobile Association (AA) describes this as a lack of transparency:

> There is no transparency when it comes to environmental taxation. If motorists were able to see how the environmental element of fuel duty or VED was spent to help the environment, they would be less likely to resent such taxes. During the period of the fuel duty escalator there was no clear link between the 'environmental' charge and any initiatives funded by it.[13]

However, taxes designed to provide environmental incentives do not necessarily need to be spent on environmental measures.

17. **The Government has been inconsistent in the way that it has justified motoring taxes. Fuel duty has been presented, at different times, as a tool to reduce carbon emissions, a source of general revenue, and a means to fund transport investment. We are concerned that motorists are mistrustful of the Government regarding taxes. The Government needs to improve the consistency and transparency in the way it justifies taxes on road users.**

2 Are motorists overtaxed?

Revenue from taxes and charges on road users

18. In response to our simple question, "What taxes and charges are currently paid to Government by road users and how much do they raise?" various bodies cited very different figures. For example:

12 Angela Eagle Q 557

13 Ev 161

- The Chartered Institute of Logistics and Transport: £28 billion, comprising fuel duty and VED;[14]
- HM Treasury: £32.8 billion, including £2.5 billion of company car tax;[15]
- The Automobile Association: £46 billion, including Value Added Tax (VAT) and business motoring taxes;[16]
- The National Association Against Tolls: £50–57 billion, including taxes on oil companies and car repairs.

19. These differences result from differences of opinion as to what should be included in the calculation. Some count VAT, insurance premium tax and certain other general taxes as 'road user' taxes. We show the amounts raised by these taxes and charges and their broad transport impacts in Table 1.

Table 1: Principal taxes and charges paid by UK road users, and revenues raised

Tax or Charge	Revenue raised £billion per annum (gross)[1] 2007–08	Main transport impact
Taxes and charges specific to road users		
Fuel duty	24.9	Reduce vehicle mileage and encourage fuel efficiency.
Vehicle Excise Duty	5.4	Encourage purchase of more fuel-efficient vehicles.
Tolls (bridges, tunnels, M6 Toll, etc)	0.3[2]	Fund specific infrastructure and manage demand.
London congestion charge	0.3[3]	Reduce traffic and congestion in central London; fund transport infrastructure and services.
Total specific to road users	*30.9*	
General taxes paid by road users		
VAT on fuel	6.8[4]	Reduce mileage and encourage fuel efficiency.
VAT on vehicle sales	6.9[5]	Reduce rate of new vehicle purchase.
Insurance premium tax	1.0	No specific transport impact.
Company Car Tax and Fuel Benefit Charge[6, 7]	2.5	Encourage purchase of more fuel-efficient vehicles.
Total general taxes	*17.2*	
Total paid	**48.1**	

Notes and sources

1. Figures rounded to nearest £0.1 billion. Main source is HM Treasury Ev 219
2. Estimated by National Alliance Against Tolls—Ev122
3. TfL, *Central London Congestion Charge: Sixth Annual Monitoring Report*, July 2008, p220
4. Figure provided by the RAC – Ev 172. According to HM Treasury (Ev219),"HMRC does not collect data on VAT in a way that allows for isolating road users".
5. Figure provided by the RAC – EV 172.
6. This is the element of Income Tax and National Insurance Contribution paid on the benefit in kind derived from the provision of company cars and company fuel.
7. Figure is for 2005-06

14 Ev 136

15 Ev 219

16 Ev 161

20. Professor McKinnon and Ms Maja Piecyk of Heriot-Watt University noted how academic studies vary in terms of their treatment of VAT:

> In our study of the internalisation of HGV [heavy goods vehicle] costs we included VAT on the grounds that it is passed down the supply chain and ultimately borne by the final consumer. Some other studies have excluded it arguing that only those taxes which have a direct bearing on the vehicle operators, and are thus likely to influence their behaviour, should be included.[17]

21. Andrew Leicester of the Institute for Fiscal Studies, on the other hand, argued that VAT on car purchases, servicing etc. should be seen as a general consumption tax rather than a specific tax on road users.[18] Professor Glaister, Director of the RAC Foundation, summed it up:

> If you are trying to find a more efficient and fair way of charging for a road network and for its expansion and maintenance then you will of course look at the charges that people pay for the use of the network—things like fuel duty and vehicle excise duty. If you are asking whether in some sense the total tax take balances the total expenditure on roads and the associated facilities then you may want to include other things like parking charges, taxes on vehicle insurance—a long list of other items—and perhaps VAT is another item that you would include in there, but that is for debate.[19]

22. Having considered the various perspectives, we think it is important to draw a distinction between two groups of taxes, which we show in Table 1 above:

- General taxes which anyone might pay on a wide range of income and expenditure, such as VAT, income tax and insurance premium tax. Some of these happen to fall on road users but they are not specific to road users. These taxes raise revenue to fund general Government expenditure.
- Taxes that are levied only on road users, notably fuel duty and VED. These can be said to be motoring taxes and, as discussed in Chapter 1, they may have specific purposes, such as reducing carbon emissions.

Company car tax and fuel benefit charge are part of general taxes as they are income tax on benefits in kind and are not taxes specific to road users.

23. To the ordinary motorist, the difference between a tax and a charge may not be apparent or seem important. There are, however, some important differences between them regarding public policy. Taxes are compulsory, unrequited payments, whereas charges are paid in return for a service. The National Statistician, Karen Dunnell, explains the international definitions and how the Office of National Statistics classifies some existing “charges” (see Box 1).

17 Ev 210

18 Q 3 Mr Leicester

19 Q 2 Professor Glaister

Box 1

Difference between taxes and charges

Government revenue is mainly divided into taxes or service charges. Taxes are compulsory unrequited payments, where unrequited means that the payer does not receive anything directly in return. Service payments are requited in that they include the delivery of a service in exchange for a payment. In some instances the classification of these receipts can be difficult to interpret and the international statistical manuals recognise that "the borderline between taxes and payments for services rendered is not always clear cut in practice". As a result ONS consider the nature of the receipts carefully before reaching a decision.

The London congestion charge and road/bridge toll charges are payments made for vehicles to use the roads within a defined zone. The charges are judged to be requited payments in line with international guidance and are therefore classified as payments for a service.

The LEZ [London Low Emissions Zone—see Section 4] and the London Borough of Richmond Upon Thames emissions based parking charge are classified as taxes. The LEZ charge is a compulsory payment for specific vehicles to drive within the LEZ. Although the vehicles gain access to roads within the LEZ, the charging policy relates to vehicles polluting the air within the zone rather than the use of the roads. The LEZ charge on the use of the non-compliant vehicle is judged to be unrequited and classified as a tax on pollution.

Similarly, the London Borough of Richmond upon Thames's charge for a permit to park in a Controlled Parking Zone, which was implemented on 2 April 2007, is based on the emissions of the vehicle concerned. The decision to classify the charge as a tax on pollution is similar to the LEZ: the charge relates to the vehicle emissions rather than the direct consumption of a service.

Letter from Karen Dunnell, National Statistician, Office of National Statistics, in response to a Written Question from Eric Pickles MP. Parliamentary Written Answers, 9 February 2009

24. The principal taxes and charges on road users are therefore:

- Fuel duty;
- Vehicle Excise Duty;
- Tolls for bridges, tunnels and the M6 Toll, and
- London congestion charge.

25. In addition, there are parking charges paid to local authorities. These fund parking services and manage demand. The AA estimates that parking income from UK motorists totals around £1 billion, half of which is from penalties for contraventions.[20] These were

considered in our 2006 report *Parking policy and enforcement*.[21] A recent study suggests that only a minority of local authorities make any significant surplus on car parking.[22]

26. In round terms, Table 1 shows that the Government raises close to £50 billion from road users. About one third of this is general taxation on consumption and income—VAT, Insurance Premium Tax, and Company Car Tax which are not specific to road users. About £30 billion is raised through taxes and charges specific to road users—£25 billion fuel duty, £5 billion VED and £0.5 billion (gross) from tolls on certain bridges and tunnels, and the London congestion charge. This is a large amount, both for the road users who pay it and the Government which relies upon it. Yet the Government does not present the figures in a comprehensive or accessible form. We have had to compile them from a variety of the sources and witness evidence. The information provided by the Government on this issue was much more limited than that provided by other witnesses.[23]

27. **A sensible debate on the taxation of road users requires that the public has easy access to sound and well-presented data. The Government needs to publish explicit and comprehensive information on the amounts of money it raises through taxes and charges on road users.**

European comparisons

28. A study by the Commission for Integrated Transport found that, unlike some EU countries, the UK tax system focuses on car use rather than car ownership, with British drivers paying significantly more to use their cars rather than simply paying to own them.[24]

29. In terms of total taxation on both ownership and use, British drivers are taxed at the European average and pay, in relative terms, similar amounts to drivers in Finland, Denmark, Ireland, Italy and France. However, in respect of car *ownership*, British drivers pay average or below average amounts of tax, depending on engine size; and in respect of car *use*, British drivers are amongst the most highly taxed in Europe.

30. Through our visit to the Netherlands and Germany, we learned of the taxes and charges paid by drivers in those countries. We compare them with UK tax rates in Table 2 below. below.

21 Transport Committee, Seventh Report of Session 2005–06 *Parking Policy and Enforcement*, HC 748, 22 June 2006

22 *Local Transport Today 514*, “Parking not always a cash cow”, 27 February 2009, p 5

23 Ev 219

24 Commission for Integrated Transport, *Factsheet No.2: European Motoring Taxes Comparison*, 2001

Table 2: Motoring taxes and charges in the UK, the Netherlands and Germany in 2009[1]

	UK[2]	Netherlands[3]	Germany[4]
Fuel tax (petrol) per litre	£0.52[5]	£0.62	£0.59
	€0.59	€0.70	€0.67
Fuel tax (diesel) per litre	£0.52[5]	£0.36	£0.43
	€0.59	€0.41	€0.49
Vehicle tax per annum	£0–£400.00[6]	£340.73–£1093.17	£5.99–£24.27 per 100cc
	€0–€510.00	€384.00–€1,232.00	€6.75–€27.35 per 100cc
Car sales tax	Nil	45.2%	Nil
Bridge/tunnel tolls	Few	Few	Few
Motorway tolls	M6 Toll only	No	Lorries only
VAT	15%	19%	19%
Insurance tax	5%	8.5%	19%

Notes and sources:

1. *Rates at February 2009 and rounded to the nearest penny/cent. Converted at £1.00 to €1.127 – average interbank exchange rate for February 2009.*
2. *HM Revenue & Customs.*
3. *ANWB Ev 224*
4. *BDI Ev 47*
5. *UK fuel duty increased to 54.19p per litre on 1 April 2009*
6. *The UK top band for standard rate VED increased to £405 for 2009–10*

31. The UK has the highest rate of duty on diesel in Europe but it has now dropped to ninth highest position for duty on petrol.[25] Some other European countries, such as the Netherlands and Germany, have increased their fuel duty rates; and the fall in the value of Sterling against the Euro has narrowed the difference.[26] To some extent, the UK's high fuel duty is offset by lower taxes and charges elsewhere. There are no motorway tolls in the UK (other than the M6 Toll), unlike in France, Italy and some other European countries; the 15% VAT rate is relatively low by EU standards; and purchase taxes on new cars are high in some countries, such as the Netherlands.

32. In the UK, the rate of duty for diesel and petrol is the same. Diesel is more expensive than petrol due to technical reasons and market forces.[27] The price differential does not arise from a tax differential. Despite the higher price of diesel, there has been a significant switch by purchasers in recent years to diesel engine cars, due to their greater fuel efficiency and economy.

Declining cost of motoring

33. Taxes and charges are only part of the overall cost of motoring. Although some motoring taxes have risen, the overall cost of motoring has declined substantially over the past 20 years. RAC research has shown that:

> […] despite the perception, the cost of motoring in real terms has fallen, even when rising fuel prices were taken into account. In real terms, we found it is 18% cheaper to buy and run a car (comprising service and repair costs, insurance, road tax and breakdown cover), including fuel costs, in 2008 than it was in 1988.[28]

25 EU Oil Bulletin in *Petrol and Diesel Prices,* Standard Note SN/SG/4712, House of Commons Library, 12 March 2009.

26 In March 2009 the tourist exchange rate was approximately £1.00 for 1.07 Euros.

27 Mr Chris Hunt Q 231

28 Ev 172

34. The implications of the Government's climate change policies also need to be considered. The Government has made clear its commitment to promoting vehicles with low or zero CO_2 emissions, including electric cars, which consume less road fuel and are charged at lower rates of VED. These vehicles will yield considerably less fuel duty, VAT and VED revenue than the existing vehicle fleet. If levels of revenue are to be maintained, alternative taxation and charging arrangements are likely to be required.

35. **The British driver is sometimes portrayed as uniquely highly-taxed. Yet, taken overall, the taxes and charges paid by drivers in comparable European countries, such as the Netherlands and Germany, are not so different to those in the UK. We support the UK emphasis on car-use taxes, as opposed to car-ownership taxes. It is more equitable that those who consume more should pay more. Such taxes are more likely to incentivise less fossil fuel consumption and therefore lower CO_2 emissions. The fact that it is 18% cheaper to run a car now than twenty years ago combined with increases in the real level of bus and rail fares over the same period, makes it more difficult to encourage modal shifts from cars to public transport. The basis of Government policy should be to reverse these trends.**

3 Should expenditure equal revenue?

Roads and transport

36. Expenditure on roads by central and local government amounts to some £9 billion per year, 41% of total expenditure on transport of £21 billion. This comprises £3.2 billion spent on national roads and £5.6 billion on local roads (2007–08 estimated outturn—see Table 3).[29] Of the total transport expenditure in 2007–08, £9.348 billion (44%) was current expenditure, such as routine maintenance, and £11.911 billion (56%) was capital expenditure, such as investment in new or improved roads.

Table 3: Public Expenditure on Roads and Public Transport

£ million	1999–00 outturn	2000–01 outturn	2001–02 outturn	2002–03 outturn	2003–04 outturn	2004–05 outturn	2005–06 outturn	2006–07 outturn	2007–08 estimated
National roads	*1,943*	*1,970*	*2,147*	*2,397*	*2,262*	*2,341*	*2,692*	*3,279*	*3,151*
Local roads	*2,851*	*3,350*	*3,660*	*4,202*	*4,252*	*4,580*	*4,940*	*4,922*	*5,625*
Local public tpt	*2,349*	*2,309*	*1,365*	*1,868*	*3,114*	*2,227*	*2,567*	*2,909*	*3,299*
Railway	*1,212*	*1,057*	*3,518*	*5,714*	*5,867*	*6,050*	*5,946*	*8,100*	*8,185*
Other transport	*690*	*539*	*634*	*643*	*695*	*783*	*858*	*869*	*998*
Total Transport	**9,045**	**9,225**	**11,324**	**14,825**	**16,189**	**15,981**	**17,004**	**20,080**	**21,259**

Note: Outturn figures are given here as the *Public Expenditure Statistical Analyses* do not provide figures in constant prices for the level of detail shown above.

Source: HM Treasury: Public Expenditure Statistical Analyses (2006–2008 editions), Table 5.2

29 Spending on national roads has increased more slowly than spending on local roads. This reflects the transfer ("detrunking") of one third of trunk roads from the Highways Agency to local authorities since 2001. Some of the expenditure on public transport helps motorists by providing alternatives to driving.

37. In real terms, transport spending has more than doubled since its low point in 1999–2000, increasing from £9.4 billion to £20.6 billion in 2007–08 (at 2006–07 prices).[30] As a percentage of GDP it has increased from 1.0% in 1997–08 to 1.5% in 2007–08. Exchequer Secretary Angela Eagle pointed out that the Government has increased transport spending in real terms in each of the four comprehensive spending reviews.[31] All modes have benefited significantly from the growth in expenditure.[32]

38. Despite the growth in Government expenditure on roads over the past decade, most studies have found that total payments in taxes and charges by road users exceed Government expenditure on roads by a large margin.[33] Many motoring organisations are concerned about this. The AA, for example, said:

> Estimates show that motoring taxation amounts to around £46 billion—this includes fuel duty, VED, VAT and business motoring taxes. The amount spent on the roads is less than a quarter of this—just over 30 years ago there was much greater equity with £11.4 billion of £12.8 billion motoring tax revenues being spent on the roads.[34]

39. The RAC Foundation points out that spending on roads was higher in 1975 (in real terms) than in 2006–07. Spending declined in the eighties and stayed at that level during the nineties.[35] The RAC Foundation argues strongly for increased expenditure on strategic roads (coupled with national road pricing) on the grounds of economic efficiency.

40. We have considered the levels of expenditure on transport in previous inquiries. In our report on local transport planning and funding, we welcomed the increased capital funding through the Local Transport Plan and Transport Innovation Fund (TIF) channels. We expressed concerns about the restrictions on major scheme funding and uncertainty about the Regional Funding Allocation process. We also noted the difficulties caused by a shortage of revenue funding relative to the increase in capital funding; and how local authorities had made little use of their revenue-raising powers for transport.[36] Funding for strategic transport links was a theme in our questioning of Sir Rod Eddington.[37] We will be investigating this issue in some detail in our inquiry into the major road network.[38]

41. **An integrated transport system is vital for sustainable economic growth and development in the UK. We support greater investment in transport, including the road network, for a range of purposes including reduced congestion, economic**

30 HM Treasury, *Public Expenditure Statistical Analyses 2008*, HC 489, Table 4.3, April 2008

31 Angela Eagle Q 521

32 On 15 January 2009, the Rt Hon Geoff Hoon MP, Secretary of State for Transport, announced, in an Oral Statement to the House of Commons, increased spending on national transport networks, including a programme to convert motorway hard shoulders into running lanes. See also Department for Transport, *Britain's Transport Infrastructure—Motorways and major Trunk Roads,* January 2009.

33 Samson, T., Nash, C., Mackie, P., Shires, J. and Watkiss, P. *Surface Transport Costs and Charges: Great Britain 1998.* Leeds: Institute for Transport Studies, 2001

34 Ev 161

35 Ev 140

36 Transport Committee, Twelfth Report of Session 2005-06—*Local Transport Planning and Funding*, 29 October 2006

37 The Eddington Transport Study, Oral Evidence to the Transport Committee on 16 April 2007, published 2 August 2007

38 The first *Major road network* oral evidence session was held on 20 May 2009.

regeneration and road safety. We welcome the increased spending by the Government on transport, including roads, over the past decade. We believe there is justification for greater levels of spending in the future and urge the Government to increase spending on transport as part of its efforts to stimulate the economy.

Regional disparities

42. The Local Government Association is concerned not only about the overall level of expenditure on transport but also about regional disparities within the UK:

> Per capita spending [of public money] on public transport is significantly lower in the UK [cities] than in other European cities and there is considerable disparity within the UK in levels of investment in London and the rest of the country.[39]

43. On both an absolute and a relative basis, Government capital expenditure on transport has grown faster in London than in all the English regions, while current expenditure has varied less.[40] Government spending on transport per capita in London is now more than twice that in any other English region, or in Wales or Northern Ireland (see Table 4).[41] London has enjoyed substantial public funding for transport, with more to come including £16 billion for Crossrail. The Eddington Transport Study endorsed investment in the busiest existing networks, an approach which would tend to favour further investment in the London region.

Table 4: UK identifiable expenditure on transport by country and region, 2002–03 to 2007–08.

	2007–08	2002–03	2007–08	
	Total identifiable expenditure per head indexed[1]	Capital expenditure £ million	Capital expenditure £ million	Change
North East	72	270	365	35%
North West	86	844	979	16%
Yorkshire and Humberside	72	489	668	37%
East Midlands	65	426	498	17%
West Midlands	83	588	865	47%
Eastern	73	603	990	64%
London	**195**	**1,658**	**2,992**	**80%**
South East	81	1,365	1,527	12%
South West	76	486	779	60%
England	95	6,730	9,593	43%
Scotland	162	503	1,380	174%
Wales	89	306	442	44%
Northern Ireland	93	110	292	165%
Total UK identifiable expenditure	**100**	**7,649**	**11,707**	**53%**

Notes: 1 Includes current and capital expenditure.

Source: HM Treasury Public Expenditure Statistical Analyses 2008, in Ev 215 and 217.

39 Ev 186

40 Ev 215

41 Ev 217

44. **Whilst it is clear that the capital city will continue to enjoy the highest levels of transport investment, the case for investment in other regions is also important. We have heard no case put forward by the Government as to why the gap between investment in London and the English regions is increasing. The Government should attempt to reduce rather than increase this disparity. We are concerned that a major source of funding for such investments, the Transport Innovation Fund, is still dependent on road pricing being part of the package, despite the political impossibility of progressing it.**

Externalities of road use

45. The direct cost of providing and maintaining roads is not the total cost of road use. There are also costs imposed on those outside the system, referred to by economists as 'externalities' (see Box 2). As the Parliamentary Under-Secretary of State for Transport, Paul Clark MP, pointed out:

> We are comparing the spending on roads directly but of course there is the spending that goes into the accidents, the policing, the congestion, the air quality controls and so on that also are a cost from roads.[42]

Box 2

Externalities

An externality is an impact of an economic transaction on third parties, which is not paid for in any market. Externalities—such as pollution—create a need for intervention as too much of them may be produced as there is no cost to the producer. The solution most often advocated by economists is to charge for them so that they are taken into account by the purchaser of the services along with other costs; but there are other possibilities such as regulation to control their level. Most are—as in the pollution example here—negative or disbenefits, but positive externalities also exist. The favourite textbook example is the bee-keeper who benefits from his neighbours' spending on creating gardens.

Source: Professor Chris Nash

46. The Department for Transport estimates that the average marginal external cost of driving a car an additional kilometre is 15.5p. This allows for the congestion, infrastructure, accidents, local air quality, noise and greenhouse gases. Congestion is by far the largest component at 13.1p/km. The Department notes that the congestion cost varies considerably with traffic conditions, "from 0p/km on quiet rural roads to £1.95/km on the most congested roads in conurbations". The external cost compares with 3.6p/km paid by motorists in fuel duty and VAT. The tax paid per kilometre therefore appears to cover the marginal external costs per kilometre, other than for congestion.[43]

42 Paul Clark Q 553

43 Ev 215 (All at 2002 prices.)

47. Unfortunately, the Department for Transport was unable to provide the total figures for external costs or actual Government expenditure.[44] The Campaign for Better Transport extrapolates from the Government research on marginal external costs (above) to reach a total cost of externalities of £70 billion–£95 billion per annum at today's prices.[45] Again, the major component of this is congestion. The Campaign for Better Transport also argues that it is impossible to try to price all externalities—such as severance of communities and loss of tranquillity. And according to the Campaign to Protect Rural England and Natural England, the monetary values for landscape and loss of countryside have not been calculated.

Box 3

Congestion

Traffic congestion is generally said to occur whenever the volume of traffic leads to speeds falling below the level that would be achieved in free-flow conditions. However, a degree of congestion—particularly at peak periods—may be less costly than any of the possible demand management or investment measures that could remove it; it is when congestion exceeds that level that action to deal with it may be desirable.

Source: Professor Chris Nash

48. By common agreement, the largest component cost is congestion (see Box 3). Yet some would not treat congestion in the same way as other externalities.[46] Whilst it is clear that the decision by one motorist to use a congested road network imposes delays on other motorists on that road network, the congestion is both imposed by and suffered by users of the road system. This is unlike environmental damage, such as air pollution, which is a cost imposed on the wider society, often on a future generation. The case for congestion charging is therefore one of making more efficient use of the road system rather than correcting the impact of the road system on society as a whole.

49. We received evidence indicating that road users, through payment of taxes and charges, cover the direct costs of roads as well as the ancillary costs but it is important to note that this does not include the cost of congestion. However, the price attached to carbon is evolving and a number of important factors, such as landscape and tranquillity, are unlikely ever to be reduced to a simple monetary value. There is also the question of how congestion should be treated in this calculation.

50. Whilst the issue of charging for externalities is partly about the level of charges, it is also very much about the structure of charges, including, for instance, the level of charges on cars versus various categories of heavy goods vehicle, and the charges on rural versus urban, and peak versus off-peak roads. There will also be economic impacts to consider,

44 Ev 217

45 Ev 145

46 For example, Dr John Adams "Traffic congestion already a road user charge", *Local Transport Today* 19 January 1995, p 15; and, more recently, Peter Cerwenka and Olaf Meyer-Ruhle, *Traffic Engineering & Control*, "Are congestion costs external costs?", June 2009, pp 275-280.

including the costs to businesses. Freight operators, for example, highlighted the impact of competition from non-UK hauliers which have lower costs.

51. **Account should be taken of the full cost of road use, including social and environmental externalities, when considering the structure of taxes and charges on road users. Much work has been done to calculate monetary valuations for a wide range of effects but there will always be uncertainties and gaps in the valuations. Policy objectives, public acceptability, the impacts on business and the availability of alternative means of transport will always be important factors.**

Hypothecation

52. Hypothecation is the establishment of a direct link between specific taxes or charges and specific expenditure. For example, taxes levied on alcohol might be earmarked for spending on hospitals. In the UK there is no such link for taxes. The situation is different for charges, as we explained in Box 1.

53. The Government opposes the idea of hypothecation of tax revenues. It argues that decisions about revenue raising and spending should be kept separate for two main reasons:

- if all income were to be hypothecated, it would create severe difficulties for those services that could not readily raise revenues, such as schools, hospitals, police and defence; and
- inefficiencies would result. For example, if a large sum was raised from road users, hypothecation would dictate that it was all spent on roads (or possibly other transport modes, such as buses), even if the public priority was for more investment in, say, education.[47]

54. Hypothecation can, however, improve the public acceptability of a tax or charge. Recognising this, the Government has accepted some hypothecation of specific charges on road users, notably any revenues from local congestion charging schemes, including the London congestion charge.

55. By law, the net revenue from the London congestion charge must be spent on measures to further the Mayor's Transport Strategy. In 2007–08 82% was spent on improving the bus network. According to Transport for London (TfL):

> London's experience suggests that hypothecating revenues from charging schemes for reinvestment in the transport system has been vital in promoting public acceptability—as well as in maximising net benefits through the reinvestment of revenues.[48]

56. Hypothecation may improve public acceptability but it does not always guarantee that additional sums raised will result in additional expenditure. Other spending sources may be cut back to compensate.

47 Angela Eagle Q 555

48 Ev 190

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

58. **We reject in general the notion of hypothecation of transport taxes. This would be impractical and lead to bad decisions on public expenditure. However, there is a case for earmarking the revenue from specific local charges for spending in that geographical area and on that broad policy area in order to gain public acceptability and to ensure fairness.**

4 What measures have been tried?

59. Over recent years, successive Governments have altered the level and structure of taxes and charges on road users, not only to raise revenue but also to achieve environment and transport policy objectives. Local authorities have been given additional powers to impose charges on road users. For example, the Transport Act 2000 gave local transport authorities the powers to introduce local congestion charges or a workplace parking levy.

Road fuel taxation

60. The major tax on road users is fuel duty (see Box 4) which raised £24.9 billion for the Exchequer in 2007–08. Fuel duty contributes to the price of petrol and diesel, which in turn influences the amount of fuel purchased and mileage driven. Demand for fuel is relatively 'inelastic', i.e. an increase of, say, 10% in fuel prices leads to a reduction of less than 10% in fuel consumption and an even smaller reduction in mileage. Nonetheless, higher fuel prices do have an impact on behaviour.

Box 4

Fuel duty and other excise duties

Excise duties are levied on five major goods: beer, wine, spirits, tobacco and fuel. They are levied at a flat rate (per pint, per litre, per packet etc.). Since flat-rate duties are expressed in cash terms, they must be revalorised (increased in line with inflation) each year in order to maintain their real value. VAT is charged on the total sale price of all excisable goods, excise duty included. VAT-registered businesses can reclaim VAT but not duty.

61. Early 2008 saw the fastest period of fuel price increases of recent decades. Typical retail prices in mid-July 2008 were £1.20 per litre for petrol and £1.33 pence per litre for diesel. Prices have subsequently fallen back and in January 2009 petrol had reduced to around £0.86 per litre with diesel at around £0.99 per litre.[49]

49 *Petrol and Diesel Prices*, Standard Note SN/SG/4712, House of Commons Library, 12 March 2009

62. The high fuel prices reduced the amount of fuel purchased, the mileage driven, as well as congestion and motorway speeds. They may well have contributed to the significant reductions in fatal road accidents in 2007 and 2008.

The road fuel escalator

63. In 1993 a 'road fuel escalator'—a commitment to increase fuel duty rates by a specified percentage each year—was introduced. Initially the rate was set at 3% though this was soon increased to 5%. In his 1998 Budget speech, the new Chancellor, Rt Hon Gordon Brown MP, said:

> The last Government introduced a road fuel escalator, the principle of which we supported. They set it at 5 per cent. Since July it has been 6 per cent. There is agreement that only with the use of an escalator can emission levels be reduced by 2010 towards our commitments.

64. Following a substantial rise in world oil prices in 1999 and fuel price protests by lorry drivers there was a change of policy. The Chancellor announced in his 1999 Pre-Budget Report that any real-terms rises in road fuel duties would be "an annual Budget decision" and that the money raised would go to "a new ring-fenced fund for roads and public transport". In the 2009 Budget, the Chancellor, Rt Hon Alistair Darling MP, raised fuel duty by 1.84p per litre to 54.19p per litre. The Chancellor also announced a return to a fuel duty escalator.

> I will continue to monitor oil prices, but I expect that fuel duty will increase by 2p per litre in September [2009], and then by 1p a litre above indexation each April for the next four years.[50]

65. As duty is a fixed sum, the 'tax take' percentage varies with retail fuel price. During much of the 1990s, falling fuel prices and substantial real-terms increases in duty rates saw the tax take, as a proportion of the total sale price, rise to a peak of 86% in early 1999. The relatively small increases in duty since 2001, in conjunction with higher oil prices, have seen the tax take decline. When VAT (now 15%) is included, tax represents around 71% of the final pump price for petrol, and 65% of the pump price for diesel (as of February 2009).[51]

66. All the motoring organisations that appeared before us agreed that fuel tax is the most efficient, equitable and effective way to tax road users. Those who drive the most and pollute the most, pay the most. Motoring groups state that drivers prefer fuel duty to road pricing. For example: "[in] AA research members said they would prefer retention of fuel duty rather than a national road pricing scheme."[52]

67. Fuel duty is the most effective way of encouraging fuel efficiency and reducing carbon emissions. However, a basic maxim of taxation is that taxes should be broadly-based and reliance on a single tax is unwise. Indeed, as cars become more fuel-efficient, revenue from

50 HC Deb 22 April 2009 c244

51 *Taxation of road fuels*, Standard Note SN/BT/824, House of Commons Library, May 2009

52 Ev 161

fuel duty and VAT on fuel may fall. This may be one of the reasons for the recent increases in VED. With the prospect of growth in the number of vehicles powered by electricity or alternative fuels, reliance on revenues from fuel duty is likely to become more problematic.

68. **Fuel duty is, in most respects, the better way to raise revenue, to encourage fuel efficiency and reduce CO_2 emissions. Those who consume the most and pollute the most, pay the most. Motoring organisations and others see it as a fairer tax and suggest that there should be a switch from Vehicle Excise Duty to fuel duty. However, raising the same overall sum would involve a substantial hike in fuel duty. Given existing high levels of fuel duty, it is not clear if such an increase would be supported by motoring organisations or the public. We recommend that the Government focuses future measures on taxes that vary with use, such as fuel duty.**

Vehicle Excise Duty

69. Vehicle Excise Duty (VED) raised £5.4 billion for the Exchequer in 2007–08. The Chancellor announced in the 2008 Budget that, with effect from April 2009, VED for cars, registered during or after March 2001, would be reformed to include six new bands. From April 2010, a new first-year VED rate on new cars will be introduced. VED will rise significantly for cars emitting more than 180g/km of CO_2.

70. In the Pre-Budget Report of November 2008, this policy was amended for cars registered before March 2006. The increase in VED in 2009–10 will now be limited to a maximum of £5 and in 2010–11 it will be limited to a maximum increase of £30 (as opposed to £70, as previously announced).[53] The new first-year rate will go ahead as planned in 2010–11.

71. The VED proposals of the 2008 Budget were widely criticised for being retrospective and for penalising owners of larger, older cars. The RAC Foundation, which previously backed rises in VED,[54] refers to the Government's proposals as "flawed", shifting taxation away from car use and towards car ownership.[55]

72. The changes have also been criticised for being insufficient to significantly influence CO_2 emissions.[56] Exchequer Secretary Angela Eagle told us that the VED changes are a signal to motorists and that the Government expects the revised VED changes to save one million tonnes of carbon by 2020—a similar amount as the original proposals.[57] If lower VED increases will have the same impact on CO_2 emissions, it raises a question about the justification for the original VED proposals.

73. HM Treasury countered charges of "retrospectivity" by arguing that VED changes always apply to older vehicles and that it would be too complex to have different VED rates

53 Angela Eagle Q 507

54 RAC Foundation, *Roads and Reality*, 2007, p 27

55 Ev 140

56 Environmental Audit Committee, Tenth Report of Session 2007-08, *Vehicle Excise Duty as an environmental tax,* HC 907, August 2008

57 Angela Eagle Q 524. These calculations do not take into account the carbon involved in scrapping old vehicles or manufacturing new ones (see Ev 219).

for different ages of car. Yet the new system is perceived as both retrospective and complex. The AA argues that previous changes aimed at cars emitting high levels of CO_2 (band G) were restricted to new sales.[58]

74. The most significant financial impact for car owners is, however, likely to be the depreciation of the resale value of higher-emitting older cars. The British Vehicle Rental and Leasing Association (BVRLA) estimates that the original VED proposals would have reduced the resale value of a three to five-year old car by £400–£800.[59] The scale of the financial impact for some motorists, combined with the retrospective nature of the changes, has added to the mistrust of the tax system by some motorists.[60]

75. **We acknowledge that the Government has moderated the increases in Vehicle Excise Duty rates and agreed to phase their introduction. This is to be welcomed. However, the whole process has been handled badly. Perhaps the most worrying aspect of the recent Vehicle Excise Duty changes is the damage that has been done to the image of environmental taxes and the loss of trust by motorists in the tax system. It is vital that future motoring tax changes are better planned and not perceived by the public as retrospective.**

London congestion charge

Cutting congestion

76. London is the only UK city with a road pricing scheme.[61] The central London congestion charge was introduced in 2003. In July 2005 the basic charge was increased from £5 to £8 per day. It was extended westwards, by Mayor Ken Livingstone, in February 2007. Following a change of Mayor and fresh public consultation in 2008, Mayor Boris Johnson announced that the western extension would be scrapped. (The earliest that this can occur is 2010.) The Mayor’s representative, Mr Kulveer Ranger, told us that there was no intention to change the nature of the scheme but to make it fairer and easier to pay.[62]

77. The charge is intended to deter a proportion of less-essential traffic from entering the charging zone. In this way the remaining traffic benefits from faster and more reliable journeys. It is part of a wider strategy to encourage public transport, walking and cycling.[63] The scheme is enforced by automatic number-plate recognition cameras.

78. Initially (2003), the congestion charge achieved an 18% reduction in traffic and a 30% reduction in congestion within the central zone, compared with 2002. The levels of traffic and congestion remained below 2002 levels for several years but, by 2008, congestion had returned to pre-charge levels.

58 Ev 161

59 Mr Lewis Q 243

60 Mr Lewis Q 224-225

61 Durham also has a charging scheme covering a small area of the historic centre, introduced in 2002.

62 Kulveer Ranger Q 262 ff

63 Ev 190

79. Traffic levels are still reduced (by 21% in 2007) and TfL estimates that, in the absence of the congestion charge, congestion would be 30% worse in the central London zone. The main reasons that congestion has returned are:

- a major redevelopment (Scotch House Corner, Knightsbridge) that reduces capacity locally and across the network;
- additional road works, including sewer replacements;[64]
- new traffic signals and changes to signals timings, and
- other changes to the road network that have reduced overall capacity.[65]

80. Some factors, such as road works by the utility companies, are largely outside the control of TfL or the Mayor. Others, such as changes to the capacity of the road network and planning permission for major development schemes, fall at least partly within their control.

Revenues, costs and benefits

81. In 2007–08, the congestion charge raised around £137 million in net revenue. The total revenue was £268 million, including £73 million enforcement income.[66] Costs amounted to 49% of the total revenues (see Table 5). TfL attributes the high operating costs to high levels of enforcement and the multiple ways to contact and pay TfL.[67]

Table 5: London congestion charge—revenues and costs, 2007–2008

Costs	£ million
Scheme operational, publicity and enforcement costs	91
Other costs: TfL staff; traffic management; TfL central costs	40
Total costs	**131 (49% of Total Revenue)**
Revenues	
Standard daily vehicle charges (£8)	146
Fleet vehicle daily charges (£7)	37
Resident vehicles (£4 per week)	12
Enforcement income received	73 (27% of Total Revenue)
Total revenues	**268**
Net revenues	**137**

Source: TfL, Central London Congestion Charging, Impacts Monitoring, Sixth Annual Report, July 2008, p220

82. TfL assesses the costs and benefits of the congestion charge from a range of perspectives. On the basis of the £8 charge:[68]

- The principal benefits are time savings and increased reliability to road users. These are estimated at a value up to £260 million, plus benefits to bus users of up to £43 million;

64 The National Joint Utilities Group takes issue with TfL and says that road works are responsible for only 5% of delays in London (TAX48).

65 TfL *Central London Congestion Charging, Impacts Monitoring, Sixth Annual Report,* July 2008, p75–78

66 Almost half the penalty charge notices for the congestion charge are issued to drivers living outside the Greater London area (See TfL Ev 195).

67 Ms Dix Q 281

68 TfL, *Central London Congestion Charging, Impacts Monitoring, Fifth Annual Report,* July 2007, pp 132–139

- Overall, using a typical year's operation, the identified benefits exceed the identified costs by a ratio of up to 1.7 to one (1.7:1), and
- Taking account of the reduced payments of fuel duty, VAT and parking fees, there is a net surplus to the public accounts of £46 million.

83. TfL's assessments all show a surplus of benefits over costs. However, only one quarter of the benefits of the London congestion charge accrue to the charge payers. The main beneficiaries are other road users who do not pay the charge, such as bus and taxi passengers, who also experience less delay.

Foreign-registered vehicles

84. There are particular difficulties with making enforcement effective for foreign-registered vehicles, not only for the London congestion charge but also for parking and other traffic offences. TfL and London boroughs have established a project (SPARKS) to tackle this issue. According to SPARKS:

> Enforcing current road user charges on Foreign Registered Vehicles (FRVs) is highly problematic: FRVs are currently twice as likely to avoid paying the London congestion charge as UK registered vehicles.

Although there is a proposed EU Directive designed to facilitate cross-border enforcement in the field of road safety, this will not cover administrative offences such as evasion of road user charges.[69]

Differing perceptions

85. There was no specific public referendum on the London congestion charge. It was a manifesto commitment of Ken Livingstone in the Mayoral election campaign in 2000. Various views on the scheme were put to us during our inquiry.

86. London First has been a consistent supporter of the London congestion charge, on the grounds that it reduces congestion and helps to fund improved transport in London. London First represents larger employers.

87. However, freight and motoring organisations feel that they are now paying for little or no benefit. The Freight Transport Association (FTA) says that time savings are insufficient to enable operators to schedule additional deliveries.[70] The British Vehicle Rental and Leasing Association says that the London congestion charge is seen as a burden on businesses due to the difficulties of payment for fleet operators. The fine regime also imposes significant administrative burdens.[71] TfL acknowledges that the impacts of the congestion charge on business are not uniform and that some smaller businesses are disadvantaged.[72]

69 Ev 113

70 Ev 150

71 Ev 130

72 Ms Dix Q 298

88. The London congestion charge was a bold initiative and a flagship for a wider approach to rejuvenating transport in London. Initially the charge reduced both traffic and congestion but congestion has now returned to pre-charge levels. It has encouraged bus use and cycling, and made central London a more pleasant place. The economic appraisals are positive. It is worrying, however, that after five years of operation, running costs remain high, consuming almost half the revenue generated. The level of enforcement required remains high and, without the income from fines, the operating surplus would be considerably smaller. This reliance on fines is unacceptable, particularly as it is often visitors to London, who are ignorant of the congestion charging system, who pay the fines as they have insufficient time to correct their mistakes. If congestion charging schemes are to go ahead elsewhere, less expensive ways of administering them must be found. We endorse the policy of the London Mayor to make payment of the charge simpler and to reduce the level of fines through better information.

London Low Emission Zone

89. London has the worst air pollution levels in the United Kingdom and among the worst in Europe. The objective of the London Low Emission Zone (LEZ) is to improve air quality in London.[73]

90. The LEZ came into operation in February 2008 for lorries over 12 tonnes, and in July 2008 for lorries over 3.5 tonnes, and buses and coaches over 5 tonnes. Vehicles that do not comply with the stipulated emissions standards must pay a daily charge of £200. The scheme is run by TfL.

91. The vehicles affected by the LEZ are older diesel-engine lorries, buses, coaches and large vans. Cars and motorcycles are not affected by the scheme. The Mayor of London, Boris Johnson, announced in February 2009 his intention to suspend the third phase of the LEZ, which was due to affect vans and minibuses from October 2010.

92. The set-up costs for the scheme were estimated at £50 million. Operating costs were estimated at £80 million (present value to 2015–16) while the scheme was estimated to generate revenues of £5 million to £7 million per annum. The LEZ is, according to the Office of National Statistics, a tax rather than a charge, as no benefit accrues to the payer.

93. Apart from the cost of daily charges for non-compliant vehicles, TfL has estimated the wider cost of the scheme. These are mainly the result of having to invest in newer, cleaner vehicles. TfL describes these costs as "significant":

> It is estimated that in economic output terms the costs of 'compliance' associated with asset replacement and vehicle upgrade and retrofitting in response to the scheme would result in overall net economic 'loss' of some £80–110 million (present value to 2015–16).[74]

73 London Assembly Environment Committee, *Every Breath You Take*, May 2009

74 TfL, *London Low Emissions Zone Impacts Monitoring Baseline Report,* July 2008, p 9 and p 24

94. The economic benefits resulting from improved health in London and beyond are estimated at £140–210 million or £250–£660 million, depending on the methodology used.[75] Clearly, the levels of estimated benefit are highly dependent on the assumptions and methodology.

95. TfL forecasts show that much of the improvement in air quality resulting from the LEZ would occur anyway as a result of wider trends towards more modern vehicles and European pollution control requirements. TfL's monitoring baseline report shows that the LEZ achieves these improvements about two years sooner than the trend. Michelle Dix from TfL told us that over 95% of heavy diesel-engine vehicles in central London are now compliant with Euro3 standard and that there had been a 2% reduction in "some vehicle emissions".[76]

96. **Improving air quality and health in London is very important but it remains to be seen whether the London Low Emission Zone will achieve enough that would not have been achieved by other means to justify the overall cost. The Government and others need to be mindful of the impacts on business and employment in relation to the benefits when assessing methods to reduce harmful emissions from transport and to improve air quality.**

Parking

97. Parking charges have long been a demand management tool available to local authorities.[77] This usually involves restricting the provision of spaces and increasing charges for parking in central areas; and providing public transport, park and ride, and other alternatives to the private car. As we explored in our Report *Parking Policy and Enforcement*, parking is an important transport policy tool for local authorities.[78] It can be used effectively to manage traffic levels in specific areas. However, the Local Government Association and others note the limitations of using parking charges to reduce congestion and achieve other objectives.

> [...] the equity and effectiveness of such [parking charge] schemes are limited because they cannot affect people parking at home addresses or other private parking facilities.[79]

In the absence of other measures, such as congestion charges, parking charges will continue to be an important local transport policy tool.

98. Recently, some councils have sought to use parking charges to pursue other objectives, notably CO_2 reduction. Richmond upon Thames Borough Council charges residents for parking permits according to the CO_2 emissions of the vehicle. The Council is considering

75 TfL, ibid., p 163

76 Ms Dix Q 320 (Presumably these are reductions in NOx and/or PM_{10} — see Ev 190)

77 Sir Colin Buchanan's seminal report *Traffic in Towns, 1963,* saw road pricing as being at least 20 years away and so concluded that "everything points to the immediate importance of parking policy". (See *Traffic Engineering and Control*, January 2009, p 18)

78 Transport Committee, Seventh Report of Session 2005–06 *Parking Policy and Enforcement*, HC 748, 22 June 2006

79 Ev 186

extending this principle to charges at parking meters and in car parks. Edinburgh City Council has proposed to introduce a similar CO_2-related charge for residents parking permits.[80]

99. This approach to charging has been criticised as unjustified, ineffective in terms of CO_2 emissions and undermining of green taxes in general.[81] Norwich City Council, on the other hand, charges on the basis of the length of the car—a criterion that could be said to relate, at least partly, to the service provided. The AA also criticises these charges for unfairly "surcharging" owners of larger engine cars—regardless of use. It too believes that such schemes are detrimental to the relationships between the motorist and the local charging authority.[82]

100. **We are concerned at the increasing trend to base service charges, such as parking charges, on grounds unrelated to the service. If parking charges are to be used for wider policy purposes, these should be proportional, explicit and properly justified.**

5 What options might be tried and why?

Tackling congestion

101. An important potential purpose of motoring taxes is to manage demand for road space and to reduce congestion (see Box 3). However, apart from the London congestion charge, current taxes and charges on road users do this only indirectly and to a very limited extent. Table 1 showed that, compared with £30 billion paid in taxes specific to road users, only £0.6 billion was paid in charges directly related to use of specific roads, comprising tolls and the London congestion charge. If taxes and charges on road users were more directly related to road use, their impact on when, where and how much road space was consumed would be much greater.

102. In 2001 the Department for Transport commissioned a study of the internal and external costs of transport, using an extensive database on speeds and flows of traffic on individual sections of the road network at different times of day, and the results of many decades of research on how people value time savings.[83] Although that study did not calculate the total cost of congestion, the same methods and database were used to do this in a comparative European study resulting in a figure of £19.4 billion per annum (1998 prices), or around 1.5% of GDP.[84] Of this, subsequent work by the Department suggested that charging for the marginal cost of congestion would reduce total congestion costs by £10b. This is consistent, as even an ideal pricing system would not remove all congestion.

80 The previous London Mayor proposed to increase the London congestion charge to £25 for vehicles emitting higher levels of CO_2. with 100% discount for small cars. According to Ms Dix, this created much concern. Ms Dix Q 70 and Q 75.

81 Ben Webster, *Transport Times*, Richmond's charge gives green taxes a bad name, January 2009, p 13

82 Ev 161

83 Samson, T., Nash, C., Mackie, P., Shires, J. and Watkiss, P. *Surface Transport Costs and Charges: Great Britain 1998.* Leeds: Institute for Transport Studies, 2001

84 Institute for Transport Studies, University of Leeds, *UNITE Deliverable 8*, Annex 7, 2004

103. In December 2006, the Eddington Transport Study—commissioned by HM Treasury and the Department for Transport—stated that congestion would cost an *additional* £22 billion per annum by 2025 if current polices are continued unchanged.[85]

104. The methods used in such calculations are subject to some criticism and have a number of problems and limitations. They do take account of the fact that time spent travelling in the course of work is of higher value to the economy than time spent on leisure or commuting journeys. Nevertheless, the results show that more than half of the benefits from reducing congestion are to be found in London and the other major conurbations. Recent work suggests that improving commuting journeys may be particularly beneficial to the economy.[86]

105. Industry groups, notably the CBI and Chambers of Commerce,[87] emphasise the costs to business of delays and unreliable journey times caused by congestion. They are concerned at what they see as inadequate investment in the transport infrastructure, particularly the strategic road network. The CBI also says:

> An efficient pricing system on an enhanced strategic road network will not only bring congestion-relief benefits but also significant revenue raising capability. The CBI acknowledges that any change to overall transport pricing—road pricing or otherwise—represents difficult political challenges but we have always maintained these ideas have a role to play in tackling congestion and enhancing the transport network. [88]

106. The RAC Foundation forecasts that between 2005 and 2041 the number of cars will increase by 44% and "road traffic demand" will increase by 43%.[89] There are, however, some suggestions that traffic growth is slowing. Since 2000 traffic has grown more slowly than even the low growth forecast of the National Road Traffic Model. The Drivers Alliance said that traffic volumes in cities had been declining over the past 10–20 years.[90] Dr Metz of University College London has pointed out that growth in personal travel, measured in miles per person per annum, has largely ceased since 2000.[91] And as a result of the higher fuel prices and the recession, car traffic levels fell by 1% and heavy goods vehicle (HGV) traffic by 7% in 2008. Delays on inter-urban and urban roads also fell in 2008.[92]

85 Transport Committee, *The Eddington Transport Study – Oral Evidence,* given on 16 April 2007, published 2 August 2007

86 Graham D J, *Wider Economic Benefits of Transport Improvements: Link Between Agglomeration and Productivity.* Imperial College, London, 2005

87 Ev 149

88 CBI, *Time to Change Gear*, February 2009, p 18

89 Stephen Glaister, *Roads: A Utility In Need of a Strategy*, RAC Foundation, 11 June 2009

90 Peter Roberts Q 74

91 Evidence to the Transport Committee's inquiry into the *Major road network,* oral evidence session held 20 May 2009, Q 31 ff

92 Department for Transport *Road Traffic and Congestion in Great Britain: Quarter 4 2008*, 5 February 2009.

Road pricing

107. Road pricing is a direct charge for road use.[93] If charges are varied according to congestion, it allows those people who value their time highly, and have money, to pay a charge rather than being delayed in traffic. At the same time it encourages those people who do not value their time so highly—or cannot afford to pay the charge—to find alternatives. From an economist's perspective, it is a mechanism that allocates road space more efficiently, according to propensity to pay. However, it can be disadvantageous to those people who are required to travel at busy times to reach their employment and who do not have an alternative means of transport.

108. We previously considered road pricing in our report *Road pricing—the next steps*. At that time, the then Secretary of State for Transport was leading the debate about a national road pricing scheme. We concluded that

> If the cost of the scheme can be brought in line with its benefits, and if the potential impacts on road safety and social inclusion can be minimised, road pricing should be introduced.[94]

We acknowledged that there were difficult issues for professionals and politicians and we identified four fundamental questions to be answered:

- which roads to price and when;
- which technology systems to use;
- how to set the tariffs, and
- how to spend the revenue.

109. Since that time, a number of reports and initiatives have taken place, including the Eddington Transport Study which concluded that a national road pricing scheme would have a high benefit-cost ratio. Indeed, Sir Rod told us that road pricing was, for him, "an economic no-brainer" that could reduce new (interurban) road building by 80%, though it was "still 10 years away".[95] However, little tangible progress has been made with implementation of road pricing so far. We therefore consider how policy has developed and discuss the various options below.

Box 5

A brief history of road pricing in Britain

The idea that there would be benefits from charging motorists for the additional congestion they cause other road users was debated in academic publications as early as the 1920s, but the first major government report advocating its adoption was the Smeed Committee report in 1964.

93 In this Report we have used the term road pricing generically to include congestion charging and road user charging, unless stated otherwise. Fora discussion of the distinctions, see Q 156 ff.

94 Transport Committee Seventh Report of Session 2004–05, *Road pricing— the next steps,* HC 218, 24 March 2005

95 Transport Committee, *Road pricing— the next steps,* HC 218, Q 95

Under Transport Secretary John Macgregor, the Department for Transport developed plans to introduce motorway tolling by 1998, but these plans were scrapped by his successor, Dr Brian Mawhinney, in 1995.

The concept was studied periodically, particularly in the case of London, and a major study was published by the Government Office for London in 1997. Congestion charging was introduced in central London in 2003, but it was subsequently rejected in referenda in both Edinburgh and Manchester, and—with the exception of a scheme covering a very small area in Durham—no other British city has followed suit.

In 2004, the Department for Transport published a feasibility study of a national road pricing scheme, showing major net benefits from it. This work was extended by the Eddington Transport Study, but its implementation is still seen as some way off. A more limited scheme applying only to lorries was proposed but abandoned due to its costs.

A national road pricing scheme

110. A national road pricing scheme has been debated for decades (see Box 5) but generally without any firm plans for implementation. However, in May 2006, the Prime Minister, Rt Hon Tony Blair MP, wrote to the new Secretary of State for Transport, the Rt Hon Douglas Alexander MP, saying:

> Managing demand for road transport and ensuring we get the best out of our existing network are vital. We therefore need to advance the debate on the introduction of a national road-user charging scheme. The successful roll-out of local schemes funded from the Transport Innovation Fund will be critical. I would like you to identify the other key steps for the successful introduction of road-user charging within the next decade.[96]

111. In February 2007 some 1.8 million people signed a Downing Street e-petition opposing a national road pricing scheme. This seems to have been the catalyst for a change of direction.

112. On the fifhtieth anniversary of the opening of the first motorway in Britain, the Government published *Roads—Delivering Choice and Reliability*. This said that the Government was "still a long way from having [the] answers" to road pricing issues; but it held out the possibility of tolled motorway lanes.[97] By January 2009, even this option had been discounted. In *Britain's Transport Infrastructure: Motorways and Major Trunk Roads*, the Department for Transport describes how it intends to expand motorway capacity by more use of the hard shoulder. There is no mention of road pricing except in the final paragraph which states:

> The Government currently has no plans to seek the powers that would be necessary to implement single lane tolling.[98]

96 Prime Minister, Rt Hon Tony Blair, *Letter to the Secretary of State for Transport, Douglas Alexander,* 10 May 2006

97 Department for Transport, *Roads—Delivering Choice and Reliability*, Cm 7445, July 2008, p 19

98 Department for Transport, *Britain's Transport Infrastructure: Motorways and Major Trunk Roads,* January 2009, p 19

113. We questioned the Ministers on the Government's current policy on a national road pricing scheme.

> In terms of road pricing it is not a matter of Government policy at this stage that there should be road pricing, that is a long way down the route.[99]

It has become something of a cliché to say that a national road pricing scheme always seems to be "10 years away".[100] Now it appears to have been ruled out for even longer.

114. The Government has undertaken a number of technical and feasibility studies on road pricing over the years at a cost of £15 million.[101] A major study was published in 2004. Yet the Government seems to believe that a great deal more research is required before any decision can be contemplated. Further demonstration projects are underway, at a cost of £4 million:

> I cannot say to you that within ten years you will see that [additional congestion charging or national road user pricing] because, as I have indicated, one of the major things about the demonstrations project is to find what is possible and what is not possible in terms of that before making a policy decision as to whether we go down that route.[102]

115. One apparently simple option might be to introduce tolls on motorways as France and some other European countries have done. However, this would cause some traffic to divert to other roads, with adverse consequences for safety, congestion and the environment. This was one of the reasons why the Government abandoned such a plan in 1995.[103] The option is not being contemplated. Indeed, Highways Agency Chief Executive, Graham Dalton, said that the Highways Agency had no plans to introduce any form of road pricing and that the Agency had no assumptions about any form of charging regime at all.[104]

116. **The Government's research into road pricing has been underway for a long time, with apparently little to show for it. Ministers are reluctant to indicate when a decision is likely to be reached. The issues that we raised in our previous report remain to be resolved. Yet the UK has some of the best researchers and technology companies, and has the well-monitored experience of the London congestion charge to draw on. The Government should clarify its position on road pricing research: what has been learnt, what key steps remain to be identified, and when it is likely to be in a position to make a decision on implementation. The research also needs to show how road pricing can replace other taxes and charges on road users, otherwise it is unlikely to ever receive public support.**

99 Paul Clark Q 532

100 For example, Department for Transport, *Feasibility Study of Road Pricing in the UK,* June 2004, and Alistair Darling, Secretary of State for Transport: Speech given to the Social Market Foundation, London, 10 June 2005.

101 Ev 215 (This excludes TIF pump-priming costs.)

102 Paul Clark Q 561

103 Christian Woolmar, Motorway pricing plan scrapped. *The Independent*, 6 March 1995

104 Q 407 ff

Local congestion charging schemes

117. Ministers have made it clear that they are looking to local government to initiate local road pricing schemes.[105] One part of the logic of this policy is that it makes the hypothecation of revenue raised to improvements in public transport and other schemes both simpler and more transparent. The inclusion of a charging scheme is a condition for Government funding via its Transport Innovation Fund (TIF). The Local Government Association is not opposed to this, but it clearly has concerns:

> The Local Government Association believes that road pricing has the potential to contribute to significant reductions in congestion and vehicle emissions in our cities, but only if it is part of an effective integrated transport system and preceded by upfront investment in public transport.
>
> Local government is willing to take forward local road pricing schemes and are developing plans in areas of greatest transport pressure to cut congestion and improve the environment. But as every area is different any road pricing proposals must be carefully designed to fit in with local circumstances and priorities.[106]

118. Yet, other than in London, congestion charging proposals have not proved popular with the public, even when packaged with promises of substantial investment in public transport. The Manchester TIF proposal (which included a congestion charge scheme) was rejected by a large majority of votes cast in each of the 10 boroughs in a ballot on 12 December 2008. Seventy-nine per cent of votes polled were against the scheme. 1.03 million people voted, by postal ballot—a turnout of 53%. Consequently, the scheme, which cost £24.1 million to develop, was abandoned by the Association of Greater Manchester Authorities.[107] Voters in Edinburgh rejected a similar proposal in 2005.

119. West Midlands, Shrewsbury, Norfolk and Durham councils undertook preparatory work, funded by the Department for Transport TIF pump-priming money, but decided against submitting a proposal. Despite many councils deciding not to submit TIF bids, the Government says it will continue to require that councils include demand management measures in their TIF bids:

> We remain committed to supporting local schemes that combine public transport improvements with demand management through congestion charging, and the outcome of the Manchester referendum does not change this.[108]

120. Cambridgeshire County Council has developed a bid but has now appointed an independent Transport Commission in light of mixed responses from the public during a consultation.[109] The Minister Paul Clark MP told us that Reading, Leeds and four Bristol-area authorities are considering submitting bids. The Reading proposal is on the basis that road pricing will only be used if the other measures fail to produce the desired mode shift.

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105 Ev 186

106 Ev 186

107 *Manchester Evening News,* 26 January 2009

108 Ev 212

109 Q 325

121. **It seems unlikely that more than a handful of local authorities will pursue congestion charge proposals in the near future. The Government therefore needs to reconsider its approach to the Transport Innovation Fund. Monies that were earmarked by HM Treasury for transport should not be lost to transport for want of a charging element in otherwise sound proposals.**

Finding a consensus

122. The views of the public on road pricing are perhaps more complex than the Downing Street e-petition and the Manchester vote imply. The AA states that motorists:

> are divided on the principle of national pay as you go motoring with 45% opposed and 42% in support, 66% are opposed to local charging schemes.[110]

And the RAC states that, in order to help manage traffic in the future, 58% of drivers "said that drivers will have to pay to drive in all cities".[111]

123. Some groups, such as the RAC Foundation, advocate that there should be a relationship between the price paid by road users and the service that they receive as road users (see **Error! Reference source not found.**). In theory, road users could be charged per mile for the cost of road provision plus externalities: the "polluter pays" principle. However, other groups, such as the Campaign for Better Transport, argue that, even if all externalities are included, road user taxes and charges should be set to achieve policy objectives, such as encouraging public transport and reducing CO_2 emissions.[112]

124. Recent tests of public opinion have demonstrated the difficulties of gaining public support for the implementation of specific road pricing schemes. Although motorists are concerned about congestion, it seems that many are not sufficiently concerned to support congestion charging schemes. The Government has not managed to build the consensus that it has been seeking. Ms Dix of TfL commented:

> I think the referendum in Manchester and also the recent vote in London about the western extension, the vote in Edinburgh and the online petition on charging which we had, point to the fact that the acceptability argument is not being won and the rationale for introducing these schemes has not convinced people necessarily that they are the right way forward. So if we had a national scheme would that make a difference? It would only make a difference if you were introducing it and taking something else away.[113]

125. We accept that there is no easy solution to the question of whether road pricing should be introduced in the UK. There are sound economic arguments in its favour and the central London congestion charge has shown that it can work in practice. Despite the evident set-backs to congestion charging schemes, referred to by Ms Dix, significant interest groups, such as the CBI, have recently restated their views that road pricing can

110 Ev 161

111 Ev 172

112 Ev 145

113 Ms Dix Q 291

benefit business.[114] The Freight Transport Association has opposed specific congestion charging schemes, for example in London, yet it too supports the wider call for road pricing.[115] As long as traffic is forecast to rise, it seems that the issue of road pricing will not go away. We believe that the Netherlands may offer some valuable lessons on this issue, as we outline below.

126. The Government's strategy on road pricing is in a mess. It has gone from being a top priority to something that Ministers try to avoid mentioning. Having accepted the case made for road pricing in the Eddington Transport Study, the Government then transferred all responsibility onto local authorities—a strategy which has been rejected locally, most recently by voters in Manchester. The Government is sticking to its Transport Innovation Fund criteria which require that schemes must incorporate significant demand management measures. Yet it has backed away from tolling new motorway lanes and has no intention of introducing a national road pricing scheme in the foreseeable future. Other countries, meanwhile, are pressing ahead. Germany has introduced tolls for lorries using its motorways and the Netherlands intends to phase in 'pay per kilometre' for all vehicles on all roads starting in 2011.

127. **Congestion in our cities and on our major road network demands action. And the shift to low-carbon vehicles will reduce Government revenues from fuel duty and Vehicle Excise Duty. The Government needs to find a new consensus for the way forward on motoring taxation. This must be fair to all, including those on low incomes and those with limited transport choices. It must also be revenue neutral and not seen as an additional tax on road users. We accept that a consensus will be difficult to achieve but greater progress is needed.**

Box 6

Road pricing—world experience

The first city in the world to implement road pricing was Singapore in 1975. Motorists entering the central business district had to buy and display a supplementary paper license; enforcement was by manual inspection. Traffic dropped by 44% and only grew slowly again as the city developed. In 1997, this system was replaced by an electronic one, with tolls varying according to the level of congestion and motorists charged every time they entered the central area. A further 10–15% reduction in traffic resulted.

Within Europe, Bergen implemented a cordon charge for entering the central area in 1986, and Oslo and a number of smaller Norwegian cities followed suit. But the charges were low and mainly intended to raise money for investment in transport infrastructure.

114 AECOM, Report for CBI, CILT and FTA on congestion charging. CBI Press Notice 11, May 2009

115 Ev 150

The subsequent London and Stockholm schemes were designed primarily to cut congestion. The London congestion charge was introduced in 2003. Traffic was reduced by 18% and congestion by 30%. Traffic levels in London are still reduced but congestion has returned to pre-charge levels. Stockholm implemented a system in 2006 designed to relieve congestion as well as raising money and achieved a 20% reduction in traffic. Implemented as a trial, it was made permanent following a narrow victory in a referendum amongst Stockholm residents.

A number of other countries have implemented schemes which might be regarded as a form of road pricing, including pricing for express lanes in the US, and goods vehicle charging systems in Switzerland, Austria and Germany. The Netherlands looks set to be the first country to implement comprehensive road pricing nationwide.

Source: Professor Chris Nash

Road pricing in the Netherlands

128. The Dutch Government is committed to introducing a national distance-based charge for all vehicles on all roads—generally referred to as the "price per kilometre" scheme. Assuming that it goes ahead, it will be the most comprehensive road pricing scheme in the world (see Box 6). Implementation will start with goods vehicles in 2011; and for passenger cars in 2012, to be completed by 2016. The charge will be offset by reductions in the existing purchase tax on new vehicles (which can be up to 45% of the list price, depending on the vehicle type). There is an overall commitment to revenue neutrality. Fuel duty—roughly at the same level as in the UK (see Table 2)—will not be affected. The scheme will use satellite GPS technology and each vehicle will be fitted with an on-board unit.

129. The likely level of the charge will be a basic 3.4 cents per kilometre (plus surcharges for some vehicle types, including on environmental grounds) with an additional 11 cents per kilometre payable in defined congestion hotspots (i.e. stretches of road at certain times). The list of hotspots had yet to be developed. No decision has yet been taken on whether foreign vehicles would pay the charge.

130. Whereas motoring organisations in the UK are generally ambivalent about, if not opposed to, a national road pricing scheme, the ANWB (Royal Dutch Touring Club) is strongly supporting the price per kilometre scheme. An interesting feature of the Dutch situation is that a former ANWB president is chairing the committee charged with developing the scheme.

131. A major attraction of the current plan is the government commitment that tax on car sales will be replaced by the price per kilometre charge and that, overall, motorists will pay no more tax.[116] Mr Smith of the ANWB contrasted this approach with that of the UK:

> You have to do something with your pricing system, I am convinced, because in the Netherlands, and I think in certain areas in Britain it is the same, we simply do not have the space to build extra infrastructure.

116 At the time of our inquiry it had not been decided whether or how drivers of foreign-registered vehicles would be included.

> […] people are not enthusiasts about reducing traffic congestion in general; they are enthusiastic if you promise them that they will get an honest way for paying for their mobility and they do not pay anything extra […][117]

132. **The Dutch seem to have found a winning formula for national road pricing, although it has yet to be tested against experience. UK authorities have designed schemes to cut congestion and improve public transport. In contrast, the Netherlands have based their scheme on fairness and replacing unpopular fixed taxes with a more equitable charge. It is simple to understand and comprehensive so it does not create anomalies. It has been developed with and by the country's major motoring organisation. The UK Government should monitor progress in the Netherlands carefully and see what lessons can be applied in the UK.**

Box 7

Approaches to road pricing

There are two broad approaches to charging for the use of roads:

Approach 1: Recovering total costs

Charges may be seen as recovering the costs incurred by central and local government in providing and maintaining the road system. Some commentators would add in those costs imposed by road users on the rest of society—for example noise, local air pollution, climate change and some proportion of accident costs. Some would also include the cost of congestion in general, but since this cost is both caused and borne by road users themselves, views are more divided in this area. Some commentators would also include in the calculation the cost of providing public transport services, or environmental measures designed to reduce the impact of motoring.

Approach 2: Efficient pricing

Charges may be seen as a way of improving the efficiency of the road system. Efficient use—in an economist's sense—will be achieved if users are faced with the incremental costs they impose on the rest of society by making a particular journey at a particular time and in a particular way. They will then only make the journey if the benefits to them exceed the costs to society.

117 Mr Smith Q 472

This approach might have implications for the overall level of charges for the use of roads, but it has even greater implications for the structure of those charges. Empirical evidence suggests that delay from congestion is by far the largest of the costs. Congestion, and to some extent the other costs, varies enormously by location, time of day and vehicle type. A charging system designed accurately to reflect these costs would need to do so too. Such a system is arguably now feasible using GPS technology, but would cost many billions of pounds to install and operate. The question is whether the benefits of more efficient road use are worth the costs. If not, it may be worth implementing simpler systems, for instance in major urban areas where these costs are most acute.

Source: Professor Chris Nash

Voluntary pricing schemes

133. Some organisations have suggested that the way forward may be through voluntary road pricing schemes.[118] It may be that some groups of users would prefer to pay a charge related to distance, time or congestion instead of paying VED or fuel duty. Such trials might establish public acceptability for the concept.

134. There have been a number of road pricing trials with volunteers in European and North American cities; one of the most recent is that by Oregon Department of Transport in 2006. It is also particularly interesting because it used GPS equipment capable of differentiation of charges in time and space. 285 vehicles were equipped and volunteers were paid $300 for participating, but they then paid a rate per mile for the distance they drove, differentiated according to whether or not they were within the congested area in the peak period. The trial achieved a 22% reduction in peak period traffic, and 91% of volunteers said that they would choose to continue to participate if the scheme were made permanent.[119]

135. Oregon were trialling this scheme as a replacement for fuel tax. As a way of implementing a permanent road pricing scheme, such a voluntary scheme has drawbacks, in that, obviously, those most likely to benefit are more likely to participate, risking a reduction in revenue to government and failing to influence those undertaking most peak hour driving in congested conditions. But as a way of building up acceptability on the way towards wider implementation, a voluntary scheme may be an attractive starting point.

136. The Norwich Union pay-as-you drive insurance—now withdrawn—was a commercial trial of a voluntary scheme. Although this was a means of paying for insurance and not road use, it shows that there may be other, complementary charging schemes that may appeal to some drivers and businesses. However, in the absence of a common infrastructure and the onboard units in vehicles (which are to be fitted to all vehicles in the Netherlands), such schemes are likely to be disadvantaged by having to incur relatively high overhead costs.

118 RAC Foundation, *Roads and Reality*, December 2007, p51

119 Oregon Department of Transport, *Oregon's Mileage Fee Concept and Road User Fee Pilot Programme. Final Report*, 2007

137. **Voluntary road pricing schemes—Government run or commercial—may offer a way forward. It may well be that a 'black box' offering a combination of information, communications, navigation, entertainment, safety features and pay-as-you-drive charging options may appeal to a significant number of motorists and businesses. If this influenced the behaviour of even a minority of drivers, persuading them to drive at less congested times, this might prove beneficial to all. In order for such schemes to be viable, the Government needs to work with industry to ensure that the infrastructure is in place and that systems are interoperable. We recommend this approach be pursued.**

Workplace parking levy

138. Under the Transport Act 2000, local transport authorities may, subject to various conditions, implement a workplace parking levy (WPL) as an alternative to congestion charging.[120] In our Report Parking *Policy and Enforcement*, we recommended that more local authorities should make use of this charging option.[121]

139. Nottingham City Council is seeking to introduce a workplace parking levy to help fund new public transport initiatives and to tackle traffic congestion in the city. It is the only local authority in England to pursue the WPL route and choose it in preference to a congestion charge because it believed that it was a more appropriate solution to the problems caused by local commuter traffic. The Nottingham WPL will target those who drive to the largest employers and park for free. Commuters account for about 70% of congested peak traffic in Nottingham and the council estimates that traffic congestion costs Nottingham £160 million every year. Over half of this cost falls directly to businesses.

140. The WPL targets large employers. Of 3,500 Nottingham businesses that would be liable for the levy, 3,000 would be exempted by the Council's scheme. Whereas large employers in London generally support the London congestion charge, it is less clear if larger employers in Nottingham support the proposed WPL. Mr Jason Gooding of Nottingham City Council told us that only 100 businesses responded to the Council's consultation and, of these, 83 were against the scheme.[122] The evidence given to the Committee suggests that the consultation seems deeply flawed. The council have no explicit criteria as to how to interpret or act upon different responses to their consultation. The Council appears to assume that the large majority of businesses that will not pay the levy did not respond because they have no strong views on the proposal. Graham Allen MP, Member for Nottingham North, says that there is support from local business.[123]

141. **Given the lack of progress with local congestion charging schemes, it is important that the potential benefits of workplace parking levy schemes are properly considered. The burden of such schemes inevitably falls on a minority of employers, which means that the response to consultation cannot be determined on the basis of a simple majority of respondents. The Government should provide guidance on the criteria on which the results of consultation for workplace parking levy schemes should be assessed**

120 The Government consulted on the proposed regulations for WPL schemes between December 2008 and March 2009.

121 Transport Committee, Seventh Report of Session 2005–06 *Parking Policy and Enforcement*, HC 748, 22 June 2006

122 Mr Gooding Q 343

123 HC Deb, 10 March 2009, col 139

and should produce proposals for a legislative framework for referenda on congestion charging schemes and workplace parking schemes. The decision on whether to proceed should, however, remain a local matter.

6 Road freight

Issues for the road haulage industry

142. There are specific issues relating to taxes and charges on users of heavy goods vehicles. These are primarily:

- the level and structure of taxes and charges in relation to the costs imposed by HGVs;
- how taxes and charges paid by UK road freight operators compare with those paid by operators of foreign-registered vehicles, with whom they may be competing for business.

Taxation and externalities

143. Road hauliers pay VED, fuel duty and other general taxes. VAT-registered businesses can reclaim VAT paid on fuel but they cannot reclaim fuel duty. VED rates are linked to the axle weights and hence the wear and tear caused to the road by the vehicle. According to the RHA, VED rates "have been held steady for trucks throughout this decade" but fuel duty has risen.[124] The RHA estimates that a UK-based haulier pays around £25,000 in fuel duty each year for a typical articulated HGV, amounting to some £2 billion per annum for all lorries in the UK.

144. Heavy goods vehicles cause the bulk of wear and tear on the road system. HGVs also give rise to significant externalities, including air pollutants, CO_2 emissions and road accident casualties. Like other vehicles, they also contribute to, and suffer, congestion. Simon Chapman, Chief Economist of the FTA, agreed that the freight industry should pay its "external costs". However, he added that this principle should apply to all operators, including foreign-registered vehicles and rail freight.[125]

145. Whilst the principle that operators of HGVs should cover their external costs is generally accepted, the calculation of these costs is more difficult; and whether the costs are in fact covered by taxes is contentious. The FTA told us that the road freight industry "broadly pays through the taxation regime for the external costs that it imposes".[126] The Campaign for Better Transport says, however, that "at best HGVs cover 61% of their costs—a shortfall of up to £3.35 billion a year".[127]

124 Ev 202

125 Q 199

126 Q 211

127 Ev 145

146. Professor McKinnon and Ms Piecyk point out that "calculations of this type are clearly sensitive to the assumptions made and the monetary values attached to imponderables such as the health effects of pollution, climate change and the value of time". The treatment of VAT in these calculations varies between studies and the assumptions as to whether congestion should be included or not are critical to the results:

> …taxes on HGVs covered approximately two-thirds of their total infrastructure, environmental and congestion costs. Congestion costs accounted for 40% of the total. If they were excluded, taxes on HGVs would more than cover the infrastructure and environmental costs (with a 12% surplus).[128]

147. There is more widespread agreement that the current structure of charges does not relate sufficiently directly to the use of the roads by HGVs. Whilst HGVs have higher fuel consumption, and thus pay more fuel tax than cars, it is not proportional to the additional costs they impose on society.[129] To some extent, this difference is reflected through higher rates of VED, but this is a fixed annual sum, not related to the annual distance covered by the vehicle.

148. Freight operators point out that demand for road freight is relatively fixed and that increases in fuel duty and VED simply mean higher prices for customers or lower profits for operators. Whereas individual motorists may have a choice of switching to public transport or to travel at other times, these are not feasible options for freight journeys.[130] On the other hand, the logistics industry has shown itself to be adept at improving efficiency, for example through higher load factors and improved routing. They also oppose congestion charges for freight vehicles only as freight vehicles are not the only cause of congestion; but they support the principle of road pricing for all vehicles where this does not single out freight vehicles.

Ensuring fair competition

149. The UK freight industry is particularly concerned about what it sees as unfair competition from foreign-registered lorries. This arises mainly from the fact that the rate of duty on diesel in the UK is the highest in Europe and about twice the EU average. Vehicles registered abroad do not pay British VED, and to the extent that they enter the country with a full tank of fuel, they may largely avoid fuel tax in the UK as well. It has been calculated that:

> In 2006 foreign-registered lorries should have paid around £300 million in taxes for their use of UK road infrastructure and their contribution to congestion and environmental damage.[131]

150. Foreign-registered vehicles are, subject to "cabotage" rules, permitted to undertake domestic as well as international haulage work in other EU countries. The RHA contends

128 Professor McKinnon Ev 210

129 See, for example, the evidence from Dover District Council in Transport Committee, Eighth Report of Session 2007-08, *Freight transport,* HC 249, July 2008

130 Fabian Q 490

131 Professor McKinnon Ev 210

that a 40-tonne vehicle that is filled with fuel outside the UK enjoys a cost advantage of 10–15% over a UK equivalent vehicle. Whilst this may benefit the shipper (through lower haulage prices), it deprives the UK of tax revenues and is unfair to the UK-based freight industry. There are also concerns about the safety standards of some foreign-registered vehicles, which we investigated in our inquiry into the enforcement activities of the Vehicle and Operator Services Agency (VOSA).[132]

151. As part of general moves to increase trade and competition within the EU, cabotage rules may be relaxed further in the future. On 22 January 2008, the European Parliament's Transport Committee voted to support a Commission proposal aimed at making it easier for lorry drivers established in one EU country to carry goods within another member state (so-called 'cabotage'). Restrictions on operations carried out within one member state by hauliers from another EU country must be fully lifted by 2014.

152. The issue of disparities in EU fuel duty rates has been raised before, not least by the freight industry. We have also drawn attention to it, most recently in our report *Freight Transport*.[133] The issue took on particular relevance in 2008 when the substantial rise in world oil prices pushed up UK diesel prices to record levels. As we have already seen, fuel duty is a major component of the price of fuel. The haulage sector has lobbied for changes in road fuel taxes to compensate for the higher oil prices. The Freight Transport Association has argued that duty on diesel should be cut in half:

> Fuel duty for diesel in the UK is 50p per litre compared with a European average of just 25p per litre … a reduction of around 25p is essential … The latest research shows that due to lower fuel and labour costs, foreign lorries working in the UK are able to do so at between 10 and 15 per cent lower cost than UK operators working in the UK.[134]

153. However, the Government contends that the higher fuel duty costs faced by UK hauliers are partially offset by lower labour taxes and other costs for employers in the UK, as compared to other European counties. It also says that "overall operating costs are similar to Ireland, the Netherlands and Germany."[135]

154. These factors could all be seen to provide a case for reform of the taxes and charges applied to heavy goods vehicles, irrespective of the taxation of motorists. In 2002 the Government announced its intention to introduce a lorry road user charge scheme but it abandoned it in 2005 (correctly, in the view of Professor McKinnon)[136] on the grounds that it would not be cost-effective.

155. Professor Mckinnon and Ms Piecyk have advocated a simpler system which they believe would be feasible and much less costly.

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132 Transport Committee, Seventh Report of Session 2008-09, *The enforcement activities of the Vehicle and Operator Services Agency (VOSA)*, HC 39

133 Transport Committee, Eighth Report of Session 2007-08, *Freight transport,* HC 249, July 2008

134 FTA, *Fuel duty – 2p increase now unthinkable—25p cut required*, Press release, 28 May 2008

135 HC Deb 19 March 2008 c220W

136 Ev 210

> If the sole objective of a road user charging scheme for lorries is to 'level the playing field' with foreign operators and correct the current fuel duty anomaly, a much simpler distance-based charging system could be developed involving the collection of mileage data from the tachographs of both British and foreign-registered vehicles.[137]

156. The RHA and FTA continue to support the principle of a scheme for lorry road user charging in order to equalise costs across HGV operators using UK roads. They recognise, however, that it would take a number of years to implement. They therefore advocate a daily charge—a "vignette"—for HGVs with a compensating reduction in fuel duty for UK registered vehicles. (The German lorry toll has a mechanism whereby German hauliers are partially compensated. See below.) Neither Austria nor Switzerland uses vignettes for HGVs: both use kilometre charges based on alternative technologies. A proposed vignette scheme was, however, also dropped by the UK Government, in April 2008, on the grounds that it would produce limited benefits and be open to challenge by the European Commission under EU rules (see Box 7).[138] The Government has instead approved an additional £24 million for VOSA for additional enforcement of vehicle safety standards, loading and drivers hours regulations, with a focus on foreign lorries. It considers that this "is a better option to protect road users in the UK."[139] We comment on this in our Report on the enforcement activities of VOSA.[140]

157. **Competition between the UK freight industry and overseas hauliers must be on a fair basis and health, safety and environment standards must not be compromised. The Government seems to have made little progress on this since our last report on freight. The Government should speedily revisit the issue and update its assessments. It is evident that a national road pricing scheme for all vehicles is not in prospect in the immediate future. This means that the Government should consider if a lower-cost lorry user charging scheme might yield worthwhile benefits, within EU rules. Pricing incentives to encourage greater integration between road and rail freight services should also be incorporated into the scheme.**

Box 7

'Eurovignette'—The European framework for lorry road charging schemes

The European Commission has laid down rules for lorry road charging schemes—commonly referred to as the Eurovignette—within EU Member States. This started in 1993 with Directive 93/89/EEC and a series of amendments have been made since. Within the current EU legislative framework, member states may charge heavy goods vehicles over 12 tonnes a kilometre based charge, variable with the type of vehicle, as well as with time and location.

The most recent Directive (2006/38/EC) extends the scope of charges that individual Member States may apply to vehicles over 3.5 tonnes, varied for road haulage according

137 Prof McKinnon Ev 210

138 HM Treasury, Budget 2008, 12 March 2008, para 3.44

139 HC Deb, 3 June 2008, col 635

140 Transport Committee, Seventh Report of Session 2008–09, *The enforcement activities of the Vehicle and Operator Services Agency (VOSA)*, HC 39, July 2009

not only to the emissions category of the vehicle but also to the level of congestion and accident costs at different locations and time of day, whilst still requiring that the average level of the toll reflects the average cost of providing the infrastructure.

A proposed amendment was put forward in 2008 which would permit full internalisation of the costs of congestion, noise and air pollution, but agreement on this has yet to be reached.

Lorry road user charging in practice

158. Our visit to Germany and oral evidence in the UK from our witness Mr Fabian gave us a good insight into some of the realities of lorry road user charging. The system has proved technically feasible (see Box 8) and, due to the structure of charges, has encouraged the introduction of vehicles with lower emissions.

Box 8

German lorry toll

The German lorry toll ("*LKV Maut*" in German) was introduced in 2006. It applies to lorries with a total weight of 12 tonnes or more on all German federal motorways. The toll amount is based on the lorry's emission category and number of axles, as well as on the length of the toll route.

A private company (Toll Collect GmbH) is contracted by the Federal Republic of Germany to run the scheme. The toll system is based on a combination of mobile telecommunications technology (GSM) and satellite-based Global Positioning System (GPS). Most lorries are fitted with an on-board unit that transmits information to the Toll Collect computer centre which calculates the charges. It does not require vehicles to slow down or stop, or restrict them to a designated lane. 640,000 on-board units are now installed in commercial vehicles throughout Europe. These account for more than 90% of all toll journeys on German Federal Highways.

159. The number of low-emissions lorries with modern exhaust technology (Euro 5)[141] on German motorways has significantly increased from below 1% in 2005 to almost 37% in September 2008. By contrast, the number of high-emissions vehicles (Euro 2) has decreased from more than 30% to below 10%. However Mr Fabian of the Federation of German Industries (BDI) said that the toll had not led to a significant shift of freight from road to rail:

> This is the question of modal shift so to speak, between transport modes. We have seen increases in rail transport but this is most certainly not related to the introduction of truck tolling in Germany.[142]

141 Vehicles are classified Euro 1–5, where 5 is the least polluting type of vehicle

142 Mr Fabian Q 492

160. The German haulage industry now finds it is easier to pass on costs to customers where these are clearly identified, such as lorry tolls.[143] However, it is concerned that it is not receiving the full 'rebate' that it expected to compensate for the toll payments and that the revenues have not led to additional investment in the highways infrastructure.

Penalty Charge Notices

161. An additional concern of some freight organisations—partly shared by motorists organisations—is penalty charge notices (PCNs). They consider that the level and frequency of PCNs is such that these could now be regarded as a tax on road users, rather than a penalty for errant behaviour.

162. The Freight Transport Association estimates that PCNs cost the road freight industry about £600 million per annum.[144] The London Brewery Logistics Group estimates that in excess of £2 million per annum is being charged as PCNs to its members alone by the London Boroughs and TfL. Although the number of PCNs issued has declined recently, the Brewery Logistics Group contends that the total sum charged has risen.[145]

163. It is not only the amount of the charge that concerns freight groups. The Central London Freight Quality Partnership, citing the FTA, estimates the cost to UK businesses to administer and appeal PCNs at £100 million per annum. Increasingly, businesses are finding it cost-effective to employ staff solely to deal with the administration of PCNs.[146]

164. The freight groups also point out that little of the revenue raised from PCNs goes to alleviating the problems to which the PCN relates, such as inadequate loading or parking facilities, or unclear road markings and signs.

165. **Penalty charge notices are an enforcement tool and not a charge for a service. Yet they are a significant cost to industry and the private motorist. It is vital that penalty charge notices retain their credibility as an enforcement tool. They must not be used, or perceived to be used, as a means simply of raising revenue. Systems which rely on a high level of PCNs to enforce them would seem to have inherent design flaws. We recommend that the Government produce guidance to ensure that a greater proportion of revenue raised through penalty charge notices is redirected to resolving the problems that give rise to the infringements. This might include better signage, loading or parking facilities.**

7 Conclusion

166. Major issues remain to be resolved in relation to taxes and charges on road users. Road users are, and will remain, an important source of revenue for government expenditure, beyond that spent on the road network. If their trust in the taxation system is to endure, they must be treated fairly and with openness.

143 Mr Fabian Q 497

144 Ev 150

145 Ev 100

146 Ev 175

167. Equally importantly, there must be adequate investment in our transport systems and a long-term strategy to deal with growing levels of traffic. Whilst there is clear evidence that traffic growth was slowing even before the recession, further capacity and stronger demand management measures, such as road pricing, will be needed.

168. The current reversal of traffic growth due to the recession should not be taken as a reason to put off moves towards fairer and more efficient systems of taxes and charges on road users. These need to integrate transport and Treasury policies over the long term. The Department for Transport's recent policy statements—Delivering a Sustainable Transport Strategy (November 2008) and the National Transport Infrastructure documents (January 2009)—contain almost no reference to taxes and charges. Yet the structure and level of taxes and charges has profound influence on transport outcomes.

169. **There is insufficient linkage between HM Treasury's policy on road user taxes and the Department for Transport's policy on transport. We urge the Government to more closely integrate its policies on taxes on road users with its policies on transport.**

Conclusions and recommendations

Introduction

1. The Government has been inconsistent in the way that it has justified motoring taxes. Fuel duty has been presented, at different times, as a tool to reduce carbon emissions, a source of general revenue, and a means to fund transport investment. We are concerned that motorists are mistrustful of the Government regarding taxes. The Government needs to improve the consistency and transparency in the way it justifies taxes on road users. (Paragraph 17)

Are motorists overtaxed?

2. A sensible debate on the taxation of road users requires that the public has easy access to sound and well-presented data. The Government needs to publish explicit and comprehensive information on the amounts of money it raises through taxes and charges on road users. (Paragraph 27)

3. The British driver is sometimes portrayed as uniquely highly-taxed. Yet, taken overall, the taxes and charges paid by drivers in comparable European countries, such as the Netherlands and Germany, are not so different to those in the UK. We support the UK emphasis on car-use taxes, as opposed to car-ownership taxes. It is more equitable that those who consume more should pay more. Such taxes are more likely to incentivise less fossil fuel consumption and therefore lower CO2 emissions. The fact that it is 18% cheaper to run a car now than twenty years ago combined with increases in the real level of bus and rail fares over the same period, makes it more difficult to encourage modal shifts from cars to public transport. The basis of Government policy should be to reverse these trends. (Paragraph 35)

Should expenditure equal revenue?

4. An integrated transport system is vital for sustainable economic growth and development in the UK. We support greater investment in transport, including the road network, for a range of purposes including reduced congestion, economic regeneration and road safety. We welcome the increased spending by the Government on transport, including roads, over the past decade. We believe there is justification for greater levels of spending in the future and urge the Government to increase spending on transport as part of its efforts to stimulate the economy. (Paragraph 41)

5. Whilst it is clear that the capital city will continue to enjoy the highest levels of transport investment, the case for investment in other regions is also important. We have heard no case put forward by the Government as to why the gap between investment in London and the English regions is increasing. The Government should attempt to reduce rather than increase this disparity. We are concerned that a major source of funding for such investments, the Transport Innovation Fund, is still dependent on road pricing being part of the package, despite the political impossibility of progressing it. (Paragraph 44)

6. Account should be taken of the full cost of road use, including social and environmental externalities, when considering the structure of taxes and charges on road users. Much work has been done to calculate monetary valuations for a wide range of effects but there will always be uncertainties and gaps in the valuations. Policy objectives, public acceptability, the impacts on business and the availability of alternative means of transport will always be important factors. (Paragraph 51)

7. We entirely understand that motorists do not like paying tax—nobody does. However, trying to create a balance between motoring taxes and expenditure on roads is not a good way to make public policy or a basis for major public expenditure decisions. Road investment should be justified on the basis of wider transport policy objectives, needs and benefits. (Paragraph 57)

8. We reject in general the notion of hypothecation of transport taxes. This would be impractical and lead to bad decisions on public expenditure. However, there is a case for earmarking the revenue from specific local charges for spending in that geographical area and on that broad policy area in order to gain public acceptability and to ensure fairness. (Paragraph 58)

What measures have been tried?

9. Fuel duty is, in most respects, the better way to raise revenue, to encourage fuel efficiency and reduce CO2 emissions. Those who consume the most and pollute the most, pay the most. Motoring organisations and others see it as a fairer tax and suggest that there should be a switch from Vehicle Excise Duty to fuel duty. However, raising the same overall sum would involve a substantial hike in fuel duty. Given existing high levels of fuel duty, it is not clear if such an increase would be supported by motoring organisations or the public. We recommend that the Government focuses future measures on taxes that vary with use, such as fuel duty. (Paragraph 68)

10. We acknowledge that the Government has moderated the increases in Vehicle Excise Duty rates and agreed to phase their introduction. This is to be welcomed. However, the whole process has been handled badly. Perhaps the most worrying aspect of the recent Vehicle Excise Duty changes is the damage that has been done to the image of environmental taxes and the loss of trust by motorists in the tax system. It is vital that future motoring tax changes are better planned and not perceived by the public as retrospective. (Paragraph 75)

11. The London congestion charge was a bold initiative and a flagship for a wider approach to rejuvenating transport in London. Initially the charge reduced both traffic and congestion but congestion has now returned to pre-charge levels. It has encouraged bus use and cycling, and made central London a more pleasant place. The economic appraisals are positive. It is worrying, however, that after five years of operation, running costs remain high, consuming almost half the revenue generated. The level of enforcement required remains high and, without the income from fines, the operating surplus would be considerably smaller. This reliance on fines is unacceptable, particularly as it is often visitors to London, who are ignorant of the congestion charging system, who pay the fines as they have insufficient time to correct their mistakes. If congestion charging schemes are to go ahead elsewhere, less expensive ways of administering them must be found. We endorse the policy of the London Mayor to make payment of the charge simpler and to reduce the level of fines through better information. (Paragraph 88)

12. Improving air quality and health in London is very important but it remains to be seen whether the London Low Emission Zone will achieve enough that would not have been achieved by other means to justify the overall cost. The Government and others need to be mindful of the impacts on business and employment in relation to the benefits when assessing methods to reduce harmful emissions from transport and to improve air quality. (Paragraph 96)

13. We are concerned at the increasing trend to base service charges, such as parking charges, on grounds unrelated to the service. If parking charges are to be used for wider policy purposes, these should be proportional, explicit and properly justified. (Paragraph 100)

What options might be tried and why?

14. The Government's research into road pricing has been underway for a long time, with apparently little to show for it. Ministers are reluctant to indicate when a decision is likely to be reached. The issues that we raised in our previous report remain to be resolved. Yet the UK has some of the best researchers and technology companies, and has the well-monitored experience of the London congestion charge to draw on. The Government should clarify its position on road pricing research: what has been learnt, what key steps remain to be identified, and when it is likely to be in a position to make a decision on implementation. The research also needs to show how road pricing can replace other taxes and charges on road users, otherwise it is unlikely to ever receive public support. (Paragraph 116)

15. It seems unlikely that more than a handful of local authorities will pursue congestion charge proposals in the near future. The Government therefore needs to reconsider its approach to the Transport Innovation Fund. Monies that were earmarked by HM Treasury for transport should not be lost to transport for want of a charging element in otherwise sound proposals. (Paragraph 121)

16. Congestion in our cities and on our major road network demands action. And the shift to low-carbon vehicles will reduce Government revenues from fuel duty and Vehicle Excise Duty. The Government needs to find a new consensus for the way forward on motoring taxation. This must be fair to all, including those on low incomes and those with limited transport choices. It must also be revenue neutral and not seen as an additional tax on road users. We accept that a consensus will be difficult to achieve but greater progress is needed. (Paragraph 127)

17. The Dutch seem to have found a winning formula for national road pricing, although it has yet to be tested against experience. UK authorities have designed schemes to cut congestion and improve public transport. In contrast, the Netherlands have based their scheme on fairness and replacing unpopular fixed taxes with a more equitable charge. It is simple to understand and comprehensive so it does not create anomalies. It has been developed with and by the country's major motoring organisation. The UK Government should monitor progress in the Netherlands carefully and see what lessons can be applied in the UK. (Paragraph 132)

18. Voluntary road pricing schemes—Government run or commercial—may offer a way forward. It may well be that a 'black box' offering a combination of information, communications, navigation, entertainment, safety features and pay-as-you-drive charging options may appeal to a significant number of motorists and businesses. If this influenced the behaviour of even a minority of drivers, persuading them to drive at less congested times, this might prove beneficial to all. In order for such schemes to be viable, the Government needs to work with industry to ensure that the infrastructure is in place and that systems are interoperable. We recommend this approach be pursued. (Paragraph 137)

19. Given the lack of progress with local congestion charging schemes, it is important that the potential benefits of workplace parking levy schemes are properly considered. The burden of such schemes inevitably falls on a minority of employers, which means that the response to consultation cannot be determined on the basis of a simple majority of respondents. The Government should provide guidance on the criteria on which the results of consultation for workplace parking levy schemes should be assessed and should produce proposals for a legislative framework for referenda on congestion charging schemes and workplace parking schemes. The decision on whether to proceed should, however, remain a local matter. (Paragraph 141)

Road freight

20. Competition between the UK freight industry and overseas hauliers must be on a fair basis and health, safety and environment standards must not be compromised. The Government seems to have made little progress on this since our last report on freight. The Government should speedily revisit the issue and update its assessments. It is evident that a national road pricing scheme for all vehicles is not in prospect in the immediate future. This means that the Government should consider if a lower-cost lorry user charging scheme might yield worthwhile benefits, within EU rules. Pricing incentives to encourage greater integration between road and rail freight services should also be incorporated into the scheme. (Paragraph 157)

21. Penalty charge notices are an enforcement tool and not a charge for a service. Yet they are a significant cost to industry and the private motorist. It is vital that penalty charge notices retain their credibility as an enforcement tool. They must not be used, or perceived to be used, as a means simply of raising revenue. Systems which rely on a high level of PCNs to enforce them would seem to have inherent design flaws. We recommend that the Government produce guidance to ensure that a greater proportion of revenue raised through penalty charge notices is redirected to resolving the problems that give rise to the infringements. This might include better signage, loading or parking facilities. (Paragraph 165)

Conclusion

22. There is insufficient linkage between HM Treasury's policy on road user taxes and the Department for Transport's policy on transport. We urge the Government to more closely integrate its policies on taxes on road users with its policies on transport. (Paragraph 169)

Annex—Road pricing in the Netherlands and Germany

1. The Transport Committee visited the Hague in the Netherlands and Hanover, capital of the State of Lower Saxony in Germany, from 17–20 November 2008. The purpose of our visit was to hear about different forms or road user charging as well as the licensing and enforcement of road safety standards for heavy goods vehicles. The visit was specifically linked to two inquiries for which we started taking oral evidence in November 2008. These were:

a) Taxes and charges on road users, and

b) The enforcement activities of the Vehicle and Operator Services Agency (VOSA).

2. The Netherlands was particularly pertinent to our inquiry on *Taxes and charges on road users* because it is the first country in the world preparing to introduce a national road user charging scheme for all vehicles on all roads. Germany already operates a motorway charging scheme for goods vehicles over 12 tonnes. Both Germany and the Netherlands have high volumes of transit freight vehicles, making them useful case studies for our inquiry into *The enforcement activities of VOSA*.

3. We met a wide range of politicians, officials, road user representatives and academics in both countries. We are most grateful to all those who took the time to meet us and to share their experiences with us. We are particularly grateful to Mr Herman Dinkla, President of the Lower Saxony State Parliament, Mr Hugh Mortimer, Deputy Head of Mission at the British Embassy in Berlin and Mr Lyn Parker, British Ambassador to the Netherlands for their kind hospitality in Hanover and the Hague respectively. We would also like to thank Max Scragg from the British Embassy in The Hague and Harriet Wells and Georgina Ellis from the British Embassy in Berlin for organising our programme and accompanying us throughout our visit.

The Hague

Mobility Policy 2004

4. The Netherlands has a high population density, which is relatively evenly spread, with the exception of the sparsely populated northern edge of the country. There are no large cities, such as London or Paris, and more than 40% of the population live in the so-called *Randstad* area. The *Randstad* covers four medium-sized cities—Amsterdam, Rotterdam, Utrecht and The Hague—and the areas in between these cities. There is a high density motorway network, as many main roads have been converted to motorways. Car ownership is 'moderate' although, due to the high population density, it has the highest density of cars in Europe (except for Malta) at 170 passenger cars per km^2. There is a well-developed and highly utilised rail system to complement transport by road. A dedicated freight line has been built from Rotterdam to Germany.

5. In 2004, the Dutch Government launched a national strategy for transport, the Mobility Policy. The policy was drawn up at a time when the primary focus was on the impact of transport and congestion on the economy. It is now being updated to take account of shifting policy priorities, notably climate change and sustainability issues. The new emphasis on sustainability has helped to win greater public acceptance for the strategy. The Mobility Policy seeks to integrate all modes of transport in a 'door-to-door approach'. The objective is that all citizens should have reliable, predictable and acceptable travel times by 2020.

6. Travel by all transport modes (car, rail, other public transport and bicycle) has increased greatly over the past half century, but as in most other Western countries, the growth in car travel has outstripped other modes to become the dominant mode. Traffic growth in the Netherlands, particularly the *Randstad* is exceeding available road capacity and causing increasing congestion. The biggest challenges are in the metropolitan areas. The objective of the Mobility Policy is to optimise the use of existing infrastructure before building new, and to introduce road pricing before 2012. This includes dynamic traffic management. Parallel objectives of the Mobility Policy are to facilitate seamless transfers between different transport modes (public transport, car and bicycle), and improve the railways, particularly by tackling overdue maintenance.

7. The 2004 Mobility Policy did not reverse the trends for growth in car use and congestion. A revised Strategic Mobility Action Plan was therefore launched in October 2008. This plan adds three new strands to the Mobility Policy. Firstly, new infrastructure will now be built concurrently, not consecutively, with the other pillars in the action plan. Secondly, a new awareness-building programme is to be adopted. Road pricing is part of the awareness-raising programme. It is intended to make it easier for travellers to compare the costs of car and public transport trips. Finally, public transport services will be expanded and improved. The objective is that all these measures will come to fruition before 2028, when the Netherlands hopes to host the Olympic Games.

8. The road network in the west of the country is to be improved with dual 4-lane highways. There will be greater separation of "ongoing" and regional traffic and the target is to increase the average speed for cars. Smoother traffic flows and reduced congestion are expected to marginally reduce CO_2 emissions. Casualties are not expected to be affected as a result of these measures.

9. Unlike the UK or France, the Netherlands does not have a regional (secondary) road network. This means that all traffic is routed onto the motorway network, even for relatively short distances. Furthermore, because there are very few alternative routes, road works can cause long delays. The Dutch motoring organisation, ANWB has proposed a 'Robust Network vision' whereby long distance and regional (<30 km) traffic would be separated. This would require an improved network of inter-urban regional roads with more multi-level junctions, and motorways would have fewer entry/exit points. The road pricing scheme would provide additional funds for these road improvements.

Travel in cities

10. We heard that building additional capacity for cars in cities is not seen as a viable or desirable option. Demolishing buildings to make way for roads is not seen by the public as

an acceptable option. A number of options have been tried to reduce congestion in cities. Cycling is being promoted successfully but there are cultural objections to cycling from some ethnic groups, which need to be addressed. Park and ride schemes have not been particularly successful, perhaps because the congestion is not bad enough and public transport is not fast enough for drivers to choose this option. Parking restrictions and high parking charges in cities were seen by some as key to make this policy effective. There is a growing trend towards banning large goods vehicles from towns and some rural areas, and freight industry representatives told us that this was causing difficulties for operators.

11. There have been experiments with free public transport but generally this is not feasible. The experiments did not achieve a significant transfer from cars to public transport. There has, in any case, been a 50% growth in public transport use over the past 20 years and some local authorities are concerned that they do not have adequate funding to expand service provision to match the growth. We were told that in The Hague, and elsewhere, there is an outflow of population from cities to smaller towns and villages. This presents a different transport policy challenge for local authorities. It is harder to serve a more dispersed population through public transport.

Road Pricing in the Netherlands

12. There have been six previous attempts to introduce road pricing and congestion charging in the Netherlands. All have failed due to insufficient public and political support. Previous proposals had always been justified on congestion and environmental grounds. The current proposal is to replace fixed taxes (car purchase tax and 'circulation' tax) with a charge per kilometre. There are no plans to reduce fuel tax.

13. The scheme is not designed to charge drivers for the cost of 'externalities' but simply to replace the revenues from existing fixed taxes, notably car purchase tax, with a charge which reflects the use of the road network rather than car ownership. In other words, fairness is a key principle of the scheme, which will be 'burden neutral'.

14. The scheme implementation costs are estimated at £3 billion and the Dutch Parliament has imposed the condition that operating costs must be less than 5% of revenue from the scheme. This is a major 'headache' for officials who currently forecast costs to be between 7% and 8%. Operating costs of 5% would be a great achievement compared to existing charging schemes elsewhere.

15. The Dutch Government recognised from the outset that for any road pricing scheme to gain public and political acceptance, it was essential to build a broad and consensual coalition behind the scheme. Consequently, a coordinating group 'Platform' was established in 2005 to design the new scheme. Platform was chaired by Mr Nouwen, a former President of the Royal Dutch Touring Club (ANWB) who had been a leading opponent of previous road pricing proposals, notably in 1999. Community and business organisations were also involved. Platform concluded that:

a) a price-per-km scheme that varies by time, place and environmental impact should be introduced;

b) the scheme should cover all roads and all vehicles;

c) current fixed and annual taxes for vehicle purchase and ownership should be eliminated, and

d) revenue should be ring-fenced for investment in mobility policy, mostly road infrastructure but also public transport.

16. The Government accepted these recommendations, and road pricing is to be introduced on all roads, for all vehicles, with a basic rate for all roads and an additional congestion charge based on time and place. The rates will vary for different vehicle types according to their environmental characteristics. The charges will be set to yield an amount equivalent to the revenues that will be foregone from the reduction in other taxes—"burden neutrality". The system will be based on satellite technology there will be multiple service providers if possible. The scheme will be phased in, starting with large goods vehicles in 2011 and with cars starting to pay between 2012 and 2016. It is forecast that the charge will reduce traffic marginally but that it will have a substantial impact on congestion. There will be small reductions in CO_2 and PM_{10} emissions.

17. All vehicles will be fitted with an on-board unit (OBU) that will link to GPS satellites. Lorries must be fitted with an OBU at the owner's expense. Foreign-registered lorries will be required to pay but will not be obliged to fit an OBU. (Under EU legislation, OBU-fitment cannot be made compulsory.) The desire is to include foreign cars but there is no firm proposal at present.

18. The data on location, time and distance travelled will be stored in the OBU—only information on the charges will be held centrally. This is to meet privacy and data protection requirements stipulated by the Dutch Information Commissioner. The initial cost of installing an OBU in existing cars will be paid by the Government. The objective is to have a system that is 99% accurate in terms of communications and location.

19. A series of trials with motorists will take place in 2009–10. Legislation and final implementation decisions are planned for 2009–10. It is a major challenge for the Dutch Government to identify suitable business partners and to procure systems. The Government is seeking multiple suppliers to reduce the risk of creating a monopoly supplier. It is hoped that additional commercial services, such as roadside assistance, can be incorporated into the system in order to share the fixed costs, thus reducing costs to the Government. Legislation is coming into force, and the tendering process is due to commence in early 2009. The Royal Dutch Touring Club (ANWB), along with other key stakeholders, is closely involved.

20. The Dutch scheme will be unique—there is no other road pricing scheme in the world that covers an entire country, includes passenger cars, and is based on burden neutrality. The car purchase tax, annual circulation tax, *Eurovignette* and provincial charges currently raise £8 billion. This will be transferred to the price per km charge. The changes to fixed taxes are being phased in prior to 2012. It is estimated that about 50% of motorists will be better off under the proposed system as their mileage is lower than the average.

21. The Dutch motorists' organisation, the ANWB, had opposed previous road pricing proposals, but supports the current scheme fully, albeit conditional on evidence that:

a) the system will be fair: motorists will pay only for the driving they undertake;

b) the system will be cost neutral;

c) privacy is guaranteed;

d) revenue is hypothecated for spending exclusively on infrastructure;

e) the ANWB will have a say in spending decisions;

f) the system will be transparent; and

g) alternative transport options must be adequate.

22. The organisation conducted a large scale survey on the attitudes towards road pricing among its 3.9 million members. This showed that 70% were opposed to road pricing, but lacked a clear understanding of the details of the scheme. Once members were given an in-depth explanation of the scheme, the results were reversed. ANWB representatives emphasised to us that communication was crucial. If the ANWB's conditions were not met in full, and a majority of its members continued to oppose the scheme, the ANWB would withdraw its support. The ANWB's current concerns were about the lack of guarantees for multiple service providers, and the lack of ability to challenge the kilometres recorded.

23. Dutch hauliers are strongly in favour of the Dutch road pricing scheme as they believe it is fair, open, comprehensive and includes the hypothecation of revenue for road investment. The scheme is intended to be revenue neutral for Dutch lorries. Hauliers made the point that it was easier for them to calculate and transfer per-kilometre costs to customers than was the case with the current fixed cost type of taxation. Industry representatives did, however, express some anxiety about competition from foreign-registered vehicles, and the possibility of such vehicles escaping the charge.

24. Local authorities were generally supportive of the road pricing scheme. However, there was, as yet, no agreement about how the revenues from the kilometre charge would be distributed to local government, which would be crucial to their ability to help achieve the objectives of the scheme.

25. Representatives of several different organisations and interest groups that we met noted that there will be a General Election in the Netherlands in 2010, but none of them thought the road pricing scheme would be an issue in the election campaign, nor indeed in voters' choices.

Eurovignette

26. The Dutch Government welcomes the broad tenets of the *Eurovignette* Directive, including moves to provide a European methodology for the internalisation of external costs, in order to reduce the negative impacts of transport. However, the Dutch Government believes that the effect on the environment and competitiveness must be known. Internalisation needs to be part of a broader strategy and the differences between modes should be taken into account. It wants the scope of the Directive extended to the entire road network, to include compulsory earmarking (hypothecation) of revenues and binding calculations (caps). The scheme must be fair, balanced and effective.

27. Dutch hauliers accept the 'polluter pays' principle inherent in the *Eurovignette* Directive, and want this applied to all modes, including rail. They also want to see noise pollution included in the calculation of externalities. Industry representatives also argued that it was wrong to charge only large goods vehicles (LGVs) for congestion as they suffer from congestion to a greater extent than they cause it.

The road freight industry in the Netherlands

28. We heard that Dutch hauliers have a strong position in European logistics, based in part on the strong onward links afforded by Rotterdam port and Schipol airport. 12,000 road freight operators are registered in the Netherlands. A high proportion of these operate internationally. Around 60% have between one and four lorries, but the sector is becoming more polarised with increasing numbers of one-man operators and large companies—the number of mid-size operators is declining. There is a high level of sub-contracting in the sector.

29. Industry representatives told us that the economic recession was having a serious impact on the industry. The main haulage costs were labour and fuel, and the volatility in fuel prices had been difficult for operators to manage. The market was very competitive and margins were low. We were told that much international road transport was now loss-making.

Longer and heavier vehicles

30. The policy of promoting a modal shift of freight from road to rail has had only minor impact in the Netherlands. The freight industry supports the expansion of rail transport but the quality of service is seen as inadequate to meet the needs of many potential customers. Freight industry representatives said that the dedicated rail freight line, costing £5 billion, could not so far be seen as a success. The line had not been promoted in Germany, and this was perhaps symbolic of the inadequate international and EU cooperation on rail freight issues in general. The industry would like to see liberalisation and competition in rail freight in order to improve service quality. In the view of Dutch hauliers, lorry road user charging would be likely to produce only negligible modal shift to rail. They felt that quality improvements were a more important factor, but stressed that most road haulage is short-distance and therefore not viable as rail freight.

31. Government policy is now focused on increasing efficiency within modes, rather than seeking to stimulate a modal shift. There are limited options to increase efficiency of road freight, and there is a shortage of LGV drivers in the Netherlands. Longer and heavier vehicles (LHV) could reduce costs (by up to 25%), reduce emissions, and increase capacity. Dutch hauliers are strongly in favour of the introduction of larger and heavier vehicles (LHV) throughout Europe.

32. The Dutch have conducted trials with 162 combinations of LHV vehicles, involving 76 operators. The maximum LHV length is 25 metres, as compared to the 18.75 metres permitted under current regulations. The maximum LHV weight is 60 tonnes. The trials showed that savings of vehicle miles, fuel consumption and CO_2 emissions could be realised through the use of LHVs, potentially reducing transport costs by 30%.

33. Government representatives admitted that LHVs are an emotive subject but the Dutch Government believes there are significant benefits to their use. They suggest that 200–400 million km (7–14% of total) could be saved. LHVs are more suitable for light goods, over longer hauls (750 km). A report produced on behalf of the European Commission recommends the introduction of LHVs. Many EU governments also favour permitting these vehicles for international use, but both the German and UK Governments are opposed to the use of LHVs.

Cabotage

34. The Dutch haulage industry is opposed to the protection of domestic road freight markets. *Cabotage* levels in the Netherlands and Germany are amongst the highest in the EU due to the comparatively low labour costs of competing countries, particularly in Eastern Europe. Industry representatives told us that it is impossible to enforce current *cabotage* rules properly[147] and they would like them abolished—a view opposed by the Governments of the UK, France and Germany. Dutch hauliers do not believe that foreign-registered lorries or drivers—including those from CEE states—have a worse safety record than they do.

35. Dutch hauliers told us that illegal immigrants were a growing problem for hauliers travelling to the UK. In their view, UK authorities were now fining hauliers but were doing less to eliminate the causes of the problem. It was very hard for drivers to detect or prevent illegal immigrants from boarding vehicles as the traffickers were becoming very sophisticated.

Hannover

36. More than one third of German economic output goes to export, earning the country a place among the top three exporting economies in the world. The German freight market is dominated by road haulage, facilitated by the extensive network of more than 12,000 km of motorways (*Autobahnen*) Although rail and inland waterways are handling increasing shares of the freight market, road haulage remains dominant.

The 'Maut'

37. The German *Maut*, the road user charge levied on Heavy Goods Vehicles on German Motorways, was introduced by the Federal Government in January 2005. The system is operated by a private consortium of companies, led by Deutsche Telekom and Daimler Financial who have formed Toll Collect as a joint venture. The charge applies to vehicles weighing in excess of 12 tonnes only, and is calculated on the basis of kilometres driven as well as the emissions category and the number of axles of a vehicle. The charge applies to German and foreign-registered vehicles alike.

38. The objective of the *Maut* was, in part, to optimise the management of congestion on the motorway system, and to raise funds for renewed investment in transport

147 These rules seek to restrict foreign-registered vehicles to three trips per week within an EU country other than the country of registration.

infrastructure. The legislation introducing the *Maut* did not include hypothecation, but the political settlement between the States, as represented in the Upper House (*Bundesrat*) and the political parties in the Federal Parliament (*Bundestag*) included an understanding that revenue raised from the toll would be reinvested in the road network.

39. The *Maut* is an automatic system based on GPS technology and on-board units (OBU) in the vehicles. There are no toll booths, and therefore disruption to the traffic flow. Vehicles not fitted with OBUs—primarily foreign vehicles—are able to pay the toll manually on the internet or at more than 3,500 toll station terminals, eg petrol stations. More than 600,000 vehicles from many different countries are fitted with OBUs. About 90% of toll revenue is collected through OBUs, with the remaining 10% being processed through the manual payment systems. Monitoring via gantry-mounted cameras as well as stationary and mobile enforcement checks serve to prevent toll avoidance and to ensure that drivers who do circumvent the system are caught and fined. Violation rates are, apparently below 2%, though industry representatives argued that toll avoidance was very high among non-German hauliers. First time offenders are fined between €100–€400, with the maximum fine, reserved for repeat offenders, set at €20,000.

40. We heard some concern from freight industry representatives about errors arising from inaccurate readings. One example was that HGVs travelling on roads adjacent to motorways were sometimes detected by the GPS system as being on the toll network.

41. Industry representatives told us that the structure of toll rates is characterised by certain anomalies. In particular, whilst vehicle emissions class, along with axle weight, is key to the toll incurred, the rates for different emissions classes do not always allow for sensible investment decisions. The classification of vehicles used is the Euro 1–5, where 5 is the least polluting type of vehicles. Euro 5 will only be introduced in September 2009, whilst a Euro 6 class will be phased in from 2014. Most German hauliers have invested in Euro 3 vehicles and expect to upgrade directly to Euro 5, skipping Euro 4 which does not give large emissions benefits. However, the 2009 charge per kilometre for Euro 3 was increased from €0.13 per km to €0.204 per km for vehicles with four or more axles. As a result, many hauliers are paying substantially higher tolls at a time of recession without being able to make a sensible investment to upgrade until Euro 5 is introduced. The Federal Government argues that once fleets are able to convert to Euro 5, toll revenues will decline. However, this ignores the growth in vehicle kilometres.

42. The net revenue from the *Maut* goes to the federal government rather than the individual states where the revenue is raised. Annual gross revenue was €3.4 billion in 2007, but the cost of operating the toll system is considerable. The net revenue, or 'profit', is mostly spent on roads, with some funds going to rail and inland waterway infrastructure. Industry representatives were critical not only of the high administration costs but also of the way in which the revenue was spent. They had expected the revenue raised to be invested in the construction of new motorway infrastructure. In reality, the money had been ploughed into the maintenance of existing infrastructure. Funds from general taxation for the motorways had declined to offset the new toll revenue. Overall motorway expenditure had not increased in 2005–2008, as compared to 2001–2004, before the introduction of the toll.

43. Toll rates have increased in 2009, a move which was strongly opposed by German industry—not just the freight industry—who were concerned about the additional costs being passed on to consumers in an already depressed economic environment. The increase has only served to strengthen the calls to ensure that, at the very least, all toll revenue be earmarked for investment in new motorway infrastructure.

44. There have been suggestions that the *Maut* should be extended to include cars. German industry is strongly opposed to this proposal because of the potential impact on the German automotive industry and consumers alike. Furthermore, it was felt that if the tolls were applied to cars, many drivers were likely to switch from the motorways to untolled local roads, resulting in increased congestion and increased emissions of greenhouse gasses. Also, the system capacity would have to be greatly upgraded to cope with millions of passenger cars.

Foreign registered vehicles

45. Until 2005, Dutch hauliers were the dominant European hauliers, but this position has now passed to companies based in Poland. Many of these are owned by German and Dutch companies which have ‘flagged out’ (registered in another country) in order to benefit from the significantly lower labour and fuel costs in Poland.

46. In Germany, some 70% of exported freight is carried by foreign-registered hauliers. Such hauliers are meant to pay the road toll, irrespective of whether they are fitted with OBUs. We heard forceful criticism from the German haulage industry that enforcement against foreign-registered vehicles not fitted with OBUs is sorely inadequate. It was also highlighted to us that existing *cabotage* rules are of limited benefit because they are virtually unenforceable. We were told that, as in most other EU states, data on *cabotage* is unreliable due to non-declaration, and the statistics are therefore unreliable too.

47. Unlike the planned scheme in the Netherlands, the *Maut* was not accompanied by a commitment to an equivalent reduction in other taxes and charges on hauliers. German hauliers therefore pay the toll on top of the pre-existing fuel and vehicle taxes, affecting their ability to compete with hauliers from neighbouring countries where these taxes and fuel prices are significantly lower. For example, many LGVs can drive 3,500 km on one tank of diesel, and foreign drivers are therefore able to avoid buying fuel in Germany altogether, saving significant sums of money.

48. A fixed rebate of €600 million for German hauliers in the form of reduced vehicle tax and an innovation programme was included in the political settlement that laid the foundation for the *Maut*. However, German hauliers expressed considerable dissatisfaction with the fact that only €350 million has so far been rebated. This compares with €1.8 billion of tolls paid by German hauliers.

49. Although the toll means that foreign hauliers now pay a fairer share of road costs in Germany, industry representatives emphasised that the failure to compensate German hauliers adequately has had a significant adverse impact on their competitiveness. This was compounded by the tough economic climate, high petrol prices and the fact that regulations are more onerous in Germany than in many other European countries.

Outcome

50. The volume of large goods vehicles (LGVs) on German motorways has not reduced—international trade has continued to grow and demand for road transport is 'inelastic'. In fact, total toll kilometres increased from 24 billion in 2005 to 29 billion in 2007. However, according to Government representatives, capacity is now significantly better used with improved loading levels, and the proportion of vehicles travelling empty reduced by around 10%. There has also been a modest increase in rail freight of around 7%, though it is difficult to determine to what extent this results from a modal switch from roads. There has been very little diversion of traffic on to other roads, as some critics had feared before the introduction of the toll. Evidently, any savings in tolls are outweighed by the increased costs from longer journey times. Another fear had been that hauliers would switch to smaller vehicles which do not have to pay the toll, but again, there has been only a small increase in the number of vehicles below 12.5 tonnes. The proportion of lower emission LGVs on the roads has increased. The number of vehicles in the most polluting categories has halved. However, it is difficult to determine the overall impact on emissions resulting directly from the *Maut*, partly because it is difficult to distinguish the impact of the toll from the impact of high fuel prices and other factors.

51. Some industry representatives felt the Government overstated the positive impact of the toll, arguing that the true impact on traffic volume, congestion and emissions had in fact been negligible. They presented data showing that there had been no reduction in vehicles running empty since the Maut was introduced. In their view, there was an urgent need for a reappraisal of the system and, in particular, for renewed investment in motorway infrastructure. The German haulage plan was already outdated. In 2008, actual demand for road haulage had passed the 2015 projection. Further rapid growth was predicted.

LGV enforcement

52. The BAG, the German Agency for Freight (*Bundesamt für Güterverkehr*), carries out many of the functions with which VOSA is charged in the UK. The BAG is responsible for the inspection of large goods and public service vehicles (LGVs and PSVs), carrying out more than 600,000 inspections per year. The BAG works closely with other authorities such as customs and the police both in Germany and in neighbouring countries. The BAG is charged with enforcement of the *Maut*. Toll Collect, the company which runs the *Maut* provides the technology and equipment required by BAG to enforce the toll.

53. We heard that there are particular concerns about overloaded vehicles—mostly 40 tonne LGVs as well as infringements of drivers' hours regulations. There is a widespread perception that a disproportionate number of infringements occur with vehicles registered in countries other than Germany. However, the safety of LGVs overall has improved substantially over the past 25 years, with deaths per million vehicle kilometres reduced from 7.5 in 1982 to 2.3 in 2007. Total deaths involving LGVs have fallen by 41% over this 25 year period. The evidence does not support the view that the safety record of foreign-registered vehicles, including those from EU accession states and central and Eastern Europe, is any worse than for German vehicles.

Formal Minutes

TUESDAY 14 JULY 2009

Members present:

Mrs Louise Ellman, in the Chair

Mr John Leech	Graham Stringer
Sir Peter Soulsby	Sammy Wilson

Draft Report (*Taxes and charges on road users*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 169 read and agreed to.

Annex, *Road pricing in the Netherlands and Germany,* agreed to.

Resolved, That the Report be the Sixth Report of the Committee to the House.

Ordered, That the Chairman 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.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Wednesday 15 July at 2.30 pm.

Witnesses

Wednesday 11 February 2009

List of written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2008–09

First Report	Work of the Committee in 2007–08	HC 211
Second Report	School Travel	HC 351 *(HC 561)*
Third Report	Appointment of the Chair of the Office of Rail Regulation	HC 433
Fourth Report	The Effects of Adverse Weather Conditions on Travel	HC 328
Fifth Report	The Use of Airspace	HC 163
Sixth Report	Taxes and charges on road users	HC 103

Session 2007–08

First Report	Galileo: Recent Developments	HC 53 *(HC 283)*
Second Report	The London Underground and the Public-Private Partnership Agreements	HC 45 *(HC 461)*
Third Report	Work of the Committee in 2007	HC 248
Fourth Report	The future of BAA	HC 119 *(HC 569)*
Fifth Report	Ticketing and Concessionary Travel on Public Transport	HC 84 *(HC 708)*
Sixth Report	The Blue Badge Scheme	HC 475 *(HC 1106)*
Seventh Report	Department for Transport Annual Report 2007	HC 313 *(HC 1102)*
Eighth Report	Freight Transport	HC 249 *(HC 1103)*
Ninth Report	The Draft Marine Navigation Bill	HC 709 *(HC 1104)*
Tenth Report	Delivering a sustainable railway: a 30-year strategy for the railways?	HC 219 *(HC 1105)*
Eleventh Report	Ending the Scandal of Complacency: Road Safety beyond 2010	HC 460 *(HC(07–08)136 & HC(07–08)422)*
Twelfth Report	The opening of Heathrow Terminal 5	HC 543

Session 2006–07

First Report	Work of the Committee in 2005–06	HC 226
Second Report	The Ports Industry in England and Wales	HC 6I–I & 61–II *(HC 954)*
Third Report	Transport for the London 2012 Olympic and Paralympic Games: The Draft Transport Plan	HC 199 *(HC 484)*
Fourth Report	Department for Transport Annual Report 2006	HC 95 *(HC 485)*
Fifth Report	The Government's Motorcycling Strategy	HC 264 *(HC 698)*

Sixth Report	The new National Boatmasters' Licence	HC 320–I & 320–II *(HC 1050)*
Seventh Report	Novice Drivers	HC 355–I & 355–II *(HC 1051)*
Eighth Report	Passengers' Experiences of Air Travel	HC 435–I & 435–II *(HC 1052)*
Ninth Report	The draft Local Transport Bill and the Transport Innovation Fund	HC 692–I & 692–II *(HC 1053)*

Session 2005–06

First Report	UK Transport Security – preliminary report	HC 637
Second Report	Financial Protection for Air Travellers: Second Report Abandoning Effective Protection	HC 636 *(HC 996)*
Third Report	Going for Gold: Transport for London's 2012 Olympic Games	HC 588–I & 588–II *(HC 1152)*
Fourth Report	Departmental Annual Report 2005	HC 684 *(HC 1517)*
Fifth Report	Future of the British Transport Police	HC 1070–I & 1070–II *(HC 1639)*
Sixth Report	How fair are the fares? Train fares and ticketing	HC 700–1 & 700–II *(HC 1640)*
Seventh Report	Parking Policy and Enforcement	HC 748–I & 748–II *(HC 1641)*
Eighth Report	Piracy	HC 1026 *(HC 1690)*
Ninth Report	The work of the Department for Transport's Agencies – Driver and Vehicle Operator Group and the Highways Agency	HC 907 *(HC 1615)*
Tenth Report	Roads Policing and Technology: Getting the right balance	HC 975 *(HC(05–06)290)*
Eleventh Report	Bus Services across the UK	HC 1317 *(HC(05–06)298)*
Twelfth Report	Local Transport Planning and Funding	HC 1120 *(HC(05-06)334)*
Thirteenth Report	The work of the Civil Aviation Authority	HC 809 *(HC(05–06)371)*
Fourteenth Report	Passenger Rail Franchising	HC 1354 *(HC(05–06)265)*
First Special Report	The Performance of the London Underground: Government Response to the Committee's Sixth Report of Session 2004–05	HC 431
Second Special Report	The Departmental Annual Report 2004: Government Response to the Committee's Fourth Report of Session 2004–05	HC 432
Third Special Report	Integrated Transport: the Future of Light Rail and Modern Trams in the UK: Government Response to the Committee's Tenth Report of session 2004–05	HC 526
Fourth Special Report	Search and Rescue: Government Response to the Committee's Eighth Report of Session 2004–05	HC 586
Fifth Special Report	Rural Railways: Government Response to the Committee's Fifth Report of Session 2004–05	HC 587
Sixth Special Report	Tonnage Tax: Government Response to the Committee's Second Report of Session 2004–05	HC 611
Seventh Special Report	Financial Protection for Air Travellers: Government and Civil Aviation Authority Responses to the Committee's Fifteenth Report of Session 2003–04	HC 639
Eighth Special Report	European Community Competence and Transport: Government Response to the Committee's Ninth Report of Session 2004–05	HC 976

Oral evidence

Taken before the Transport Committee

on Wednesday 5 November 2008

Members present

Mrs Louise Ellman, in the Chair

Mr David Clelland
Mr Philip Hollobone
Mr John Leech
Mr Eric Martlew
Mark Pritchard
David Simpson
Graham Stringer

Witnesses: **Professor Stephen Glaister CBE**, Director, Royal Automobile Club Foundation for Motoring, **Dr Malcolm Fergusson**, Senior Fellow, Institute for European Environmental Policy and **Mr Andrew Leicester**, Senior Research Economist, Institute for Fiscal Studies, gave evidence.

Chairman: Good afternoon everyone and welcome to our inquiry. I would like to start by asking Members if they have any interests to declare: Mr Clelland.
Mr Clelland: A member of Unite.
Chairman: Mr Martlew?
Mr Martlew: A member of Unite and GMB Union.
Chairman: Louise Ellman, member of Unite. Any others? Mr Stringer.
Graham Stringer: Member of Unite.

Q1 (5.11.08) Chairman: Could I ask our witnesses please to introduce themselves for our record?
Professor Glaister: Good afternoon; my name is Stephen Glaister, I am Emeritus Professor at Imperial College London but I am here in my capacity as Director of the RAC Foundation, which is an independent charitable Trust.
Dr Fergusson: I am Malcolm Fergusson; I am from the Institute for European Environmental Policy. I work mainly on transport and environment issues and in particular transport taxation and charging.
Mr Leicester: I am Andrew Leicester, Senior Research Economist at the Institute for Fiscal Studies and I work mainly on environmental and environmental tax issues.

Q2 (5.11.08) Chairman: Which current taxes and charges should be regarded as charges for the use of roads?
Professor Glaister: We will no doubt come across this a great deal in this inquiry but it depends exactly what question you are asking, what is it you are trying to achieve by what you might call taxes and charging? If you are trying to find a more efficient and fair way of charging for a road network and for its expansion and maintenance then you will of course look at the charges that people pay for the use of the network—things like fuel duty and vehicle excise duty. If you are asking whether in some sense the total tax take balances the total expenditure on roads and the associated facilities then you may want to include other things like parking charges, taxes on vehicle insurance—a long list of other items—and perhaps VAT is another item that you would include in there, but that is for debate. It is hard to give a simple answer to your question; it goes to the fundamental issue of what you are trying to achieve.

Q3 (5.11.08) Chairman: Should any of these items be seen as taxes on road users or should they be seen as part of general taxation? Does anybody else want to join in on that one?
Dr Fergusson: I think I agree with Stephen; that has been the subject of some confusion over the years and decades, particularly with what used to be the road fund licence. There is a persistent mythology that that actually pays for roads, which of course is not actually true. Just one thing to add is that obviously some of these things have developed an environmental component over the years, for example the fuel duty escalator and the graduation of vehicle excise duty to reflect CO_2 emissions; but they are not actually environmental taxes proper, they are part of the revenue raising system in general to which some purposes of regulating road use and of controlling environmental impacts have been super-added over time.
Mr Leicester: The only thing I would add—and I agree with what has been said so far—the one issue that Stephen raised was about VAT and payments in VAT by road users and whether they should or should not be included. Perhaps with the exception of VAT, which is charged on top of the duty, I would tend to argue against including VAT paid for car purchases or servicing or things that are bought by road users as taxes on road users; specifically I would see it more as a general consumption tax rather than something which should be seen as a specific charge or tax on road users *per se.*

Q4 (5.11.08) Chairman: How would you say that revenue from road users compares with national and local government expenditure on the roads network? What is the balance there, do you think?
Professor Glaister: In terms of arithmetic?

Q5 (5.11.08) Chairman: To meet the costs of running the network?

Professor Glaister: I think, Chair, you have in the written evidence several different accounts of that. I am not suggesting that anyone has it right or wrong; it is just that, as I said earlier, it all depends on what you include. I think the simple arithmetic tends to suggest that whether or not you include VAT the total tax take from road users considerably exceeds the amount of money spent by national government and local authorities on providing and maintaining the road network. The broader question though is whether if you were to include costs imposed on other people, such as environmental costs, which way the balance would go then, and perhaps you want to pick up that point later on?

Dr Fergusson: Yes, that changes the balance quite a bit. I definitely agree; the tax take on road users clearly exceeds the direct spending on the road system and so on, that is clear. There was some research a few years back, though, which did suggest that if you add in all the externalities—noise, severance of communities and so on, in so far as you can bill for them—tends to find that car users about covered and truck users did not cover their full costs if you include the externalities.

Q6 (5.11.08) Chairman: If we are looking at costs of the road system what sorts of things would you include in the costs?

Professor Glaister: Let us look at the fundamental issues. There is the provision of the road network, by which I mean not the historic investment but the fact that you have to maintain it and perhaps expand it to serve housing estates and to deal with increasing demand on the network. So there is the provision of that. There are things like policing, licensing, and I think the Chartered Institute have a figure of round about £4 billion a year for those kinds of items. So, as it were, those are the direct costs. There are then the costs in terms of noise pollution, environmental pollution, landscape effects, damage through air quality and, importantly, these days, what view you might want to take about carbon and global warming costs. There are external accident costs—that is the big item—the fact that if you take a trip on the road you are increasing the risk to other people of having an accident. So there are costs that you do not bear yourself, you impose on others. I commend the work that the Institute for Transport Studies at Leeds did for the Department some time ago, which tries to catalogue these costs and give the best estimates of the unit values of those things. We in our work have relied a great deal on those estimates—I think they are very good.

Q7 (5.11.08) Chairman: Would you include congestion in this?

Professor Glaister: Yes, I would but it is a little bit different in that congestion is a cost one road user imposes on another road user as distinct from a cost imposed by road users on other people. You might argue that they both ought to be taken into account in the charging mechanism but in the case of costs imposed on third parties it is right to charge them but also right that that revenue should be used to mitigate the damage, which it is not at the moment—it just goes into the general exchequer. In the case of road congestion I believe—and the Foundation is on record of advocating this—there is a more intelligent way of charging for congestion so that people are faced with the cost of their own decision on other road users because they will slow other people down in those circumstances where the network is congested, and that will give people a real incentive to moderate their behaviour; to use quieter roads or, more importantly, quieter times of day and get a more efficient use of the network. So there are several jobs being done here. One is to get more efficient use of the network and another is to compensate for the damages done to third parties.

Q8 (5.11.08) Chairman: Does anyone else have a different view?

Mr Leicester: I would agree that congestion costs should be included within the broad-brush description of what are the external costs of motoring—I would certainly include congestion costs. And the traditional definition, if you like, is that an externality is a cost that you impose on others that you do not take into account when making your own private decisions and clearly the costs that you impose on other road users are examples of that, although they are internal to the system of road use as a whole. There are probably some third party costs to congestion—maybe if you are late for meetings or you are late for wherever it is that you need to be at a particular time because of congestion and that imposes costs not just on me but on other people. So I do not think it is a purely internal externality.

Professor Glaister: If I might just add, the Eddington Review, which I think was a very good one on this subject, identified not only the cost to private vehicles and freight directly but the cost to the economy as a whole of road congestion. If you believe the kinds of estimate that Eddington recorded—and indeed I think the Department itself has recorded—you will see that these are very, very substantial numbers. Congestion is far and away the biggest of the effects we have been talking about, if you take those numbers as given. I said earlier that there might be an argument for environmental charges being used to mitigate the environmental effects. I think there is also an argument that if you were to charge for congestion you should be using at least some of that revenue to mitigate the congestion: in other words, to expand the road network, because if you have very severe congestion the charges you will get from, if you like, correct charges for that congestion are a very clear economic signal that there is a pretty good case for expanding the network in that location.

Q9 (5.11.08) Mr Leech: Is there not clear evidence though that when you build new roads you just fill them with cars?

Professor Glaister: There is clear evidence that if you build new roads in the right places there will be circumstances where more people want to use the system than could at the previous time, therefore there will be more traffic—that is the point of building the road. What you will find is that an equilibrium will be established where there will be more traffic but less congestion; the road generally speaking will not just fill up and, in any case, if it did that new traffic is getting the benefit from being able to move around. I think the notion that people have this idea that you cannot build new roads because they just fill up with traffic is a false argument. You will get a better equilibrium. That is what standard appraisals will show you; they will show you the benefits to the newly flowing traffic. Whenever you provide a new public service you will get new users and they will get the benefits from it. If you build a new hospital you will get more healthcare, that is the point. So I do not see that as an argument against the capacity—you have to show that the benefits exceed the costs.

Dr Fergusson: I would take a slightly different view of that, as you might expect. You could do that but of course another thing is that you can use the pricing mechanism as a way of using the system that you have most efficiently. If you look at the history of traffic in this country, the expansion of car ownership and the building of the motorways led to a huge explosion in road traffic. We can only actually add fairly marginally to that probably without causing a large amount of environmental damage, and it is the case that there is potential for the traffic to grow to fill up whatever space is available. So one has to take a view on whether you think that is desirable or not. Stephen is arguing it is and I would say that I am not sure that it is.

Q10 (5.11.08) Mr Leech: Surely the idea of introducing congestion charging is not about just tackling congestion, it is actually persuading people out of their cars in the first place and giving them an alternative. So if you introduce congestion charging and build new roads as well you just give the drivers different roads to drive on rather than advising them to make other choices.

Professor Glaister: May I change the terminology to road pricing rather than congestion charging, the difference being that road pricing is charging for all the things we talked about earlier—congestion, environmental pollution and so on and so forth. Several bodies have done extensive research, including the Department for Transport and the Eddington Review, into what road pricing might lead you to. When you price all of these things correctly, whatever that might be, then you can ask the question: as long as people are paying these prices is it worth expanding the road network? To which the answer is yes, in the right places. You still get a residual case for quite a lot of new capacity as long as people are paying generally all the environmental costs, the carbon costs and so on. So it is not just about congestion. I would say that I would accept the argument very much for more efficient pricing on the existing network but it absolutely is politically and economically impossible, unless you are also willing to consider some expansion of the road network and some expansion of the public transport network as part of the package.

Q11 (5.11.08) Graham Stringer: If I can just follow that up before I come to the questions I am going to ask because I think the point you made earlier is very interesting, Professor Glaister, about the Eddington Report and the costs imposed by congestion. When we had Professor David Begg here at the end of 2002/2003 I asked him the question what academic studies could he point us towards that showed the economic impact, in terms of the real economy, of congestion in urban areas as opposed to just using delay on the road as a proxy, and he could not. Can you?

Professor Glaister: Yes because the subject has moved on a great deal since those days. The title is agglomeration economics, where the Department for Transport have supported a lot of research recently, originally I think in connection with the economic appraisal of Crossrail, but it has become more generally recognised as an important consideration. The question was if you take the conventional congestion benefits, time savings, are you missing anything in terms of demand use and the benefits of people being easily accessible to each other? The answer is yes, you are missing quite a lot of things. In an economy like London and other big cities the reason that land values are so very high in the centre is that people are willing to pay a lot to be close to each other, to interact. The argument is that if you invest in Crossrail in the case of London or in road schemes in other cases not only do you allow the users to get time savings but you allow everybody to be closer to each other and more accessible and that generates so-called agglomeration benefits. So I think that is reasonably well researched now—certainly a lot better research than when you were asking David Begg that question before.

Q12 (5.11.08) Graham Stringer: I would be interested—not now—if you could point us to those papers.

Professor Glaister: Yes, with pleasure.

Q13 (5.11.08) Graham Stringer: I would be genuinely interested to see it because if I understand the way that the city and other city centres work really is that professional groups need to be able to be within walking distance of each other.

Professor Glaister: That is right.

Q14 (5.11.08) Graham Stringer: And it is difficult to see how putting a huge, £20 billion, £30 billion rail system in would change the function of the economy.

Professor Glaister: But it means that you widen the labour market essentially. The centre of London, of course, depends on people travelling into London and that was the point about Crossrail. It allows a much broader and deeper labour market to be available to businesses in the centre of town.

Graham Stringer: I was just following up those questions but I want to start with point 16 in your written submission. You very fairly say that if road users travelling at peak times on busy roads had to pay much more it would be fairer, but only if alternative means of travel are improved so that they can avoid the charge if they can ill-afford it. I think that is a very fair statement. What measures do you use in complicated economies, in Greater Manchester or the West Midlands, for example, for access to transport because a large number of journeys are not into the centre of town? So how do you measure that access to transport, and at what point is it not fair if that availability is not there?

Q15 (5.11.08) Chairman: Who would like to answer that one? Professor Glaister, it was in your evidence, was it not?
Professor Glaister: I am aware of the work that was done in Manchester, which, as you will know, the proposition is about keeping labour market flexible and large against a predicted increase in traffic and traffic congestion and there are various ways of trying—and it is not easy, I accept that—to estimate the size of the labour market without a scheme and how that might change with a scheme, in terms of perhaps the average travel time that people would experience getting to work without the scheme and how that might be reduced if you put in some pricing at the same time as improving the public transport. The Manchester scheme is very much about improving public transport as part of the package, is it not?

Q16 (5.11.08) Graham Stringer: What I am asking is how do you go out and measure the availability of public transport to people who are doing non-standard journeys? How do you work out the percentage of those people doing non-standard journeys and whether or not there is transport available to them, because the whole thing becomes unfair by your premise if that public transport is not there? So you have to have some way of knowing.
Dr Fergusson: We have pretty good data, a pretty good model for the sorts of traffic flows of people around the system. You can then produce aggregate data about the relative accessibility of different places and different people to those places, as long as you have a good understanding of what sort of journeys that people do, and there is no easy way around that. You need to get that before you start.

Q17 (5.11.08) Chairman: Are you saying, Dr Fergusson, that the information is there in general or very specific areas?
Professor Glaister: There is the journey to work question in the national census, for instance, which gives quite a bit of useful information and there are bespoke surveys which are very frequently done for all sorts of public projects, and indeed for the Manchester scheme. Clearly one can never be complete about this because it is far too expensive to get all the information; you cannot have a complete story but you can have a shot at trying to establish the principal traffic movements. One of the things about modern transport in a city like Manchester or indeed outer London is that because of the use of the car, which is predominant, the trip patterns are very complicated and diverse and disparate, which does make it very difficult to meet all of those needs by public transport. That is why the car has become so important and so difficult to replace.

Q18 (5.11.08) Graham Stringer: Does that not therefore make the system unfair, that if the majority of people who end up paying for a road pricing or a congestion charging scheme are those people for whom public transport is not available?
Professor Glaister: I am sorry, could you say that again—too many negatives there!
Graham Stringer: It is likely to be either rich people because they can pay for the charging scheme or people for whom there is no alternative who pay the charging scheme. In the latter group of people is it not very unfair on those people because you start off with a statement about equity.

Q19 (5.11.08) Chairman: Mr Leicester, did you want to come in there?
Mr Leicester: One thing I would say on that is that it depends on the scheme that is in place. If you are talking about a scheme which has a congestion element to it then it is those people who are living in those more rural areas where the public transport infrastructure is less developed who would pay less precisely because congestion costs are so much lower in those sorts of areas and people living in urban centres where there is presumably more transport available who would pay more because they live in the more congested areas. In the current system, where the only main tax you have is something like fuel duty, which does not vary at all by location, then there is that element of unfairness because increases in fuel duty hit all road users equally hard, irrespective of their alternatives. So depending on the system that you are using I think you can get around some of those issues.
Dr Fergusson: A further point is that the experience that we have with charging and indeed other schemes illustrates that behavioural responses are a bit more subtle and complex—a bit more than you do the journey or you do not. In the final analysis you could change jobs and go round the scheme maybe and perhaps park on the edge of town and take buses, share a lift with somebody. There are a lot of different behaviour responses and certainly the response in London showed that it was not just a question that everybody has to drive into town after all because they did not really—a lot of them did not.
Professor Glaister: Can I just point out that the quote from paragraph 16 actually was not ours; it is from the Chartered Institute of Logistics. It is in the next session.
Graham Stringer: I am sorry; you did very well indeed in your answers! It was attached to my RAC document.
Chairman: Professor Glaister is right!

Q20 (5.11.08) Graham Stringer: I am sorry about that! We have had different figures in different inquiries about the number of people who do pay road tax. The government is claiming at the moment that the number of people who pay is very high, getting up to 98%, 99%, but the last time with the RAC Foundation, with different witnesses we were being told that it was 10% of people not paying. What do you think the compliance rate is at the moment?

Professor Glaister: Forgive me, I have no knowledge myself of what that is. It is a problem, I know that, but I am afraid I am not expert on that.
Dr Fergusson: I believe it is slightly less of a problem than it used to be, but again I am afraid I have not looked into it very recently.
Mr Leicester: I am afraid I have no information on it.

Q21 (5.11.08) Mark Pritchard: Turning our minds to toll roads, do you think toll roads help social inclusion?
Professor Glaister: By toll roads do you mean charges on specific roads?

Q22 (5.11.08) Mark Pritchard: Let us say the M6 toll road—it has a toll road.
Professor Glaister: If you take a specific example like that you would have to analyse the implications of that particular scheme in a lot of detail. The more general answer, if you are talking about charging specifically for bits of road infrastructure or doing it through fuel duty, is that the answer to your question depends absolutely crucially on what you do with the money. If you raise a lot more money through road charges and then put it into the general exchequer that is one thing; if you raise a lot of money and use it to reduce fuel duty, that is quite a different thing. One of the points I think in our evidence—but certainly in our other research—is that when you look at who pays fuel duty you will find a lot of country areas are paying far too much in fuel duty, and that arguably mitigates against social inclusion. For a lot of people who have to use cars there is no alternative and that will always be the case—either their own cars or taxis, whatever it may be. A better way from the point of view of social inclusion would be to have a more intelligent charging system for the roads and use the revenue to reduce fuel duty and thereby improve social inclusion in non-urban areas.

Q23 (5.11.08) Mark Pritchard: Can I infer that people living in rural areas by definition then because of duties levied against them are socially excluded?
Professor Glaister: Not all of them, of course, but if you look at things like the official deprivation indices that the government publishes you will find wards which are very deprived in the centres of big cities, of course; but you will also find a lot of deprivation in smaller towns and rural areas, simply because access is so poor and unemployment is relatively high for that kind of reason. It is very much two ends of a scale. It is very hard to generalise about this, you have to look at the particular scheme and research it properly.

Q24 (5.11.08) Chairman: Dr Fergusson, do you want to come in on this?
Dr Fergusson: I was going to say that already as it stands there is a lot of deprivation in the rural areas and a lot of that is to do with people who do not have cars and cannot afford to run cars already, so those people are already deprived in the current systems, and in some ways if you could make transport more accessible through shifting revenue about you might do good for those people.

Q25 (5.11.08) Mr Martlew: I represent an urban area surrounded by a large rural area and every morning the urban area becomes crowded—the streets become congested because of the people you are referring to as being socially deprived driving into work in the city. I also find that the houses in the rural area are probably half as much expensive again as those who live in the urban area, so I do not really understand your comments, Professor. That is in my experience; but I think it is not the experience of many of my colleagues. They accept what Dr Fergusson is saying, there are people who live in the rural areas that do not have access to public transport and cannot afford cars, but I find that the poor move into the urban areas and the rich move out of the urban areas to the rural, what they consider better quality of life.
Professor Glaister: I did say that I think you will find in official figures a lot of deprivation in town centres, as well as a lot of deprivation in the deep rural areas. It is a very mixed story and I was simply making the point that because it is very mixed you cannot assume that a particular scheme will help or hinder social inclusion—you have to look at where people are living and what their incomes are like. I would just add that the poor households make far, far more use of roads and cars than they do of public transport—it is just in the statistics—because there is no public transport. They rely on lifts with their friends; they pay their friends, they use taxis, they have to get about. Therefore fuel duty, for instance, can hurt them quite badly.

Q26 (5.11.08) Mr Martlew: The reality is that a lot of them have been forced into the urban areas because of the problems that we have talked about, and there has been a displacement of more affluent people to the rural areas.
Dr Fergusson: What you have described is really something where the ready availability of cars and the high mobility has, in a sense, generated its own new demand because it is often a new opportunity for wealthier people to move out of towns and thereby generate more traffic and more congestion, which is the circular effect you get with motorisation, which in some ways it might be quite nice if we could reverse.
Professor Glaister: One thing you will see in our evidence is the way that the cost of owning a car has fallen so very dramatically over the decades and I would argue that that has been an enormous benefit for poorer households who now get access to a good quality but cheap vehicle. That is why we have a particular concern about the way the Treasury was thinking of changing vehicle excise duty because that can bear very heavily on a poor household with a good quality but cheap car, suddenly having to pay a lot more for their annual licence fee, and that could be very regressive.

Q27 (5.11.08) Mr Clelland: I have a number of questions but I want to follow up a point that Dr Fergusson made earlier about the effects of providing new roads or improving existing roads because I would find this argument rather curious that if you provide a road then people are going to use it as though, for some reason, we should build a road that people do not use—it is a bit of a nonsense. So the idea of building a road is so that it will fill up with traffic because that is what it is there for. But Dr Fergusson seems to be suggesting that if we build a new road the overall capacity increases, so people rush out and buy new cars and drive new vehicles. Is there any evidence for that? Where are the statistics that there is an overall increase in the number of vehicles?

Dr Fergusson: I do not know that you could point to a particular road scheme and associate it with that, but if you look at the general trend, I was saying, over the time it has been for growing car ownership and longer journeys, and that has been correlated with the availability of roads. If you look at the distance the average motorist drives now and you imagine the country with no motorways we would never get anywhere, we would just be driving around country lanes to nowhere. So the availability of roads is correlated with mobility because the motorway system specifically carries an enormous percentage of total traffic, especially for longer journeys and presumably that traffic could not occur without the roads.

Professor Glaister: Two things. I think the major drivers of increased demand, which will continue in the future, are reductions in the cost of using cars, only in using cars in relation to income—they are much cheaper than they used to be—and greater population, particularly in certain parts of the country where the population has been moving to. The second thing is provision of the capacity. Clearly if you did not provide more roads they would get even more congested and that would choke off some of the demand. These two things have been gong on simultaneously and we cannot really separate them out. But I would say that if we allow the traffic to continue growing in the future, which is what the Department itself expects, but do not provide for it then congestion will inevitably get a lot worse and we have to make a decision as a society whether that is a good thing.

Dr Fergusson: I actually agree with that. What I was saying earlier, I think in the end it is a political decision whether you decide that you want to lay back and continue indefinitely or whether at some point you say, "Okay, that is enough roads, thank you; we will manage the roads we have sensibly through pricing and the rest we will try to provide by public transport or bringing people closer together," or whatever else we might do.

Q28 (5.11.08) Chairman: Mr Leicester, did you want to come back on that?

Mr Leicester: I would add to what Professor Glaister has just said. It is very true that the cost of owning, particularly purchasing a vehicle has fallen quite substantially in real terms, but the cost of running that vehicle has probably gone up a little bit in real terms over the past 10 or 15 years or so, but in particular the cost of doing these things have fallen relative to incomes and this has seen a big growth in the distribution of car ownership towards the bottom of the income distribution over the past 20 years or so. One of the concerns that people have about this system of taxing on motoring at the moment is whether it is unfair, whether it impacts most on the poor and that has been getting worse slightly over time because of this growth in car ownership at the bottom of the income distribution—it is now the poorest households that do face slightly higher costs to an increase, say, in fuel duty whereas maybe 10 or 15 years ago that would not have been the case because so many of the poorest households would not have been car owners. Now that growth at the bottom has really meant that this problem might be getting slowly worse.

Q29 (5.11.08) Mr Clelland: While we are on the subject of costs, what has been the impact of the high fuel prices over the past year? Have there been any benefits, for instance?

Professor Glaister: First of all, it is too soon to be absolutely sure, of course, because it does take time for people to adjust and the price has now come down again. We have recently published some evidence of reduced congestion at hot spots. Congestion is one of those things where as the network is close to its capacity a small increase in traffic will cause a disproportionate increase in traffic jams and vice versa, and we have seen a reduction in delay at hot spots. Traffic has fallen a bit, exactly as you would expect, but what the long-term effect would have been I do not know. I think if you asked the Department for Transport they will be able to tell you that the effect on traffic of the increased fuel prices over the last few months has been more or less exactly what they would have forecast—a small reduction in traffic; and vice versa, if fuel prices go down the traffic will grow again.

Q30 (5.11.08) Mr Martlew: Has there been any reduction in the speed of traffic?

Professor Glaister: Yes, there has. Interestingly, overall journey times have been improved because of the reduction in congestion but free flow speeds have fallen because people recognise that you use less fuel if you go more slowly. So they are travelling in more free flow conditions at lower speeds and getting there quicker.

Dr Fergusson: There is actually quite a lot to be said for controlling traffic speeds because they are a very important way of improving fuel consumption and relatively cheap if you eliminate excessive speeds.

Professor Glaister: That has been well demonstrated by the M42 where speeds are closely controlled and you get a much smoother flow at 50 or 60 miles per hour than you would without a limit.

Dr Fergusson: Also you can get more cars on the road as well if you have a stable, slower speed. So there is quite a lot to be said for speed control.

Q31 (5.11.08) Mr Clelland: Can I ask you about the government's proposals for differentiating the vehicle excise duty rates? How effective do you think that would be in terms of reducing carbon emissions?
Dr Fergusson: We will come on to the question of whether they are going the right way about it, where I am probably going to agree with Professor Glaister quite strongly, but in principle there is an argument for doing that. Probably vehicle excise duty, if people were fully rational about these things, would not be a big factor in people's car purchase choices because it is not a big factor in the overall cost of the car. But I do think the idea of piling it on in the first year—in effect it is purchase tax by another name—I do think there is benefit in that because you do confront people at the point of purchase with the implications of the longer-term CO_2 emissions of the car and it is difficult to do that otherwise because it is only a relatively small proportion of the population who actually buy a new car, and they then influence the shape of the car stock and because they tend to be wealthier people or they may be driving a company car or something they are not too bothered with the whole lifetime cost of refuelling that car when they buy it. But if you confront them upfront then I think you have a better chance of actually influencing the car stock towards more fuel efficient cars.

Q32 (5.11.08) Chairman: Dr Fergusson, do you think that motoring taxes can be used to influence people buying greener vehicles?
Dr Fergusson: Do I say they can?

Q33 (5.11.08) Chairman: Can it? I am asking you.
Dr Fergusson: I think they can. The evidence on car purchases is quite strong. They did an experiment in the Netherlands a couple of years back and that was actually effective; they had quite a strong—they called it a bonus tax where they actually gave money to people buying the most economical cars and added to the price of the less economical cars, and that had quite a spectacular effect. I think in this country, as I say, we have not really differentiated vehicle excise duty far enough for it to happen a great deal but I think now also where we have the very low rates in bands A and B and we are now seeing quite a lot of new models coming on the market in those lower bands there is beginning to be some evidence that sales of those very efficient cars is beginning to take off now. So that is quite an exciting opportunity.

Q34 (5.11.08) Chairman: I would like to bring in Mr Leicester.
Mr Leicester: One of the issues is how these taxes are framed and presented to the public and how that might differentially influence what they do. If you just increased the price and say, "We are just increasing the price of this," and do not make it very clear why you are doing it then the response that you get might be very different, whereas if you present people in the showroom with, "You have to pay this first year tax of £950 because this is a really polluting car" that might have a stronger effect. There is some evidence, I think, that framing of taxes does influence how effective they can be.

Q35 (5.11.08) Mr Clelland: I was going to ask if you think it is reasonable or fair to apply new rates like this into this differential rate to car purchased as long ago as 2001.
Professor Glaister: Whether or not it is fair, it will not be effective. If you bought the car, the car is on the road and it cannot take it off the road, as it were. We at the Foundation gave evidence to that effect to the Environmental Audit Committee, and we think it was misguided on the part of the Treasury. In answer to your previous question, if I may just go back to that, clearly you can use these taxes to influence behaviour but I do think the evidence is really rather poor on how big those effects are. I do not think it was adequately researched. I have a simple view about this. If your concern is carbon then you should tax the carbon, and that implies putting the tax on the fuel and not on the vehicle. If you want to take a total tax-take you have two main components; there is the VED, which is tax on ownership, and the fuel duty which is a tax on use. If it is the use that is a problem that is what you should tax, and I think would be far more effective in giving incentive to the motoring manufacturing industry and the user to buy more efficient vehicles.
Dr Fergusson: I do not fully agree. I know I am sitting in a risky position, wedged as I am in between two eminent economists, but I think that that only works if you take the view that the consumer behaves completely economically rationally in this respect, and I am afraid I think the evidence is that they do not. There are quite a lot of appliances including energy electrical appliances. It is fairly clear that purchasers do not take into account the full lifetime cost when they buy it and, as I have already mentioned, with cars there is more reason than most to think that they do not because the person who buys a new car rarely keeps it for more than a year or two, and it is the rest of the mugs who inherit it later who pay the cost of their not buying fuel efficiency, as it were.

Q36 (5.11.08) Mark Pritchard: You mentioned population growth, Professor Glaister. The government Immigration Minister said that he hopes that the UK population does not rise to 70 million. If the population rose to 68 million by 2030 what impact would that have on our roads and indeed on our public transport?
Professor Glaister: We have set out in a publication that I have given to your clerks and advisers our view of the official OPCS population forecasts. The ones we were using were for an increase I think to 66 million—they are a little bit older than the most recent ones. So clearly over time if the population goes up by 10% you would expect roughly speaking a 10% increase in housing demand and transport demand. But the bigger problem for the UK is not the total population, it is the location of the population. There is a very marked tendency for the population, which is forecast to continue, to move

basically down to the west and southeast, where the infrastructure is already particularly stressed. So it is not just the total population that matters, it is the location of the population. Places like East Anglia and the southwest, where the population is expected to grow quite a lot in the future, already have a bad congestion problem and that has to be dealt with.

Q37 (5.11.08) Mark Pritchard: 66 million and what time frame are you referring to? 66 million up until?
Professor Glaister: 2041.

Q38 (5.11.08) Mark Pritchard: I accept your point about location but even total population, whether increased to 66 million, 68 in my terms, or 70 million still needs to be located somewhere.
Professor Glaister: Absolutely.

Q39 (5.11.08) Mark Pritchard: So total means a location somewhere. So an increase to above 66 million or even at 66 million would have a significant impact on roads, road users and public transport.
Professor Glaister: And every other public service—health and education. It does depend a bit on the age distribution, clearly.

Q40 (5.11.08) Mark Pritchard: Moving on to something slightly different. Lorry road user charging schemes—and we are going to touch on that in the second part of our session, but nevertheless it impacts on the work that you all do—one: what do you think about those schemes in principle being introduced in this country? Secondly, do you think that a pilot scheme—if there is a pilot scheme—should be introduced which includes foreign lorry drivers specifically given the pretty poor standards generally of foreign lorry haulage vehicles in this country, as we recently saw on the M6 motorway with the tragic death of that family.
Professor Glaister: There seem to be two elements to that question. One is the quality of the drivers in the vehicles, which I have nothing to say on other than to say they should be enforced like any other driver. On the charging, there clearly is an issue and has been a longstanding issue about differential rates of duty on fuel as between domestic fuel and fuel on the continent. I think maybe that has narrowed a little bit as it happens, but it is still an issue. I understand where the road lorry charging scheme originated, the one that fell a couple of years ago, and it was purely to do with meeting that differential. Unfortunately it got much more complicated—the opportunity was taken to try and make it distance and location based and it all got too difficult and that is why it fell. I think it was an example of where a simple idea became too complicated and administratively not feasible. I think myself that if you wanted to deal with this problem you could deal with it very simply by putting wheel counters on to lorries—a system they have had in New Zealand for decades. They have a meter which counts the number of wheel turns on a foreign lorry and you can have a tax done that way, which would be very simple. However, I think we are now moving to a situation of very severe congestion in the future on our roads generally and the way to go now is to think about where we want to get to with road charging and taxation more generally for all kinds of vehicles, and to then catch the point in that process rather than introduce something half-hearted just to deal with the lorry problem.

Q41 (5.11.08) Mark Pritchard: That is why I mentioned the pilot scheme and the reason I made that link is do you think it is more likely that the quality of the vehicle possibly even the quality of the driving is going to be decreased by the introduction of let us say a pilot lorry road user charging scheme? That is, that if I am an HGV operator from a continental European country and I know I have to pay a road user charge coming into the United Kingdom, if I have the ability to pay it might be that my HGV fleet is more modern and more roadworthy, or it might mean that actually because I have an additional cost I actually do not spend as much money on my HGVs and they in fact become less roadworthy.
Dr Fergusson: Certainly the experience in Germany is where they have differentiated their lorry charges according to environmental standards. They have effectively driven all the old lorries off their roads, so they have actually achieved the quality improvement there. I do not know how it words safely; I cannot really see that. I think the point that Professor Glaister made is also important in that respect. Yes, there has always been perceived to be a great unfairness in the fuel price as between British and continental.

Q42 (5.11.08) Chairman: Would you say that there is a big problem with lorries coming from countries with lower taxation?
Dr Fergusson: I think there is a problem in that as I mentioned earlier that they pay less of their full costs than cars do in fact.

Q43 (5.11.08) Chairman: Is that creating a major problem?
Dr Fergusson: I think it probably does in terms of damage to roads, for example, and possibly accidents and pollution as well. It is not an overwhelming problem but I do agree with Professor Glaister that with the improvement in technology now probably looking ahead at a universal system which covers trucks and cars and can be a great deal more sophisticated in relation to time and place is probably the way to go.

Q44 (5.11.08) Mr Martlew: Professor Glaister, you have confused me—and it may not be difficult—but in another exchange you said about the problems for people living in the rural areas paying the extra duty. Then you have just said that you should tax the carbon, which means that you would actually increase the duty on fuel.
Professor Glaister: No. The current duty on fuel is about 52 pence plus VAT—just over 60 pence.

Mr Leicester: 50.35.

Professor Glaister: Thank you. 50.35 plus VAT. The carbon content of a litre of fuel at the Stern recommended value of carbon is 14 pence—one-four pence. So if you think of the duty as if it were a carbon tax it is far, far too high, although I do recognise that the duty is counting other things as well. This goes to the nub of your inquiry, I suggest, that if you are asking what the principle should be in setting road user taxes and charges you need to unpick what the components would be, and the carbon component is a lot less than the current fuel duty. So my recipe—which we have set out in our document *Roads and Reality*—is that if you take away current duty completely, replace it with a carbon tax at 14 pence a litre and then add on congestion charges and other charges the result would be in rural areas that they would be much better off, they would be paying a lot less for their travel than they do at the moment, and they would be paying more in urban areas.

Q45 (5.11.08) Mr Martlew: They would be paying more in urban areas? This is due to congestion charges?

Professor Glaister: Yes, there is a balance—two opposite and balancing effects.

Q46 (5.11.08) Mr Martlew: I am still not totally convinced of your argument but the essence is that you reduce the duty but increase the charges?

Professor Glaister: If I could just enlarge a little? I do think that the announcements—and I have no idea what they will be—of the Climate Change Committee in a few weeks' time will bear on all of this. If the Climate Change Committee adopts the Stern recommendation that throughout the economy we meet our carbon targets by finding the correct price for carbon—so if you are burning electricity, heating your house, whatever it may be, you are paying the same price for carbon—then we will have to think about how that will bear on road taxation as distinct from the price you pay for your electricity in your house or what railways pay for their electricity and everything else. It will blow open this whole issue of the basis for road taxation and for me I think unless we get that right and establish a single price for carbon across the whole economy we risk doing a great deal of unnecessary damage. I suspect at the moment in most terms road users are paying too much and other users are paying too little for their carbon, but we will have to see how that all plays out.

Q47 (5.11.08) Mr Leech: On that point, surely though is there not an argument to say that, yes, congestion is about trying to cut carbon emissions but it is also about trying to cut congestion as well and therefore there is an argument—and you may disagree with it—for a higher carbon charge on the road if it is not just about carbon emissions?

Professor Glaister: I go back to my previous answer to you. I like to think about road pricing which identifies each separate component of what the price might be. Carbon emissions is one component, so you price the carbon. Congestion is a separate component and you price the congestion. So you end up with a uniform carbon price which is encapsulated in the price you pay for the fuel, but variable charges for congestion depending on when and where you are. That is how that would play out.

Q48 (5.11.08) Chairman: What are the main impediments to introducing a national road pricing scheme at the moment—technical impediments?

Dr Fergusson: We do not seem to be quite there with the technology.

Q49 (5.11.08) Chairman: What are the specific technical problems?

Dr Fergusson: There seems to be one problem that there is a belief that a GPS-based system, for example, may not yet be accurate enough. I do not know why, if the ministry can judge things to within a metre apparently; but there are still some concerns that people will be wrongly charged on the wrong sorts of roads, for example, and a beacon-based system would be more expensive to install, I think.

Q50 (5.11.08) Chairman: Does anyone have any other views?

Professor Glaister: I do not think the major obstacle is technical, but the technical obstacle is cost. Can we be confident on how much it would cost to install and operate? The cost would be substantial. If government was willing to specify what it wanted, what the scheme was then there is a technical solution, I have no doubt about that, but it might be too expensive and you might then want to think about whether you introduce this locally or on a national scale because of the cost. I believe that issues about confidentiality, which are important, can be dealt with.

Mr Leicester: I do not profess any great research knowledge that I have done myself but if you look at the Eddington Study, which I think was agreed was a very good study that looked in great detail at this issue, they estimated that the set-up cost of a national road pricing scheme could be anything between £10 billion and £62 billion I think was the number depending on the various assumptions that you make, and even at the lowest end that is a very big investment. Then ongoing annual costs in the order of £3 billion or £4 billion a year. So that is clearly one huge impediment that they did find that there would be substantial net welfare benefits from this kind of scheme because of the reductions in congestion and so on and so forth. So the balance of the cost and benefits I think, looking at the Eddington Study and other studies, suggests that there would be a desirability to introduce this kind of scheme, but at a great uncertainty about the initial costing, which was reflected in that very wide estimate.

Professor Glaister: It did say that it would be the most single effective measure you could take.

Q51 (5.11.08) Chairman: Do you support it?
Professor Glaister: I do.

Q52 (5.11.08) Chairman: Support the national scheme. Does anybody else have a view?
Dr Fergusson: Yes, I certainly think that a universal pricing scheme would make sense in the longer run.
Mr Leicester: Yes, I would also endorse a national system of road pricing but accepting that there are perhaps technological and certainly political constraints.

Q53 (5.11.08) Chairman: Would you say that taxation policies are coordinated between the Department for Transport and the Treasury?
Professor Glaister: Chair, I hope we have made it clear in our evidence—I would like to think we were wrong about this—the balance of road taxes and expenditure has happened by accident over history; the taxes have grown a lot, the expenditure has not. We have been saying what are the principles underlying this, are the taxes right? The Treasury is changing both the level and structure of taxes substantially and do not, I believe, take adequate account of the fact that they really are influencing transport policy in a very substantial way. The main thrust of our evidence to you is that whatever the rights and wrongs of this the Treasury should follow the practice which is now recognised throughout the public sector of normal systematic consultation about what they are intending to do. We recognise that you cannot consult about particular tax rates but you can consult about structures and your intentions to find out what the implications would be to have them properly researched and to avoid unintended consequences. The Treasury uniquely does not follow any of the things you would expect a public body to do in setting major aspects of public policy.

Q54 (5.11.08) Chairman: Dr Fergusson.
Dr Fergusson: I do agree with that actually and I can certainly think of a number of examples where I know very well that they did not consult the Department for Transport before they made certain decisions.

Q55 (5.11.08) Chairman: Do you agree with the current assessment of the costs of congestion?
Dr Fergusson: I would not choose to comment on that particular point myself, thank you, Chair.

Q56 (5.11.08) Chairman: Does anybody else have a view on that?
Professor Glaister: I think it is a slightly misleading concept. People say that it costs £12 billion a year or £30 billion a year—it is not very helpful, I do not think. Relative to what? What is the thing you are comparing it with? Free flowing roads? That is not a very helpful thing. What I absolutely do support is the estimates which Eddington produced and we have ourselves produced which show that if you do something like putting in some more capacity or indeed putting in road pricing the value of the reduced congestion is very high relative to the cost. We are really damaging ourselves as a nation by failing to face up to the opportunities in the benefits of reduced congestion.
Mr Leicester: It is not an issue that I have researched myself but one point that is worth making is, if you are thinking about the marginal costs of congestion that might be used to influence a congestion charging scheme and to set the pricing of that scheme, what you want is the marginal cost once the scheme has been introduced. Once the scheme has been introduced the congestion will be lower and the costs will be lower. You want to try and get the right cost of the scheme once the scheme is in operation, which is not necessarily the same as estimating what the costs of congestion are right now. If there is a congestion charge it will be lower and it is very difficult to try to get a handle on prices.

Q57 (5.11.08) Graham Stringer: Where are we in the European pecking order for congestion both inter-urban and urban?
Dr Fergusson: It varies enormously around the country but in the south east it is pretty high compared to what it is in most continental countries. All countries have congestion in certain cities and so on but we have very high rates of car usage and quite high rates of congestion.
Professor Glaister: By international standards we have a very low provision of road surface in relation to population, but we are a much denser country.

Q58 (5.11.08) Graham Stringer: I think the CBI say that we have the second lowest motorway density of all the countries in the old European Union.
Dr Fergusson: That is slightly misleading because the definitions differ. A lot of the roads which have green signs in the UK could be deemed to be motorways by continental standards. I think that is slightly suspect, although I do not disagree with the general proposition.
Professor Glaister: However you measure it, motorways or principal roads or roads, you find the same answer. The amount of road space in relation to population and car ownership is very low in the UK by international standards.

Q59 (5.11.08) Graham Stringer: Can you point us towards objective statistics?
Professor Glaister: Yes. The Foundation is publishing a document on Friday which documents this and I commend that to you. I will certainly make sure you get it.
Chairman: Thank you very much. On that note, thank you very much indeed for coming and answering our questions.

Witnesses: **Mr Jim Coates**, Chairman, Road Capacity and Charging Forum, Chartered Institute of Logistics and Transport in the UK (CILT), **Professor Alan McKinnon**, Heriot-Watt University, Director of Logistics Research Centre, and **Professor Jon Shaw**, University of Plymouth, Professor of Transport Geography, gave evidence.

Q60 (5.11.08) Chairman: Good afternoon. Would you like to introduce yourselves for our record, please?
Mr Coates: My name is Jim Coates. I am here representing the Chartered Institute of Logistics and Transport and within the Institute we have a number of forums interested in different topics. I currently chair the forum on road capacity and charging.
Professor McKinnon: I am Alan McKinnon. I am a professor of logistics at Heriot-Watt University where I head up the logistics research centre. We do a lot of research on freight transport and at the moment we are involved in a project called Green Logistics looking at environmental impact of logistics operations.
Professor Shaw: I am Jon Shaw, professor of transport geography at the University of Plymouth and I head up the centre for sustainable transport there.

Q61 (5.11.08) Chairman: Which current taxes and charges should be regarded as charges for the use of the road?
Mr Coates: What the previous witnesses have said is broadly right. The fuel duty, for all its inadequacies, functions as a charge. So does vehicle excise duty. I am rather doubtful about VAT myself, even the VAT on the duty, because if you regard the fuel duty as a proxy for a charge you could say that the VAT on it is no different really from the VAT you pay on services that you get from any other area of the economy. I would certainly exclude the VAT on cars. I think VAT on cars is much the same as VAT on washing machines, refrigerators or any other capital goods we buy. I think the charges for on and off street parking are a charge.

Q62 (5.11.08) Chairman: What about the penalty charge notices?
Mr Coates: They can be avoided by behaving yourself.

Q63 (5.11.08) Chairman: Would you put them in a different category?
Mr Coates: They are a form of charge.

Q64 (5.11.08) Chairman: Parts of the freight industry, particularly in London, say that penalty charge notices are so common now that they see that as a charge for motoring. Would you agree with that?
Professor McKinnon: Indeed. In some parts of London they clock up £1 million a year from some of these charges. Relative to total UK expenditure from freight transport, it is a drop in the ocean but it does impact on certain budgets in a small number of companies within urban areas. As to whether one should include VAT in the calculation, we recently tried to work out to what extent the external costs of road freight transport are internalised in taxation. We did include VAT. Hauliers can pass on VAT but it does get passed down the supply chain and often it will be the consumer who will pick up the cost of VAT.
Professor Shaw: I would mention parking charges. There are existing road tolls such as the Severn Bridge and M6 toll as well.
Mr Coates: Generally speaking, VAT is a tax on purchases which is supposed to apply to the whole of the economy with some exceptions like children's clothes, food and so on. Therefore, it is supposed to be neutral. It applies to everything we buy by way of goods and services. It was invented by the French who found that their taxpayers managed to evade income tax so they invented VAT instead. I think the way in which VAT applies to transport which is not specific to road users should not be regarded as a special charge for the use of roads. It is an economic charge for the purchase of goods and services like any other goods and services.

Q65 (5.11.08) Chairman: How do you equate charges to road users with the cost of roads, the expenditure on roads nationally and locally, all put together?
Mr Coates: I was rather surprised when I looked at the figures that the disparity between the income from tax and the amount spent on the road network is not as huge as I thought it was going to be. The RAC Foundation in their evidence say that the taxes are four times the expenditure on roads. I think they must be including the VAT on carbon and on car and other vehicle purchases, which I think is wrong. Even if you include VAT on the fuel duty element of fuel, which you could argue for, the income is about 32 billion a year from road user taxes. In the latest year for which I have statistics, public expenditure on roads is of the order of 13 billion. If you include things like carbon emissions and congestion, you rapidly get up to a figure which is not all that different from the revenue coming in taxes. Collecting the cost of congestion through fuel duty is not a good idea, but the totals are not all that out of line. Another point which I think is significant is that the public expenditure on public transport, excluding concessionary fares, was eight billion. You could say that eight billion was being paid for by the road users. Road users might say why should they pay for it. My answer to that would be that there is no reason whatsoever for subsidising public transport unless the alternative, which in this case is the private car, is inflicting damage of some kind on society by way of pollution and congestion.

Q66 (5.11.08) Chairman: What views do people have on what should be charged to the cost of roads? Should accidents be charged? Should congestion be charged?
Professor McKinnon: I would think we would include all of these things to make it as comprehensive as possible. You may be interested in the work we have done recently in the freight sector. We looked at the infrastructure costs allocable to

lorries, the environmental costs and also the congestion costs. If we add these three things together, it seems at the moment that lorries underpay their tax by about a third. The taxes they pay only cover about two thirds of that suite of costs I have just mentioned.

Q67 (5.11.08) Chairman: Professor Shaw, do you have any views on this?
Professor Shaw: I would suggest that the tax take at the moment is indeed more than is spent on roads, but we have to add all of these things in. To pick up on the public transport subsidy element, there are other reasons for subsidising public transport, not least efficiency of movement in the labour market. Professor Glaister referred to Crossrail for example opening up wider labour market potential. If we had to rely on the car for example to get people into central London, clearly there is a capacity element there. There is an efficiency argument too.

Q68 (5.11.08) Mr Hollobone: If we were to start from a blank canvas, if we were to discover a new continent tomorrow and you could be put on the first ship there and your task was to design a transport system and road network which was transparent with regard to costs and benefits, what would be the basics of that programme that you would establish?
Mr Coates: We would not start from here. One way in which my institute differs from the RAC Foundation is that we are rather sceptical whether you could introduce an electronic pricing system over the whole of the road network, with all the costs of enforcing that on every country lane and lightly used rural road. Over most of the road network, there is not serious congestion either at all or except for a very small part of the day. The view we take is that the fuel duty is quite a reasonable way of collecting the appropriate charge for the use of the roads over perhaps 80% of the network. It may be that as the technology develops, if global positioning turns out to be sufficiently accurate, you might move to a position where you could charge per mile with on board units for the whole of the network, but at least in the medium term that seems to us to be unnecessarily complicated. Where the fuel duty is not very satisfactory is in two areas. One is heavy lorries because heavy lorries are responsible for a disproportionate amount of the wear and tear on the road network. The wear and tear is proportionate to the square of the axle weight or something like that. Most of the repairs that are needed to roads are caused by heavy lorries. They also have an impact on the initial designs. Bridges have to be stronger and higher to deal with lorries. The government has in the past tried to deal with this by imposing very high vehicle excise duty on heavy lorries, much higher than in most other European countries, but that is rather a blunt instrument. It would be better for heavy lorries, in addition to this basic level of fuel duty that I am suggesting could satisfactorily collect a lot of the costs from the road network, to pay a distance based charge which differed according to their weight characteristics. The Swiss do this using a fairly simple system. The other area where the fuel duty is wholly inadequate is on congested roads because we pay the same amount per litre or kilometre whether we are on a busy road or a congested one, perhaps a bit more on a congested road because we are using a bit more fuel. It is not made for the job. We really need to be able to differentiate much more strongly. I think fuel duty is a very unfair way of charging for congestion. Professor Glaister made the point that you want the way in which you charge to have an effect on people's behaviour. The fuel duty has a bit of an effect on the level of traffic but it does not have the sort of effect we need on very congested, urban roads. If we try to collect the costs of congestion through the fuel duty, which in a way you could say we are doing at the moment, if we include a 12 billion congestion cost in justifying the total level of fuel duty, road users are paying it but we are not reducing the congestion. That has two disadvantages. One is that we are suffering from the disbenefits of the congestion and the other is that the charge is too high. If we had road pricing for congested roads, the congestion would be less and the charge you would need to levy would be lower.
Professor McKinnon: If we are into hypotheticals, the ideal system presumably would be charge by distance in relation to the externalities from the vehicle. The problem is that technically it would be very difficult to achieve that. The previous panel were asked about the technical challenges faced in relation to road pricing. I think they are formidable.

Q69 (5.11.08) Chairman: Could you mention what they are?
Professor McKinnon: If we look at the tolling systems currently in existence in Europe for trucks in Germany and Switzerland, it is a relatively small number of vehicles, maybe a few hundred thousand. To roll it out to the UK it would be probably 26 million vehicles. Monitoring the movements of all of those vehicles clocking up billions of kilometres with sufficient accuracy so that people trust the bills they see at the end of the month is going to require a very tight tolerance and a high degree of accuracy. We could wait until the Dutch try it because they are proposing to do this in a few years' time. If we can hold off, we can see whether it works in the Netherlands and, if so, we might consider doing it in this country. The other big problem is the cost of implementing such a system. With the tolling systems that are in place at the moment, about two thirds of the revenue raised tends to go into operating the system, so it does not leave you with very much revenue subsequently to spend on other things. The ideal would be to have that system but, because of the practical problems and the sheer cost of implementing it, I am not sure it is going to happen in the near future.
Professor Shaw: Mr Coates made the point that we would not start from here. One of the advantages of starting from here is that we do know quite a bit now about the full costs of transport which we might not have appreciated 15 or 20 years ago in terms of pollution and so on. We need to weigh the costs of

transport but, knowing what we do know now, that puts us very much in the frame of managing demand, in my view. In terms of reducing the need to travel, we can do that in the long term possibly, but that is extremely difficult so the price signal does become extremely important. I think one of the things we have to be aware of is spurious accuracy in some of these figures. The key element, it seems to me, is changing behaviour—i.e., reducing the amount of individual modes of travel and increasing the benign modes: walking, cycling, public transport, or by reducing journeys made at all. In that case the price, coupled with all sorts of other initiatives aimed at reducing travel such as information, becomes a question of what will change behaviour. It is as much a political decision, as far as I can see, as an economic one.

Q70 (5.11.08) Mr Leech: Professor McKinnon, you said up to 75% of the cost was to implement and administer the scheme. What do you think would be a reasonable proportion of the setup and admin cost of a charging scheme and how far away technologically do you think we are from that?
Professor McKinnon: It depends what you want to do with the money. I was a critic of the government's plans for LRUC that was going to be a hugely expensive system which would far exceed the revenue that would be collected. That system would have diverted resources from other activities. If the intention is to hypothecate much of the revenue that you raise from a road pricing system and you want to put that to good use and invest in public transport, then obviously you want to maximise that and thereby minimise your collection costs. 20%? 30%? It is hard to say.

Q71 (5.11.08) Mr Leech: You say it is hard to make a judgment but you have made a judgment that 75% is too much and I would be inclined to agree with that. Where does it go from being unacceptable to being acceptable? Would you put a figure on that?
Professor McKinnon: It is a purely subjective decision. You would have to define what the other objectives were that you wanted to achieve, what they would cost to implement and therefore how much money you would have to raise. That hypothecation would determine what the percentage should be. It is very hard to answer the question in a vacuum.
Mr Coates: If the cost of operation exceeded the benefits you were getting, then quite clearly it would not be a very sensible idea.

Q72 (5.11.08) Graham Stringer: Can you define "sustainability"?
Professor Shaw: Not to your satisfaction, I suspect. It is a very slippery concept. I would envisage it taking account of environmental, social and economic factors.

Q73 (5.11.08) Graham Stringer: That is rather different from the OED definition of "sustainable", is it not?
Professor Shaw: Yes, but there are practical constraints to sustainability.

Q74 (5.11.08) Graham Stringer: I was interested because I have asked every Secretary of State for Transport and Minister for Transport who use "sustainable" liberally in their documents and none of them can define it. I just thought maybe you had a definition. Do you think that road pricing in urban areas can be used as an exemplar for road pricing on inter-urban roads?
Mr Coates: Only to a limited extent because the circumstances in an urban area are rather different from those on the inter-urban network. You would probably spend most of the revenue in an urban area on public transport and making it easy for people to walk and cycle as an alternative to the car. On the inter-urban network I think you might be more likely to spend money on enhancement of the capacity of the road network. You would learn something about the responses of the people confronted by the charge and you would learn a bit more about the technology, but I think waiting to see what happens in urban areas before the Government do anything on the inter-urban network is probably a mistake.

Q75 (5.11.08) Graham Stringer: It is probably a political decision rather than a technical decision, is it not? Can I ask you the question I rather unfairly asked Professor Glaister about item 16 of your evidence where you say, "It would be fairer if road users travelling at peak times on busy roads had to pay much more—but only if alternative means of travel are improved so that they can avoid the charge if they can ill afford it"? Does that not mean it is very unfair for those people who cannot avoid the charge?
Mr Coates: Whatever one does about alternatives, there are bound to be some people whose circumstances are such that they are going to be worse off, so it is going to be unfair for them. One thing I think we need is some further experiments in this country. Central London is not characteristic of the rest of this country. We need some more examples without putting up the charges too high so that we can test how it works. I hope Manchester will bite the bullet but only if the government stands behind them and say that, if they decide to dismantle it all if it has not worked, the government will pick up most of the cost. People tend to focus on public transport as the alternative and it is obviously very important. It was very important in central London. Most of the switch was to public transport. As others have said, the pattern of journeys outside the dense, core of cities is very scattered. Public transport cannot easily cope with a lot of those journeys. We have to think about other things like making it easier for people to make short journeys, walk or cycle or car share. Plans can be instigated by employers to make it easier for people to share a car with someone else for their journey to work. If people are living out in the countryside there is park and ride and I believe there

is also something called "park and share" in which people drive in from the country, park their cars and then they all get into one car.

Q76 (5.11.08) Graham Stringer: I am trying to get at the equity of the situation because, apart from the fact that there is congestion in cities, the difference between rural areas and urban areas is in many cases there is no public transport whatsoever in rural areas. It would seem to me not fair to pay large amounts of fuel duty in those areas. In urban areas very often there is public transport but I am dealing with those people who have no alternative. Is it not just as inequitable for those people with no alternative who have to drive, who may be on marginal incomes? Is that not really a problem with an urban charging system, that it is possibly even more unfair than for people living in rural areas?
Professor Shaw: It partly depends on where they are going. If you have a toll based cordon system, a lot of journeys may not involve going into the charged areas. Also, it depends on where you spend the money. Up front investment before a charging scheme comes in should absolutely be about minimising the number of people who—

Q77 (5.11.08) Graham Stringer: I am thinking about the Greater Manchester scheme which is 100 square miles. It is a huge scheme. It would seem impossible for a lot of people making non-radial journeys to avoid the two barriers. I come back to the equity point.
Professor Shaw: The spending in advance of the charging system being introduced would be designed to minimise the number of people who would be—

Q78 (5.11.08) Graham Stringer: That would work if you could get a tram, a train or if you could get down a radial route. It will not work if you are travelling across the conurbation sideways over the barrier twice. It is those people, of whom there are many as yet unquantified.
Professor Shaw: Any research that is done on the basis of the Manchester scheme or other schemes would clearly be looking at that in terms of absolute numbers, the costs and so on. Clearly, we want to improve equity for a greater number of people.

Q79 (5.11.08) Chairman: Should the government introduce a national road pricing scheme? Yes or no?
Mr Coates: If you mean on every road, no. If you mean a consistent scheme which presents road users with a single system and a single piece of equipment that applies on those areas where it is justified, which would be heavily congested roads, yes.
Professor McKinnon: Being risk averse, I would like to see other countries do it first.
Professor Shaw: We should certainly learn from the Dutch experience and also from trials which are announced in the newspapers today. In the meantime, it is easy for us to get lost on large scale technological solutions but an awful lot of things which are very cheap can be done in other areas such as increased parking charges. These can be progressed at the same time to see what effect they will have.

Q80 (5.11.08) Chairman: How far would you say the current system of road user charges and taxes is fair? Who are the winners and who are the losers?
Professor McKinnon: Clearly, there is the presence of foreign trucks on our roads who buy all their fuel outside the country and contribute nothing to the UK Exchequer. It is estimated that if they were to pay their full infrastructure, congestion and environmental costs in the UK it would be worth £300 million per annum. So as a result of this they compete unfairly and this partly explains why in the UK haulage market we have seen such a huge increase in foreign vehicle penetration over the past 10 years or so. That is a glaring anomaly which really ought to be corrected as soon as possible.

Q81 (5.11.08) Chairman: You think that is a big problem?
Professor McKinnon: It is certainly a big problem as far as the UK haulage industry is concerned. Perhaps UK industry takes a different view because it means our exporters and manufacturers get access to cheaper road haulage, so it depends whose interests you are considering. I think in the longer term it is something that will have to be corrected. If you want to create a fair haulage market, I think that is an anomaly which needs to be corrected.
Professor Shaw: It is often assumed that the current system of charging for fuel price is extremely unfair on rural residents because they drive more and there is less public transport available. For example in Scotland, the most deep, rural areas spend considerably less on fuel than those who live in peri-urban rural areas. It tends to be this issue of income. People who live in their nice house in the country commuting into urban areas tend to drive a lot more and therefore spend an awful lot more on fuel. Although they are living in rural areas, it is not necessarily problematic for them in terms of their income.
Mr Coates: It is unfair in the sense that the current level of fuel tax is higher than the costs that you can fairly attribute to those rural journeys on uncongested roads. It is very difficult to work out how much fuel duty could be reduced if we had what the RAC Foundation call an "efficient pricing system" but it might be between a quarter and a third, so that rural users would be that much better off.

Q82 (5.11.08) Chairman: What are the costs of congestion? Do we have any accurate figures?
Professor McKinnon: The previous panel discussed that. Very little reference was made to the reliability costs. The way that these costs have been calculated conventionally is to work out the seconds of delay per vehicle kilometre and multiply that by some monetary value for the time. It seems to me that insufficient time and attention have been given to working out what the reliability costs are. What is the probability of a truck arriving late at the factory

and, if it does, what are the knock on effects? How does that adversely affect the productivity of the operation? We have done quite a bit of research in this area and in the light of that it seems to me that there is under-estimation of the true cost of congestion to the country.

Q83 (5.11.08) Graham Stringer: I apologise to you for this. We do not have to do theoretical economics, do we? We can look at real, urban examples in this country in the early eighties. Liverpool effectively lost its rush hour. If the economic theories worked, you would have expected to see greater access to the product market and a rush of investment into Liverpool. It simply did not happen. Investment went into Birmingham, Leeds, Manchester and London, which is different, which are much more congested. Does that not indicate that there are at least flaws in the economic models and the costing of congestion?
Mr Coates: In the case of Liverpool, about which I have to say I know nothing, it might be a question of chicken and egg. Was it the fall in economic activity in Liverpool which led to the disappearance of the rush hour rather than the other way round?

Q84 (5.11.08) Graham Stringer: What I am saying is once it had gone you had an almost congestion free city. If the economic models that are being used to weigh the cost of congestion and the barring of people from the employment market worked, Liverpool should have started to thrive fairly quickly at the expense of Leeds and Manchester. It did not happen.
Professor Shaw: This comes back to the answer Professor Glaister gave previously where he alluded to location. It really points to the importance of geography in all of this. There are reasons why people invest in certain areas in addition to the transport system that already exists.

Q85 (5.11.08) Chairman: What would you say has been the impact of the recent high fuel prices? Has anything beneficial come from it?
Professor McKinnon: I suppose on the positive side it has probably encouraged road hauliers to drive their vehicles more fuel efficiently. There is always a time lag with statistics. There may be a year or so before we see what the net effect of all of this is on operating efficiency. On the negative side, almost certainly it has caused the demise of quite a few road haulage companies. It has probably increased the penetration of the haulage market by foreign operators because they can buy their fuel more cheaply outside the country. The main effects on road haulage relate to the efficiency with which vehicles are loaded and the fuel efficiency. If you look back to the 1990s when the fuel duty escalator was in place, over that five year period, there was a steady increase in the fuel efficiency of trucks.

Q86 (5.11.08) Chairman: As prices hopefully go down, what impact will that have?
Professor McKinnon: One would like to hope that these best practice measures will remain in place but I suspect that, once the pressure is off, it may result in a reduction in efficiency. It is not simply the high fuel prices; there are some other things that happen which have made it difficult for hauliers to survive. One is that many of the fuel companies have reduced the credit free period, so they have required the hauliers to pay their fuel costs more quickly than in the past at the same time as many of their clients have been lengthening their paying periods. There is a credit crunch problem that many hauliers have had to deal with and the increased fuel prices have been overlain on top of that problem.
Mr Coates: I do not know what has happened as a result of the recent increase in fuel prices. If you look back to what happened when the fuel duty escalator was in operation in the 1990s, there was a slowing down of the growth of traffic by a small amount and a much greater reduction in the consumption of fuel. That was obviously having an effect across all vehicles, including cars, and on people's behaviour on fuel consumption more than there was on the distance they travelled. It obviously does give some incentive to people to be more economic in the use of fuel.

Q87 (5.11.08) Chairman: How effective do you think the government's proposals for differentiating vehicle excise duty rates will be in terms of reducing carbon emissions?
Mr Coates: I agree with the previous witness that it was unfair to apply it retrospectively, as it were, to vehicles that were quite old and which people could not do very much about. If you are going to use instruments of that kind, you need to give people adequate warning so that they can take decisions about what sort of vehicle to buy rather than confronting them with a sudden hike which it is more difficult for them to do anything about, apart from selling their vehicle at a considerable loss. On the choice between VED or other taxes on purchase and fuel duty, I tend to agree with Professor Glaister's purist view that if you want to reduce the emission of carbon you apply the tax to the fuel, but I think there may be a psychological impact on people's choice of vehicle if they are confronted, at the time of their purchase, with a particularly large figure. That is not necessarily VED. We used to have a car tax. When you bought a new car years ago you were confronted with, I think, a 25% tax. I am not suggesting necessarily going back to that but you could have differential taxes at the time of purchase according to the greenness of the vehicle.
Professor Shaw: The issue of fairness aside, it is ridiculous, it would not achieve anything to make it retrospective in terms of transport. I would agree with what Mr Coates has said. It is not necessarily to do with the makeup of the charge but certainly an up front reminder to purchasers of vehicles that perhaps there are responsibilities they might like to take account of.

Q88 (5.11.08) Chairman: Should any changes in road user taxation and charging be revenue neutral?

Mr Coates: It would be very attractive to make it revenue neutral. The report that Professor David Begg and CfIT produced a long time ago now looked at a revenue neutral scheme. Research has shown that people might be more willing to accept road user charging if there were a commensurate reduction of fuel duty or—and this is important—a higher level of expenditure on the transport system so that we had a better system at the end of the day. If anything, there is a slight preference in a lot of the market research results for spending the money on improving the public transport system and the road system rather than reducing the tax. There is a difficulty in all this because you cannot spend the same money twice. If you are going to spend the money on improving the transport system, that amount is not available to cut the fuel duty. You have the cost of running the road pricing system which has to be accommodated and something like a third of the current income that the Exchequer gets from the taxes is not spent on transport at all, either roads or public transport. It goes to other kinds of public expenditure. If you took that away, the Treasury would have to raise some other taxes to compensate for it. I think you could have a bit of a reduction in fuel duty but I do not think you could make the thing completely neutral.
Professor McKinnon: If you wanted to internalise all of the external costs of road haulage, you would have to raise the taxes by about 50%. I am not necessarily recommending that because hauliers in this country are already the most heavily taxed in Europe. It would be very difficult for the UK to act unilaterally and to further increase the taxes on hauliers. One thing you possibly could do is to redistribute the tax burden across different types of vehicle, because at the moment some vehicles cover more of their costs than others. I would have thought any charging, given the present circumstances, would probably have to be revenue neutral.

Q89 (5.11.08) Chairman: Do you think that foreign registered vehicles should have to pay to use our roads?
Professor McKinnon: Most certainly, yes.

Q90 (5.11.08) Chairman: How would you do that?
Professor McKinnon: Three possible ways. One way to do it is by introducing a vignette, a daily charge on vehicles entering the country. The European Commission currently limits the amount we can charge. I think it is less thañ 9 so it does not close the gap. It is not distance related. You could resurrect the LRUC programme that the government was planning to do some years ago which would have cost lots of money and be technically very complex and would track vehicles; or you could go for a low tech system which is the one we advocated some years ago and would involve simply taking a note of the mileage that the vehicles had travelled from their tachographs and charging them per kilometre for that. A few years ago we advanced a method of doing that which could be introduced very quickly and cheaply. It is also worth pointing out that the Freight Transport Association recently employed Price Waterhouse Coopers to review all the ways in which the fuel anomaly could be corrected and a system very similar to ours was the one they reckoned would be the most cost effective for the country.

Q91 (5.11.08) Mr Clelland: Would that not result in a tit-for-tat charge when our hauliers go across onto the continent?
Professor McKinnon: Not necessarily. Each country has subsidiarity. When our vehicles go to other countries they have to pay a vignette. When you go to Germany you have to pay the kilometre tollon the Toll Collect system. In the longer term, hopefully we will see an EU-wide, standardised and consistant system of charging trucks. The European Commission is moving in that direction certainly but it may be another three, four or five years before that happens.

Q92 (5.11.08) Chairman: What can we learn from lorry road user charging in other countries specifically through the systems used there?
Professor McKinnon: Germany and Switzerland have demonstrated that you can apply a high tech system to trucks that works very effectively. The Germans failed the first time they tried it but the second time they did it it worked. You have to be very clear as to what the objectives of the tolling system are. In Germany particularly they use that to raise revenue to invest in the transport system. All the countries that have road tolling for trucks are in central Europe where there is a high level of transit traffic, so they have to find some way of taxing the foreign vehicles. Here in the UK because we are peripheral. I think only about 5% of vehicle kilometres are foreign vehicle kilometres as far as freight is concerned. If in the UK our objective is simply to level the playing field for foreign operators, we do not need a complex satellite tracking system as they have in Germany and Switzerland. We can go for a very simple, distance based system such as the one I have described.
Professor Shaw: Referring back to your question about whether or not it should be revenue neutral, if we are undergoing any kind of reform of the transport taxes and charges system, it is important to let transport policy rather than Treasury policy dictate the nature of the taxes and charges. In that sense, I would have thought that a good foundation principle would be to move towards covering the full external costs of the transport system in any charging system that is introduced. That may well involve increasing the tax take—in other words, making it non-revenue neutral. This comes back to Mr Stringer's question about sustainability. The external costs of transport may well change if we move towards a more sustainable transport system which aims to square the circle of getting carbon or environmental reductions whilst promoting social inclusion and promoting economic efficiency.

Q93 (5.11.08) Chairman: What would you include in those external costs?

Professor Shaw: Everything from accidents, the costs of climate change, economic inefficiencies, congestion charges, all these externalities which have already been mentioned.

Q94 (5.11.08) Graham Stringer: With hospitals you can get pretty accurate costs of accidents but, as you move through the spectrum, you can get pretty accurate costs of carbon. Then, as you get into other environmental damage, does it not become just which coefficient you put in front of the different factors?

Professor Shaw: I mentioned earlier on the dangers of spurious accuracy. We are always going on best available guess. That is an inherent danger within the system.

Professor McKinnon: I would entirely agree. A survey done recently by a consultancy company looking at all the different methodologies that were used to value these external costs reckoned there is a fair consensus now of the choice of methods to use. The trouble is in applying them. The scope can vary, the data sources can vary, so the actual monetary value you attach can vary, even though you are agreed on the basic methodologies. If you look at the way in which the government currently attaches monetary values to externalities in calculating sensitive lorry mile values for the Freight Facilities Grant Scheme, about a third of those externalities are worked out entirely subjectively. It is things like the fear that other drivers will have when they see trucks overtaking them on the road, or visual intrusion because people just do not like the appearance of trucks in urban areas. That is done entirely arbitrarily and yet it does represent a third of the monetary value attached to the environmental benefits of getting trucks off the road network and onto the railways.

Q95 (5.11.08) Chairman: Would you say that Treasury and transport policy are aligned? Do those departments work together?

Mr Coates: You did not ask us to declare an interest. If you go back 15 or more years, I was a civil servant in the Department for Transport, or whatever we used to call it in those days. I do not know what it is like now. In those days, there were certainly discussions between the Treasury and the Department for Transport about road user taxes, sometimes quite detailed ones in the run up to the Budget. I think it is fair to say that the Treasury's view of what ought to happen always carried the day. The transport arguments for doing one thing or another might have been brushed on one side. Even where there was a good transport reason for a tax change, the Treasury and the government I think were very bad at giving those transport reasons in public statements. When there was the great outcry about the fuel cost increases a few years ago, there was a demand from the road haulage industry to reduce the taxes. The argument given against reducing the taxes was the loss of revenue for hospitals, schools and so on. It was not the environmental argument for having tax at the level it was at. On the whole, I agree that the discussion and coordination between the Treasury and the Department for Transport are not as good as they should be.

Professor McKinnon: I think it is better than it was in the past. I think the fuel duty escalator was introduced ostensibly for Kyoto reasons to cut CO_2 emissions but I think the Chancellor said it was actually to find money to fund hospitals and schools. One of the reasons why we had such difficulty over the LRUC was that the scheme was driven by the Treasury and there was not sufficient coordination of that and transport policy coming out of the Department for Transport.

Professor Shaw: Another good example is rail privatisation which has been investigated by this Committee in the past. It was very much Treasury driven in terms of the particular model which of course resulted in vast expense.

Chairman: Thank you very much for coming and answering our questions.

Wednesday 17 December 2008

Members present

Ms Louise Ellman, in the Chair

Mr David Clelland
Mr Philip Hollobone
Mr John Leech
Mr Eric Martlew
Graham Stringer
Sammy Wilson

Witnesses: **Mr Edmund King**, President, The Automobile Association, **Mr Malcolm Heymer**, Traffic Management Adviser, Association of British Drivers, **Mr John McGoldrick**, Co-ordinator, National Alliance Against Tolls, and **Mr Peter Roberts**, Director, Drivers' Alliance Ltd, gave evidence.

Chairman: Good afternoon, gentlemen. I would like to welcome you to the Transport Committee. I will ask members first if they have any interests to declare.
Graham Stringer: I am a member of Unite.
Mr Clelland: I am a Member of Unite.
Mr Martlew: I am a member of Unite and GMB unions.

Q1 Chairman: I am a member of Unite. Would the panel like to introduce themselves, please, starting with Mr McGoldrick?
Mr McGoldrick: John McGoldrick, from the National Alliance Against Tolls. We also campaign against congestion charging and road pricing.
Mr Roberts: Peter Roberts from the Drivers' Alliance.
Mr King: Edmund King, President of the AA.
Mr Heymer: Malcolm Heymer, Association of British Drivers.

Q2 Chairman: Thank you. Mr King, you tell us in your written evidence that you call on a panel of, is it, 40,000 people regularly to gauge their views. Is that correct?
Mr King: Yes, Chairman. In March we set up the AA Populus panel of AA members, so obviously drivers. We currently have 45,000 members who respond to surveys on a monthly basis. The survey sizes range from 8,500 to 18,500. We have also set up the AA Zone on our website so that members can give their views that way, but we have found it very useful over the 12 months, particularly looking at things like fuel prices and how they affect the actual driving habits of motorists. It is very interesting to ask questions when fuel prices were at their height in July and then we asked the same questions again in November to kind of look at the trends and see whether any of those changes of habits have stuck as the cost of fuel has diminished. We have a lot of data, and I am happy to share more of the data with the committee, more than we could put into the submission.

Q3 Chairman: Thank you, Mr King. Mr Heymer, could you tell us how many members you have and who you would have consulted before reaching your decisions and expressing your views?
Mr Heymer: We have approximately 2,000 individual members, and the evidence that has been submitted was agreed amongst the committee, which is about 20 members. Clearly, our members support the sort of line that we are taking in the evidence that has been presented.

Q4 Chairman: Mr Roberts, could you tell us a little about your membership?
Mr Roberts: We have only been going since July, but we have just over 520 members in that time.

Q5 Chairman: So when you are expressing your views and, indeed, submitting your evidence, what would that be based on?
Mr Roberts: The membership joins the Alliance basically on the brief which is on the website. Unless they agree to what we are trying to say on the website, and also we run polls on the website, then, clearly, they would not join. So we base our evidence on the fact that they join by agreeing to what we say on the pages of the website.

Q6 Chairman: So it is membership by agreeing to what is stated on your website.
Mr Roberts: Effectively, yes.

Q7 Chairman: Mr McGoldrick, can you tell us how many members you have and what the basis would be for your statements and your evidence?
Mr McGoldrick: We are an alliance, so we do not have members. We started off by various groups around the country coming together, but most of them are quite small. The biggest one is the group on Merseyside, which nominally has 5,000 members who have joined at one stage.

Q8 Chairman: Your organisation, you are saying, is a number of organisations coming together, rather than an individual membership?
Mr McGoldrick: Yes.

Q9 Chairman: Is that what you are saying? Who would you have consulted before making the statements?

Mr McGoldrick: I did not consult anybody.

Q10 Chairman: So they would be your views?
Mr McGoldrick: Yes.

Q11 Chairman: Thank you very much. Mr King, in your written evidence from the AA you talk about issues to do with parking fines. You say a growing business is private parking tickets which are often recorded automatically and are served by post once the DVLA has given the enforcer the car owner's home address. You then talk about these activities raising huge sums from motorists in an unregulated, cavalier and sometimes criminal manner. I wonder if you could clarify that?
Mr King: Yes, this arose, ironically, out of more successful campaigns to try and get rid of some of the cowboy clampers, which we have been campaigning against for 10 years or so, and some legislation was introduced—not good enough—by the Security Industry Authority that means the clamper has to now get a licence and has to show their criminal record before they can clamp, but what this, ironically, led to is some of these clampers who could not get a licence then moving into other areas of business, and in one of the areas we noticed that they would not clamp the cars, they would take photographs of the cars, contact the DVLA, get the driver's home address and then send out in the post what looked like fixed penalty notices but were, in fact, their own fines. We have been contacted by thousands of motorists who believe that this is unfair, the way the system works. If you get a ticket on the street for a parking offence, you can appeal to the local authority; you can then go to an independent appeal. If you get a ticket on private land, whether it is wheel clamping or these kinds of tickets, you have absolutely no right of appeal; the only redress you have is going to the Small Claims Court or the Trading Standards, and for most individual motorists that is far too bureaucratic, time consuming and complex. So it is a major issue, and we know that some clampers with criminal records have abused the DVLA system. We are aware that the DVLA is trying to tighten up on who they give information to. On their electronic database they give information in two ways: one is via an electronic database and the companies have to pay to join that database, and there are some checks there, but the smaller parking companies will just contact the DVLA and, I think for £2.50, can get anyone's details, and that is an area of concern because there is no right of appeal.

Q12 Chairman: I am would like to ask all the panel, do you think that fines such as fixed penalty notices are a charge on road users, or are they a penalty for breaking the rules of the road? Who would like to comment on that?
Mr McGoldrick: I would have thought they were potentially both. It depends what the prime purpose is.

Q13 Chairman: What is your general perception of fines?
Mr McGoldrick: In relation to the total charges on drivers, I do not think they are significant, because a lot of drivers do not have them at all because they have been fortunate enough not to infringe the rules.

Q14 Chairman: Does anybody else have a view on fines?
Mr King: In terms of fines, parking brings in about a billion pounds a year of which half is fines; so it is very significant money. I think the perception of fines has changed as parking was decriminalised. I think when police traffic wardens gave out tickets it was 100% for enforcement and was a legitimate fine. As the system was decriminalised over 10 years ago, I think some local authorities got to rely on the income from parking tickets far too much and, indeed, I have seen some local authority contracts with their private parking providers that actually, in effect, outline targets for the number of tickets or, indeed, clamps that they would expect. I think if it is done like that, that gets away from it being purely a fine and perhaps can be seen as revenue.

Q15 Chairman: Would you say that the revenue from road users equates to the national and local government expenditure on roads?
Mr King: No, not nearly.

Q16 Chairman: The relationship between the two: what is your view on that?
Mr King: There are different ways you can look at the revenue from road users: fuel duty, vehicle excise duty, you can then look at VAT, but any way you cut it up, in round terms around 45 billion goes in taxes and about eight billion is spent on road transport. We have never argued that the total amount should but compared to 20 years ago the proportions have fallen quite dramatically. You can argue whether company car tax should be included in that and VAT but, either way you look at it, the motorist pays far more than is actually spent on the road network.

Q17 Chairman: You have got the figure of 45 billion?
Mr King: Yes. To break that down, in effect, 25 billion is fuel duty, 5.2 billion is vehicle excise duty, seven billion is VAT on fuel. I think those are all pure, direct motoring costs. The other costs, perhaps that are a bit broader, are VAT on new cars is 6.9 billion, company car tax is 2.6 billion. So perhaps you could argue those as separate charges, but I think the duty, the VED and VAT adds up to about 35 billion of which eight billion, approximately, is spent on roads.

Q18 Chairman: Does any other panel member want to comment on that figure? Do any of you disagree with that figure?
Mr Roberts: I think it is broadly in line with what we found.
Mr Heymer: Yes, that is pretty much accurate.

Q19 Chairman: So there is general agreement.
Mr McGoldrick: We would think it is a bit higher than that.

Q20 Chairman: Why do you think it should be higher? Are you putting something at a different costing?
Mr McGoldrick: We have submitted to the committee a detailed breakdown of how we have arrived at the figure, and we think at least 50 billion is the figure of taxes on road users.

Q21 Mr Leech: Why do the people on the panel think it is such a problem that the road user pays a higher proportion in taxation than is actually spent on the roads?
Mr King: We do not think it is a problem that they pay more than is spent on the roads. I think the problem is that the proportion has reduced and the road infrastructure has deteriorated. For example, local authorities are spending as much on compensation for pot-holes as they are on filling in pot-holes, and that is a problem. We would like to see the greater proportion of the money, for example, go on road maintenance, but we have never argued that the total amount of tax should just be for transport. We accept that hospitals and schools and education are absolutely important, it is just that the proportion has changed.

Q22 Chairman: What should taxes and charges on roads be used for? Does anyone else have a view?
Mr Roberts: Predominantly, I think taxes and charges on the road should fund the road network and the transport system. We have got general taxation which provides hospitals and schools, and the road user, if you like, subsidises that to a large degree, which is unique in user groups. No other group funds the Treasury to this kind of degree in excess of what the Government spends back on supporting those user groups.

Q23 Mr Martlew: What about people who drink?
Mr Roberts: Fair comment, yes, drinking tax is also too high.

Q24 Chairman: Are you saying then that charges and taxes on road users should not go to areas like hospitals and policing?
Mr Roberts: No, I am not saying that.

Q25 Mr Martlew: Is that a general view?
Mr McGoldrick: It is a political decision.

Q26 Chairman: Is that a general view? Does everyone else think that? Mr King has said something slightly different.
Mr Heymer: I think there is a general view of the amount by which the taxes and charges exceed the level of reinvestment that is the problem: not the fact that there is a difference but that it is so much greater. A factor of about seven is the amount taken from road users compared with the amount that is reinvested in the road network.

Q27 Sammy Wilson: Is not part of the problem that when taxes on fuel, for example, or congestion charges, or other forms of road taxes are presented they are justified on the basis that this is to pay for the damage which is done to roads or the new roads which are needed; so to a certain extent there is an expectation that when you pay tax on transport of one sort or another they are paying for a service which will enable them to travel about more freely? There may be some views that you cannot ring fence it, but do politicians not to a certain extent create the difficulty in that they present taxes in a way which raises expectations?
Mr King: I think that is part of the problem, because vehicle excise duty started off as the road fund licence, and I think it was Winston Churchill that raided it and changed the criteria from all the money going to the road networks to a broader outlook; so I think there is a bit of a misperception. What might be easier is if there was more transparency. If it said, say, whatever, 40% is going on transport expenditure and it was hiked up in that way, I think it would help motorists to stop complaining about where their taxes are going. If they could see it was going on pot-holes and better junctions and by-passes, I think they would be happier to pay their taxes.
Mr McGoldrick: I tend to agree with this. I think the Government should be a lot more open. I do not think they are open at the moment, which applies to road charges or anything else probably, but if drivers realised how much they are paying in relation to how little is actually spent on the roads, I think they would be very upset, which is one reason why the Government are not open and there is this misconception that road users may not be paying enough when, in fact, they are paying far more than is spent on the roads.

Q28 Chairman: What about the costs of pollution? Should motorists have to pay for that?
Mr Heymer: I think they are already paying. The AA, about 10 years ago, produced a report—it was called *Fair Payment from Road Users*—and one of its main conclusions was that there is no evidence that current transport taxes fail the test of sustainability; they appear to more than cover the full social and environmental cost of transport as well as the cost of providing the transport infrastructure.

Q29 Chairman: Does that mean that, in principle, you think that motorists should pay for the costs of pollution? Is that what you are saying?
Mr Heymer: Certainly, but they are already doing so.

Q30 Chairman: But you agree they should do so.
Mr Roberts: What do you call "the cost of pollution"? What is the cost of pollution? How do you actually analyse the cost of pollution? That is the problem.

Q31 Chairman: What are you saying, then, that you do agree or you do not agree?
Mr Roberts: If you take the Stern Review, Stern suggested that £44.00 a tonne was the correct price to pay for carbon and, as I have submitted in the evidence, at the moment a driver of an average family car is paying £251.00 per tonne for the carbon

just on fuel duty alone, but that is taking out all the other taxes; so it is several times over the £44.00 a tonne that was recommended by Stern.

Q32 Sammy Wilson: In terms of the economics of this, if we do go down the road of saying that the marginal social cost of driving ought to be fully considered in the costs and then in taxation, is there not then also a case (and this is where the economics become very difficult) for saying that there are also social benefits from driving?
Mr Heymer: Very much so.

Q33 Sammy Wilson: That must be offset against the social costs.
Mr Roberts: Absolutely.

Q34 Sammy Wilson: We hear a lot about the negative externalities of driving, but we very rarely get any discussion about the positive externalities of people having their own cars?
Mr Roberts: Absolutely. The economy, effectively, would stop tomorrow if you shut the roads. If you stopped people driving and closed the roads, the economy would just die.
Mr McGoldrick: Drivers are only responsible for a small amount of the pollution anyway. Why should the emphasis be on taxes on drivers for the pollution that they cause rather than on everybody else for the other 70–80% of pollution?

Q35 Chairman: Should money raised from road users be earmarked for spending on roads?
Mr Roberts: Yes.
Mr McGoldrick: No, I do not agree. The Government would go bankrupt if that was the case. They are currently making a profit of about 40 billion, so it is unrealistic to say that. I think it is realistic to say that, for the benefit of the country, far more should be spent on the roads. The economy is hindered by the fact that more of the 50 billion is not spent on the roads.

Q36 Mr Hollobone: Have any of our panellists got any evidence for the comparator between Britain and other EU countries or other countries around the world in terms of the difference between a tax-take, in our case 45–50 billion, and the amount spent on roads, in our case eight billion? Is that ratio the biggest amongst all comparator countries? Do we have any evidence about that?
Mr King: There is some evidence from the Road Users Alliance. They have got something called Road File that shows expenditure per capita in all European countries and then it links it to taxation, and I do not remember the exact figure, but I know that we are fairly near the bottom and not near the top in terms of that. If you look at motorway length per head in European countries, again, we are much lower down. Of course, we are a smaller country, but per vehicle, on all those counts, we are relatively low down.
Mr Heymer: Also, if you look at the length of motorway per billion dollars of GDP, we are about a third of the EU 25 average. So the size of our road network, or strategic road network is very much smaller than that of comparable European countries.

Q37 Mr Martlew: Can I first take exception to the point you made about the motorways. What is your definition of a motorway?
Mr King: Definition of a motorway? It is a road with a hard shoulder and a central reservation.

Q38 Mr Martlew: You would accept that a lot of them on the Continent are two lanes and not three lanes.
Mr King: Yes.

Q39 Mr Martlew: So we are not comparing like with like?
Mr King: No, if you recall, a motorway in France can have two lanes or three lanes.

Q40 Mr Martlew: But the reality is that the definition of a motorway is very vague, is it not?
Mr King: Not too vague, no.

Q41 Mr Martlew: I think you will find it is. Can we come back to the cost of motoring. The RAC have submitted evidence to us—unfortunately they cannot be here today—saying that in the last 20 years the real cost of motoring to the individual has decreased by 18%. Would the panel agree with that?
Mr Roberts: Personally, I did some research on this a couple of months ago and, with the increase in fuel costs as it was in September, October, no, I do not think in real terms motoring has decreased.

Q42 Mr Martlew: It has not decreased at all in 20 years?
Mr Roberts: From the study I did, the fuel cost itself had increased in real terms by 35–40%, whereas the taxation on motoring had stayed roughly the same in real terms. The cost of buying a car, because the motor industry has been very efficient, has gone down. So the purchase cost has reduced but the actual running cost of a car has increased in real terms, yes.

Q43 Mr Martlew: Mr King, do you agree that the costs of running a car have gone up over the last 20 years?
Mr King: No, some of the costs have come down.

Q44 Mr Martlew: You would agree with the RAC that it has come down?
Mr King: I think their figures are slightly inflated, because if you look at household expenditure, government figures, so if you look per household at what people spend on motoring, for those on low incomes they are spending 24% of their household income on motoring, which is about the same as they were 10 years ago. So, certainly for those people, it has not come down and it is still the biggest single item of household expenditure, and I think that is the way we should look at it.

Q45 Mr Martlew: We can look at it and see that a lot more people run cars now than they did 20 years ago. Therefore, people can afford them now that could not 20 years ago?
Mr King: Yes, certainly.

Q46 Mr Martlew: Can I go on to the M6 toll. What are the views of the witnesses on the M6 toll?
Mr Roberts: I live very close to the M6 toll and have occasion to not use it as often as possible—the reason being that it is overly expensive. It is going up to £4.70 to use as from January and it is an extremely under-utilised and very valuable resource that the country is losing out on. There is a level of congestion on the M6, the old M6, which could be alleviated over night if that road was toll-free or if it was shadow tolled. We could completely wipe out all the costs of congestion pretty much in the West Midlands by making the M6 toll a toll-free road, and it would not cost that much to do it. If you offset the cost of the congestion to the cost of maybe giving road shadow tolls or purchasing it, we would alleviate an enormous amount of congestion in the West Midlands.

Q47 Mr Martlew: Is not the reality that the M6 toll should never have been built?
Mr Roberts: That was a political decision at the time, but, yes, probably.

Q48 Mr Martlew: It is the reality.
Mr King: Part of the reality is it might have been built sooner, because it was in the roads programme and the Birmingham Northern Relief Road and when it was transferred to be a private road it had to go through two more public inquiries. It is interesting, on the M6 toll, that currently the usage is going down. In the last quarter the figures were 12% down overall, but on weekends and bank holidays I think it was 16% down, which reflects that when fuel prices are high and motorists are having to watch their expenditure they do not have much of an appetite for paying tolls.

Q49 Mr Martlew: What you say is that people are taking the choice not to use the M6 toll?
Mr King: More recently, because of the high cost of fuel, the figures, yes, on those using—

Q50 Mr Martlew: Really what I am aiming at is do you believe we should replicate the M6 toll in other parts of the country: that private motorways be built and the opportunity be given for it?
Mr King: If a private motorway speeded up in an area where there is severe capacity shortage, and if it was clear that the Government was not going to spend on roads. I mean, one of the things we have looked at is whether you could have high occupancy toll lanes, not a whole new motorway but have an extra lane put on an existing motorway, and then, rather like the experience in California, if you are car-sharing you get it free of charge, if you are driving alone you pay a small toll. If that speeded up the provision of extra capacity, that is something we think should be piloted to see if it works.
Mr McGoldrick: We would not agree with that at all.

Q51 Mr Leech: Mr King said the usage of the M6 toll has gone down. Would you agree that might be to do with the fact that the amount of road works on the M6 has reduced? The introduction of the M6 toll did seem to coincide with some quite significant road works on the M6, so a lot of people were encouraged to use the toll road initially?
Mr King: Yes, that does have an influence, but I do think more of an influence is that 30% of drivers are now saying that they are driving less, doing fewer trips, because of the cost of motoring. The service area on with M6 toll is one of the most popular in the country, and I can never understand why someone would pay to use the toll to save time, presumably, and then stop off at the services. It is baffling.

Q52 Chairman: Mr Roberts, did you want to comment?
Mr Roberts: There are currently some pretty significant road works on the M6 going through Birmingham, and it does not seem to have increased the traffic flow on the M6 toll. So even though at the beginning of the M6 toll there were some road works on the M6, they are back again today.

Q53 Chairman: Both the AA and the RAC have said in their written evidence that motorists are fairly evenly divided on the idea of a national road pricing scheme. What sort of scheme do you think the majority might go along with?
Mr King: That is when we ask, in terms of principle: do you agree with the principle to pay as you drive or to pay taxes separately? And certainly on that 45% opposed it, 42% supported it, so it is fairly even. When we then hone that down, the sticking point seems to be 86% do not think government, whether local government or national government, would actually produce a fair system, and that is the sticking point. So I think the only way ahead would be if an independent body was set up to oversee it with guarantees of where the money would be spent and how the tolls would be fixed, because I think experience with tolls has shown motorists not really to trust government. In London we were told the charge would be £5.00 for at least 10 years, and in two years it was £8.00; on the Dartford toll we were told that when the bridge was paid for the toll would be removed, and it has not been removed, it has just been increased. There is a whole series of things why motorists perhaps do not trust it; so unless there is a degree of independence, I cannot really see national road pricing getting popular support.

Q54 Chairman: You think it is to do with clarity and certainty rather than the principle.
Mr King: Yes, I do. I think, in principle, as in all things in life, there would be winners and losers, and many motorists would actually gain from a national system of pricing if it was done fairly, but time and again, however we ask this, it is a lack of trust on how it would actually be introduced and managed.

Mr Roberts: Last year you had the biggest, shall we say, rejection of any road pricing scheme in history when 1.8 million people signed a petition in 12 weeks. I think that gives you a pretty good indication of the public's views on road pricing on a national basis. Since then we have had the result of the Manchester congestion charging referendum, where nearly 80% rejected the thing out of hand even though there was a significant investment in public transport. Edinburgh also refused any kind of road pricing scheme with a 74.4% rejection. We did a poll in Manchester several months ago where 2,105 people said no and 16 said yes to any kind of road pricing scheme. I think road pricing is one of the most unpopular and deeply contentious issues the Government could ever try and impose on the British public, and I think it would be deeply damaging for any political group to try and impose this in any way, shape or form.

Q55 Graham Stringer: On that point, we have talked a lot about the magnitude of the tax-take from motorists. What is a fair method of taxing?
Mr Roberts: I think to a large degree we have got a reasonably fair system in place now with fuel duty. I think people accept fuel duty and it is impossible to avoid. If you are going to drive a vehicle you pay fuel duty. I think there is an argument to remove VED, take away the road tax, if you like, and place that on to fuel, which in our calculation would be about eight pence a litre. I think there would be some people welcoming that, because it gives the right environmental argument and it also removes this cost of ownership, which is a fixed cost which people cannot really do anything about. If you have got a car on the drive which is costing you every day anyway regardless of whether you use it, you tend to use it; whereas if you remove the fixed cost and add that cost on to usage, which effectively is a fair and easy way of doing it through fuel, I do not think there would be many people objecting to that.

Q56 Graham Stringer: Are there any other views on what a fair system of taxation would look like?
Mr Heymer: I would go along with Mr Roberts. Fuel duty is by far the best approach, because it is directly related to the mileage covered and the fuel consumption of the vehicle.
Mr King: I think there are, though, some other potential benefits of a vehicle excise duty system in influencing the right choice of car, for example, on environmental grounds. Some of that is reflected in fuel duty, because if it is a more environmental car you get more miles to the gallon. However, I think more incentives can be given for a first-time purchase on vehicle excise duty but, indeed, not on retrospective vehicle excise duty, when I think the Government got it totally wrong and have revisited that (and I think that is fair because people had already owned those cars), but having a lower vehicle excise duty for cars under 100 grammes of CO_2 does give an incentive for people when they are looking at new cars. As long as the system is transparent, as long as it is fair, I think motorists will accept it.
Mr Roberts: You could put that onto a purchase tax. That would influence people.

Q57 Graham Stringer: Mr King, how would you interpret the result of the Manchester referendum?
Mr King: We were not at all surprised. We surveyed 11,000 members in November and in the North West 77% said they would oppose it and the actual result was 78%, so we were not surprised, but again, when we honed that down, it was a kind of lack of trust: "The system might start out with the maximum as £5.00 a day, but do we believe that?", and, quite frankly, motorists did not believe it.

Q58 Graham Stringer: Are there any other interpretations of the Manchester result?
Mr McGoldrick: I think it demonstrated that you cannot fool people all of the time. Almost all of the propaganda that came out from the authorities and the Government, in my view, was misleading. People instinctively did not trust it and, if they were aware, for instance, of the London congestion charge where 60% of the income that is collected in charges and fines is wasted in the cost of collecting it, I would have hoped that they would, on those grounds alone, reject any idea of congestion charging and, similarly, would reject any idea of national road pricing, which according to the report that was commissioned for the Government four years ago would cost up to £62 billion to implement. With national road pricing we worked out it is the equivalent of adding 20 pence on to the cost of a litre of petrol or diesel and then taking all that money and burning it. It is an absolutely senseless idea. The only fair and efficient way to charge for road use is through fuel duty. Virtually all other taxes should be reduced or eliminated, including, in particular, tolls, of course.

Q59 Graham Stringer: What would different members of the panel do about congestion? Do you see that congestion is a problem in the inter-urban road network. There is a different problem of congestion in cities, but dealing with those separately, how would individual members of the panel deal with those problems of congestion?
Mr Roberts: The inter-urban road network in general runs fairly freely, providing there is not an accident or someone has broken down. It tends to be one of incidents which affect the flow of the traffic. The traffic flow on motorways has increased fairly substantially over the least 10 years but the motorway network has not been increased, and, realistically, a lot of the problems we have with congestion and the cost of congestion that is associated with that is down to the Government's lack of investment in the infrastructure and not because people are choosing to drive their cars. You could argue that it is not for the driver to correct that problem, it is for the Government to correct that problem by investing and extending the motorway network and the inter-urban network. In our submission you will see in the UK we have got 17,000 people per kilometre of motorway; whereas, for instance, in Spain we have got around about 4,500 people per kilometre. So the country is

overcrowded, if you like, and the motorway network simply cannot cope in its present form with the number of people in the country. We need either more roads or less people.

Q60 Chairman: Which are you going for?
Mr Roberts: Probably the second.
Mr King: I think there is a middle way there. I think we should do more at reducing the need to travel and, with technology, I think we should be using the super-highway more than the actual physical highway. There is a lot that can be done through teleconferences and home working.

Q61 Graham Stringer: As soon as the economy grows, people travel a lot more by car, there are more lorries and there is more air travel. However much people talk about the Internet as being an alternative, there is no evidence that it ever is, is there?
Mr King: I think we have to try. The AA has got 400 call-centre staff who work at home from Newcastle, Manchester, Leeds, and we find that incredibly effective. If the roads are snarled up and there are more breakdowns, we can call on people for over time, so it does work well. Within our company we have cut out having meetings up and down the motorway and we use telephone conferencing; so I think it can work. Having said all that, I agree that is only a small proportion and we have to look at bottlenecks and improving junctions. I think we have to look at things like hard-shoulder running, which the Government is looking at, as perhaps not an ideal solution, it is often better to add an extra lane, but it is cheaper to use the hard-shoulder and, in some circumstances, if it is well managed, as on the M42, it has shown it can be successful. I also think, though, that companies need to look more at travel plans and the whole need to travel, but roads will remain the main force of travel. 86% of passenger journeys are by road, the bulk of freight is by road and there is no doubt there are areas on the network where congestion is dire and it does need more expenditure.

Q62 Sammy Wilson: There are two elements posed to the question about the fairness of the tax and also the efficiency of any charges or taxes particularly on road users. I do not understand the resistance to yet another charge being imposed, but coming to Mr McGoldrick's point, if we are looking for a way of pricing people who use the roads to ensure the efficient use of the road network, is there not some validity in the argument for road charging which is at least to help people to travel at different times, hence dealing with the reduction, to look for roads which are perhaps cheaper because the charge is less on them because they are less congested, and, despite other improvements that are needed, at least make better use of the existing road network by a system of charging which does not simply raise money by how much petrol or diesel you put in your tank, regardless of when you use it or where you use it? If we could find a way of changing charges so that we were using a more efficient way of charging, not imposing it on top of others, do you think there would be a different reaction to road charging?
Mr Roberts: In theory, I think you are absolutely right. In pure economic theory, if you have got a scarce resource like the road network, you should charge it. I can see the theory totally. It is just that when it comes to practice it becomes complex. I think there are two ways to possibly do it. I think some members of the committee visited Holland, where the ANWB, the Dutch automobile association and the Government are looking at a fairly radical pay-as-you-go system that, in effect, would abolish any of the direct charges—purchase tax, vehicle excise duty and duty—and put it on pay-as-you-go. A fairly radical approach—I think it would be fairly difficult to implement here—but in terms of getting people to think twice about where and when they travel, there is a system that was trialled in Oregon in the United States whereby some people opted into a pay-as-you-go system and, if you opted in, you got a reduction on your fuel duty at the pump, if you did not, you paid the full fuel duty; and certainly the evidence from that, even though it was a small pilot, did show that those people who opted in, who had the black box in their car, cut back on their journeys or drove at different times of the day when it was cheaper. So I think the theory works but I think it will be a brave politician to introduce it in practice.
Mr McGoldrick: The Oregon trial was a sham. What happened with Oregon is they had a very small number of drivers and, potentially, drivers dropped out. So you are left with the drivers who are going to get a reward because they appeared to have driven less.
Mr Roberts: We have an example of this in the UK. Norwich Union introduced a pay-as-you-go insurance scheme, which was quite heavily promoted, where drivers only paid for the amount of driving they did and the insurance price changed based on what time you drove, et cetera, and that has been scrapped because nobody took it up. Nobody wanted to participate in this scheme, so it is no longer being offered.

Q63 Mr Leech: Is that not true? It was a pilot scheme. It was not available to everyone at all. Given that I did used to work with the RAC on Norwich Union, I think you are actually wrong there, Mr Roberts?
Mr Roberts: If it had been successful it would still be here today.

Q64 Chairman: Mr King, you mentioned the Royal Dutch Touring Club, which is your equivalent in Holland. The committee went on a visit to Holland recently and found that that organisation was very much involved in the development of a national scheme. Do you see the AA playing that role here?
Mr King: Yes, if there was a scheme, obviously the AA would want to be involved. We would poll our members on it and see what level of support, see what kind of scheme they would support. In Holland, as I understand it, the first scheme the

ANWB were totally opposed to and that was scrapped, but they have now come to the table with other groups and it looks like this scheme, although there are still some potential pitfalls, has a greater chance of succeeding.

Q65 Mr Clelland: You said that would be impossible or difficult to implement here. Why?
Mr King: I think it would be very difficult to convince the motoring public that it would be a fair scheme, and I think what would have to be done is that it be removed one step, two steps from government and run by an independent body. I think without that it would be a non-starter.

Q66 Mr Clelland: You mean the scheme should be run or the referendum should be run by an independent body?
Mr King: No, the scheme.

Q67 Sammy Wilson: What if there was a commitment that the revenue raised from a pay-as-you-go scheme, or some form of road charging, was then used to reduce the duty on fuel, or whatever, where there was that transparency where people did have that confidence: "Look, I am paying for roads in a way which will actually make a more efficient use of roads, will be fairer to people who use roads heavily at certain times of the day as opposed to those who use them at other times of the day", and if this is not an additional charge, this is going to be offset against the existing charges. Would that make a difference?
Mr King: If you could convince the people, yes, I think it would. The problem is the convincing people that it would.
Mr Roberts: My view on this is you are effectively targeting people who have got no choice. What a road user charge would do is increase the price at peak periods, if you like, which is targeting those going to work and then reducing the price for those who do not need to travel at a particular time. So you are not giving people a real choice, what you are doing is saying: you are forced to drive at this particular time and, therefore, you would pay more. If you look at the experience with, for instance, the trains, public transport, you pay a very big premium to travel on the trains during peak times, yet the trains are overcrowded at peak times and still fairly quiet off peak when the charge is much lower. So you might encourage a few people to change their habits and their journeys, but the vast majority of people travel when they need to travel and have not got the option to change that journey, so you are charging them for—

Q68 Sammy Wilson: Is that not true, equally, of fuel duty, where if I live in the middle of the country I have got to pay more for travelling to work than if I live in the town? I suppose you could argue that all forms of charging, whether it is done through fuel duty or road charging which varies at different times of the day, it is going to hit one group harder than the other simply because of the lifestyle choice that they have or the location or the kind of job they have or the kind of travel patterns they have. It is not limited to road pricing, the kind of complaint you are making.
Mr Roberts: It is really, because if you live in a town and you drive to work at a particular time, you will pay a far higher charge. The person who chooses to live in the country and drive 10 miles to work chooses to do that and chooses to pay the fuel duty. The one thing I think we are missing here is the cost of collection of the road user charge and the cost of the infrastructure. The infrastructure costs are huge, the administration costs are huge and the enforcement costs are huge, and it is simply not credible to say that it is a revenue neutral scheme. There is a massive cost to doing this and the driver will pick up the bill, and at the end of the day the current level of taxation, which is somewhere around the region of £45–50 billion will go up by some 15–20% just to cover the cost of the infrastructure and the administration. It is just not credible to even consider it.

Q69 Mr Martlew: Going quickly back to Manchester, one presumes that is the last referendum we are going to have anywhere in the country on road pricing for towns?
Mr Roberts: Yes.

Q70 Mr Martlew: Mr Roberts, you can argue the case against road pricing, but you have not told the people of my constituency when they are going to see some relief from congestion. You cannot build extra roads, but we have a congestion problem. We are not going to have town pricing. At some point in the future, I think it is a long time in the future, we are going to get the technology and we are going to have to look at road pricing, but what is your answer to congestion in towns, Mr Roberts?
Mr Roberts: Whereabouts is your constituency?

Q71 Mr Martlew: Carlisle, near Scotland.
Mr Roberts: I have been there. I did not actually experience any congestion in Carlisle when I drove through, but that is besides the point.

Q72 Mr Martlew: You probably would have used the M6 and driven past.
Mr Roberts: No, I drove through the centre.

Q73 Mr Martlew: You must have been going there in the middle of the night.
Mr Roberts: It was about 10.00 o'clock.

Q74 Mr Martlew: What is your answer to congestion in the cities?
Mr Roberts: There is a big issue here, because just about every major conurbation we see has seen a reduction in traffic volumes over the last 10 to 20 years. Manchester, for instance, has seen a reduction within the charging zone of around 14%, the West Midlands has seen a big reduction in volumes of traffic within the conurbation, yet we see reduction in traffic speeds, and what we see is, effectively, an increase in congestion because traffic speed is a measure of congestion. So, clearly, we are doing

something wrong. The current traffic management schemes we are putting in place are causing far more problems than they are solving and ideas where we put traffic lights on roundabouts which are perfectly free flowing—we take roundabouts out and put traffic lights at junctions in where the roundabout was coping perfectly well—following the engineering changes, the traffic lights cause huge problems. What we have been doing in the last 10 years is increasing congestion whilst traffic levels are falling. You cannot blame the driver for that. That is down to policy.

Q75 Mr Martlew: It is all down to traffic engineers, that is what you are saying.
Mr Roberts: It is down to traffic policy over the last 10 to 15 years, yes, or a lot of it is.

Q76 Mr Martlew: The fact that more people own cars than ever before—
Mr Roberts: That is not true. The traffic levels in city centres—

Q77 Mr Martlew: I am sorry, it is. More people than ever before own cars. Is that not true, Mr King?
Mr King: Yes, it is.
Mr Roberts: Yes, they own cars, but the traffic levels within the city centre, specifically Manchester and the West Midlands, has fallen.

Q78 Chairman: So you are saying, Mr Roberts, the answer to the situation is to do with traffic management?
Mr Roberts: We have got a scheme in the West Midlands called Quick Wins. I am a member of the West Midlands Business Transport Group and what we have been doing is looking at congestion pinch points in the West Midlands, in the Birmingham conurbation, and we have asked the public, we have asked business to send us examples of where they believe there is a particular problem. We have got 160 Quick Wins which will be targeted over the next 18 months to two years where we will go into each of these specific pinch points and we will re-engineer those junctions to ensure the traffic flows more freely, and that will go a long way to freeing up some of the congestion we see, and I think, personally, that is something we should be rolling out across the country.

Q79 Mr Martlew: Mr King, do you agree with the analysis of why we have got congestion in the cities?
Mr King: I do agree that traffic management is part of it. If you look at London, the Central London congestion charge came in. We are now back to the original levels, and if you look at that, the number of cars has not increased, it has reduced in London, street works are still badly co-ordinated—that is still a major problem in London and other Metropolitan areas. Some road-calming schemes have created pinch points on certain roads, so it has reduced capacity, but, ultimately, in towns and cities it is a culmination of better traffic management, park and ride and better public transport. The sad thing about Manchester is that the people of Manchester were held to ransom and were told: either go for this charging and have public transport or, basically, get nothing, and that is a shame because I think Manchester needs some better public transport and we think that money should have gone in there anyway from some of the 45 billion that motorists are paying.

Q80 Chairman: Who are the winners and losers of the current system of road charges and taxes?
Mr McGoldrick: The biggest losers, of course, are the people who have to use the toll road. Today, by coincidence, it is the 75th anniversary of tolls on the Birkenhead Tunnel, so obviously people in the Birkenhead, Liverpool area are major losers, but also the people who are living in the area of the M6 toll road are losing because the present Government, and the previous Government originally, decided to put a toll on what should have been a free road. Instead of being an economic asset, it is under used. It is a white elephant.

Q81 Chairman: Are there any other comments: winners and losers of the current system?
Mr King: I think part of the problem with the losers is actually congestion and the cost of congestion. I know there are various figures that have been raised, but it is costing the country, and I think in terms of that, that is where, if a higher proportion of the money was spent on the road infrastructure, that would reduce some of the costs of congestion and, therefore, there would be more winners in terms of businesses and, indeed, individuals getting around and their mobility.

Q82 Graham Stringer: Ben Webster in *The Times* exposed the nonsense of the CBI figure for congestion.
Mr King: Indeed; I know it well.

Q83 Graham Stringer: He showed that had been basically made up on the back of—
Mr King: I know exactly how it was made up because, in fact, my wife, Deirdre Lavelle, who is an economist, compiled the cost of congestion for five urban areas. The CBI then said could that figure be transferred to the whole of the country by multiplying it by three, or something, and that is how it came about. I do know the history of that cost. I am saying there are various costs of congestion. However, we do know it costs billions of pounds.

Q84 Graham Stringer: I was going to say that. That is a very non-specific figure. The CBI have used this ridiculous figure that they made up in the way that you have suggested. Do you have a figure that you are prepared to stand by and justify?
Mr King: We certainly have the figure for urban areas. As my wife did the sums, I would stand by her figure of five million, otherwise I will get kicked out of the house! That was in urban areas. I think Eddington put a figure on it. In the Eddington Review it was something like 13 billion.

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Q85 Chairman: Do you accept that figure?
Mr King: Yes, of that magnitude. There is no doubt if you look at business costs—congestion costs, extra fuel, extra drivers, extra trucks, and, indeed, for individuals, the cost of delay, the cost of your time—yes, it is a real cost and not everyone can use the public transport alternative. If there is a good alternative, we would advocate people use it. I use public transport every day coming into London. I would not think of driving, because public transport is quicker and more efficient, and that is how we need to address congestion.

Q86 Chairman: Would you support an increase in fuel duty?
Mr Roberts: Providing it was offset somewhere else.

Q87 Chairman: Where is the somewhere else?
Mr King: A reduction in VED, if it was fairly distributed on to fuel, yes

Q88 Chairman: Are there any other views?
Mr King: We understand taxes have to go up with inflation, so if fuel duty goes up with inflation, amongst other things, that is acceptable. I think it was only this last year that we campaigned against the increase because of the record global prices of fuel that were affecting many families and, indeed, as the Governor of the Bank of England said, we are fuelling inflation. When inflation hit 4.7 one of the main reasons was the high cost of fuel, because people were dependent on it. I think you have to look at the wider picture when it comes to taxation and not just look it in terms of the motoring costs.

Q89 Graham Stringer: On that basis, would you support the fuel duty stabiliser?
Mr King: We have looked at various aspects of that before. I think there are some merits to it.

Q90 Chairman: What are the views of the other members of the panel? Do you have any views on the fuel duty stabiliser? No? How effective do you think the Government's revised proposals will be for differentiating vehicle excise duty rates and reducing carbon emissions?
Mr McGoldrick: Most of us think that vehicle excise duty should be reduced to a nominal amount. So, obviously, I assume that we think the Government's proposals are pointless. The main incentive for drivers to economise on fuel use and thereby reduce emissions should be fuel tax, not a standing charge which is not related to how much you use the vehicle or how you use the vehicle.
Mr Roberts: One thing that does concern me with VED is the disproportionate level of fuel or, shall we say, VED that is targeted against British motor manufacturers. If you take home-grown car producers, we have effectively got Jaguar, Landrover, Aston Martin, Bentley. All of these at the moment are suffering from extremely high levels of VED, because they are luxury cars, they are large luxury cars, and the British market, the manufacturing industry, relies on those vehicles and it is a huge amount of employment and it is a huge amount of tax that is taken from these people that are employed in the British motor industry and to some degree we are damaging that industry with the way VED has been targeted on those vehicles.

Q91 Mr Martlew: The list of companies you read out there are all foreign owned companies. We have BMW, Nissan, Toyota, who are all making the smaller vehicles in this country. We do not have any UK owned manufacturers any more, do we?
Mr Roberts: No, but they employ UK people.

Q92 Mr Martlew: So does Toyota and Nissan, especially in Sunderland?
Mr Roberts: And Honda. Very much so. The thing that worries me is the UK manufacturing industry is more of a supply base because the supply base is going to suffer very badly in the next three to six months.

Q93 Chairman: Do you agree with applying the new rates to cars purchased as far back as 2000? Nods do not go down on our record. Yes or no.
Mr Roberts: No.
Mr McGoldrick: Well, obviously, because I do not think most of us think that vehicle excise duty is a good tax anyway. It is a standing charge.
Mr Roberts: The problem I have with this is it is a retrospective tax on people's purchasing decisions they made some time ago. If VED is there to encourage a choice in purchase, it cannot do that when they have already bought the car several years ago; so you have increased the tax on someone who cannot make a choice to change that vehicle. What has also happened is the market for those vehicles has fallen, so you cannot dump them and get rid of them and buy a new car, because that value has gone. So I think it is a very bad move.
Mr King: Yes, certainly the retrospective nature of it, I think, was a mistake and the Government has taken some action to rectify that. I think for new cars though, where people do have a choice, if you need an estate car, there is a difference between the best in class and the worst in class. You might need an estate car because you need four choices. VED might be one factor that influences that choice. If the VED is less because there is less CO_2, that may lead to a choice of a greener, cleaner car. I do not have any problem with that.
Mr Heymer: As Mr Roberts and Mr McGoldrick said, we basically are opposed to VED anyway but the retrospective aspects of the proposal that have now been revised are even more strongly opposed, for the reasons that have just been stated. They penalise a decision that has already been made.

Q94 Mr Leech: Would anyone on the panel actually support a widening of the differential between VED, between the least polluting cars and the most polluting?
Mr King: It has been widened; there are now something like 13 bands. I think the problem is it does become very complex if you have then got a system for new cars and you have then got a system for pre 2001 cars, and if it becomes too complex I do

not think strong messages come out. I think, if anything, yes, there should be a range, but it should be simplified, otherwise it loses the point.

Q95 Mr Leech: Do you think there is a level of VED where manufacturers would decide that they had to make a decision to change the nature of that particular vehicle to get it out of a particular band?
Mr McGoldrick: If that is what the Government wanted, why did they not legislate on that rather than having some sort of tax thing to force manufacturers to do something, you know, make a regulation saying that vehicles should be of a certain efficiency if that is what the aim is?

Q96 Mr Leech: Is it not about still giving people that choice though, so if people want to have a high polluting vehicle, high performance car—
Mr McGoldrick: It is giving a choice by putting a penal tax on the decision. That seems to be a choice for the rich rather than for the average person.

Q97 Mr Leech: Someone might spend several hundred thousand pounds buying a Ferrari and, say, £2,000—
Mr McGoldrick: Presumably if they can afford a Ferrari they are not particularly interested in how motoring is taxed or charged.

Q98 Mr Leech: Does anyone think there is a level at which motor manufacturers will think actually it is that high for this band of vehicle that we will physically change the—
Mr McGoldrick: Customers probably are not buying anyway.

Q99 Chairman: Does any other member of the panel want to answer?
Mr Roberts: Land Rover for instance have invested something like £700 million in cleaner vehicle technology because of the current levels of fuel duty or VED. The differences between the highest and the lowest are probably large enough as they are today, if not too large.

Q100 Mr Leech: To a certain extent it has worked with Land Rover?
Mr Roberts: I think all car sales across the UK now have fallen some 25%. All of the car manufacturers are suffering. At the moment Land Rover is investing a huge amount of money in cleaner technology.

Q101 Chairman: Would you support moves to make the Highways Agency more independent, charging drivers to use the motorways and trunk roads with the charges reinvested in the network? Is that a proposition that appeals to anyone?
Mr McGoldrick: Drivers do not want to pay any extra charges. If taxes are to be increased for whatever reason, the fairest and most efficient tax is fuel duty. We do not want a two tier system whereby they are just bringing in some more lanes. Basically the idea is a variable toll so that as congestion increases drivers are forced out of the toll lane into the lane where the traffic has come to a halt.

Q102 Chairman: Does anybody else have a view on this proposal? Are there any supporters for it?
Mr Heymer: If you were to put tolls or charges on motorways and trunk roads, all that will happen is that people would try to avoid them wherever possible, which would be very bad for road safety because motorways and high quality dual carriageways are the safest roads. If you discourage people from using them and they go on to less safe, single carriageway roads, you are going to get an increase in accidents.

Q103 Chairman: It does not look as if there is any enthusiasm for this.
Mr Roberts: One of the problems you have is people driving further to pay less so in environmental terms that is a very bad thing.
Chairman: Thank you very much, gentlemen, for coming and answering our questions.

Witnesses: **Mr Stephen Joseph, OBE**, Executive Director, Campaign for Better Transport, **Mr Ralph Smyth**, Senior Transport Campaigner, Campaign to Protect Rural England, **Mr Andrew Wood**, Executive Director, Evidence and Policy, Natural England, **Mr John Leach**, President, National Union of Rail, Maritime and transport Workers (RMT) and **Mr Graham Stevenson**, National Organiser, Transport Sector, Unite the Union, gave evidence.

Q104 Chairman: Good afternoon, gentlemen. I understand that Mr Stevenson is stuck in traffic. Could I ask you please to introduce yourselves with your name and organisation for our records?
Mr Leach: My name is John Leach. I am the president of the National Union of Rail, Maritime and Transport Workers.
Mr Wood: I am Andrew Wood. I am the executive director for evidence and policy for Natural England.
Mr Smyth: My name is Ralph Smyth. I am senior transport campaigner at the Campaign to Protect Rural England.
Mr Joseph: I am Stephen Joseph. I am the director of the Campaign for Better Transport.

Q105 Chairman: Mr Joseph, in the written evidence we have from the Campaign for Better Transport you say, "Taxation policy which links the penalising of pollutant behaviour with the funding of greener behaviour is more politically acceptable than just penalising damaging behaviour." What does that mean in policy terms?
Mr Joseph: What I think it means is that, rather than get hung up on what the exact economic external costs of motoring are, we should see motoring tax as

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a part of a package of measures to change behaviour and reduce the damage caused by motor transport, and particularly tackle climate change.

Q106 Chairman: Is there any positive benefit in having traffic on roads?
Mr Joseph: Yes, of course. People need access to goods, services and facilities they need to get to and, for many of them, driving a car is the best way of doing that. It is about access; it is not about movement itself. It is very important that we keep that in mind because a lot of rhetoric has been about mobility when actually mobility is not what people particularly want. What they want is to get to work, to school, to see friends and relatives, to the countryside, in the way that best suits them. We think it is possible, if we follow the patterns here and in other countries, to do less of that by car and provide real alternatives for them to do so and also to change the land use planning system so as to make it less necessary for people to travel at all.

Q107 Chairman: Does anybody else have a view?
Mr Smyth: I would agree with that. In particular, rather than trying to capture the environmental and social costs of driving, you try to reflect them but also you try to for example protect local services, be it local schools or post offices, so people can get to places by sustainable transport, be it walking or cycling, rather than get in their car to get to a shop or something.
Mr Wood: You need a package of measures that aspires to the strategic. You have to invest in public transport. Fiscal measures have their place in that. You do need both penalties and incentives. Ultimately, the fundamental truth of this is that the present transport model us unsustainable because of its impact on the environment, so we have to find ways to move away from it, but there is not just one trick that we can play that will solve it.
Mr Leach: My trade union firmly believes in the necessity of a publicly owned and integrated transport system, system-wide. Road would be part of that. We have members employed on the road as well as on the rail but we would like to see an ever increasing shift to rail from road. I know that is not specifically what this session is about but to answer the question, yes, there is a requirement for road. It is just getting that balance right and taking into account obviously all the environmental questions and issues that raise themselves on this subject matter.

Q108 Chairman: Parts of the freight industry, particularly in London, say that penalty charge notices are now so frequent they see it as part of the cost of driving. Do you think that is acceptable? Is there anything we should be doing about it if not?
Mr Joseph: It is not a sensible way of managing freight transport in a city. Those goods have to be moved somehow and we have to move to a much better managed system. That will mean public policy interventions as well as just dealing with the sharp end that you describe in terms of penalties and parking charges. Other European cities and indeed one or two in this country like Bristol and Norwich have experimented with consolidation centres so that you have fewer but fuller vans and lorries delivering into cities. I think it would be worth looking at logistics and delivery plans for major premises so as to be able to plan this much better. At the moment what we have out there is anarchy and it is not surprising that you end up with a lot of charges and penalties. That is not a sensible way in economic or environmental terms of managing freight transport deliveries in cities.

Q109 Chairman: How does the revenue from road users equate with the costs of using the road? Could you indicate what you think should be included in that cost of using the road?
Mr Joseph: In our paper we have quoted various figures that have been produced, notably a study published for the Department of Environment, Transport and the Regions, 2001, which had some detailed numbers in this respect, taking account of noise pollution and so on. That came up with a figure which, in 2006 prices, is between £70 billion and £95 billion. However, I think there are a lot of values in there and really the important point, as I said in my first answer, is about what are the things that are needed to reduce that damage. There is no point in charging people lots and lots of money on the basis that they are making a certain impact on climate change if the impact on climate change does not reduce. You have to do it, as Mr Wood said, as part of a package of measures that is about tackling climate change. Motoring taxes and charges are only part of that. We recently—the Committee may want to see this—produced some new research which was done for us which tried to link taxes and charges on motoring and aviation with public transport fares. At the moment the government thinks of those in separate boxes but this research found that, if you reduced public transport fares with money raised from motoring and aviation taxes, you would reduce total carbon emissions from transport by 13% by 2025. In other words, you need to look at the trends for transport across the piece and it is the fact that real costs of motoring have gone down by 18% according to the RAC figures and indeed government figures while public transport fares have risen in real terms substantially. That is the wrong way round if we are looking to encourage people to take greener options.

Q110 Chairman: I am pleased, Mr Stevenson, that you have now managed to get here.
Mr Stevenson: My apologies.

Q111 Chairman: Should taxes and charges on road users be related to the costs of the road system or should they be related to something else?
Mr Smyth: I want to go back to the previous question and flesh out two particular costs that have not really been looked at, certainly from hearing the evidence in the previous session. These are perhaps second order effects rather than first order effects.

For example, fear of collisions or severance. The more motor traffic that uses the roads, the more people are afraid to walk and cycle. Given that the research done by the Department for Transport on Sustainable Travel Demonstration Towns showed that cycling and then walking had the most potential to substitute car trips, I would submit that is a very important point. There is also the impact of spatial efficiency, to use a planner's term. The more people drive, the less they will use their local facilities and the more non-drivers will be forced to go further. That needs to be taken account of when you work out the charges for driving. If as a proportion, say, 50% of people in a town driving further is causing the town centre to die and instead the only main shops are out of town, that should be taken into account at least somehow.

Mr Wood: The answer to your question would be yes, if only we understood what all the costs of road use were and sadly we do not. In 10 years at the end of the nineties and at the beginning of the present century, road construction cost us 9,000 hectares of green field land. You can price that at its market value. It is very difficult to say what we lost in terms of its landscape value, the tranquillity of local communities and the biodiversity that was there. There are too many things that we do not know, so I think my answer to the question would be that road charges should take account of the cost of roads but also the costs of the impacts of roads in terms of a range of pollutants, carbon emissions and the impact I have just been describing.

Q112 Chairman: Do you think those things can be quantified?

Mr Wood: I think we can move towards quantifying some of them. We can quantify carbon emissions quite straightforwardly for example. We know that the European Commission through Paven Sukdev from Deutschebank is engaged in a major study to cost biodiversity. We are beginning to see some of the findings of that study. It is an incredibly complicated piece of work, but in very simplistic, high level terms we lose about $3 trillion-worth of biodiversity a year globally. You would need to bring that down to very local impacts, but you can begin to get at some of that. I am not suggesting that road users should pay for all of that. That would be a nonsense. Nobody would use the roads at all, but we do have to begin to have some regard to the polluter pays principle here.

Q113 Sammy Wilson: Can I take you back to some of the charges we are now talking about? We have moved from the direct costs of motoring to congestion, pollution, climate change, fear. Are we really not getting into the realm of voodoo economics once you start getting down to trying to put some costs onto those kinds of elements? Even the figure that was given there for the cost of the loss of biodiversity, three trillion, or whatever it happened to be. First of all, that is fairly subjective, I would suggest to you. Measuring carbon emissions, you may well be able to quantify the carbon emissions but can you really quantify the value of those carbon emissions, especially since the impact is likely to be 50 or 100 years in the future and is not all that well understood anyhow? If we are starting to get into the realms of trying to have the whole cost of motoring, is this not just drawing a figure out of the hat? Will it depend upon your particular disposition, whether you are pro motorist or anti motorist?

Mr Wood: I am a motorist so I have a foot in both camps here. I said at the beginning that at the moment there is too much that we do not know. I think that does make it very difficult. I said later on that I do not think you could take account of that whole range of costs sensibly because it would make motoring absolutely prohibitive. We need to find a better balance that recognises that motoring in the model as we presently have it is detrimental to some of the fundamentals in these islands.

Q114 Sammy Wilson: If we start getting into the feel good factor that individuals have in that there is a form of transport which, when they want it, whatever time, wherever they want to go, they can jump into and they can go and see their mother, go and visit people in hospital, take their youngsters to school or whatever, there is a whole range of, I suppose, fairly subjective things there. If we were to start counting those—because you have concentrated on the negative externalities—might the equation not look a bit different?

Mr Wood: Much more subjectively so, I suspect. To take an anecdotal case, if I go to visit my mother, I live in South Wales, she lives in Central London. I can take a train from Cardiff to Paddington and the underground on from there which, if I travel standard class, costs me £40.[1]

The Committee suspended from 4.05pm to 4.18pm for a division in the House

Q115 Chairman: Should money raised from road users be earmarked for spending on roads?

Mr Joseph: Absolutely not. It is no more sensible than saying that money raised from tobacco, from smokers or drinkers, should be earmarked for spending on tobacco factories or breweries or distilleries. It is not sensible at all to do that. The previous witnesses would not say what they would do about the loss of general revenue. They said, "We think that income tax should be increased so as to make up the deficit", and then motoring taxes could be reduced. That would be one thing but that is not what they were saying. They were saying both that you should reduce motoring taxes and/or spend lots of money on roads and not presumably therefore spend money on the other things that motoring revenue is raised for. We would argue that there is a case for motoring taxes to be used as part of a package of measures to change travel behaviour and

[1] Mr Wood completed his response in writing: "*The cost of a full tank of petrol for the return trip is, say, about £50. But if my whole family travels, motoring becomes the inexpensive option. My point is that we have to give people affordable public transport alternatives, or make road travel less affordable. Ultimately, we need both.*"

that you should take account of that, but that is very different from saying that all motoring taxes should be spent on roads.
Mr Stevenson: A sometimes rather poshly called "hypothecation notion" has been something which the Treasury has been very hostile to since time immemorial. We would argue it is a useful idea but to some extent the difficulty with the debate as I have been hearing it is that this is all very technical and we need a holistic approach. The real challenge is the tension between the use of the private car and the use of public transport. T&G and Unit are generally opposed to road user charging, tolls, whatever you want to call it, road pricing, the whole panoply of measures that apply some kind of market solution to changing behaviour. We did vary our opinion with regard to the London congestion charging because we did have a view that this would result in a direct apportionment to public transport. I think that was the larger view of people in London. There is some query about the future. What is interesting is that our members in Manchester initially began to take a view in the debate that was emerging there recently, that maybe this would be, like London, a good development but our members en masse began to be very, very doubtful that this would be exactly what would happen. That is more to the question. It is more a question of can citizens be comfortable that this is what will take place rather than is the interest in this whole question of road user charging. Government is looking for new sources of revenue rather than—
Chairman: We are talking about clarity and reassurance.

Q116 Mr Leech: Does the panel think that if motorists knew exactly a breakdown of where that extra money that motoring raises was being spent they would be less hostile to appearing to pay more than gets spent on the roads?
Mr Joseph: Greater transparency and linkages would be very much more helpful and raise public acceptability greatly. We have quoted some evidence in our memorandum, some research done for the Green Fiscal Commission, which shows much greater public support for various kinds of new taxes, including motoring taxes if the money is spent on reducing the environmental damage and other things caused that you are trying to affect.

Q117 Mr Leech: Is it not also the case though that the idea about knowing what road charging would go towards paying for has not encouraged more people to support the idea of road charging?
Mr Joseph: There are several different things going on here. Road charging is one thing but we are talking generally about motoring taxes. I said earlier that we had had some work done which made some linkages between raising fuel tax and also putting fuel duty on domestic aviation and using the money to for example reduce average bus fares by 50% and rail fares by 25%. That has some positive benefits in terms of carbon emissions which is one of the things that all parties in principle seem to support doing something about. There is a Climate Change Act which requires the government to reduce carbon emissions by 80%. We think the public transport fares and motoring costs will have to be part of that equation. No propositions like that are being put in front of the public at the moment. We have general revenue raising that I referred to earlier. Most of the people in the last session did not disagree that some general revenue was going to have to be raised from motoring costs, but in terms of future increases we would like to see some kind of linkages, and not just linkages to public transport but to local facilities as well, making it less necessary for people to travel—for example, supporting local post offices and so on, to go back to the point I made earlier about access rather than mobility.

Q118 Mr Martlew: Your comment when you related alcohol and tobacco tax to motoring tax says a great deal about your organisation's views about motoring. The reality of what you just said to Mr Leech is not correct. If tomorrow we cut fares on the railways by half, we would not have anywhere near the capacity to deal with the problem. I know and you know that there are more people travelling on the railway now than at any time since the 1950s. It is all right to say but the reality in the short term—I think you mentioned by 2013?
Mr Joseph: 2025.

Q119 Mr Martlew: The reality is that that will not happen and if you did it you would just create another problem. Is that not correct?
Mr Joseph: We are not saying that fares rises are the only part of the story. What we are saying is that we will need extra capacity on public transport, bus and rail and tram too in some cases, but that doing what the government is currently doing, which is mainly charging users for it and moving to a system where users pay much more as we will see with the rail fares rises in January, which will be substantially above the current inflation rate, partly to enable for example the rail users in Kent to pay for the Channel Tunnel Rail Link, and paying for that extra capacity through large scale fares rises is not going to meet wider economic and environmental goals. It will go in the wrong direction. It will be socially inequitable and it is out of line with what other European countries do who use a much wider range of taxes and charges to fund their transport system.

Q120 Mr Martlew: What do you say to those who say, "The reality is that growth in rail traffic is much greater in the UK than it has been in Europe over the last 10 years"?
Mr Joseph: It has been very much greater and we welcome that. We want to see the capacity put in to cater for that, rather than cutting off demand through high fares rises or indeed the government's current policy which is to shift the cost of providing the rail system from one which is roughly 50/50 taxpayers and fare payers to one which is 75% fare

payers. We think that will add to pollution, congestion and social inequity, particularly for some local journeys in parts of the north of England.

Q121 Mr Martlew: I am not convinced that the government would agree with that. Let us go on to buses. We now have a system where probably 30% of the adult population travel free. While we have seen some increases, it does not seem to be the shift that you would suggest by your comments earlier.
Mr Joseph: The fact is that public transport fares and bus fares have gone up.

Q122 Mr Martlew: The fact is 30% travel free now.
Mr Joseph: Yes, but for those who pay fares which is most of the working population bus fares have increased in real terms. For social equity, for environmental and also for dealing with local congestion reasons, we are going to have to change that.

Q123 Chairman: Who are the winners and losers on the current system of road charges and taxes?
Mr Smyth: I think we should go beyond simply the people who are driving because of all the external costs. It is really difficult to put a financial value on it. When most people are too scared to cycle in London for example, that is clearly a cost of people driving. When the majority of people have problems sleeping at night because of noise from road traffic, again that is a cost that makes them losers. They may be a driver as well and I have problems with trying to divide everyone up into motorists and non-motorists. I am sure the whole panel, if not all of you, drive as well so it is a somewhat difficult distinction. There are the social costs which are huge and the environmental costs which are likely to be even bigger if we do not deal with climate change so people in the future may be losing out as well as people now.

Q124 Chairman: Should those external costs be put on charges for motoring?
Mr Smyth: The polluter pays principle has been well established. The question is how. If we do move to more electric vehicles, I think as the Prime Minister is indicating, that would make it difficult to see fuel duty as the main environmental charge. It may be that there is carbon trading and that will fit in there but it certainly makes things a lot more complicated than the previous panel seemed to think.

Q125 Chairman: Would you say that the current charges do capture external costs like climate change issues, environmental problems, health costs related to motoring? Should they?
Mr Wood: Those should certainly capture at least some of them. They do not very well. They do in notional and formulaic ways but if you look at the total costs and disbenefits of road transport against the revenue raised from charging, there is not an equality there.

Q126 Chairman: Should there be a range of taxes and charges as there is now or do you think it would be acceptable to say fuel duty should be increased instead of other taxes?
Mr Stevenson: Our difficulty is that the public resent taking the burden for these costs when they do not see an improved transport system.

Q127 Chairman: The question is how would you want to changes these in relation to charges and taxes or indeed if you do.
Mr Stevenson: The increased rail activity compares to travel on motorways but what is happening with coach travel? Coach travel is worse than ever. It is not subsidised. There is not any—

Q128 Chairman: That is another issue. I want to ask you about fuel duties. A number of witnesses have said to us that they prefer fuel duties to rise rather than other motor taxation. Is that something any of the panel would agree with?
Mr Smyth: As I mentioned a moment ago, with the move to more electric vehicles, it is not really going to work, or in addition hybrid vehicles that use fewer fossil fuels in towns where the congestion is worse and the external costs are higher. It is not really looking to the future but rather to the past, I would say.

Q129 Sammy Wilson: Mr Wood I think said he did not believe that all of the costs which we had an earlier discussion on have not been captured within the current charges on motorists. Given that the evidence we have had so far today is that from motorists there is some £45 billion to £50 billion per year raised and about eight billion of that goes back into paying for new roads, road maintenance etc., are you saying that the external costs are greater than the difference between those two? On what basis are you doing that calculation?
Mr Wood: I have to take you back to the answer that I gave you earlier, which is that there are so many of the external costs that we do not know that it is difficult to be precise about that. That is why we are very hesitant about saying that charges should meet the total cost because I do not think we know what the total cost is.

Q130 Sammy Wilson: You were quite definitive that you did not believe we were capturing all of the costs.
Mr Wood: I am quite sure we are not. If we go back to those very big numbers that the Sukdev work is throwing up, the impacts of transport—not only road transport; the impacts of all forms of transport—on the natural environment are considerable. For some aspects of that, they are almost unquantifiable because you are removing assets you cannot replace. Take a really famous case. In Twyford Down you had an iconic part of the landscape and now you do not. You have a hole in it. It is very difficult to put a cost on that.
Mr Joseph: There are two points to this. The first is that the voodoo economics, as you called them earlier, are not just on one side of the equation. In

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thinking about the sorts of benefits you mentioned, those are included in traditional transport appraisal. They are down as time savings. The way in which they are treated is that in any appraisal of a transport project very small time savings are deemed to have a very high value so you can justify almost any road scheme on the basis of aggregating 10 seconds time savings over the 60 year life of the scheme as if people noticed and valued the 10 seconds of time savings.

Q131 Sammy Wilson: I am not advocating that.
Mr Joseph: A lot of the costs discussion has been about putting some things on the other side of the equation. I absolutely agree with you that if you charge people a lot of money for travelling, children are still being killed on the roads and there is still too much traffic relative to the amount of carbon that you think the world can actually stand or that important landscapes are being lost, then there are limitations to the extent to which pricing helps you either making the valuations, in terms of economic valuations, or pricing because you get into a situation where ultimately—and I rather suspect the Department for Transport may have done this in bits—there is a cost benefit analysis to the human race which trades off large scale carbon emissions at a price and puts that against small time savings now and says, "Actually, the human race in the future is worth less than time savings now so we will carry on emitting carbon." That is a logical extension of the way in which a lot of this debate happens. What we actually want to see are measures to reduce carbon emissions from transport and other measures. Maybe transport is not the place where all the reductions should happen; maybe other sectors should play a bigger part, but we do need to reduce those emissions. Motoring taxes play a part in that but they need to be seen as part of a package and effective to the extent that they meet the carbon targets or perhaps stop other damage or reduce congestion in cities. There is no point in just charging people more and more if the damage remains.

Q132 Graham Stringer: How do you interpret the result of the Manchester referendum and what indications do you think it has for the future of transport policy?
Mr Stevenson: We entered the debate about Manchester with the experience in London. We varied a longstanding policy of opposition to all road user charges as being an aggressive taxation approach, hurting working people more than everybody else. Because of the experience in London we felt that might be an improved possibility if the political will was there. We approached the debate in Manchester with precisely the same thinking. When it came to it, the experience of talking to our members was that their view is of distrust of government and local government, disbelief that publication would take place, a belief that all that was involved was a means of finding revenue by another way rather than seeking to change behaviour and a criticism that bus transport has declined. Patronage has declined outside of London. We are not talking about the railway industry. For the majority of ordinary people in this country travelling to work means travelling by bus or by car. Most of our cities are clogged with cars, but working people need the car to get to work. The general conclusion is of disbelief that politicians are entering this debate with sincerity and that there would be confidence that what would be taking place would be a policy that would be seen to prevent car use because there was the alternative of improved public transport. We took the position of opposition to the proposition in Manchester.
Mr Leach: I am not particularly surprised in the RMT at the result because our membership on the ground in that area of the country was telling us that that was the feedback they were getting. Although the union did not nationally take a position on this, locally people were expressing the view that it was not the road they wanted to go down for the very reasons that Mr Stevenson has just given, reasons of mistrust, frankly speaking, that it would be spent on those issues. Not only that. Within the union family as it was, we regarded as the fairest form of tax. Everyone pays the same and we would go for a more socialistic kind of approach where if you have more wealth you pay more. Therefore, I am not surprised that it came back no and not too displeased.
Mr Smyth: Locally our CPRE members are concerned. I think the trust issue comes up again. They made a number of Freedom of Information Act requests to try to obtain the full details of the TIF bid. If people did not know what was being bid for, that is a very worrying issue. There is also the fact that it was seen as simply public transport money from the toll, from the road charging, being used to spend on public transport. There is also the issue that road charging can reduce the motor traffic then alternatives—for example, walking and cycling, become more attractive Of course, to get to public transport, you need to walk or cycle most of the time or drive sometimes. That was not really taken into account in the debate that I saw about the Manchester congestion charging. The bottom line really is how do you expect the public to support a new tax at the same time when the Pre-Budget Report is supposedly lowering taxes to support the economy? It was particularly badly timed in that respect.
Mr Joseph: I agree with many of the comments that have been made. It is clear that there was no trust that alternatives would be delivered. I was getting emails afterwards, because we did make some comments about the lack of alternative proposals to solving Manchester's problems, saying that they did not believe that any of the public transport plans that were in place would be delivered. Therefore, they saw this as purely revenue raising. I think that trust issue has to be got over. Having said that, unlike some of the people in the previous session, the view of our organisation is that it is not possible to build enough roads to deal with congestion, if we are not going back to predict and provide for roads and car parking. It is clearly not possible as Mr Martlew said in the opening session in relation to cities like

Carlisle in terms of providing lots of road space to deal with congestion. We are going to have to look at managing demand in some way as well as providing alternatives. My own feeling is that if there is going to be anything like this in future we need to look at something more like the Stockholm situation where a scheme was put in with the commitment that it would be taken out and then a referendum held to see whether people wanted to put it back in again. In other words, people have a real scheme on the ground with real alternatives put in and, in the case of Stockholm, a lot more bus services. I think Mr Stevenson's and Mr Leach's equivalents in that city supported what was done in Stockholm because they could see that real alternatives were in place. Until people can see that those alternatives are in place and that the charge is part of the wider package, you will not get support for a referendum into something that might happen in the future.

Q133 Graham Stringer: Do you really believe that in this country we are going to spend up to half a billion pounds or maybe more per city on experiments?
Mr Joseph: No. I did not say that we would do that. The Stockholm scheme was not that expensive. Clearly you are not going to put in a measure for extension and then take it out.

Q134 Graham Stringer: Those are roughly the costs of the Manchester scheme, putting the kit in and the administration to deal with the scheme.
Mr Joseph: The point I am making is that people will not support something that they see as promising jam tomorrow. They are going to want to see something in practice before they will support it in any kind of referendum. I mention Stockholm as an example of somewhere where opinion did change over the period from when the scheme was first put in to the referendum result and as an example of what happens particularly in a case where, as everybody else has said, there is not trust in central and local government in delivering real alternatives. People will see that something real is happening on the ground. I also do not think it would cost that sum of money in many of the smaller cities like Cambridge that are still talking about doing something about charging. Cambridge is an example of a city that has a very severe congestion problem at a local level which is threatening some of what are in fact world leading manufacturing and science parks. They are going to need to do something there and maybe charging will be supported there or it will not, but I think it will have to be done in the way that I have described.

Q135 Graham Stringer: The assumption behind what you are saying goes back to the very first point that you made about changing behaviour and that people will in some way be either forced or willing to change their behaviour. Having sat through a lot of debates over the last two months, every time people who were in support of the Manchester congestion charge started talking about changing behaviour I hoped they would go on for longer because I can tell you that part of the resistance was people do not want to change their behaviour, they see it as an authoritarian diktat. I think that is a fundamental part of the opposition to congestion charging, do you not agree? Do you not think there is a flaw in your proposals? When I say "you", I mean generally the greener, environmental groups, that somehow people will be willing to change their behaviour and the evidence is they do not want to actually.
Mr Joseph: If I may, I think the evidence is there that people will change travel behaviour by enough to change quite a lot of transport. The evidence I will give you comes from various projects, including some we have been involved in, for example the sustainable travel towns transport we have been funding. None of that has been about forcing people to do anything. Some of it has been about giving people decent information about the alternatives that are already available to them; other of it has been about working with those who generate traffic, schools, employers and others, to provide some alternatives.

Q136 Chairman: Mr Joseph, could you send us a note? That would be helpful to the Committee.
Mr Joseph: Yes, I can certainly do that. There is some reasonable evidence that travel behaviour can be changed and without 1.8 million people signing petitions against it.

Q137 Mr Martlew: Just a comment that probably the most successful congestion charge is London. They did not have a referendum. I wondered whether they would have voted yes or no. That is probably for another time. Earlier on Mr Roberts made a very strong defence that the real problem in the cities was that, although the number of cars had reduced, congestion was greater because of the traffic management scheme. He suggested that we should go back and look at that; I would be interested in what the witnesses say. The other thing he was interested in, it seemed to me he indicated, was that we should be speeding up traffic in the cities. Do our witnesses think it is a good idea that we should have faster moving traffic in the cities, bearing in mind there are people who live there as well?
Mr Leach: Generally speaking, no. What we want is a safer, greener environment and the members of my union and people who are employed either as bus drivers or in the road transport sector would share that view in general terms and certainly they would not want to see things speeded up. To answer the question simply, no, I do not think so.
Mr Smyth: I think the big issue about judging congestion is that you are measuring metal boxes and not people. You go outside into Parliament Square and you might see a bus with 40 people in and then a taxi which is empty, quite often the driver. What matters is how long it takes people to get to work, the resilience of and the delays in their journey, not simply how many metal boxes get through a junction. In Parliament Square, for example, Boris Johnson has cancelled a scheme to pedestrianise one

side and he has not looked at the journey time for people walking across the square or cycling through the square. It is simply equating one full bus with an empty taxi in terms of what is congested and what is not.

Q138 Mr Martlew: First, one of the points that Mr Roberts made was the fault was down to the new traffic design, new traffic management. Do you accept that argument?
Mr Smyth: If you are looking at the actual journey times, people who are changing to smarter choices, cycling and buses, for example, their journeys are going faster. There are problems in the west of London because of all the roadworks going on so there are problems with the data there. Generally, the way to get people moving faster and have more reliable journeys to work is to get them to make smarter choices.
Mr Joseph: I do not buy the argument that was put by Mr Roberts either in the numbers in terms of traffic. Maybe in city centres it may be true that traffic has been reducing, but if you look over a wide area you find that traffic has continued to increase in, say, Greater London or Greater Manchester. Obviously recession will change that, but in general that has been the situation. It has not been increasing as fast as GDP, but it has been increasing. I also do not buy the argument that there have been large scale problems caused by traffic management at this. I think that speeding up traffic in cities is a bit of a chimera actually because you can remove one bottleneck and it will speed up traffic going to the next junction where there is another bottleneck and you will never get to the point where you have got free flowing traffic. It is possible to manage traffic lights so they are connected and so on, so there is a "greenwave" or something similar, that is legitimate, but a lot of traffic engineers do that anyway. As my colleague said, what the question is, which Mr Roberts and his organisation tend to ignore, is that there are people on foot in cities and also in many cases they equate to more than the people in metal boxes and ought to get due preference at traffic lights.

Q139 Chairman: Should foreign heavy goods vehicles be charged for using our roads and, if so, how? Does anybody think they should be charged?
Mr Joseph: Yes, I think they should be charged.
Mr Leach: My union debated this at our annual conference this year. We certainly believe that is the case. We think there should be a level playing field in real terms in this respect so to answer the question, yes.

Q140 Chairman: Is anybody opposed to it? Mr Stevenson?
Mr Stevenson: Yes, I think so. I think you asked the wrong question. I have been hearing a lot of that out of it this afternoon. The difficulty is that we need a real level playing field at the European level on all transport issues. The real problem about pricing of transport in Europe is it is priced too low. The biggest difficulty is the imbalance in labour costs, as a result of which labour and management of safety issues is carried out at a European level. Simply looking at the ludicrous nature of the road transport freight delivery issues in Europe, whereby enormous numbers of vehicles are passing across the continent backwards and forwards, coming one way full and the other way empty, and considering it in terms of a narrow issue like that it is not enough to answer that question.

Q141 Chairman: Should they be charged even if it is a narrow issue and, if so, how?
Mr Stevenson: We do not think it is the answer. We think it is a more complicated approach which may include some of those issues and charging but not just because it is foreign. It is a question of trying to create a level playing field.

Q142 Chairman: Should there be an assessment now of a national road pricing scheme? Do you think that should be considered?
Mr Joseph: I would go back to your previous question in relation to that which is that we should try a lorry road user charging scheme nationally and do it simply rather than the way in which it was done before. A previous witness of yours, Professor McKinnon, talked about doing something simple of the sort that was done in New Zealand where you use tachographs and odometers. Let us do something simple with that and set up the principle of lorry charging. I believe the Committee has visited the German scheme and the evidence from that is it has led to some beneficial effects, including capacity utilisation (and capacity here is not being used; Mr Stevenson has referred to lorries running around empty). I think it would be helpful to consider a serious lorry road user charging scheme, possibly one that was not under the control of the Treasury but that had some sensible aims to manage road use and lorry charging properly and a level playing field. I think the proposed alterations to the Eurovignette Directive would allow a more sensible and more economic lorry charging scheme to happen here. It would make a lot of sense for Mr Stevenson's members actually because it would set some floors below which charges cannot fall. In terms of the national charging scheme, I would start with lorry road user charging. I would also be interested, in common with Mr King in a previous session, in looking at Oregon-type schemes because one of the problems with national road charging is that all the transport modelling is wrong because it all equates a pound spent on fuel duty with a pound spent on charging. We know from the way in which people behave, for example, over parking, that this is not the way people react. I think it would be interesting to try some experiments and pilots with people paying for road use through a per mile charge rather than through fuel duty or a portion of fuel duty and see what actually happened to their behaviour. The evidence would be, as Mr King suggested about Oregon, that their mileage would reduce. Then we could develop a scheme which would not be called

"Road user charging", it would be called something like "UK Drivetime" or something. It would offer a large package of benefits to motorists, including pay as you drive insurance, some security and car theft services. It would charge people by the mile rather than just for fuel duty and then people could choose what system of charging they wanted to pay as they do now with different forms of mobile phone charges. I think that would be an interesting experiment to try and it is the only way in which you could get some kind of national charging scheme in at the current level where people choose and it would be worth going beyond the theoretical transport models and seeing what that would do.

Q143 Chairman: Mr Stevenson, you were nodding your head before. Do does that mean you agree?
Mr Stevenson: Yes. I think Mr Joseph is going in the direction which I was thinking. It takes the question you posed further and talks in terms of looking at wider issues and looking at it from the perspective of this country in particular so it is not just about foreign lorries here, it is about all commercial vehicles and what they are doing here. In broad terms, we have advocated precisely such an approach which would take the entire costs of usage of road space in the commercial haulage environment but most importantly for us raise issues of the social costs, workers' costs, the question of the number of hours they drive, the character of the rest facilities and so on, but at the same time there are issues which wider society is concerned about and the question of the balance of use is a proper one. I think there is a debate in that direction in which certainly to a certain extent over the last 20 years trade unionists and green groups have started coming closer and closer.

Q144 Chairman: Are the Government's proposals for differential vehicle excise duty taxes going to be successful in reducing carbon emissions?
Mr Wood: Only if they go somewhat further than they have gone already because the steps in the PBR are timid. This goes back to some of the evidence you heard earlier. I agree entirely with the point that was made that 13 bands is probably several too many, but the differential between bands needs to be greater if it is going to drive change.

Q145 Chairman: Are there any different views?
Mr Smyth: I think there needs to be much higher levels at the top end because it was simply looking at 225g/km. There are some vehicles that emit a huge deal more than that but they are still capped in the top band. What concerns me is the lack of alternative options. That people might want to give up their second car or, indeed, their only car and car clubs have been seen as the way forward for that but, while they are doing very well in London, they are being closed down in medium-sized towns across the country, whether Worcester or Portsmouth, they are losing their car clubs and certainly people are losing the option of a halfway house between owning a car and renting one when they need to.
Chairman: Thank you very much for coming, gentlemen.

Wednesday 14 January 2009

Members present

Mrs Louise Ellman, in the Chair

Mr David Clelland	Mr Eric Martlew
Mr Philip Hollobone	Graham Stringer
Mr John Leech	Sammy Wilson

Witnesses: **Mr Andrew Sugden**, Director of Membership and Policy, North East Chamber of Commerce, and **Mr John Dickie**, Director of Strategy and Policy, London First, gave evidence.

Chairman: Good afternoon and welcome to our committee. Do members have any interests they want to declare?
Mr Martlew: I am a member of Unite and the GMB.
Mr Clelland: I am a member of Unite.
Graham Stringer: I am a member of Unite.

Q146 Chairman: I am a member of Unite. Would the witnesses like to introduce themselves?
Mr Dickie: My name is John Dickie, the Director for Strategy and Policy for London First, which is a business organisation representing getting on for 300 of London's larger businesses. Our mission is to make London the best city in the world in which to do business.
Mr Sugden: I am Andrew Sugden. I am Director of Membership and Policy of the North East Chamber of Commerce. We are a business membership organisation that covers the north east of England. We have just over 4,000 businesses in membership. We take the role of being the champion of North East business.

Q147 Chairman: In the current economic difficulties, is public expenditure on roads and transport a top priority for your members?
Mr Sugden: It is obviously a major concern. Investment in transport and also in the skills of the workforce consistently are the two most serious issues facing businesses. There is obviously a series of short-term issues, particularly around access to finance and the credit markets which have taken top priority, but the perennial issues remain: investment in transport and the availability of a credible transport infrastructure to support economic growth. That remains a key issue for business in the North East.

Q148 Chairman: Are there any particular areas within transport you would like to see money going to?
Mr Sugden: We have been lobbying and campaigning for some time now that there has not been the long-term investment in the strategic transport infrastructure for the North East and that what we have seen are the suggestions such as the Transport Innovation Fund, which do not serve to address the real strategic issues that face the transport corridors in the north east. We have welcomed some of the investments that have taken place, particularly in the public transport network in the Tyne and Wear Metro, but in general there are some strategic transport issues, particularly around the highways, the A1 and A19 highways, and our connections to other economies, which have been chronically under-funded.
Mr Dickie: I would broadly agree with that from a London perspective. Certainly the area that perpetually is the principal concern our members have, and indeed one of the principal drivers of London's global competitiveness, is the quality and reliability of its transport infrastructure. Though obviously at this point in the economic cycle there is a great deal of concern over credit—the availability of credit, the pricing of credit and general issues around liquidity as well as a number of other more specific sectoral concerns—transport is an enduring concern for London business, in particular in the context of the Government's thinking on ways in which it might accelerate or increase investment in productive infrastructure. There is plenty of opportunity in London to invest in ways that will add positively to the country's economy and its productivity.

Q149 Chairman: Are there any specific areas where you would like to see investment in transport?
Mr Dickie: There are a number. At a general level, we would like to see greater investment in both tube and rail, in London in particular. There are lots of small scale individual schemes which we could go through: the East London Line, increasing the capacity of Clapham Junction, and so on.

Q150 Chairman: Mr Sugden, are there other specific projects that you would like to see money going to?
Mr Sugden: We have been focusing our lobbying efforts on the strategic transport infrastructure. That means really the links between the city regions of Tyne and Wear and the Tees Valley and their connectivity both to each other but also to economies in Scotland and across the north of England. We do have some very high calibre and high quality ports and airport facilities but they are part of a network, particularly in the road infrastructure and to a degree the rail freight infrastructure, which does not do them justice and does not provide the best opportunity to exploit the potential of the North East.

Q151 Chairman: Should money raised from road users be earmarked for transport generally or for roads specifically or do you think it should go as part of general taxation?

Mr Sugden: We have not taken a particular lobby viewpoint on road user charging or for that to reflect the views of our members who generally see the potential for road user charges, both the revenue-raising opportunity but also the opportunity to provide a greater degree of equality amongst road users, particularly the performance of a national road user charging scheme. The fears that are expressed by my members are that we will see effectively the motorist and the business transport user facing additional taxation and we will not see that that investment translates itself into public and road transport improvements. So if there is to be road user charging and it is to be introduced, we would be very keen that that investment is to deliver an economic benefit through the transport infrastructure.

Q152 Chairman: If the revenue from road user charging was earmarked for transport improvements, would your members be more happy to go along with that?
Mr Sugden: Absolutely, and that has certainly been the feedback from all the surveys that we have had, Where that question has been put to members, they have been much more amenable to the prospect of road user charging where it is clearly aimed at improving the economy and the transport to support that.
Mr Dickie: We have taken a view because we have strongly supported the congestion charge as it currently applies in central London. I think I would want to draw a distinction between the sort of macro questions around the transport sector, revenue generated from the transport sector being invested or hypothecated directly towards it, and the general tax take that the Government may wish to use transfer for other purposes, which is a big set of issues but not the set of issues we have engaged in. The support we have for the congestion charge in central London and indeed the prospect of extending congestion charging in central London is based around the costs to business of there being congestion in central London. There is a variety of ways you can seek to tackle that congestion. You can seek to improve the supply of roads; there are all kinds of measures you can take to make traffic flow more smoothly; you can improve the quality of substitution with ways of getting from A to B; and you can do something to manage the demand. There are a number of ways you can manage demand—green travel plans, shared car use and so on—but ultimately something which prices demand is a necessary part, certainly in as congested an area as central London, of managing that demand. So we see that as a charge which brings a benefit as opposed to a sort of general question about taxation.

Q153 Chairman: Are you saying then that businesses that you are involved with support the congestion charge in general?
Mr Dickie: Yes. When we last did a big survey on that in 2006, 68% of our members supported charging in central London. Of the people we surveyed, over 90% thought the principal use for this should be recycling the surpluses raised to improve the quantity of public transport. The next biggest level of support was for using monies raised to improve the quality and efficacy of the road network. Using that money to reduce general levels of taxation, so using it to reduce business rates, for example, scored much less highly, but that was in 2006.

Q154 Mr Clelland: I notice in the submission from the North East Chamber of Commerce that they say at their point 2: "Fuel duty needs to be reformed if a national system of road pricing is to be introduced." I wondered if Mr Sugden could perhaps tell us in what way fuel duty should be reformed.
Mr Sugden: We have shared the perspective of the Freight Transport Association and the Road Haulage Association, when we have been looking at the potential for road user charging nationally to be implemented for freight transport, that it should be a replacement for some of the taxation that is placed either on fuel duty or on other vehicle taxes. It provides an equal and level playing field with hauliers from other countries as well as providing a more equitable transport tax for UK hauliers. It is in that perspective that we have taken a view.

Q155 Mr Clelland: Do you mean that fuel duty should be reduced or abolished, in other words?
Mr Sugden: Yes, that effectively you replace the fuel duty with a road user charge.

Q156 Mr Clelland: The Committee visited the Netherlands and we looked at the proposals they have there for road pricing. This is basically in line with what you have been saying about replacing one tax with another. Have you studied the proposed system over there, which is basically to abolish all vehicle excise duties and taxes and replace them with a road pricing tax per mile?
Mr Sugden: We have not studied that in great detail but obviously the suggestions for road user pricing in the Netherlands and in other parts of the world have formed part of our view.

Q157 Mr Martlew: On that very point, I am confused, Mr Sugden. At one point you were telling us that any extra money raised should be spent basically on new road infrastructure and at another point we are talking about reducing the taxation. Would it not be better just to make it cost-neutral, which would not give you any more money for roads but would not cost you any more in taxation?
Mr Sugden: May I just draw the distinction that Mr Dickie drew between where we are looking at congestion charging and effectively a pricing mechanism to reduce traffic on our road system versus a replacement for the current motorist taxation. I think they are two different subjects. Where we are looking at a national road user pricing mechanism, we would see that as a replacement to fuel duty. There are other issues, such as the congestion charging proposals that we have been in

operation in London and floated in Manchester, where there is a potential for greater investment in public transport and other road networks.

Q158 Mr Martlew: Perhaps Mr Dickie could address this. Mr Clelland mentioned that we went to the Netherlands where they vary the charge at various times of the day. If we had national road pricing, if you driving into London at a busy period, you would actually be charged more via the satellite. Surely you would not have an extra congestion charge on top of that, would you? You would not have two congestion charges?
Mr Dickie: No, I do not think you would, but there is a distinction which it is important to be clear about between whether you see a national road user charging scheme as a mechanism to raise revenue for transport, which then brings into question the level of surplus, at what level you pitch it, and also what level of substitutability is possible with the current general taxation. That is one set of issues, which is a different set of issues from those surrounding and managing congestion in one particular area. They are similar but they do not necessarily seek to achieve the same goal.

Q159 Mr Martlew: Why would we introduce a road charging system if it was not to control congestion? You would not, would you?
Mr Dickie: The answer is that you might because you might think the right way to raise money to spend on transport infrastructure is to charge the people who use it, which is a perfectly reasonable approach to take.

Q160 Sammy Wilson: Following from that question before I come to the question I want to ask, if that were the reason, it would then be an additional charge, not a replacement for existing charges. Do you really think that motorists would find that acceptable since most of them feel that through taxation at whatever level they pay at present, they are already paying for the road infrastructure?
Mr Dickie: I think there are different but related issues. That is why it becomes a complicated subject. There is the amount of money you seek to raise for general tax purposes, whether it is for social security payments or defence or whatever, from the transport sector. There is the amount of money you want to spend on the transport sector and whether or not you want to link that more directly to the costs of using it; it will have an impact or there is a potential to have an impact on demand as well. There is then a distinction if you have very densely congested urban areas where there is no supply solution to the problem; this is not the broadening of a road, widening a motorway, adding another lane and so forth. There is no way you can make a material difference to the capacity of, for example, Oxford Street or Tottenham Court Road. There are things you can do but you are not going to build two more lanes. In those circumstances, what you are looking to do is charge to manage congestion. You are specifically seeking to reduce usage as opposed to looking for a mechanism to link usage with expenditure. I think that is the philosophical difference. The two obviously overlap but they are different.

Q161 Sammy Wilson: Correct me if I am wrong but both of you seem to have taken the view that where charging or pricing, or whichever form it is going to take, was introduced but was introduced specifically with the objective of that money going back into transport improvement, it would be unacceptable. That is the case as far as I understand it with the congestion charge in London at present. It was what was meant to happen or what was proposed with the introduction in Manchester. There is no evidence, though, that the general public, the people who pay it, take that view. Already in Manchester it has been rejected; in London the Mayor, obviously for political reasons, has decided not to extend the limit of the congestion charge or the level of the charging. Is the evidence not that, even where the money is earmarked for improvements in transport and the road network, there is still resistance to it because people believe they already pay more than what is required to maintain the road network which they use?
Mr Dickie: Andrew might want to comment from the North East. I think there is no doubt at all that there is resistance to paying for something which is currently free or seems free at the point of consumption. Especially in the current economic circumstances, it is a difficult sell. A necessary condition I think for congestion charging to have any credibility is that there has to be a belief that there is a real problem with congestion, that the area you are applying a charging scheme to is too clogged to be fit for purpose and something needs to be done to manage the demand. That was the position we were in with the central zone in London. That was not the position we were in with the western extension zone in London. For an area of central London which is essentially running at peak from 7 o'clock in the morning until 6 o'clock in the evening, charging if you enter that zone across the day is a different proposition to the western extension, which was applying the same charging regime to an area that was much less congested across that period, though very congested in the peak. This is a minimum criterion I think if you are going to get public support, or at least public acknowledgment, of the case for congestion charging. There has to be real congestion. The scheme that you put in place has to deal with the problem of congestion, not other issues to do with traffic management which are peripheral to the real problem, and so charging when there is congestion and not charging when there is not is a pretty good starting point.

Q162 Chairman: Mr Sugden, in your evidence you have told us you oppose workplace charging levies. Why is that?
Mr Sugden: We are not convinced that the workplace charging levies will be effectively administered for the people who are using that service. We do not think that most businesses would be keen effectively to pass on that charge to their

employees who would be using the workplace parking. Whilst a workplace parking levy would effectively be to manage the road usage and therefore aimed at the driver, the taxation mechanism would have to be through the business. For that reason, we think it would be unworkable.

Q163 Chairman: How much of an issue are current road user taxes and charges? Are the things that are currently being charged a big issue at the moment?
Mr Sugden: The principal road user tax that our members protest about is the cost of duties to businesses, in particular on diesel, where the duty levels on diesel have been increased, although the VAT has been reduced. There is a very real effect there on businesses because VAT is reclaimable and duty is not. It is about the level of duty and the comparison of that level of duty between the levels faced by UK hauliers and those faced by freight companies in other parts of the world.

Q164 Chairman: Is that the biggest issue in terms of charges?
Mr Sugden: That is the biggest principal road taxation issue, yes.

Q165 Chairman: Mr Dickie, what are the views of your members on the impact of current taxes and charges on businesses? Are there any particular issues and issues in relation to charges on other European motorists?
Mr Dickie: Our members are principally members of London First because of their activities within London and so they are not making the kinds of journeys that are either being made within the north east or between different towns or across the north east. I think generally they have not raised the levels of either transport taxation or particular transport taxes with us as being a great concern. Clearly London businesses think these are business tax concerns.

Q166 Chairman: We are told by people who have given evidence that penalty charge notices are an increasingly big issue and are seen virtually as charges. Do you see it that way?
Mr Sugden: It is not a major issue that has been flagged up by my members. I think there is always a frustration with what is deemed to be unfair, an unfair levy charge; it is not just charges that are levied by local authorities but sometimes those that are levied by wheel clamping operations and other sorts of things. We certainly do have those issues raised but not as a general point made by our members.
Mr Dickie: I would say that our experience is similar. The concern is always both about the equity of the PCNs when they are issued, and so what were the circumstances, and critically what were the alternatives. There are parts of central London where it is very difficult to load and unload and local authorities do not make adequate provision for what necessarily does need to be done around shops and offices and so forth. In those circumstances, people who move stuff from A to B for a living do resent being charged. I think the systemic nature of the problem is the one that we have dealt with most.

Q167 Graham Stringer: Can I move you back to something I think both of you mentioned, the cost of congestion? Can you tell us how you calculate the cost of congestion in your areas?
Mr Sugden: We have surveyed our members on a number of occasions and asked them to value the time, and that is the only measurement that has been put to them, the business cost of the time it takes effectively to traverse the north east when there is no congestion versus when there is. There is always, if you like, a willingness to express the opportunity cost as being lost. It is very difficult to place anywhere near an accurate figure on that.

Q168 Graham Stringer: So it is self-assessed in effect. There is no serious methodology behind it?
Mr Sugden: Certainly we have worked with public sector partners in some of the road investment programmes in the north east. Respected transport consultants have assessed the cost or the potential economic benefit of reducing congestion. The figures we have seen from my organisation and from partner organisations in the British Chambers of Commerce network have been self-assessed.

Q169 Graham Stringer: One of the witnesses in the last evidence session basically did not accept the CBI estimate of £20 billion costs; it was just a compound figure of some work his wife had done, so he was very sceptical about that. What I am really trying to get at is whether there are any better estimates. Mr Dickie, do you have a serious basis for all these figures that you have thrown about?
Mr Dickie: Wisely, I think, we rely on the estimates of others. Transport for London estimates the cost to business of congestion as being about £1.6 billion per annum. I think the Eddington Report put the national costs at something of the order of £7–£8 billion. If London has, as Transport for London would tell us, 40% of the congestion, that suggests the number is more than they would have said. As you all know, if you look at the Transport for London methodology, it relies very heavily on assumptions, how much cash value you attribute to people waiting and so forth, all of which are innately, at least in part, subjective. As a business organisation, we prefer rather to be more pragmatic. Time and time again, the issue our members tell us is the central issue that concerns them about London and the competitiveness of London as a business located here is the quality of transport. The two issues that come up time and time again as being central to that are: the capacity, quality and reliability of the underground, and congestion above ground. Quite what monetary value to attribute to it, I am not in a position to say, but it is the issue that time and time again is at the top of their list.

Q170 Graham Stringer: I do not know if there are adverse consequences of congestion and I do not want to put words into your mouths, but would you

advise the Committee to be sceptical about the exact quantification of the cost of congestion, from your experience?
Mr Dickie: I would not advise you to be sceptical about the scale of the concern and the scale of the impact. Quite what monetary value to attribute to it—

Q171 Graham Stringer: I mean the precise quantification.
Mr Dickie: It is very difficult to quantify these things. I think the scale is clear.

Q172 Chairman: As you say, it is a major issue but you are not sure you can put a precise monetary value on it.
Mr Dickie: It would be difficult to do that. It is certainly a very big issue.
Mr Sugden: I would like to echo those points wholeheartedly. I think there is a very broad competitive issue; there is an issue around the presentation or the way that you sit together with all conurbations represented; there is an issue around quality of life for residents and employees; and there is an issue about the sheer time burden that it represents for businesses. It is extremely difficult to put a pounds and pence value on that.

Q173 Graham Stringer: May I ask Mr Sugden on a qualitative question? Until the price of fuel dropped dramatically two or three months ago, congestion in most cities was declining very quickly because of the high cost of fuel. Did business notice any benefit over that period when there was less congestion?
Mr Sugden: We certainly noticed the reduced levels of congestion but, at the same time, the burden on business remained with the increased cost. The increased cost to the consumer of fuel duty remained on businesses, too. Our feedback was that it is easier to traverse Tyne and Wear in particular, but that does not alter the burden that that increased cost represents to businesses, particularly those that are hauliers or dependent upon transport for their business.

Q174 Mr Clelland: How do the taxes and charges on road users in the UK compare with those in other European countries? Presumably you know that the freight industry is always making complaints about not being directly represented in the industry on the charges in Europe *vis-à-vis* the charges here in the UK and the advantages and disadvantages of each. Have you had any comments on that?
Mr Sugden: We have certainly had a number of hauliers alert us to the variants between the cost of fuel on the Continent and the cost of fuel in the UK, and particularly where it is possible for hauliers to fill up on one side of the Channel and effectively do a week's work or two or three days' work in the UK, go back to lower prices. That is the competitiveness comparison there rather than necessarily the whole scale taxation structure.

Q175 Mr Clelland: Is that to some extent offset by the road charges which hauliers in, say, Germany have to pay?
Mr Sugden: Quite possibly but what we have often seen is hauliers from different parts of the European Union and further field doing substantial freight working in the UK.

Q176 Mr Martlew: On the fuel issue, I was in France at the weekend and I noticed that it was a euro per litre and £1 is the same as a euro. I presume this will be an advantage to other hauliers with the weaker pound, and there is almost parity now with the French hauliers. Would you welcome that as an improvement? The main point is on congestion. The answer in the North East I suspect are very different from the answer in London. I suspect the North East is a bit like my constituency where one or two extra roads would be a big advantage or improving the A1, as Mr Clelland always tells me is needed, but in London you are not going to build many more roads, are you? What you need is money coming into the public transport system. Do you think there is any danger, because of the recession, that the private sector will not put the money into Crossrail?
Mr Dickie: For better or worse, Crossrail funding is largely public sector. There is a modest amount of funding in the scheme of a £16 billion project which is coming in from BAA, the Corporation of London and Canary Wharf, and those agreements were all signed just before Christmas. I think the private sector for Crossrail is rather secure.

Q177 Mr Martlew: You do not think it is a threat?
Mr Dickie: No, and the overwhelming bulk of the money is public sector, both Department for Transport, grants to Transport for London and money raised by Transport for London and the Mayor of London, partly through the supplementary business rate that was being debated the day before yesterday.

Q178 Mr Martlew: Mr Sugden, do you agree that at the moment what we need are more roads in the north of England?
Mr Sugden: There are certainly some substantial issues with individual roads. Mr Clelland is very familiar with some of the issues that we jointly share as being important. I think there is a slightly more fundamental issue to that in terms of where the road user charging and congestion charging plays and that is the approach that we have seen through the Transport Innovation Fund as being the only real substantial potential investment in strategic transport infrastructure in the North East. That comes with a prerequisite effectively of road user charging and whether that is appropriate or not for the communities that need the increase and an improved transport infrastructure. That may not be the direct answer you might have been looking for but it is our major concern.

Q179 Mr Clelland: On that point, I hear what you are saying about whether local road charging is appropriate or not, but in your evidence you say that

road pricing should form a coherent part of the local transport infrastructure and revenue-raised should not just be absorbed in the general tax revenue. I presume you are there talking there about local road pricing rather than a national road pricing scheme.
Mr Sugden: Yes.

Q180 Mr Clelland: It appears from that comment that you do believe that a local road pricing scheme would be beneficial in terms of local transport, or could be?
Mr Sugden: It certainly could be and I think the feedback that we have had from our members is that there is no fundamental objection to local road user charges, provided it delivers the effects intended.

Q181 Mr Leech: First, can I follow on from that last question. Why do you feel that a local scheme would be more beneficial to your area than a national scheme that might impact everywhere? Certainly from Manchester, a number of the businesses were arguing that, yes, it would be good for them to have a local charge, but there are a lot of businesses that were arguing totally the opposite. Do you have the same in the North East where some businesses are very sceptical of the appropriateness of a local scheme or are businesses generally in the North East feeling that a local scheme would actually be to the benefit of the North East in general?
Mr Sugden: The point I would like to stress is that there is no fundamental objection to local road user taxation; I would not necessarily say there is overwhelming support for it. I come to Mr Dickie's point. The question is whether or not you have national road user pricing, which would be a replacement for existing motorist taxation mechanisms, or you have local road user pricing, which is geared towards, if you like, pricing the cost of that resource. They are very different in their effect and how they would be handled would be different. The point we have heard from our members is that it has the potential to reduce the demand on some roads and if it is used, then that finance should be hypothecated for improvements in the transport infrastructure.

Q182 Chairman: Mr Sugden, does what you say mean that you assume that if there was a national road pricing scheme, that would be an alternative to current road taxation?
Mr Sugden: We would be keen to see that.

Q183 Mr Leech: I would like to return to the point that you both made, that it is very difficult to quantify the cost of congestion. A number of former witnesses have argued that road users pay more than they should for using the roads, arguing that the taxes far outweigh the amount of money that is actually spent on transport and the road infrastructure. Would you accept that it is impossible to judge whether or not motorists are paying what they should pay for the disbenefit that they produce if it is impossible to argue what the cost of congestion is?
Mr Dickie: Again, I think you have to try to keep the things separate. At the moment, as a motorist, taking the motoring sector by itself, you pay money towards general taxation through the ownership and the use of your car. That is a decision Parliament takes when it votes the supply. You could levy those taxes on other activities and there are different views as to what the optimal mix of taxes to raise whatever given level of money you are trying to raise. That is one set of issues. The way in which those taxes are applied will of course then affect people's behaviour in certain ways. That raises another set of issues. There is a distinct point about congestion and charging for congestion to obviate or reduce the costs of congestion to road users and particularly from our perspective to businesses. If you were or were not to increase the costs of owning a car or using a car, those only peripherally affect congestion. The measures that affect congestion in central London are charging people to drive in congested roads when they are congested. If you were to charge them a bit more or a bit less for every litre of petrol or diesel for owning that car, that would not have any impact on congestion. They are similar things; it is apples and pears to try and compare them directly.

Q184 Mr Leech: That was not really the question I was asking, though what you said was very interesting. The question I was asking is whether it is possible to quantify the real cost of motoring. You both accept that it is impossible to work out how much congestion costs local communities, so therefore it is impossible to decide how much motorists are actually paying.
Mr Dickie: I think inevitably, once you start trying to calculate the value of externalities, you get yourself into subjective territory. I guess it is possible to have a sense of the magnitude but people will differ as to what value you should attribute to nitrous oxide emissions or to the carbon costs of building the cars and so forth.

Q185 Chairman: Are you satisfied with the consultation that takes place with business in relation to government policy on road user taxation charges? Do you think that business views are taken sufficiently into account and that there are sufficient channels of communication? Would you like to give a view on that?
Mr Dickie: No, I would not.

Q186 Chairman: Are you going to say yes, Mr Sugden?
Mr Sugden: I am going to say that you are damned if you do and you are damned if you do not. The more consultations, the more we will squawk about the amount of times we are asked to consult on the same policy issues. The unfortunate thing, particularly when it comes to road user taxation, is that we have had a number of potential policy initiatives floated, some at the national level like road user pricing, for which we have not seen any effective national policy being introduced, and at the same time we have had a whole series of either regional or local road usage issues, particularly those relating to planning. There

is a whole host of opportunities to be consulted upon. We would be keen to see some real action to improve the transport infrastructure at the end of that.

Q187 Chairman: When you are consulted, is that with the Department for Transport or with the Treasury or with something else?
Mr Sugden: My organisation has good links with the regional representatives of a number of government agencies, the Highways Agency, as well as representatives in the Department for Transport, and local and regional policy makers either through the Regional Development Agency or through the Regional Assembly and others. In that sense, I think there is a substantial amount of consultation with the local business community. I think there is always a frustration that ultimately we have some very clear issues that need addressing, and we can raise those issues time and time again and there still remains to be seen any action on resolving them,

Q188 Chairman: Mr Dickie, do you have any comments on that?
Mr Dickie: I am afraid I would make a number of commonplace points. There is a distinction to be drawn obviously between consultation and action. The point Andrew has just made about being consulted, you say things and nothing much changes is always slightly galling. I think we could do with greater joined-up working between central government, the Treasury and the Department for Transport. Particularly in the transport space, there are public investment schemes which clearly generate, however conservative you want to be in your assumptions about the rate of return, growth and support economic activity but the public spending cycles makes them difficult to fund. If we could have a more joined-up relationship between the Treasury's determination to improve growth and the Department for Transport's transport policies and the Treasury's determination not to spend any money, that would be a good thing all round.

Q189 Chairman: If I ask you if you think that Treasury and Department for Transport policies are sufficiently co-ordinated, what would you say?
Mr Dickie: You can always have better co-ordination, especially in this sphere.

Q190 Mr Clelland: Is the Highways Agency particularly helpful or unhelpful in terms?
Mr Sugden: We have certainly had our difficulties in the past in terms of the Highways Agency being persuaded of the economic benefits, particularly of planning decisions that would support the North East economy. I think there is an opportunity that unfortunately has now been lost, which was through the sub-national review, where there was originally a compulsion on Network Rail and the Highways Agency to work with regional bodies to support the economic development of the region, but that opportunity has been watered down to the point where it is negligible. We have strongly urged that there is an obligation on central government departments and their agencies to work very closely for the benefit of regional economic development.
Chairman: Thank you very much and for coming to answer our questions.

Witnesses: **Mr Simon Chapman**, Chief Economist, Freight Transport Association, **Mr Mike Bracey**, Chairman, Brewery Logistics Group, and **Mr Donald Chalker**, Manager, Central London Freight Quality Partnership, gave evidence.

Q191 Chairman: Welcome and would you like to introduce yourselves, please.
Mr Chapman: I am Simon Chapman, the Chief Economist of the Freight Transport Association that represents the freight logistics interests industry with about 13,000 members who operate circa 200,000 trucks and one million delivery vans.
Mr Bracey: I am Mike Bracey, Chairman of the Brewery Logistics Group. We run all the major breweries and deliveries in the central London area and the outer London area. We have about 1,000 vehicle days a week operating in London doing between 7,000 and 8,000 deliveries.
Mr Chalker: I am Donald Chalker, Manager, Central London Freight Quality Partnership. The partnership consists of the seven central London boroughs, Transport for London, operators, trade associations and other people with an interest in the road transport industry in London.

Q192 Chairman: Which current taxes and charges do you think should be regarded as charges for the use of the roads?
Mr Chapman: It is a question of shifting taxation around in terms of moving from consumption to use, as much as anything. What we want to avoid is an increase in the burden of taxation. One example is the switch from using fuel as a basis of taxation to using road use as a basis of taxation. That makes eminent sense in that the use of fuel is potentially going down over the next 10 to 15 years as vehicles become more fuel-efficient; it stands to reason that if people are making more and more use of the road network, then you need a different way to charge them.

Q193 Chairman: Does anyone else have any views on which of the current charges?
Mr Chalker: To pick up on the point by John Dickie with regard to parking, we would regard it as a tax where there is no alternative, or no sensible alternative, for people making deliveries. In the absence of any information, I would suggest that perhaps 10% of the penalty charge notices are people are abusing the system; another perhaps 10% are drivers making honest errors; and, say, 80% of

penalty charge notices are incurred because there is no sensible local loading and unloading facility.

Q194 Chairman: How big is the problem of penalty charge notices?
Mr Chalker: In terms of scale, in central London approximately over two million penalty charge notices are issued. It is a case of estimating revenue as there are no official figures. I estimate around £75 million worth of penalty charge notices in central London. For London as a whole, Greater London Assembly figures for 2002–03 indicated that penalty charge notices brought in about £300 million, operating costs were £200 million, with a surplus of just over £100 million.

Q195 Chairman: Do you see that as taxation or necessary enforcement?
Mr Chalker: For those people where there appears not to be a sensible alternative, then, yes.

Q196 Mr Leech: There are two matters. First, I am intrigued about what you define as a sensible alternative. My real question is this. We have heard about penalty charges from a number of organisations and that being unfair. Why are these issues not being addressed when businesses receive planning permission? Surely loading and delivery issues are supposed to be resolved as part of the planning process. Is that not happening and, if so, why are your organisations not raising these concerns with local authorities within London?
Mr Bracey: It is unfortunate that basically the parties doing the planning do not talk together. We have had a lot of examples in the brewing industry especially where banks have been converted to pubs and clubs. If you walk around London and look at some of the delivery points that these generate, the situation is just ludicrous. I think that is because it has not been joined up within the borough. I have raised this now with many of the boroughs I talk to and I think they are now looking at the matter, but it has been a major problem that people have not co-ordinated. Delivery never seems to be on anybody's agenda. Commercial vehicle is almost a dirty word to some people.
Mr Chalker: Transport for London are developing construction logistics plans and delivery and servicing plans and monies are being set aside for these to be further developed in the next financial year. In a sense, they are looking to work initially with themselves, with the public sector in London and with the private sector and to sit down with organisations to work out the delivery and servicing requirements and how those can be met. A mechanism is being developed.

Q197 Mr Leech: Is there a lack of joined-up thinking between Transport for London and the individual local authorities?
Mr Chalker: I believe that the relationship between Transport for London and the London local authorities is improving. Within central London, three or four have expressed an interest in taking part and be involved with delivery and servicing plans. That is three or four boroughs out of seven, so 50% is an initial start. I think it is going to be a good way forward.

Q198 Mr Hollobone: On this particular point, given the concerns that you have both raised, is there scope for a planning policy guidance note from the Department for Communities and Local Government about the importance of deliveries when planning applications are granted?
Mr Chalker: Yes. It is important. There is a lot of talking about parking but loading and unloading is rarely recognised as a separate activity. If you look academically or on the internet, there is plenty of research and understanding about parking but very little if any to do with loading and unloading. There may be a couple of lines in a 500 page document on parking. Part of the reason for appearing here today is to highlight the fact that there is little or no understanding, little or no evidence, little or no information from the DfT or any other sources, and I think it is an area that is well worth looking into. Yes, we are answering the same questions as the Committee asked a couple of years ago when it investigated parking. We hope to give you some good news and some potential ways forward.

Q199 Mr Clelland: Presumably you do accept that it is reasonable for government to levy taxes and charges on the haulage industry, if only to help the infrastructure let alone government expenditure. Is it just the level of charges and taxes you are concerned about or is it about the juxtaposition of UK industry *vis-à-vis* the European haulage industry?
Mr Chapman: I do not think the industry has any problem with paying its external costs. Our concern is about ensuring that all operators using the road networks pay their way too, and hence the point that you make about foreign hauliers is a good one. The other issue of course is that road freight transport does not operate in isolation; it competes against rail freight. It is important, if we are creating a framework of internalisation and external costs for road freight transport, that those principles should be applied to rail freight as well.

Q200 Chairman: Is there a case perhaps for industry to improve its efficiency through better routing and higher load factors?
Mr Chapman: There has been a lot of evidence over the last 20 or 30 years that industry has been raising its game and continues to do so in terms of its logistics efficiency. The best measure of logistics efficiency, in my book at least, is the relationship between the product and tonne kilometres. For the last 10 years, there has been a breakdown in the relationship between those two measures with GDP for road rising at about 2–2.5% per year and tonne kilometres rising by about 1% per year. We are achieving a lot more economic growth with only a little bit more growth in activity

Q201 Mr Clelland: Did the recent period of high fuel prices concentrate minds to a large extent in the haulage industry? Were there efficiency gains as a result of that and have they continued now that the prices have come down?

Mr Chapman: The problem with the high oil prices is that nobody saw it coming, and so really hauliers were playing catch-up the whole time in terms of trying to offset spiralling input costs and trying to recoup those additional costs through the rates that they were charging. They were having almost to go back to their customers on a fortnightly or monthly basis to revise their charges upwards. The instability that we had over the last year I do not think was sufficiently robust in terms of creating a new stable level of fuel price to engender as step change in logistics efficiency. I think it was a short-term blip in costs which created a lot of pain for the haulage industry, but I do not think that blip in itself created a sea change in approach, not least that obviously for a sea change approach a lot of investment needs to take place. If you are paying a lot more money in fuel prices and you are stretching your cash-flow in so doing, then that money is not for investment.

Q202 Mr Clelland: Does that mean that if the increased cost of fuel is merely being passed on to customers, there is not a great incentive to improve efficiency?

Mr Chapman: I believe that there is because the haulage industry is a deregulated industry in the UK. It is intensely competitive and simply relying on the falling price of oil to achieve competitiveness is not going to win you contracts. The only way to win contracts in haulage is to be better than your competitor and the only way to do that is to reduce demands in travelling and reduce your resource.

Q203 Sammy Wilson: I have a follow-on question before I go back to penalty charges. I visited a transport company in my own constituency last week where for a £600,000 investment, and they have 300 to 400 lorries on the road, by putting a black box in the cab, they can monitor the braking, acceleration, gear changes, approaches to corners and routes. They told me that the cost of the investment was paying for itself in about a year and a half because of the savings in fuel costs, maintenance, et cetera. Even in the current situation and if there is only a temporary blip, there are investment decisions that companies can make which can reduce first of all wear and tear on their own vehicles, wear and tear on the roads and the miles covered. Are many companies not doing that?

Mr Chapman: As far as I understand it, all of the leading logistics operators in the UK are monitoring and tracking their vehicles to a greater or lesser extent and are ensuring that their service and efficiency levels are absolutely first rate as a result. You are absolutely right, though, that those operators which have put black boxes and tracking in their vehicles do see a marked improvement in their overall efficiency as a step change.

Q204 Sammy Wilson: Returning to the penalty charges, there are two views on that. First of all, there is an enforcement issue. People park in inappropriate places and cause blockages and therefore you have to stop them doing that by placing a penalty charge on them. Another view is, and you have given us some fairly startling figures there, that it is a fantastic revenue raiser as well. Is there any evidence across boroughs in London where you have the same geographical problems because of the layout and it is not easy to find dedicated loading facilities, et cetera, that different authorities are adopting different approaches and that there is greater tolerances because they have accepted the geography as not good and in other places there is jumping in there and getting the revenue because they realise the geography is not good and therefore they have a chance? Is there evidence that it is being used for revenue raising rather than simply enforcement?

Mr Bracey: If you look at Westminster, for example, Westminster has a reputation for issuing more PCNs than any other borough in London. When the Brewer Logistics Group first became involved in April 2004, they issued 872 PCNs to my members. After a lot of discussion and debate, we got that down, then it went up again. Last year I had a meeting with Westminster face to face again and we agreed to employ an account manager. She started in July of this year. The major success story is that in the month of December our tickets totalled 84. There should be discussion with and explanation to the boroughs. We have a major problem in the brewing industry with health and safety. We have to park adjacent to the cellar flap, irrespective of what the regulations say because if we do not, there will be many injuries to people because of the kegs rolling, the flap being open and somebody falling down the flap when you are not there. We have a major problem. It is good to see that Westminster has acknowledge this. I think that is extremely encouraging. We are talking to TfL and to Camden. Boroughs definitely do have different views on this at the present moment; there is no question about that. Some are more willing to talk than others.

Mr Chalker: Part of the role of the Freight Quality Partnership is to build up relationships and trust between the public sector and the private sector. You will see from the various press accounts that when parking appears in the press it is not always there. Mike has given and excellent example from the City of Westminster. There is another example, again from Mike's area, of Tradeteam in the City of London visiting every pub to which they deliver; they found, through investigation, that for approximately half the pubs they deliver to they could come up with alternative arrangements and half not. The City of London was willing to use its discretion and allow the deliveries to take place without imposing a PCN. Part of the future role of the FQP is to bring the two sides together to talk through the issue and to manage it, rather than just impose a penalty charge notice, to use this surplus of potentially £112 million in a positive way. We plan to

try to develop a carrot rather than using a stick to bring compliance with loading and unloading actions.
Mr Chapman: The point that Donald makes about using a carrot is important when it comes to penalty charge notices. A lot of the most interesting and exciting work that is being done in London at the moment has been linked to the freight operator recognition scheme where what FTA is pressing for is a greater understanding amongst the London boroughs of parking issues where operators have a clear track record on safety and environmental best practice.

Q205 Mr Clelland: Would you welcome a national road pricing scheme for the haulage industry if the revenues raised were spent directly on the road infrastructure?
Mr Chapman: I think we would welcome an introduction of national road user charging irrespective of where the revenues were spent. If they were spent on the road network, then all well and good, but I think the competitiveness pressure that the Committee was talking about at the previous evidence session is a major factor in the day-to-day operations of many road hauliers. An introduction of road pricing or road user charging to try to address the competitiveness problems in differentials in fuel duty between the UK and the rest of Europe would be a very welcome move indeed.

Q206 Mr Clelland: So you are saying that road pricing would be in compensation for a reduction in taxes elsewhere?
Mr Chapman: Yes. UK fuel duty at around 50 pence a litre is about twice the EU average and around about twice the EU minimum. FTA believes that there is a lot of headroom for the Government to make use of in reducing fuel duty and offsetting that fuel duty reduction by a distance-based charge.

Q207 Sammy Wilson: We have had some different views on this, especially from motorist organisations. Given the fact that as you have indicated, Mr Chapman, a lot of the larger hauliers anyway now are using technology to monitor where their lorries are going, when they are going, the routes they are taking, et cetera, if road pricing were introduced to try to make a more efficient use of the existing road network, in other words getting cars or lorries off roads that are busy or off at busy times and on to other routes, do you believe that a national road pricing scheme as opposed to the duty on fuel, for example would actually lead to fairly dramatic changes in the practices of your members and therefore probably could free up a lot of road space?
Mr Chapman: I think there is every opportunity for that to happen. However, in order for that opportunity to be realised, operators need to have alternatives in terms of when they deliver, and how they deliver. London is a case in point, where a lot of delivery curfews means that trucks are forced on to the road network at the busiest times of the day—they cannot deliver out of hours. Yes, incentivise, through price, use of the road at particular times of the day, but in order to do that you need to give operators the ability to deliver at another time of the day and if they are banned from doing that because of a local curfew then it is a waste of time.

Q208 Sammy Wilson: Obviously there is just the movement through the towns or around towns and going from one place to another for long haul.
Mr Chapman: Yes, you are absolutely right. There needs to be a commercial case. Clearly, if you are paying drivers a premium rate to drive vehicles at night, that is absolutely fine, but that has to feed back through a lower price in terms of road use.

Q209 Chairman: Would not further liberalisation of cabotage routes help the haulage industry?
Mr Chapman: I think it would reinforce the competitiveness of UK plc. I think for the haulage industry having an isolationist approach to fuel duty at the moment would create a major problem for liberalisation three or four years down the line. At the moment we are protected through the cabotage rules that the European Union have, and that protection is very welcome. Having complete liberalisation of haulage within the UK without some rebalancing of taxation by simply cutting fuel duty or by imposing some sort of charge on the foreign operators operating in the UK would create a major problem indeed for the haulage industry.

Q210 Chairman: Dutch and German hauliers told us that the current rules on cabotage cannot be enforced. Do you agree with that?
Mr Chapman: I think VOSA has become more and more effective in their enforcement of the current rules. There have been some high profile cases over the last two or three years where it has evicted (if that is the right word) foreign operators who were flagrantly running outside of those cabotage rules. VOSA is undoubtedly getting smarter and better at enforcing cabotage, but any enforcement of cabotage needs to be also combined with enforcement of roadworthiness standards as well. It is one thing having a foreign presence on the road that is operating on cheap foreign diesel; it is quite another having those operators running at sub-standard levels of roadworthiness as well. That is a major concern for VOSA and it is a major concern for us.

Q211 Chairman: How do you see taxes and charges on the freight operators relating to the costs that lorries impose on the road network and the wider costs?
Mr Chapman: My understanding is that within the UK the road freight community broadly pays through the taxation regime for the external costs that it imposes.

Q212 Chairman: You think it is reasonable?
Mr Chapman: I think that the level of charges that the UK transport sector pays is reasonable. What is unreasonable is the fact that there are competitors on the road in the form of foreign hauliers who fail to pay those costs.

Q213 Chairman: What are the costs of congestion?
Mr Chapman: I heard the Committee's discussions on this earlier on. We have always felt that the CBI estimate of congestion is as reasonable a cost as any. We do not have any great new methodology that we could add and provide to the Committee on this one. I think the only thing I would want to say is on the way that the value of time is judged in terms of freight transport. It is something that has been on my mind for some time, that government tends to value time in terms of the chap or lady who is driving the vehicle and sat in the bus; it does not value the time in terms of the need to get the product on to the shop shelves. I think there is a need for a refreshed methodology in how we value time.

Q214 Chairman: Can you put any amount on the cost of congestion to business?
Mr Chapman: As I said before, I think the cost of £20 billion that the CBI have used in the past is as good an indication of the cost of congestion as I am aware of.

Q215 Sammy Wilson: Could I come back to the foreign vehicles. Although you said that you felt enforcement was improving, nevertheless the figures we have been given is that there is a huge amount of contribution they should be making here in the United Kingdom which is not being made. The figure we have been given is around £300 million. I do not know whether that is accurate or not but that is the figure we have been given. Leaving aside the size of the contribution which should be made and that is not being made, what additional measures do you believe could be taken to ensure that those foreign vehicles which do use our roads, first of all, are maintained to the same standard as you are expected to maintain them, and, second, make the economic contribution towards the wear and tear, et cetera, that they impose on the roads?
Mr Chapman: In terms of the first question, I think VOSA's efforts at the moment, in terms of targeting foreign operators and using automatic number plate recognition and weigh-in motion sensors to try to identify the grossest offenders, is absolutely the right approach. We have seen a lot of money invested in VOSA enforcement activities for the last couple of years and, as far as I understand, it over the next year or so VOSA will be spending a lot of time and a lot of effort creating a database of foreign operators so that they can, almost at the click of a mouse, be able to identify those that are at most risk of offending. I think it is all about targeted enforcement and making sure that enforcement activity is at those nodes in the country where foreign transport activity is most prevalent. On the second point, I think there is a timeline that we need to bear in mind. The attractiveness of lorry road user charging is evident to industry. More of a challenge is how long it will take to introduce it. I think there will need to be some sort of interim measure to charge foreign operators before lorry road user charging comes in. The only way I can think of doing that is through a time-based vignette and that is why FTA has been supportive of the European Commission's proposals to increase the size of the vignette from around £7 a day to around £15 a day to better reflect the daily externalities that foreign operators running in another Member State would impose on their own network.

Q216 Sammy Wilson: What difficulty do you see of using the tachograph to measure the number of miles travelled and a charge based on that?
Mr Chapman: Intuitively it makes sense. If it is good enough for enforcement authorities, it should be good enough for HM Revenue & Customs.

Q217 Sammy Wilson: Let us come back to enforcement. It is one thing to have enforcement officers stop foreign vehicles and check and see that they are complying in the way that we would expect them to comply, but given that they do not have the same sanctions as those you have with your operators coming through the vehicle and operators' sanctions, et cetera, do you think that the sanctions which are imposed when lorries from outside the United Kingdom are stopped and seen as not being complying are tough enough? Should VOSA be, for example, impounding lorries more often where they are below those standards or not allowing them to carry on?
Mr Chapman: As far as I understand it, VOSA is planning to introduce a graduated fixed penalty and deposit scheme later on this year. As far as my intelligence goes, it could be as early as April but probably nearer to October time. The graduated fixed penalty and deposit scheme will do two things. First, it will ensure consistency of fine both to foreign operators and to UK operators for roadworthiness and drivers' hours offences. But, importantly, for the first time the deposit scheme will ensure that the driver of the foreign truck has to pay a deposit in order to go on his way. If it subsequently is discovered that the VOSA officer got it wrong, then that deposit will be refunded. If the VOSA inspector got it right, then the deposit will form the graduated fixed penalty. There will be no escape for foreign operators flagrantly breaching UK roadworthiness standards in the future and I think that is something that we all welcome.

Q218 Sammy Wilson: Providing the deposit is high enough to ensure there is a real sanction.
Mr Chapman: The deposit will be equivalent to the value of the graduated fixed penalty, as far as I am aware. Of course, if there is a gross breach of roadworthiness standards or drivers' hours offences, then VOSA will continue to have the option to haul the driver into the local magistrates' court.

Q219 Chairman: Do you think the tolls imposed on the European motorways, such as in Germany, could be introduced? Do you think that would work?
Mr Chapman: I think the Germans have a very elegant way of charging the haulage community in that country and transit traffic. It took quite a long time for the German authorities to get that system

up and running. I think that we could introduce in the UK a far lighter system, with far less technology, and get it up and running far more quickly.

Q220 Chairman: Do you think that there is enough effective consultation with businesses in developing policies on charges and taxes for motorists?
Mr Chapman: It has always been a subject on which the Treasury have been hesitant to engage with the industry. I have to say that over the last 10 years the Treasury have become far more forthcoming and far more engaging than they ever have in the past. However, the long and the short of it is that industry can put its views across to Treasury and Treasury officials, Treasury ministers, but, however well crafted our arguments, at the end of the day the shutters come down and it is a fiscal decision and the Chancellor will make his judgment based on how much money he needs to finance the economy. Let us be absolutely clear, road fuel duty is a way of financing hospitals and schools and everything else. It is seen as an important stream of revenue in overall government taxation policy.

Q221 Chairman: Do you feel you have the opportunity to put your views forward, even though you do not like the answers?
Mr Chapman: We have the opportunity. Whether our case is listened to with sufficient attentiveness, I am less than convinced. I think the Government continues to turn a blind eye to the inequity of its fuel duty policy in particular.
Chairman: Thank you very much for coming and answering our questions.

Witnesses: **Mr John Lewis**, Chief Executive, British Vehicle Rental and Leasing Association, **Mr Robin Hulf**, Parliamentary Adviser, Retail Motor Industry Federation, and **Mr Chris Hunt**, Director General, UK Petroleum Industry Association Ltd, gave evidence.

Q222 Chairman: Good afternoon, gentlemen. Could you give your name and the organisation you represent, please,
Mr Lewis: John Lewis, Chief Executive, British Vehicle Rental and Leasing Association.
Mr Hulf: Robin Hulf from the Retail Motor Industry Federation.
Mr Hunt: I am Chris Hunt, Director General of UK Petroleum Industry Association.

Q223 Chairman: Thank you very much. What would you say has been the main impact of the current regime of road user taxes and charges on the vehicle and oil industries?
Mr Hunt: From the oil industry perspective, we feel that taxation is obviously a matter for government and, therefore, we have no strong views on where that is set apart from when and if fiscal incentives are introduced to steer a certain product or a certain new product in a certain direction. I think government has to be extremely wary of that, after experiences like LPG introduction. However generally we feel that tax and duty is a matter for government. We are the most efficient tax collectors ever: we collect something like £30.8 billion on behalf of government via our member companies. Really we feel the level is a matter for others and for government. I think a previous speaker said that over £45 billion is collected in all on duty and VAT from road users and around only £7 billion is spent on road transport, so it is obviously a means by government to fund other things, and if it were adjusted then we do not win, somewhere else has to pay.
Mr Hulf: Madam Chairman, you asked what is the effect and it is quite difficult to make a precise judgment because if you are measuring it by terms of the number of units/cars that are sold then it is too early to make a judgment because the present number of cars being sold is directly affected by other things. In 2008 we saw an 11% drop in the number of new cars that were sold by comparison with 2007. How much is directly attributable to taxation as opposed to the general economy it is too early to judge; although there have been some noticeable changes in the choice of vehicle, for example, which could be attributed directly to the change in vehicle excise duty.

Q224 Chairman: Mr Lewis, you say in your written evidence that taxes and charges play a "pivotal role" in your members' operations. Can you tell us what you mean by that?
Mr Lewis: Certainly, Madam. We are all bandying numbers around but we are aware that we have a tax take of something like £40 billion and an infrastructure investment of something like £8 billion. Over recent years we have seen the tax system for motoring move much more towards CO_2. Where it has been applied correctly, when it has been fair and equitable, that has been successful. If we look at the business car user community, we have seen CO_2 reduce—we believe as a fairly direct result of the benefit in kind system—by something like 15 grams per kilometre between 2003 and 2007, which equates to some 3.5 million tonnes a year. There have been elements of the tax system that have been quite successful. I suppose one of our concerns about the tax system, as it applies to both the business motorist and the private motorist, is that there is a lot of mistrust about the tax system through quite a lot of elements of what we would call slight of hand within the tax system. I have a number of examples of those, Madam Chairman, if you would like me to go through them. I believe to a great extent that creates a lot of mistrust between the motorist and government. I will move between local government and central government but, unfortunately, the motorist, when they are driving around and paying their taxes, does not differentiate between central government and local government. As far as they are concerned, they are taxes. Would you like me to give you a few examples?

Q225 Chairman: Perhaps you could give us the most important one for now.
Mr Lewis: I think the most important one is the issue of retrospective vehicle excise duty changes and the quantum of those changes. We think the tax system should be used to change future behaviour for motoring. If we are going to have CO_2 taxes, let us change the future behaviour of the motoring community, let us change the vehicles they choose for the future, let us change the way they drive. The problem is, of course, we are using the tax system to raise money and penalise people for the choices they have made in the past. We think that is unfair. If we relate it to the London congestion charge: we saw the introduction of a congestion charge, which is a motoring tax—an additional tax for driving on the streets of London. When that was introduced, the motoring community was advised that the price would not change for 10 years. Within two years it had moved from £5 to £8. Within another two years it was going to move from £8 to £25 for some cars. Perhaps as a result of that mistrust, we have witnessed the "No" vote in Manchester, we have witnessed the "No" vote in Edinburgh prior to that, we have seen Durham now change their mind, and we have witnessed the vote within the western extension. I think that mistrust is perhaps taking us away from applying the real taxes, perhaps even an overall review of the tax system giving us a national road pricing programme, because if we are going to have that sort of mistrust then that has failed before it starts.

Q226 Chairman: You also refer in your written evidence to the Approved Mileage Scheme. Are there still problems with that?
Mr Lewis: There are still problems with that, we believe. We believe that is an incentive to drive more miles in older, higher polluting cars. We have done some work on that. If we look at the rate today, the rate is still 40 pence. People will complain that that is insufficient because they will quote the AA's rate of 42 pence per mile for a new car. If you have a three year old car—and let us take a typical Ford Focus, three years old—if we look at the incremental depreciation, incremental cost of fuel, and incremental maintenance, it only costs 26 pence a mile to run and we are paying people 40 pence per mile to run it, so we believe there is no incentive for those people to drive a younger, lower polluting car. It is not connected in any way. It does not incentivise people to look at other forms of travel; it is incentivising them to drive in their old, higher polluting car and gain money on a tax-free basis.

Q227 Mr Clelland: Mr Lewis talked about £40 billion being raised in motoring taxes and only £8 billion being invested in roads. The Retail Motor Industry Federation has figures of £31.4 billion and £7 billion, but we will not argue about the money. That point seems to be made quite a lot. Surely you are not suggesting that road taxes ought to be reduced from the £40 billion down to £7 billion or £8 billion, or, indeed, that £40 billion should be spent on the road infrastructure?
Mr Lewis: First of all, some of the gap is that, because we represent the business sector, we include the cost of benefit in kind motoring taxes as well, rather than just the transparent taxes. The real issue is that if these are to raise general taxation then we should be transparent about that and be upfront about it, and not hide behind the fact that they are for the costs of motoring—because they are not, they are to raise general taxation.

Q228 Mr Clelland: Do you think that is the impression that people are giving out there, that this £40 billion is spent on the roads?
Mr Lewis: Yes. Tax has to be raised, hospitals have to be built, and people have to be paid.

Q229 Mr Clelland: What do you mean by transparent? Surely everybody understands that. It is not a secret, is it?
Mr Lewis: I do not believe that people understand that the amount they pay to own a car—not necessarily to use it, but to own it—is hypothecated off into other areas.

Q230 Mr Clelland: Really?
Mr Lewis: I do not think they believe that, no.
Mr Hulf: I would certainly endorse that. Our members are the franchise dealers and the independent garages, and the feedback which they get is concern that they are paying all this money in tax and why is the Government not just more candid and quite straightforward: "Yes, we need to raise general taxation, of which your slice is only going to be £x." It is often hidden within more sweeping statements: environmental taxes, green taxes. Actually it is general taxation, and it is the less than candour which the Government has which produces irritation amongst individual motorists.

Q231 Chairman: Mr Hunt, what forecasts is the oil industry making on future demand and what implications is that going to have for tax revenues?
Mr Hunt: Up until recently, that is last May, we would have forecast things continuing much as they are now; in other words, there would be a very slight increase in overall demand as miles driven go up but demand is not in the same proportion as vehicle efficiency improves. Within that picture we will probably see a continuation of a decline in the sales of petrol volume and an increase in the sales of diesel volume which is really driven by a fiscal and benefits basis. That feature is more exaggerated across Europe, where in some states the new vehicle registrations of diesel are around 70% of total. There is a huge drive in that direction, which for us as a refining industry delivers its own problems. We expected to see a very gradual increase until, as I said, recently, in the credit crunch, we have seen somewhere in the region of a 2.7% decline in overall fuel volume. We are not sure and cannot unpack at the moment how much of that 2.7% is the increase in prices at the pump that we saw quite dramatically last year and which have now gone down again, and how much is really people taking a stop and a view as to their motoring habits in view of the credit

crunch. I might say for the record that I am very pleased to say that the UK refining industry has consistently delivered the lowest cost petrol and diesel in the whole of Europe pre-tax. Post-tax we are in a somewhat different position. How that affects us is similar across the whole of Europe. Refineries were built between 30 and 50 years ago and at that time they were primarily designed to produce gasoline, because that was the market. Fiscal policy across Europe—and it is more dramatic across the rest of Europe with differential rates between petrol duty and diesel duty—has really driven a wholesale increase in diesel demand. There is a limit to the amount of diesel you can get from a barrel in your current refining configurations, and therefore we are in a position where we produce far too much petrol in Europe, which we export to America, and we import diesel and aviation fuel from Russia and the Middle East. These are the kinds of effects that I think government needs to have carefully mind of when they change fiscal policy: the knock-on effects in terms of fuel supply and fuel supply infrastructure.

Q232 Chairman: Mr Hulf, what progress are we making on developing safer and cleaner cars?
Mr Hulf: There has been considerable investment by all the major manufacturers over the last 20 years. An example is that it would take 20 cars today to produce the same emissions from a car 20 years ago. There has been considerable improvement in terms of carcinogenic emissions from cars.

Q233 Chairman: You see that continuing.
Mr Hulf: Yes, very much so.

Q234 Sammy Wilson: On the last point that Mr Hunt made, which was a very interesting point, could I ask what percentage of the refined fuel we produce in the United Kingdom is exported because there is not the demand for fuel? What percentage of the diesel and aviation fuel being used is brought in? Do you have any idea in terms of transport costs, et cetera?
Mr Hunt: I do not have an idea on transport costs, but I can tell you directly that the UK imports 3.5 million tonnes per year of diesel and gas oil, predominantly from Russia, and 5.3 million tonnes of aviation jet fuel primarily from the Middle East. We export 6.6 million tonnes of fuel oil, mainly to Africa, and 4.5 million tonnes of gasoline to America—which unfortunately is going to be a market we can see disappearing as America is going gung-ho on ethanol production to reduce imports, which will cause us some considerable problems in the future.

Q235 Sammy Wilson: In terms of the refining capacity and the kind of contracts we have for bringing in the raw material, what is the time period we have for making the adjustment? Fiscal stimulus can make changes in a year, but in terms of the infrastructure which you then have to change to respond to that fiscal stimulus, what is the turnaround?
Mr Hunt: Let me answer that in two ways. To take the example, going back many years, of the first introduction of unleaded petrol into this country, I think that it was sold by about a bucketful a week, if we were lucky, because there was no fiscal incentive. Lo and behold, the Government decided to put a three pence per litre incentive on unleaded fuel, and overnight it more or less overtook standard leaded petroleum. If the refineries are geared to make that product, an unleaded product—and lead was an additive, so you could do that—it is pretty quick. If we take the current situation that we have, this imbalance between what we manufacture—and it is not just UK, it is across Europe—from our refinery output to demand, then the timescale to correct that, and, more importantly, the investment levels to correct that, would be fairly significant. You could be looking at up to $1 billion per refinery to rectify that imbalance, so there is an ongoing issue. At the moment, if you can get the supplies from elsewhere, then it is better to do that. In an ideal situation, if you wanted to make a massive correction to a refinery, you would be looking at something like a five-year build horizon. I have to say that, up until the credit crunch last year, it would be longer than that, because you could not get steel anywhere in the world because there were such huge building programmes going on in India and China. Now that has kind of reversed. Structural changes to a refinery are very long term, and therefore we are constantly talking to the Treasury and government officials on: "Be very mindful of fiscal policies you are coming up with because you need to be aware of the consequences of what you are doing".

Q236 Mr Leech: What sort of changes do you think would need to be introduced in the taxation system at the moment to discourage the move towards diesel? I drive a diesel vehicle. Diesel is significantly more expensive than petrol. What changes do you think we need to make to change it back, so the move to diesel does not continue?
Mr Hunt: You would need to look seriously at, for example, levying duty on an energy basis. I think we are pretty much unique in Europe as being the only country that has exactly the same duty for petrol and diesel, albeit that the rest of Europe has a far lower diesel levy.

Q237 Mr Leech: Am I right in thinking that the duty on diesel used to be less many years ago?
Mr Hunt: Slightly, yes, but it has been equalised for some time. If you were going to tax it on energy content, you might get nearer to the issue. I am far from a motor vehicle manufacturing expert, but now that the latest generation of motor vehicles have high pressure, common-rail injection and so on, and catalysts, and the fact that all fuels in the UK as of now will be less than 10 parts per million sulphur, it is probably the case that it is a fine line in terms of emissions.
Mr Lewis: I think the real answer to that is that if you tried to do anything to the tax system today to discourage diesel, you would put the whole tax system into complete disarray, because the tax

system is based on CO_2 and, with the exception of a few incentives, technology neutral. I think the real answer to that is to look for advancements in the petroleum engine to match the CO_2 outputs of the diesel engine, if not overtake the CO_2 outputs of the diesel engine—which still has some way to go yet. You would destroy the value of many, many, many thousands of cars that are out there today, owned by businesses and private individuals, if you were to change the tax system to penalise diesel. It is emission-based choice which the tax system is driving. We need other technologies to catch up.

Q238 Mr Clelland: Do you have any views on road pricing proposals or road congestion charging in terms of methods of raising taxation, improving the road structure, or, indeed, changing the tax regime by introducing road pricing rather than having the other taxes.
Mr Lewis: We have a view. I think that is interesting terminology there because I would be interested in whether the question is additional charges or a different way of charging. Our view, representing business motoring, is that with additional charges there will always be problems—going back to my issues of distrust, going back to the issues almost of the blackmail of Manchester: "We'll give you this if you get that from the motorist" when the motorist is already paying significant amounts more than the cost of driving on the road. All of the taxes we are talking about in no way determine any incentive to drive on the road at a different time. I pay the same VED, I pay the same fuel duty as any of us in this room, so I have a right to drive on the road at any time, at the same time as anyone in this room. We do not use that on the public transport system. We have a different way of managing demand on the public transport system. Perhaps we should—and maybe lorries are the entry point, because we also supply the vehicles to the freight sector—make the way for a national road pricing system—not an additional tax but an alternative way of taxing—and perhaps we should look at depoliticising that as well. Maybe we should need an independent body instead of a political party to look at that. It transcends elections and political parties because it is a long-term strategy. I was on the Lorry Road User Charge programme. The whole industry was in favour of it. Technology today would deliver it for us at a lot cheaper cost than before, and that would probably start for the first time to use the tax system to manage the demand—because we do not today. Fuel duty is very simple but in no way does it manage demand on the network, and that is what we have to start to look at now.
Mr Hulf: This road pricing or congestion charging is a very blunt instrument which is currently used and there is no flexibility. The analogy, surely, is with a mobile telephone: wholly different rates are charged for different types of usage. With our modern IT systems, if we are going to have a more progressive system of road pricing then it must be much more tailor-made to the demand, and people will be able to have a much greater choice which will therefore influence the patterns of behaviour on roads.

Q239 Mr Clelland: Have you studied the proposals that the Netherlands are particularly looking at at the moment?
Mr Hulf: No, we have not.

Q240 Mr Clelland: They are very much in line with what Mr Lewis is saying, in terms of replacing current intentions for the per mile national road pricing scheme, which can then be varied at various times of the day to take account of congestion. That is the sort of thing you were referring to, is it?
Mr Lewis: That is absolutely right, Mr Clelland, yes.

Q241 Chairman: What impact is the Government's proposed changes to vehicle excise duty having on car sales and rentals?
Mr Hulf: As I mentioned earlier, Madam Chairman, the figures for sales last year were 11% down on the previous year, but I think that is largely directly linked to the general state of the economy. One particular issue in the changes announced in the Budget last year concerned vehicle excise duty refunds. It was buried extremely deeply in the Red Book. If you sell a vehicle, you can get a refund for the unused portion of your road fund licence if you are the registered keeper or the owner of the vehicle. It has been normal practice for part-exchange vehicles for that process to be carried out by the garage or the car dealer or the franchise dealer: they took that responsibility from the person who was selling the car. In the Budget last year they announced that the only people entitled to refunds in the future would be the registered keeper of a vehicle. The dealers do not wish to become registered dealers of a vehicle for two reasons. First of all, it puts another name on the vehicle log book and therefore devalues the vehicle itself immediately. Also, there is a time delay in having to become the registered keeper of that particular vehicle. The loss to the industry was quite considerable. The DVLA currently refund, each year, £200 million in vehicle excise duty refunds, and they are now saying that in future they know, with the change of rules, that they will only be refunding £100 million. That, effectively, is a £100 million stealth tax by this change in the rules.

Q242 Chairman: What impacts have these things had on sales?
Mr Hulf: It is a tax issue which I am raising here as opposed to sales. In terms of car sales, I can only give you the fact that car sales are down overall with the announcements made in the Budget last year coming into effect now. I can give you some figures of what the changes are in terms of the different types of cars that may have been selling less than previously, but it is too early—

Q243 Chairman: Can you identify what impact the proposed changes in the vehicle excise duty are having, as distinct from a general downturn in the economy?
Mr Hulf: No, because the two are inextricably linked. We have seen this massive downturn of 11% overall: a downturn of 36% in November and 21%

in December of sales, so that they are linked to the economy rather than at the moment to the effects of the taxation.
Mr Lewis: There are two aspects to the changes. There are the 2010 changes, where we are going to see the first year rate. From the work we have done with fleets, that will provide a significant incentive to head down below the 160 grams per kilometre level, also coupled to the corporation tax reforms. We think that is going to shift the size of vehicles down and have a further incentive to shift the size of vehicles down. Right at the top end, I am afraid, I think if you are buying a £60,000 Range Rover it is unlikely to change your mind, it will just mean that you pay more tax, but in the marginal car it will shift them down. The direct answer to your question in terms of sales volumes is difficult. We did some work before the credit crunch and before the deferment of the implementation of the retrospective VED with the major valuing guides in the country, and their view was that the retrospective application was going to wipe between £400 and £800 off the resale value of a car depending on whether it was in the category of five to three years old. We are talking about reducing the value of the car by something between £400 and £800. Unfortunately, we were overtaken by the recession, and we certainly cannot hang the drop in sales purely on the VED, so it is a very difficult question to answer, I am afraid, in terms of absolute numbers.

Q244 Mr Leech: I think Mr Lewis has half-answered my question. I was going to ask whether or not the changes in VED were making people have different choices across the board, but you are saying it is only really at the lower end of the market.
Mr Lewis: The big problem when we were researching this—and you will be aware that this was talked about: we believe it was very clear in the market-place—was that the Treasury would not put the numbers on their website because the numbers were not determined yet. I can give you a couple of real examples of people whose cars were not going to change but they did not know that. They were trying to look to change them and nobody would even give them an offer for them because no one knew what the VED was going to be. There are two issues. There is the fact that it was penalising the owners of somewhat old family cars in reducing their absolute values, so reducing the asset value for the family, but, also, it was not very clearly signalled, there was a lot of indecision, so it was completely different in the market-place. We gave the report to Angela Eagle in our pre-Budget meeting in some detail.

Q245 Mr Leech: You said at the top end of the scale it makes no difference at all. If you buy a Ferrari, or whatever it might be, you are going to pay the VED whatever it might be. Is there a level that you think could be imposed that would either have an impact on the higher end of the scale in terms of manufacturers making changes to the vehicles or changing people's behaviour?
Mr Lewis: I think there are thresholds of pollution where people will still continue to have them, and you will have to adopt the "polluter pays" principle and they will accept the charges. I do not think a Ferrari, for example, will get down below 160 grams per kilometre—certainly not in my lifetime, I have to say.

Q246 Mr Leech: Not all vehicles at the top end of the scale are Ferraris, but I imagine there are some vehicle manufacturers who could make significant changes to some of their vehicles that would have an impact. I suppose the question is: Is there a level of VED at the top end of the scale that might encourage those motor manufacturers to change the engines of those vehicles?
Mr Lewis: Perhaps I could share with you what one of the motor manufacturers is doing in that. BMW, on their top range vehicles, see that they will be heading towards hydrogen power as quickly as possible so that they can get pollution down. On their middle range vehicles they will be going for what is called full hybrids. On their smaller vehicles they are using what is called efficient dynamics and already they have a fairly good executive two litre diesel emitting 131 grams, which is significantly lower than the competition and significantly lower than that new vehicle would have emitted just two years ago: between 20 grams and 25 grams lower. I think we are going to see, in certain car sectors, manufacturers developing technology to get those emissions down. I quote you that from a presentation I was involved in in Poland a few weeks ago from BMW to look at their future plans. I am talking plans for the future now that are in the near-term future, not the long-term future.
Mr Hulf: Could I give you some figures, Mr Leech, in terms of sales and how they have changed and not changed between 2007 and 2008. Aston Martin, for example, sold 2,100 cars in 2007 and 1,500 in 2008. BMW sold 121,000 in 2007 and 113,000 in 2008. Jaguar sold 18,700 in 2007 and 20,300 in 2008—which was an increase. Nissan sold 66,000 in 2007 and 66,000 in 2008.

Q247 Chairman: Mr Hulf, if you have some figures, it would be helpful to us if you could let us have a note.
Mr Hulf: Yes, I certainly will. I am just trying to say that it is really difficult to make a judgment now on what effects are at the moment. We can speculate.

Q248 Chairman: How secure is the supply of road fuel to motorists and businesses?
Mr Hunt: That is a very good question. I would say that the UK refining and marketing industry, of which I am enormously proud, has not let the motorist or the householder down, despite the fact that one of the main terminals at Buncefield was destroyed in 2005. The long-term security of supply is an issue for UKPIA for the very reasons that I mentioned. We do have a supply imbalance that needs to be made up and the only way that that is going to be made up is through attracting inward investment into our refineries in the UK. We have

the great ability on this island to refine crudes from 27 different sources currently, which gives you an enormous flexibility whatever the world situation is. If we lose UK refining, first, you lose that capability, and, second, in a time of crisis you are in there fighting with everyone else who needs supply. We feel it is an enormously important issue. For that reason our main challenge, going forward, is the whole carbon reduction debate that is going on, this ambitious 80% target that is being sought by government, and how we deal with that, and trying our best to ensure that we have a level playing field between UK refining and European refining and, where possible, between European refining and world refining, because this is a global industry and therefore if certain issues go out of sync—which they can do—we unfortunately do have a bit of a tendency in the UK to rather gold-plate some EU Directives when they are enacted in the UK to the disadvantage of refining. That can only go on for so long before decisions are made about long-term investment in refining. I would say that it is secure right now but needs looking after. I do not mean by that that it needs favouritism, it just needs government to be mindful of this wonderful asset that it has, this enormous capability that it has, and to look after it and to make sure that it is not disadvantaged versus the rest of Europe.

Q249 Chairman: Could you give us any examples of steps that the Government should or should not take?
Mr Hunt: I would say that for all the right reasons, in some ways we are very ambitious in the UK in terms of our environmental measures and policies. I think we should be aware when we seek to be leaders in Europe of some of the effects that leadership might have. If it, for example, imposes costs and constraints upon your industry that are not present in the same industry in other parts of the world—ours is a mass volume market we are talking about in refining—it can be disadvantaged, and we are really looking for inward investment from folks who are looking around the globe. There are exciting places to invest like India and China and so on, and we need to keep the UK fully stacked up. We would ask government to be mindful of that and also to be mindful of the impact of some of the policies, again made for all the right reasons. To take, for example, the EU Emissions Trading Scheme, which very much affects refiners: currently refineries are granted their permits, their allowances, based upon historic emissions. Counter-intuitively, to make clean fuels you use more energy at the refinery, it takes more processing to allow for that. There is now a move to go to what is called auctioning, so that these allowances will be on the open market for sale. It adds enormously to cost and is not experienced elsewhere in the world. We foresee that it will have an impact on refining. We ask the Government to be mindful of the consequences of some of the ambitions it has, for all the right reasons, upon this very crucial and vital part of industry.

Q250 Chairman: Have you been involved in any discussions with government about this?
Mr Hunt: Very much so, yes.

Q251 Chairman: Do you feel they are listening?
Mr Hunt: I think we are listened to and in certain instances we do get a degree of lien in terms of these policies when they go forward to Europe, but once it is discussed in Europe there are a whole raft of issues going on between various Member States on what they perceive. Fortunately, I would say, in praise of our Civil Service, particularly in the environmental sphere, that it is very highly regarded in Europe and seen as proficient and leading and so on, so we just hope our messages are being listened to.

Q252 Chairman: Who do you discuss these things with? Is it specific departments?
Mr Hunt: Principally, if we are looking at issues of an environmental nature it is Defra. It will now also be the new DECC, where the whole climate change agenda is coming up and that will be an issue for us. We are trying to unpack exactly what the climate change review means for industry in reality. With an 80% reduction in CO_2 you could sit back and say, "That's the end of refineries in the UK" but we do not think it means that because we have not yet worked out how we are going to keep planes in the air or build roads if that happens. We need to understand that more, but it will be Defra and DECC—the energy minister and the energy department that we deal with—but also very important for us is the Department for Transport. The whole of the issues of fuel specifications and things like biofuels rests with that group.

Q253 Chairman: Are there any other views about consultations between business and government, particularly in relation to taxation and charging? Are you satisfied with the extent of consultation taking place?
Mr Hulf: We are in constant dialogue with the Department of Transport and with the Treasury.

Q254 Chairman: With both of those departments.
Mr Hulf: Yes—directly. We value the relationship which we have with the officials and ministers in those departments.

Q255 Chairman: Mr Lewis, do you have any views on this?
Mr Lewis: I think the Treasury have taken steps, very much so under John Healey and carried forward by Angela Eagle, to engage with industry. They have whole industry weeks when they engage, pre-Budget. As you have had discussions with the previous speakers: we do not always get what we want, but we feel our voice is being heard, and we feel it is being heard early enough. With the Department of Transport we have a very deep and broad relationship.

Q256 Chairman: Finally, do you think car clubs are useful? If you do think they are useful, is there anything the Government could do in relation to taxation to help them?

Mr Lewis: As the representative body for car clubs, I would ask the question perhaps in reverse. What is the difference between a car club and car rental, other than they call themselves differently? We represent all of those sectors, so I do not have any axe to grind. Are they useful? I believe that a car club or a car rental car takes about five to six cars owned cars off the road. We believe they are useful in providing transport on demand. It is quite possibly the environment we are moving into for the future, that people will own smaller cars and use a car club or rental for a larger car when they need one for a weekend trip or something else. We are also seeing car ownership reduce. I think the issue for car clubs and car rental is that there was a model that was subsidising the development and set-up, and we believe they should be commercial business models and they should stand on their own two feet. Let us use the zone of London, where many people want to use a car club or a car rental car, they are penalised on congestion charges because, although they are residents, they find it incredibly difficult to be able to drive at residents' rates. Whilst they can get there and Transport of London would tell you they can get the rebate, it is very expensive, very time-consuming, and people do not bother. Whilst they are part of, I believe, an integrated transport solution that will reduce car ownership, perhaps there are local benefits where they should be treated as residents' cars when residents are driving them. Beyond that, I do not believe there is any necessity for any major incentives.

Chairman: Thank you very much for coming in and answering our questions.

Wednesday 28 January 2009

Members present

Mrs Louise Ellman, in the Chair

Mr David Clelland	Ms Angela C Smith
Mr John Leech	Sir Peter Soulsby
Mr Eric Martlew	Graham Stringer

Witnesses: **Ms Michele Dix**, Managing Director, Planning, Transport for London, **Mr Kulveer Ranger**, Director for Transport Policy, Mayoral Team, Greater London Authority, and **Mr Nick Lester**, Chair of the SPARKS Network and Corporate Director of Services at London Councils, the SPARKS Programme, gave evidence.

Chairman: Good afternoon, and do Members have any interests to declare?
Mr Clelland: A member of Unite.
Mr Martlew: A member of Unite and a member of GMB Union.
Graham Stringer: A member of Unite.
Chairman: I am a member of Unite.
Sir Peter Soulsby: I, too, am a member of Unite.

Q257 Chairman: Could I ask the panel, please, to introduces themselves, their names and their organisations?
Ms Dix: I am Michele Dix. I am the Managing Director of Planning at Transport for London.
Mr Ranger: Kulveer Ranger, Director of Transport Policy for the Mayor of London.
Mr Lester: I am Nick Lester. I am Corporate Director of Services at London Councils and I Chair the SPARKS Network, which is an international network of public authorities interested in cross-border enforcement and traffic laws.

Q258 Chairman: Thank you. Could you tell us what the real objectives of the Central London Congestion Charge are? Is this about reducing congestion or is this about raising revenue?
Mr Ranger: I can give you our view at the moment, because obviously it is a new administration. We look at the historic objectives which were set for this policy, but I believe the initial objective is really to ease the pressure of congestion in the central zone and this is the manner of actually making that happen, but I would probably ask Michele, who was probably around at the start of the development of that policy, to maybe expand on that.

Q259 Chairman: Mr Ranger, you have said two things. You have introduced a slight note of caution, talking about the previous administration, and you said "initially" the Charge was about congestion. Do you have some idea that the current Major might want to change this?
Mr Ranger: No, that is just how we have seen the view from when the Charge came in and then how it was evolving, that it was really an initial presentation that the Charge was there to reduce congestion. However, it did morph into other elements. It did raise a certain amount of revenue, which cannot be ignored, and it has had an impact in terms of air quality as well. So there were other elements which sort of emerged from implementation of the Charge.

Q260 Chairman: How important do you see the revenue raising aspects to be at the moment?
Mr Ranger: Revenue is obviously built into the TFL business plan and so it plays a role in our assumptions of what we can do in terms of what TFL's objectives are and how we look to appropriately spend that money on transport benefits. So we have to take that into account when we are looking at the Charge and how it is operated.

Q261 Chairman: But how important is the revenue raising aspect of the Charge to London's transport plans?
Mr Ranger: In the context of the amount of revenue it raises, I think the net revenue raised is in the region of approximately £130 million per year. Now, in the context of the annual spend that TFL has that is not a huge figure, it would be a single digit percentage, but obviously that is still a lot of money we are looking at and how that gets spent. Previously, in 2007, about 82% of that went into bus services.

Q262 Chairman: But are there any discussions taking place at the moment about the future of the Charge?
Mr Ranger: Not of the Central London Congestion Charge, no. Sorry, there are in terms that there is a new contract which is coming in and the Mayor, Boris Johnson, did make a manifesto commitment about making the Charge fairer in its operational terms, so there are discussions about that.

Q263 Chairman: But are there any discussions about changing the nature of the Charge or changing its objectives? Have any of you been involved in any discussions of that sort?
Mr Ranger: Not in changing the nature of the Charge at the moment.

Q264 Chairman: What would you say the achievements of the Charge have been?
Mr Ranger: I think the key has been that at the implementation point there was a drop in traffic levels or the time taken for journeys through Central London. Actually, at this point I will ask Michele to

expand on that because she was obviously involved at the point of implementation and also at the point of where initial benefits are flowing through.

Ms Dix: I just confirm that the primary objective for the Charge being introduced was to reduce congestion. That is why it was introduced. In order to reduce congestion you have to reduce traffic levels, and in order to reduce traffic levels we had to set the Charge at such a level that it would make people change the way in which they were travelling. As a consequence of that, there were net revenues which were generated by the scheme and as an important part in making the scheme acceptable in terms of Londoners (ie talking about the original Central London scheme) those net revenues generated by the scheme and the promise that they would be spent on transport improvements in London further improved the acceptability of the scheme when it was introduced. So even though raising revenue was not a primary objective, it was something which stemmed from the Charge that was set and certainly improved the acceptability of the scheme. In terms of what it achieved, when it was first introduced—and I am talking about the original Central London scheme—it instantly reduced traffic levels, car traffic, by 30% and overall traffic by some 18%. So simply by having less traffic on the road we got a 30% reduction in congestion. Therefore, it met its primary objective, which was to reduce congestion. It also raised net revenues and, as Kulveer has said, net revenues that are currently raised are of the order of £130 million per year and by law all that has to be ploughed back into transport improvements in London.

Q265 Chairman: But the congestion levels have now come back, have they not?

Ms Dix: The congestion levels have come back, but the reason why we had a congestion reduction in the first place is because we reduced the traffic levels, there was less traffic, and if the transport network had stayed the same (ie did not affect any of the roads on which the vehicles were running) and you still maintained low traffic levels you would still see that reduction on congestion now. What has happened since the Charge was introduced is that that space on which the vehicles have been running has been changed and a significant change has been a series of roadworks, long-term roadworks which have taken capacity out of the road networks, and also improvements which have been made to Central London to enhance the benefit to other users, so improvements for pedestrians, improvements for buses, improvements for cyclists, all good things but the net effect of that is that the effective road space has been reduced.

Q266 Chairman: Who has taken the decisions to reduce the road space available?

Ms Dix: The various authorities are responsible for the roads in Central London. The boroughs are responsible for a large percentage of the roads in Central London and TFL is responsible for a fewer number of roads, but the decisions about the sorts of schemes which were being made were to pursue a wider set of policies other than just reducing congestion for road users.

Q267 Mr Clelland: Just on that, are you also saying that the level of congestion in London is now acceptable or would you like to reduce it further, and if you want to reduce congestion further how does that fit in with the Mayor's objective to make congestion charging fairer, which presumably a lot of people would think would mean less expensive?

Mr Ranger: I think what we are looking at is a policy which worked at its implementation and then the benefits of it were gradually eroded through the applications of other policies. I think we do want to see less congestion in Central London and we want to really continue the trend of modal shift onto public transport. In the context of that, we want to have policies which actually are complementary to the Congestion Charge, rather than compete with it. So if there is capacity on the road network that is freed up, if we start to immediately remove that capacity and apply it to other areas, taking away road space or putting in more bus lanes, then we are removing that benefit that people are actually paying for. So if we make the space, we must work out what is the best way of using it. That is not a case of saying, "We want to see more vehicles coming in because there is space." So we see the Congestion Charge as a fundamental part of a series of policies which includes smoothing traffic flow, so having this, as Boris has put it, a "holy war on holey streets." There are a million holes dug in London's roads every year by various companies who are trying to improve the infrastructure, the drains, et cetera, but we need better coordination of that so that the benefits of the Charge can be felt by people on the road network. We want to ensure that the buses can run at a level that they are not impacted by those things. We want to have a permit scheme so that if people abuse the way they are providing infrastructure and improving the road network they can be fined at a significant level so that they may not want to do that again. We need to look at the policies which can be implemented to complement the Congestion Charge, not take away its benefits.

Q268 Mr Clelland: Does that mean that the Congestion Charge will be at the same level, be lowered or be increased? What is your view on that, the level of charging at the moment?

Mr Ranger: We are keen to retain the level of charging there is at the moment, but we want to make it fairer.

Q269 Mr Clelland: What does that mean?

Mr Ranger: I think it is fair to say it is probably accepted that the Charge itself and the implementation of it was a pretty blunt policy, the technology and the approach. We want to make it a bit more sophisticated so people do not feel like they are being penalised, for example if they go one minute past the time of having not paid they immediately get a Penalty Charge Notice. Now, one of the things we are looking to bring in is a means of account billing so that people can say, "Well, I'm going to use this. I need to travel by car and so I'll have it set up so that I can pay it automatically," and not just, "Oh, I've gone over by five minutes and suddenly I'm feeling like I'm being victimised or penalised for having driven in when I needed to do it." So there is a certain sense of fairness that needs to be brought into how the Charge is applied, but also there needs to be a benefit being perceived by people who are paying for this Charge. There is no point in people saying, "Well, we're going to pay, but we're paying for the same level of congestion and traffic that we had previously without it." There is the argument that if you took it away, if you had not had it for this period of time, you would probably have more traffic. So there is still a value to having the Charge. We are not making that case. What we do want to see, though, is that people feel the benefit of what they are paying for.

Q270 Mr Leech: Has there not always been a bit of a confusion with TFL and the Mayor (whoever the Mayor may have been) about what the Charge is all about because you said it was first introduced to tackle congestion but then some vehicles are now exempt from the Charge. The former Mayor wanted to introduce a £25 charge for the highest polluting vehicles and to exempt other vehicles which were low emitters and obviously that would have an impact on taking some vehicles off the road but putting other vehicles on the road, so it is not necessary to actually decide exactly what the Charge is for now and look at whether or not you can arrange it so that it tackles both carbon emissions and at the same time tackles congestion?
Ms Dix: When the original Charge was introduced, even though it was primarily to reduce congestion it was recognised that there would be environmental benefits as a result of introducing the Charge. It was also recognised that it was an opportunity perhaps to incentivise the use of vehicles which were less polluting, so there was 100% discount for alternative fuel vehicles, vehicles which emitted less air pollutants, and that has been running since the Charge began. There then was a discussion about whether or not that policy needed amending because some of those vehicles which are entitled to that 100% discount actually emitted high levels of CO_2 and when climate change became a bigger issue on the agenda it was looking to see whether or not that particular discount could be modified in some way so that you deterred the higher CO_2 polluting vehicles, which led in turn to the CO_2 proposition, but to say that congestion charging should not be used for anything other than congestion does not fit with where we are because the Low Emission Zone, which is another of the schemes in operation, is actually a road user charging scheme using the same powers as the Central London congestion charging scheme and that is there to encourage drivers of diesel engine vehicles to move towards cleaner engines. But you are right in saying that we have to be clear about what the objectives of the schemes we are promoting actually are and there has been some confusion.

Q271 Mr Leech: If tackling congestion is still one of the central planks of the Congestion Charge and given that vehicle levels on the roads are up to pre-Congestion Charge levels now—I thought that was the information we were given?
Ms Dix: No, the traffic levels are still low. What I was saying was that traffic levels dropped to about 18% when the Charge was first introduced. Traffic levels have stayed low, they are about 20% now, and that is the strange thing. That is what we could not understand when congestion was growing, because traffic levels were still low, and the reason why congestion rose is because the space they were operating on was getting smaller.

Q272 Chairman: So you are distinguishing between the amount of traffic and the congestion that is caused?
Ms Dix: Yes.

Q273 Chairman: You are saying that the traffic has still reduced?
Ms Dix: Traffic levels are still low. They are 20% less in the Central London area. It is the road space on which they operate which has shrunk and the relationship between flow and congestion normally, if everything is kept the same, is that if the flow goes down, then congestion goes down.

Q274 Chairman: So it is 20% less than before the Charge?
Ms Dix: Than before it started, yes.

Q275 Mr Leech: I accept that point entirely. If the levels of congestion are at the same level as they were pre-Congestion Charge, has any consideration been given to actually changing the way the Charge is levied to make sure that every vehicle which goes through the zone pays at least something so that you can then argue that everybody is paying if they are congesting roads?
Ms Dix: There were lots of discussions when the scheme was originally proposed and since because of lobbying about whether or not the discounts which are given are appropriate. Lots of people would like to see the vehicles they are using discounted for a certain reason, so residents do not pay the full charge, they are entitled to a 90% discount. Residents would like 100% discount, but those who live in the area who have to work and move around the area get a 90% discount. Blue Badge holders get 100% discount. Certain operational vehicles associated with the emergency services get 100% discount. So there are discounts given to certain users. When the CO_2 charge was proposed and a higher charge was being suggested for high CO_2 vehicles and 100% discount was being proposed for low CO_2 vehicles, a lot of concerns were expressed as to whether or not that was the right thing to do because if cars that are readily available and small were 100% discounted that could lead to more people driving in the zone and then eroding the original objective of the scheme, which was to reduce

congestion. So reducing congestion is the primary aim, but if other things could be satisfied by the scheme then they were considered.

Q276 Sir Peter Soulsby: I cannot recall what was argued at the time, but I am sure that there were predictions made both for what would happen to congestion, what would happen to traffic, their figures, and what would happen to revenue. How has the reality measured up against what was predicted?
Ms Dix: In terms of the short-term, very well because the forecast for the traffic falls and the short forecast for congestion were pretty much within the range that TFL had forecast. In the first year, though, the revenues that were forecast were lower than the forecast because of some of the assumptions about those people entitled to discounts. They were at the higher end of the spectrum than we had predicted. But nearly all the forecasts we have since made for the impacts of the scheme, where there has been a control, have been correct. What we had not presumed and had not realised was (a) the level of interventions that were going to take place on the road network through utilities (as Kulveer has said, a lot of work is being done now to try and manage that because it has not always been in TFL's remit to do so) and (b) the knock-on effect of some of these other policy areas, because all the work had assumed that the road space would not be changed. But now we are aware of that, and now our modelling work reflects it.
Mr Ranger: Could I add to some of the things Michele is highlighting there? The Charge has reduced the number of vehicles coming in, but traffic congestion levels have gone up, so we have thought about roadworks and the impact of those on traffic levels. There were other things as well, such as the re-phasing of traffic lights, and that has had a very significant effect on the flow of traffic through Central London, as has the view in terms of actual road space being eroded for a variety of reasons, some of which we are concerned about, which is why one of the first things we did as an administration coming in was to ask TFL to present to us all schemes which have a significant impact or reduced road space and actually some of the feedback we have received from traffic engineers is that when considering interventions on the road network they were not actually asked to consider the impact on traffic flow. So you have got a great scheme such as congestion charging, which is trying to reduce and improve the level of congestion and traffic flows, yet you have got other people working away who are not paying any attention to what their actual objectives are.

Q277 Chairman: Are these different people in different authorities, or are they different departments?
Mr Ranger: Different departments within transport –

Q278 Chairman: There was no coordination on central policies between the different departments of the authorities?
Mr Ranger: I would say, yes. There were competing messages being provided through different policies.
Ms Dix: There was also the need to satisfy other policy areas, so if there is a policy area to promote the use of buses and improve the reliability of buses, to improve bus lanes, then that was a policy area which also being pursued at the same time along with reducing accidents through to saying all reds at traffic signals for pedestrians, extending the green time. One of the activities which did take place was to bring traffic signals in line with standards for the amount of green time allowed for pedestrians to cross and that did take some space away. I think what people had not realised was the sensitivity of the network in Central London to what might at one location seem a trivial change, but if you are making those changes at a series of locations in such a critical part of the network they all add up, and it is that we have observed.

Q279 Chairman: The impact of one decision on the broader picture?
Ms Dix: Yes.

Q280 Sir Peter Soulsby: I would just like to follow up the revenue predictions which were made at the outset and the extent to which those have differed from what was predicted, particularly perhaps the extent to which the proportion of revenue which comes from fines has differed from what was originally expected.
Ms Dix: I do not know that it has necessarily differed because the proportion assumed from fines depended on the level of compliance and originally people did not necessarily comply, either because they forgot or they did not know, or in some instances they thought maybe they could get away with it, but the level of enforcement associated with this scheme was very high and we have seen a marked decrease in the number of PCNs which have been issued from the early days. So we had a range of forecasts but we were not being reliant on the PCN revenues. They only form 25% of the revenues that are collected at present and that is despite the fact that we have put in a lot of measures to try and make it easier for people to pay and also we introduced Pay-Next-Day, which was a big improvement as far as the public were concerned because if they forgot come midnight on the day they travelled, they then actually had another whole day, and that saw PCNs fall by 15%.

Q281 Graham Stringer: The administration of the scheme is about 50% of your income. Do you think compared with other schemes around the world that is fine?
Ms Dix: It is high according to the figures we have about other schemes around the world and we have been around the world talking to other areas to try and understand the differences. Some of the differences relate to our scheme having a high level of enforcement and the enforcement costs being

attached to the total costs of the scheme, whereas in some countries enforcement costs are not in the figures quoted. Also, to make it more convenient there are lots of different ways in which you can contact the organisation and lots of different ways in which you can pay for the Congestion Charge and they add to the cost of running it, but we have actually issued a new contract for the congestion charging scheme and there will be cost savings in the way it is operated going forward.

Q282 Graham Stringer: Roughly how much?
Ms Dix: Sort of 10 to £15 million.

Q283 Graham Stringer: So not a huge percentage but a reduction?
Ms Dix: Yes, but they are savings.

Q284 Graham Stringer: When Ken Livingstone came to this Committee before the scheme started he said that he was going for the simplest scheme so that it would work and he said his political career depended on it. I was involved in the discussions around the Congestion Charge in Manchester and that was a much more complicated scheme, in fact it was a double scheme. They have tag and beacon as well as number plate recognition and 14 day accounts or longer to pay, and yet when I compared the costs of the proposed Greater Manchester scheme with yours they were much less. Do you think that was credible? Are you unbelievably inefficient, or were we being told porkies in the Greater Manchester scheme? It must be one or the other.
Ms Dix: All I would say is that when the work was originally done for the Central London congestion charging scheme before the scheme was adopted by Mayor Livingstone the estimates for the set-up and the operation of the scheme were considerably less than those which actually came back when we procured it, i.e. because of the complications of the scheme. I am not saying that people have told porkies at all, but I am not sure that unless you have procured it you have actually got the full range of costs. But I do believe we are trying to reduce the costs which we have on the system. We are aware of these comparisons across the world and there are ways in which we could reduce costs by removing some of the services.

Q285 Graham Stringer: Let me ask the question again. Do you think it is credible to run a more complicated scheme for something like a quarter to a third of the administrative costs you are using?
Ms Dix: Without looking at the Manchester costs in detail, I cannot say what they have included or not, but I would always want to have a look and be, I suppose, a bit sceptical. I was certainly sceptical about the Edinburgh figures.

Q286 Graham Stringer: About a quarter of your income comes from fines. Do you know the composition of the people who pay those fines, how many of them are from outside of London?
Ms Dix: 2% of PCNs that are issued are for foreign vehicles.

Q287 Graham Stringer: From people outside? I get constituents in Manchester who write to me and say they did not understand the Congestion Charge. They have not been sent a fine for it, which they would have been happy to pay, the original Charge, but they just did not know how to do it. I just wondered what percentage of that 25% of your income comes from people who just did not understand it because they did not live in London or the South East.
Ms Dix: I am afraid I do not have that figure in my head, so I will have to come back to you on that, unless you know, Nick?

Q288 Graham Stringer: Do you think you could tell us, because it is a concern?
Ms Dix: Yes, I will find out for you. It is just not a number I have in my head.
Chairman: You can send that information to us.

Q289 Mr Martlew: I think, Chairman, we should put it on the record that we did invite the Mayor to come and he was unavailable. I think it is unfortunate because obviously the panel we have got before us are very reticent to go on about future policy, whereas I am sure Boris would not have had that constraint! Looking at the technology which is being used, if you were starting again would you be using GPS? Would you look at a totally new technology?
Ms Dix: If we were starting right now we would probably think about using tag and beacon technology. Certainly we did a lot of trials of different technologies in London and their suitability for application in London. This is since the original scheme was introduced. All these trials were done sort of 2005, 2006, to understand whether the technologies which were being advocated by others would work in London. We were concerned whether or not if we had GPS technology the number of satellite readings, the accuracy of picking people up on a particular road would work in particularly Central London where we have got a lot of high buildings. So some early trials did not convince us that it was ready for a link by link charging system. We looked at tag and beacon, which was to read vehicles as they came in the zone or different locations in the zone in order to automate the scheme more and the results of those trials were much more compelling.

Q290 Mr Martlew: The Committee visited the Netherlands and obviously we had deep discussions about their scheme and they are going for the GPS scheme. One of their objectives, the main objective, is to reduce congestion. I accept they do not have such a number of high buildings, but I think it was Mr Ranger who said billing people out. Surely that is the way forward, sooner or later, whether we get Galileo or whatever? The technology you have got now is rapidly becoming out of date, is it not?

Ms Dix: We can use the camera technology which exists now to introduce the billing system which Kulveer is talking about. If we want to introduce accounts we can use the camera system we have got available. If we want to introduce more flexibility in the system we would have to move to a new technology such as tag and beacon. If we want to get to a distance based charging scheme, whether or not you would want to invest all that technology just for the Central London area and all tracked by time of day when in fact congestion in fact exists all day long, it might be inappropriate to have a complicated piece of technology if you have got a simple problem. If there was ever a need to look beyond Central London and have a wider distance based charging scheme, then you would need to improve the technology, but if you want accounts right now you do not necessarily need to change the technology.

Q291 Mr Martlew: My final question: do you think the sort of Congestion Charge around a city like we have got in London and like they have not got in Manchester has had its day? After the referendum in Manchester, do you think that if we go forward it is going to be a national charging scheme?
Ms Dix: I think the referendum in Manchester and also the recent vote in London about the western extension, the vote in Edinburgh and the online petition on charging which we had point to the fact that the acceptability argument is not being won and the rationale for introducing these schemes has not convinced people necessarily that they are the right way forward. So if we had a national scheme would that make a difference? It would only make a difference if you were introducing it and taking something else away.
Mr Ranger: Could I add to that? Going back to some of my original comments, I think we have to look at schemes and how their benefits then get eroded and whether people still see a value in them. I think public transport in London is exceptional in terms of the amount of choice and it makes it unique in terms of why the Congestion Charge was applied to Central London. So in different areas of the United Kingdom it would be difficult because of the uniqueness of London as an area. We have to take into account over the oncoming 10, 20 years and further—I think some of you may have seen the Mayor's document *Way to Go*, which is looking to present an initial vision for discussion and how we see transport in London. That is looking at some of the major infrastructure we are looking to deliver, such as the line upgrades on the Underground, Crossrail, the cycling revolution bike hire schemes and maintaining and improving the bus network there already is. All of those, plus just the construction periods for those and projects like Thameslink, will have a huge bearing on how we see traffic and congestion in Central London. So we are trying to understand the impact of all those schemes in their periods of delivery as well as in their periods of operation, and then where does congestion sit and how do we deal with it through that period of time. That is some of the work which we are looking to do through the development of the new Mayor's transport strategy in conjunction with revisions to the London Plan.

Q292 Mr Clelland: I am just a bit concerned that Nick Lester seems to be having quite an easy time! What doe the London boroughs think of the Congestion Charge? How would they like to see it developed or what changes would they like to see?
Mr Lester: I think there is a number of views on the Congestion Charge scheme varying from borough to borough. Clearly the boroughs of West London had strong views on the western extension, which they expressed at the time. At the occasion of introduction of the scheme in 2003 the majority of boroughs were supportive. Again, some of the boroughs had problems in detail. I think all of the boroughs are convinced about the need to improve issues such as fairness, which Kulveer Ranger mentioned, the way in which the scheme operates more efficiently for all sorts of reasons and to make the maximum benefit for the opportunities it releases for managing traffic more effectively.

Q293 Mr Clelland: Are any of the boroughs perhaps thinking about having their own congestion measures because presumably the congestion problem in Central London can also be a problem in some of the boroughs themselves? Have they any plans to introduce congestion charges or other measures to reduce congestion in their own areas?
Mr Lester: There is a variety of ways in which people are looking at measures to reduce congestion. There have been some discussions and some thoughts about specific charges in one or two places. Greenwich has been mentioned, Heathrow Airport has been mentioned. None of those have got to the stage of a formal decision to go forward as yet and I know that the authorities in those places, with TFL, are looking carefully at all of the options to see what is most acceptable and most effective to deal with particular traffic problems in those areas. I know that one of the issues which was raised in the context of the Low Emission Zone is the restriction which existed in the legislation, for perfectly good reasons, of having only one charging authority on any one stretch of road. The existence of the Low Emission Zone means that TFL is the charging authority for every road or almost every road in London and so of necessity any borough which had a proposal to introduce congestion charging in any area would need to work very closely with TFL to have a scheme which was acceptable both locally and London-wide.

Q294 Mr Clelland: Give the measurement of opinion on the western extension and given the referendum in Manchester, do you think that any future proposals for congestion charging would have to be accompanied by a referendum or some measure of public opinion?
Mr Lester: I would have thought it was impossible to introduce any form of charging scheme without having a very clear view of public opinion, and indeed that was the case in 2000 when at the first

mayoral election for London Mayor Livingstone stood on a clear platform of introducing a congestion charge. He chose not to have a referendum but presumably (although I am putting words into his mouth, which I am very hesitant indeed in doing) he could have advanced the argument that the Election which elected him meant that a referendum was not necessary.
Ms Dix: The public opinion vote at that time was very positive as well, particularly because of the hypothecation.

Q295 Mr Clelland: Is your perception that public opinion continues to support the current Congestion Charge?
Ms Dix: The Central London congestion charging scheme has support; it was the western extension which was in question.

Q296 Mr Clelland: So in his quest for fairness, if the Mayor of London decided to have a referendum on whether he should continue with the Congestion Charge in Central London, you are confident he would win it?
Ms Dix: No, because I think referenda do not necessarily attract the same sorts of views as if you undertook a consultation.

Q297 Chairman: What about the views of business towards the Congestion Charge? How would you assess those?
Ms Dix: Business was very, very supportive of the original scheme. Businesses were very much behind the original scheme, wanted it and were supportive of it. Businesses were concerned about the western extension in the first instance, big business as well as small business, but with the western extension, when it went it and it worked, big business was more neutral on it in terms of the effects it had, but small businesses were concerned and remain concerned because they felt more directly affected.

Q298 Chairman: We have been told that as far as vans and HGVs are concerned, in terms of deliveries, the time saving is very insignificant and therefore is not of much value to them. Has that been reflected in what you have heard?
Ms Dix: There were time savings for deliveries. One of the opponents of the original congestion charging scheme was the *Evening Standard* and it was one of the first ones to say that it actually saved time following the Congestion Charge with its deliveries. So time savings were gained. Some of the bigger winners were some of the financial services businesses because people getting to and from meetings, et cetera, were saving time. I suppose the biggest winners were those who do not pay (i.e. they had the benefits of the Congestion Charge, they did not pay) and those were public transport users and bus users in the main, but small businesses have felt the impacts of the Charge and small businesses continue to lobby about the impacts of the Charge.
Mr Ranger: I think we have to bear in mind that 95% of people who come into Central London come on public transport or walking and cycling, so there was a small number who were being affected by the Central Zone. I think the western extension was very, very different in terms of the makeup of the people there, the types of businesses which were being affected and the residential population as well. Businesses still, I think, engage and see the Central London Zone as a positive effect.

Q299 Ms Smith: I just want to challenge a statement, Mr Ranger, you made when you said that London is unique in terms of its transport and road networks. Can you explain why you think that is the case?
Mr Ranger: In terms of the number of options people have for public transport, the capacity of public transport, the infrastructure which currently is in place and also the investment that is going into that infrastructure. So by implementing a charge people still have a variety of options and choices about how they can travel if they are not going to take their vehicle, whereas the majority of the rest of the UK I would say would probably not have that level and capacity of public transport which London has.
Ms Dix: Could I just add to that? I think in many ways it is Central London which is unique.
Mr Ranger: Yes, Central London.
Ms Dix: 90% of users are public transport users and it is also unique in the fact that congestion is all day congestion. It does not have a morning peak and an evening peak like a lot of areas, it is all day congestion. So it has different challenges and different options perhaps, rather than being entirely unique.

Q300 Ms Smith: And outer London might have challenges which are more similar to other places outside of London?
Ms Dix: Yes, absolutely.

Q301 Ms Smith: I think you have made the points I would have made. You also said, Mr Ranger, the ultimate question may be, as you go through your work, where does congestion sit. That was what you said. Does this mean in fact that there may come a point where you would actually want to review the operation of the Congestion Charge in Central London? Is this the long-term aim of the current review of the Congestion Charge?
Mr Ranger: No, we are not looking to review the Charge itself in terms of whether it should be there. I think we are looking to see how other policies sit around it so that they are not competing with it and they are not eroding the benefits you are getting for paying your £8 to travel in the Congestion Charge area. I think the man in the street or the person in his car would start to feel it inappropriate if they are having to pay for something which does not provide the benefit that they thought they would get.

Q302 Ms Smith: What kinds of benefits do you think you may be able to provide to the Congestion Charge user?
Mr Ranger: I think that is where if the number of vehicles actually coming into Central London is lower or decreasing then obviously the element of

flow in traffic should be either decreasing or stay the same, not increasing, and that is what we would be looking at as a measure. On top of that, we do bear in mind that there is going to be an immense level of activity in terms of construction regardless of what happens around roadworks that will happen in terms of Crossrail and the line upgrade for Thameslink and Olympic deliverables as well, so we will have to bear those in mind when we look at what happens with traffic flow.

Q303 Graham Stringer: Have there been any areas, which I would expect to be just immediately outside the Congestion Charge Zone, which have suffered increased pollution or increased congestion?
Ms Dix: It was a big concern before the scheme went in. People thought all that would happen would be that traffic would divert outside the Congestion Charge Zone into the areas immediately around it. None of the monitoring has picked that up. Quite a lot of the diversion of trips actually took place with people moving from car to public transport, to cycling or walking, and if there was any diversion of traffic which was otherwise going through the middle of the Zone some of that was actually captured on the Inner Ring Road, whereby we did adjust the signals around the Inner Ring Road so that it could take more traffic around because less traffic was crossing to go in. So we were able to do that without actually affecting congestion on the Inner Ring Road, in fact that got better, and some of the longer distance traffic we could not spot. It might have gone to the M25 or somewhere, but you could not actually pick it up on the monitoring. So the answer to your question is, no.

Q304 Graham Stringer: Just to go back to the original point, is it six years this February this scheme started?
Ms Dix: Yes.

Q305 Graham Stringer: So in round terms we have taken £1.5 billion out of people's pockets over that period for a scheme whose objective was to reduce congestion and congestion is the same. Does that mean that the project has been a failure in its own terms?
Ms Dix: I would say for three of those years congestion was reduced. It was only in the latter part of 2006 that we saw this more marked erosion of congestion. I would also say that since a large part of that was attributable to these utility works, which would have happened anyway because everybody wants the gas mains and the water mains fixed, then what one would need to compare is what life would look like with the congestion charging scheme versus life without the congestion charging scheme.

Q306 Graham Stringer: Which you can never do, can you?
Ms Dix: Yes. The difficulty is the person in the street is not going to make that comparison. We have done that comparison theoretically. If you took away the congestion charging scheme, congestion would be far worse than it is observed today, so I say there have been benefits for the Central London congestion scheme. There have been benefits in terms of reduced CO_2, there have been benefits in terms of reduced air quality emissions, and those were all positive up until about 2006. So if you looked at it over the six years, yes, there has been a net improvement. It is just that we have started to see an erosion if you simply compare life now with life as it was, but if you compare life now with what life could be like now without the scheme there is still a benefit.
Mr Ranger: I agree that we do have to live in the real world, though, and we see a world, as Michele says, where roadworks do happen. We have to take into account construction and I find it quite difficult to understand that previously competitive policies were not taking into account the effect they would have on traffic and the benefits of the Congestion Charge. So in terms of our administration, we are very focused on looking at policies, looking to be balanced and working with each other complementary to the benefits of the Congestion Charge, hence the emphasis on smoothing traffic flow and everything we can do around that.

Q307 Chairman: Have you had any instructions from the new Mayor to change the way policies are put forward, such as having more coordination on roadworks? Have you been given any different instructions?
Mr Ranger: Yes, the instructions are very clear. We will provide copies of this document for all Members of the Committee, but the Mayor has been very clear. He is a road user himself, he uses his bicycle everywhere he goes, so he, much like every Londoner, feels the experience of roadworks, of traffic light re-phasing or better implementation of street technology, the erosion of road space, and so he wants to see coordinated policies on these areas which are considerate to the impact on each other and the overall flow of traffic.

Q308 Chairman: How much of the money which is raised from the Penalty Charge Notices goes back to improving the conditions, improving delivery facilities and improving kerbside facilities?
Mr Ranger: I could not give you the exact figures but I am sure we can provide those for you.

Q309 Chairman: Is there a policy to do it?
Mr Ranger: There is a policy to look at the reinvestment of the Penalty Charge because, as I think Michele mentioned, there is a statutory obligation that that money goes back into providing transport benefits.

Q310 Chairman: But not specifically in that area?
Mr Ranger: On the road surface, is this?

Q311 Chairman: Yes, money from the Penalty Charge Notices. Is there a policy to put revenue from that into conditions which would alleviate the problem of people being able to park?

Ms Dix: Absolutely, in the sense that all the policies on which the money is spent from congestion charging, for which there are net revenues, go on improving transport in London. Other PCNs that we issue for offences outside the Congestion Charge do not generate net revenues, they cover the cost of the enforcement. In Congestion Charging, revenues include PCNs and revenues, which come from the Charge, are all put into this pot called "Net Revenues" and that has to be spent on a series of measures which were listed as part of the original Congestion Charging Order. Some of that is on improvements to roads, some is on improvements to bridges, some of that has been spent on improvements to developing freight strategies to help businesses.

Q312 Chairman: So it is a general pot?
Ms Dix: It is a general pot, but we have to list each year where that money has been spent. As Kulveer said, 82% of it or so tends to go on bus improvements.

Q313 Mr Martlew: Mr Ranger, you worry me somewhat, your enthusiasm! I am aware of the issue about the re-phasing of the traffic lights. That was to give pedestrians more time. I just get the impression that the motor car is going to be given more precedence under the new administration than the pedestrian. I suppose it could be argued that the pedestrianisation of Trafalgar Square held up the traffic, but it is a massive improvement for London and I understand that the plans for Parliament Square have been abandoned. Have we got a new situation where the motor car is being given precedence again over the people who walk and live in London—apart from cyclists, of course?
Mr Ranger: I would like to put your mind and the minds of the rest of the Committee at ease. We are not pro the motor car. There is no sort of policy here that says we want people to drive more. There is a policy which says we do not want London to come to a grinding halt. We want to be as efficient as possible with the road space that we have because it is not just cars that use it, there are buses, cyclists and everybody else who uses that environment and really we want to at least mitigate the impact of a lot of things that are happening over the next four, five, 10 years which will impact on our ability to get people to move through our city. I am quite concerned about the level of diversions and the level of construction and the impact on all the work that is happening on the Underground, the construction of Crossrail, the construction of Thameslink and the construction for the Olympics. It is an unprecedented time in terms of the level of works which are happening in our city and I and the Mayor are quite keen that we make sure that London continues to move and be able to move through that period of time. The way to do that will be to look at what we can do to mitigate how road space is being used and we see that we need to improve the flow. So if that means that people can move a bit quicker –

Q314 Mr Martlew: Across the crossings?
Mr Ranger: No, in fact the re-phasing of traffic lights is without any impact to pedestrians. That is the key there. We are not looking to have a significant impact on pedestrian crossing time. In fact, we are also lobbying and have had discussions with the Secretary of State for Transport and DfT on bringing in countdown signalling, which provides more certainty in terms of—I do not know if the Committee has heard of this—where you see a number as it goes down in terms of how much time you have. It is currently considered to be a blackout period which provides uncertainty, "Should I cross or should I not cross?" But the countdown system has been used in a number of cities, including San Francisco and across California. It is successful and actually can improve safety by 25% where it has been implemented. So there are schemes such as that which we are looking at, as well as turning left on red lights. We need to look at providing policy solutions which can provide space on our road network, but then we look to use that space as mitigation for diversions, for moving people onto bicycles, for improving the urban environment. That is where schemes such as Shared Space, maybe not Parliament Square, but definitely Exhibition Road—I do not know if the Committee is aware of that particular scheme, where you would look to have more people sharing the actual road surface, pedestrians, cyclists, buses and car users. Those are the kinds of ambitions we have. That scheme and Shared Space itself can also provide lower travelling speeds in 25 miles an hour zones. So there are many things coming through. As I say, the key to all of these ambitions and these policies is to ensure that they are complementary and not competing with each other in eroding the benefits they may provide.

Q315 Ms Smith: I just want to explore some of the reasons why the Congestion Charge has not worked perhaps as effectively in the last two years. The only thing I can think of is that perhaps there are more vehicles on the road than has been the case before. What is the reason if that is not the case?
Ms Dix: The primary reason is because the capacity of the road network has reduced. The number of vehicles on the road now is no different from the number of vehicles on the road two years ago. So traffic levels, the number of vehicles on the road, are still lower than they were before congestion charging. They are lower by 20%. So the Congestion Charge has stopped 20% of traffic coming into the zone.

Q316 Ms Smith: That has remained constant?
Ms Dix: That has remained constant. If we had not changed the road network on which those vehicles run—not necessarily us changing it, but if things had not been done to the road network to reduce the amount of road space which is available for those vehicles, we would still see the congestion benefits. So if the capacity or the road space that is available was unchanged, we would still see a 30% reduction in congestion. But what has happened is that every time someone goes along and digs up a road and

provides a sort of blockage and perhaps takes one lane out, that reduces the amount of road space available. So the cars that are there, even though there are fewer of them, go slower. Every time someone builds a building and takes the pavement and a bit of road space away, again that takes some of the capacity out. So a lot of that has been going on, particularly in the last two years, but on top of that, as Kulveer says, policies have been introduced whereby we have perhaps taken some road space away without really realising the full impact of it on the network because it has been done in this piecemeal fashion and it is the additive effect of lots of that. So what we are saying is that traffic levels are still low, but the amount of road space available for them to use in Central London has shrunk, probably by about 10%, and that is why congestion has gone up.

Q317 Ms Smith: You have used that phrase "taking road space away". Who has taken it away? It seems to me you are hinting that there is a number of authorities doing that.
Ms Dix: There is a number of people responsible.

Q318 Ms Smith: Is it the boroughs that are responsible in some cases because of planning decisions, is it Transport for London where it has put bus lanes in? Can you perhaps just list the three main examples which add up to this 10%?
Ms Dix: The utility companies for one, so Thames Water and the gas companies who have to do essential works because they are renewing the mains. They are not doing it for fun, they are having to dig up the roads, but in digging up the roads they take road space away and even though it is not for ever (i.e. they fill them back up again) the effect of that is on the network.

Q319 Chairman: I think it might be helpful if you could send us a note telling us the different areas in which this has happened, who has been responsible and how you estimate the impact on congestion levels.
Ms Dix: I would be happy to do so.

Q320 Chairman: Could you tell us what benefits the Low Emission Zone has brought?
Ms Dix: The Low Emission Zone has brought so far a 2% reduction in some of the air quality pollutants which are given out and in terms of the heavy diesel engine vehicles which come into Central London over 95% of them are compliant with the Euro III standard. So of the vehicles which are coming in and are subject to the Low Emission Zone scheme the majority are compliant and as a result of that—and it has only been operating a year—there is a 2% reduction in some of those vehicle emissions, so it is taking us towards the EU objectives which the scheme was set to address.

Q321 Chairman: Finally, how much money is currently being lost because foreign registered vehicles are not paying UK charges like the Congestion Charge?
Mr Lester: Overall in London we estimate that for parking and similar charges between 8 and £12 million a year is lost from foreign registered vehicles. Congestion charging is a similar amount and if you turn that into the economic effect, not just the financial effect, you can double that again, so overall it may be as much as £50 million a year in economic disbenefits because effectively foreign registered vehicles are immune from enforcement on congestion charging, parking and traffic regulation.
Chairman: Thank you very much for coming and answering our questions. It was very helpful.

Witnesses: **Councillor Shona Johnstone**, Regeneration Transport Board, Local Government Association, **Mr Jason Gooding**, Project Manager, Nottingham City Council, and **Councillor John Walsh OBE**, Leader of the Conservative Group, Bolton Metropolitan Borough Council, gave evidence.

Q322 Chairman: Would the witnesses like to introduce themselves, please, with their names and the organisation they are representing?
Mr Gooding: I am Jason Gooding and I am Project Manager at Nottingham City Council.
Cllr Johnstone: I am Shona Johnstone and I am a Conservative Member of the Local Government Association's Regeneration and Transport Board and I come from Cambridgeshire.
Cllr Walsh: I am John Walsh, the Leader of the Conservative Group on Bolton Council and a Member of the Association of Greater Manchester Authorities' Scrutiny Committee on Transport.

Q323 Chairman: Thank you. The written evidence we have got from the LGA seems fairly enthusiastic about congestion charging. Do you still have the same views after the Manchester result?
Cllr Johnstone: I think the view of the LGA is that congestion charging may be appropriate in individual areas. Congestion is not a national programme, but it is a local problem in local areas and it may be suitable for those areas subject to full consultation with local residents.

Q324 Chairman: Which local authorities do you think are likely to want to take that forward now?
Cllr Johnstone: There is a number of local authorities which are still part of the TIF programme, Cambridgeshire being one of them. Other authorities include Bristol and, I believe, Reading and a number of authorities are still expressing an interest in ways of addressing congestion in their areas.

Q325 Chairman: What about Cambridge?

Cllr Johnstone: In Cambridge we had a public consultation in 2007. The results were published in 2008 and showed quite a mixed picture, that 60% of the population in Cambridgeshire opposed congestion charging but 60% supported congestion charging if public transport measures were in place ahead of it, so it is a mixed picture. I would say that the public—and I suspect this applies nationally—support investment in public transport but oppose paying additional taxes. So the Cambridgeshire Cabinet decided last summer to set up a transport commission, which is chaired by Sir Brian Briscoe, to look in more detail and take evidence from those in favour and those opposed to the TIF scheme in Cambridgeshire. That is just starting to take evidence now. There is a consultation which closes in March and a number of questions which are being posed by the Commission and they will carry out their work during the remainder of 2009 and I would anticipate that they would report back to the Cambridgeshire County Council Cabinet in 2010.

Q326 Chairman: What is Government saying to you now in relation to transport innovation funding?
Cllr Johnstone: The Government is still supporting local authorities who wish to continue with TIF.

Q327 Chairman: So it is not saying anything different?
Cllr Johnstone: Not as far as I am aware.

Q328 Chairman: Councillor Walsh, what is happening in Manchester now?
Cllr Walsh: The position in Manchester is that the Association of governmental authorities has abandoned the TIF proposals as such and resolved at its last meeting in December that each of the 10 authorities ought to go away and produce its own authority list of schemes for future capital programmes. One of the perceived injustices of the TIF proposal is that it had a marginal benefit for a number of boroughs on the fringe of the metropolitan area, Wigan and Bolton to the north and the west in particular. It brought together a number of projects which had previously been floated to be funded by mainstream funding, the Metrolink extension, a number of the rail/bus station improvements, and also a perception that the former Secretary of State in her announcement in July 2007 about additional rail capacity had effectively said that the heavy rail element would be a national programme. The perception was that it was an unfair imposition on Greater Manchester that it would then continue to fund the TIF proposals. The other element of that and the other side of the equation is that one must look at the total proposed package of £2.8 billion, of which £1.2 billion was to come from the Congestion Charge. Within that £2.8 billion programme there was something over £600 million as a contingency sum, there was something over £330 million, or thereabouts, for the charging equipment, which was almost a billion pounds of the £1.2 billion that congestion charging was going to raise.

Q329 Chairman: Yes, but this is about the TIF bid, is it not?
Cllr Walsh: The point I make is that if you disaggregate and look at the TIF bid –

Q330 Chairman: No, Councillor Walsh, I am not asking you about the TIF bid. I want to know what is happening now.
Cllr Walsh: What I am saying is that the TIF programme of £1.6 billion of hard expenditure, just over, is now to be reviewed by each of the authorities to look at where that is to be picked up by the regional funding allocation and other mainstream funds.

Q331 Chairman: Do you get the impression that Government is sympathetic to the bid?
Cllr Walsh: There has been a great silence on that matter. I have written personally to the Secretary of State and not had a response in the last four and a half weeks. Other members have asked questions of ministers and we have not had a reply, so it is silent at the present time.

Q332 Ms Smith: I want to ask Mr Gooding why Nottingham has chosen to pursue the workplace parking levies rather than a Congestion Charge?
Mr Gooding: The Council has been pursuing a workplace parking levy now since 2000 when the legislation came into place. Really in Nottingham what we have had to weigh up is that there were obviously two choices, the road user charging, which London at the time pursued, and a workplace parking levy, which Nottingham looked at. We spent a lot of the early years really trying to work out and develop a scheme that would be specific to Nottingham, looking at Nottingham's situation. What was Nottingham's congestion problem? Mainly commuter traffic during peak periods. So that really helped to understand the congestion problem. If it was through traffic then obviously we would have moved more towards road user charging at the time. So we looked at workplace parking and we have developed then proposals over the subsequent years. We have actually developed now a business case which we took out to public consultation, explaining that the purpose of the workplace parking levy was to tackle the growth in congestion. So we are looking at Nottingham's picture. We are looking ahead and we are forecasting that there is going to be increased investment in housing and businesses in Nottingham and we are seeing that therefore there will an increased demand to travel. We believe that with it being dominantly commuter traffic during the peak period a workplace parking levy would be better suited for Nottingham in tackling that greater congestion. There is a real significant difference, though, between road user charging and a workplace parking levy. The workplace parking levy is a much smaller demand management tool. It is far more likely to have a less high direct impact on congestion. It has a far higher indirect impact. To explain that, the charge of a levy is relatively small. What happens is that that charge does not actually reduce a lot of congestion but the

revenue which comes from the scheme actually provides for public transport infrastructure improvement, which will have a far higher impact on congestion. With the road user charging scheme what you will see is they normally charge on a daily basis individuals who are travelling in an area, so basically they capture all the people who are using cars in that area. With that they can have a far higher impact on congestion, without a doubt. It also generates a far higher stream of revenue and therefore can generate far higher investment in public transport. The problem you have with that is that, as you see in Manchester and as you see in Edinburgh, it comes with a far higher risk and also with a far higher cost. A lot more cost is required for the road user charging scheme, the infrastructure arrangements. It will normally cover a far larger geographical area than just one council area, therefore it brings complications. With Nottingham and the workplace parking levy it is far more targeted. The workplace parking levy is basically about targeting and charging commuters. If commuters are your problem, if you are looking at smaller areas, then it is normally low-cost, less risk, normally easy to put in and with that also easier to take out should something else more favourable come up in the future. So when we have been looking at the levy there were things about a national charging scheme at the time as well.
Chairman: I think you have explained what it is you were doing, yes.

Q333 Ms Smith: Presumably, though, it would entail also quite severe new measures about parking outside the workplace because that is traditionally what happens?
Mr Gooding: Yes.

Q334 Ms Smith: When the NHS charges its staff to park on site what happens is that all the cars park outside the sites and create mayhem on the road network in any case, so there is a risk here that congestion could increase in a sense in terms of road space with this, so you must have thought about addressing that?
Mr Gooding: Yes. What we have done in terms of our scheme is we are actually preparing, before the introduction of the scheme, to look at traffic management measures because the levy targets an employer who provides a liable workplace parking levy space. If an employer then decides to reduce its parking or decides to charge for its parking there is a chance that employees will not be able to park on site and will go and park on the street. With that we are investing up front funding to ensure that we are prepared, so we are really looking at hot spots where we believe employers may pass on the charge or there may already be existing commuter problems. So we are virtually looking at things like residents' parking schemes, but you also look at more simple measures such as limited waiting schemes and other traffic management. So by putting investment in there it means that we are preparing for that. We are also using an element of the revenue stream from the levy to actually fund residents' parking schemes under the traffic management measures during the first three years because although it potentially could happen, it may not necessarily.

Q335 Mr Leech: You have half answered the question I was going to ask actually about residents' parking schemes where obviously there will be a knock-on effect of cars trying to park on residential streets. You say they are going to be funded for three years, so I am assuming that the funding stream from the workplace parking levy is going to continue, so why do you not consider giving residents' parking schemes for free to residents past the three years?
Mr Gooding: What we say is that after three years we will do a review of all the other demands on the revenue stream, so we are also funding travel planning, parking management and residents' parking schemes and traffic management measures. After three years what we will be looking at in the review is whether there is still the demand to have that revenue stream put into residents' parking schemes, whether it is still associated to the workplace parking levy and that there is an increase in the demand for residents' parking schemes, because if it is not then maybe residents' parking schemes should be funded from other revenue sources such as the local transport plan, as they are already. Basically what you would look is if the levy is still having a direct impact. After three years you would expect that any impact the levy has had will have been in the first three years, therefore any instances of displaced parking should be addressed in the first three years. If after a three year review we still decided that there needed to be funding stream, then we would allocate further funding.

Q336 Mr Leech: Have you had any discussions with businesses in Nottingham about the potential for them relocating to other areas to avoid those charges?
Mr Gooding: Yes. That is one of the common themes. There is no getting away from the fact that the levy is applied to a business, so therefore businesses are going to be affected. There has been quite extensive public consultation undertaken with businesses and they have voiced concerns like that, that they will pick up and move out of the city, that they will reduce investment in the city. I do not know how far you would like me to go on this.

Q337 Chairman: Can you keep to short answers, please, because we have got a lot to get through.
Mr Gooding: I will try to. Basically, there is a lot of cost to businesses and congestion is a big cost to business in Nottingham. The workplace parking levy—we have done studies looking at what a levy will mean to the businesses that will be liable to pay in Nottingham and it represents less than 1% of their turnover for 90% of businesses that will be liable for the levy.

Q338 Ms Smith: Do the businesses themselves accept that work that has been done or are they sceptical about your study? Has there been any

assessment of whether or not it will discourage new businesses from coming to Nottingham and choosing to go somewhere else instead?
Mr Gooding: In the scheme one of the things we have done is in terms of businesses we have actually put in a 100% discount within our scheme because the Government does not stipulate a lot of discounts in the scheme. One of our discounts is that any business with 10 or less liable spaces will receive a 100% discount. That removes 85% of businesses from having to pay a levy in Nottingham, so we have already tried to lessen the impact. That actually leaves around 500 businesses being liable –

Q339 Chairman: Is that right? You are saying you are going forward with this scheme and 85% of businesses will not be paying it, so you are talking about 15%, is that right?
Mr Gooding: That is right. The 85% of businesses only accounts for 20% of liable spaces. It is almost like 80:20. By reducing the admin and the cost to 85% of businesses we have only reduced the liable spaces by 20%. Therefore, 20% of businesses in Nottingham actually account for 80% of the liable spaces. The work that is going on on the scheme does say that you should look at trying to lessen the burden on smaller businesses.

Q340 Sir Peter Soulsby: Like a number of other cities—and it is true to some extent in the Manchester area—Nottingham has very tightly drawn boundaries and it just strikes me that this is a Nottingham City Council initiative?
Mr Gooding: Yes.

Q341 Sir Peter Soulsby: To what extent have you got cooperation with other local authorities which are part of the Greater Nottingham area?
Mr Gooding: In terms of the workplace parking levy, Nottingham's local transport plan is actually a Greater Nottingham local transport plan, so it is actually done in conjunction with the County Council. So the policies in there are integrated over the plan there. However, Nottingham City Council is only pursuing a workplace parking levy, not the County Council.

Q342 Sir Peter Soulsby: Is that not a potential weakness in the scheme, in that certainly part of the core urban area is outside the City Council's jurisdiction?
Mr Gooding: We only have the powers to put it in within our own administrative area, but if we look at the public transport improvements we are making for Nottingham City Council, it will be far wider spread than just within the City Council. There is the extension to the tram system, there is the bus link networks and the improvements to the station. Really the majority of them are actually in the City Council area, although the benefits are wider spread because the commuters actually come from the County Council area but a lot of the congestion impacts are actually within the City Council. The commuters actually impact on the City Council area, though they may reside in the County Council area.

Q343 Graham Stringer: I am not clear from your answers. The businesses which are expected to pay this car parking levy, what is their attitude? How many of them are in favour and how many of them are against?
Mr Gooding: With the public consultation we undertook overall we did a lot of direct mailings and lots of communications to try and get businesses to participate in the public consultation. Of the 3,500 businesses which would be liable for a levy, 3,000 of them would not have to actually pay anything, they would just have the licence. During the public consultation exercise over 12 weeks 100 businesses responded to that and of those 83 objected and the rest were neutral and four were in support. In terms of actual issues and consultation only 83 businesses actually took the time to object during the consultation period.

Q344 Graham Stringer: That in round terms is 83% of those who replied, who would pay?
Mr Gooding: Yes.

Q345 Graham Stringer: That is a pretty severe level of objection, is it not?
Mr Gooding: I suppose it would be unprecedented really to expect them to come out in direct support, but you could also argue the fact that there are 3,500 businesses and only 100 took the time to respond. I suppose it depends on how you look at the results.

Q346 Graham Stringer: It does depend on how you look at the results and I can understand why those businesses who would not pay did not respond. I can understand why 83% of the businesses who did respond, who are going to pay, would be against it. How is Nottingham City Council evaluating that work? Is it taking the fact that most businesses are neutral because they are not going to pay as support for the scheme? Is the Council taking the line you seem to be taking?
Mr Gooding: Can you just repeat the question?

Q347 Graham Stringer: You have done a consultation exercise. What is the threshold that has to be passed when you write a report to the Council to say, "We consulted the people affected by this and it is a green light because 83% of them are against it"? What is the threshold you have to get to?
Mr Gooding: Firstly, the public consultation is not a referendum. It was not to say that if the decision came back as "Yes" we were going to do it.

Q348 Graham Stringer: I understand the difference between public consultation and a referendum. Yu have gone out and spent a great deal of money consulting. What I want to know is, do you have criteria in Nottingham for what would be support for the scheme and what would be opposition so that you would not go ahead, or are you just going through the motions?

Mr Gooding: In terms of the consultation, we looked at the consultation response that came in. We then themed and sub-themed, so we basically looked at what the issues were being raised in the representation –

Q349 Chairman: I think what Mr Stringer is asking you is how will you decide what to do as a result of that consultation? What would be there to constitute approval in your mind, or are you just going through the motion of having the consultation?
Mr Gooding: In terms of the motions, we are going through the public consultation motion, which is a mandatory requirement that we undertake that. By going through the consultation we then identified the issues people raised. By identifying the issues, the Council then put forward its response to those issues.

Q350 Chairman: How will you assess the balance on those issues?
Mr Gooding: Those issues were taken to the Council's Executive Board to consider them alongside things like a public examination, which was a five day examination of all the issues raised by the responses, including the public as well as businesses. That was done by an independent examiner, who also took forward a report and it all went through to the Council's Executive Board so that they can make an informed decision looking at the issues raised, looking at the Council's response and an independent examiner's views. They took the decision in principle to proceed with the levy.

Q351 Graham Stringer: Can I ask Councillor Walsh, what lessons have you learnt about public attitudes to congestion charging and road user taxes during the consultation and referendum in Greater Manchester?
Cllr Walsh: I think the biggest single lesson is that the public saw it as being unfair, that there was a perception, a very clear perception by the majority of those who voted that a small number were being asked to pay a disproportionate sum. It was interesting that in fact many large businesses were also opposed to the imposition of the Congestion Charge, fearing it would impact badly on their employees, many of whom were amongst the lower paid members of the community and that is very interesting. It is interesting, as I have described earlier, that the sums involved were at the margins. If you take away the contingency fund, if you take away the cost of the charging equipment, the net sum raised from the Congestion Charge was about £200 million in a project which was valued at £2.8 million and the quantum, therefore, was perceived to be minimal in terms of benefits accruing. The other message which people were giving very clearly when one spoke to them and in the response one had is that it was perceived to be inequitable that projects which were funded by mainstream funding in other parts of the country were being imposed upon Greater Manchester only if they paid a Congestion Charge and that it was "blackmail", which was a word that was often used.

Q352 Graham Stringer: Was there any difference between the attitudes of the general public and businesses? Were businesses more or less hostile than the general public?
Cllr Walsh: There were those members of the business community who were in support of the Congestion Charge. The majority in my perception were opposed to it, but it was interesting in doing private polling and in talking to individuals—and I did quite a lot on the streets, talking to people with petitions and other measures—there was a strength of feeling that I have never previously witnessed from members of all political parties across all sections of the community; it was not confined to any one group, and this was in the boroughs, not just in the city of Manchester but in the boroughs surround it.

Q353 Graham Stringer: What do you think the lessons in public policy are for local authorities and the Government out of the referenda exercise in Greater Manchester?
Cllr Walsh: I think the biggest single lesson is that a politic of taxation, of higher taxation, is never popular and to take that as an option to the public creates, I think, a very clear message that the answer is, no to higher taxation.

Q354 Ms Smith: Mr Gooding again. I am clearly not picking on you, but I am interested in this levy. You talked about consultation with businesses. Does the term "businesses" in the remit of this scheme include the universities? Are the universities classed as businesses for the purpose of this scheme?
Mr Gooding: To the best of my knowledge, yes. The university is liable.

Q355 Ms Smith: Pretty major employers in Nottingham?
Mr Gooding: Yes. They would be because there were several different categories in terms of the consultation and they could have gone in –

Q356 Ms Smith: They would be just one of the 20% that would be included in this scheme?
Mr Gooding: Yes.

Q357 Ms Smith: Would the same apply to the NHS?
Mr Gooding: The NHS is different because the NHS actually receives 100% discount under the Nottingham scheme. So that means that although they would have the licence they would not be liable to pay the charge.

Q358 Ms Smith: Would the same apply to the City Council?
Mr Gooding: No, it would not.

Q359 Ms Smith: So the Council would be liable to pay?
Mr Gooding: All public sector organisations are liable. I was telling you of the discounts. In terms of the Nottingham scheme there are several discounts. There is a 100% discount for the emergency services,

Fire and Police, NHS front-line premises, and there is a 100% discount for businesses with 10 or less spaces and disabled spaces.

Q360 Ms Smith: Do you know whether the NHS in Nottingham actually does charge for parking at the moment?
Mr Gooding: It does, yes. At its key sites it already has a permit system in place. It is tiered over the salary ranges and types of users, so there are public and private users who pay the charge.

Q361 Ms Smith: If it is already charging its staff, why would it be absent from this levy? It is not always an emergency service, is it? For many people it is a visit to the hospital to see a patient, or they work in a non-emergency sector of the hospital?
Mr Gooding: Yes, it could be administration staff, for instance. The Nottingham scheme actually feels it is in line with Government policy to look at providing an NHS discount, so it has looked at their draft guidance that was available in developing the scheme and feels that is in line with Government policy to look at emergency services and NHS premises and to provide a discount. It also considered things like educational sites, but decided not to pursue that.

Q362 Ms Smith: So education sites would pay?
Mr Gooding: Education sites will pay, yes.

Q363 Graham Stringer: Was the City Council and its depots and departments part of the 17% support for the scheme? You said 83% were against it.
Mr Gooding: No, the City Council did not respond on the consultation in terms of that, although some of its employees could have.

Q364 Sir Peter Soulsby: Could I return to the Manchester experience and just ask Councillor Walsh, you referred a number of times to the way in which the proposal was being perceived and I would like to explore with you whether it was a matter of perception and the way in which it was sold that was the problem or whether there are fundamental lessons about what was on offer that needed to be learnt if the scheme was to be made acceptable.
Cllr Walsh: I think they were probably very perceptive. I think it was actually what was on offer that was the key to all of this. I described earlier that the elements of it covered a number of areas which had previously been and would in other parts of the country have been mainstream funded—additional rail carriages and rolling stock, announced in 2007, in July, by the then Secretary of State nationally. "Why should Greater Manchester have to pay a Congestion Charge to get additional rolling stock?" was a question which was regularly asked. Rail stations—there was a couple of major improvements to rail stations, one in my own borough of Bolton. A bus interchange link to the rail station has been in the programme and was approved for construction in the 2012–14 period, perhaps brought forward by 15, 18 months had the Congestion Charge been implemented. The perception was, "If that is going to happen, why should we have the Congestion Charge?" So it was almost the case that these are mainstream projects which ought to have been, and initially had been, approved for implementation and why therefore impose a Congestion Charge? I think with that argument it was interesting that the neutral stance adopted by the Greater Manchester Transport Authority and AGMA to try to put that message across failed singularly to convince the public that this Congestion Charge would improve and speed up the implementation of these projects.

Q365 Sir Peter Soulsby: Do you think with different benefits on offer it might have been acceptable?
Cllr Walsh: I think the fact is the quantum was woefully inadequate for the pain that would be borne. It would have needed a much larger project or series of projects, it would have needed a much higher incentive and I think the scale involved was *de minimis* in terms of the actual pain which would have been borne and I think some of the other fears referred to by previous witnesses, though because there were two charging zones proposed for Greater Manchester, an outer and inner, were changing almost by the week because as one community objected the boundaries seemed to change to reflect objections. So there was uncertainty even up to the time of the referendum, or the poll, as to which boundaries would be implemented, but the worry was that you would actually get at a number of points huge car parks created, particularly if the Metrolink was improved, if the cross-city transport links were to be improved on the scale indicated, and there were real fears by residents in those areas on the major arterial roads into the city.

Q366 Sir Peter Soulsby: Do you think the experience of Manchester suggests that a referendum could never be won in any circumstances, or do you think it is just a matter of getting enough in there to make it attractive? I am not suggesting the evidence from Greater Manchester –
Cllr Walsh: I do not believe that a local poll—and it is not a referendum because it is not binding under the Local Government Act—would ever vote for higher taxation.

Q367 Chairman: You think whatever the benefits it would not happen?
Cllr Walsh: I think whatever the benefits the public take the view, and very strongly expressed the view, that they pay Vehicle Excise Duty, they pay the road fund tax, all the taxes they pay, and that therefore to have an additional imposition is inequitable.

Q368 Chairman: So you are saying that in your view the public will never vote for an extra charge even if the benefits are greater?
Cllr Walsh: No, I cannot see on the scale of Greater Manchester—it may well be in other parts of the country one may come up with a more relative scheme, but my perception of the Greater Manchester model is that a poll on that scale with the measures proposed would never produce a "Yes"

vote, and I think even in Manchester, which was superficially the greatest beneficiary, a poll of 28 to 72 –

Q369 Chairman: I think that verdict is clear from what we have heard! Finally, I would like to ask you, what impact did the high fuel prices in 2007 and 2008 have on traffic levels in your areas? Councillor Johnstone, can you tell us anything?
Cllr Johnstone: I think it is important to remember that I am representing the Local Government Association and I am from Cambridge, but what I would say is that there was evidence that people were starting to make a switch away from their cars onto public transport, but the volatility of fuel prices over the last 18 months makes it very difficult to use fuel prices to influence travel behaviour. It is clear that travel behaviour was influenced last year, but there would have to be consistency in fuel prices. The other point I would make is that high fuel prices, which we have seen in the past with the fuel duty escalator, actually can impact in a very negative way on rural areas where there is not access and will never be access to really high quality public transport. So I think if the Government were to use fuel prices to try to influence travel choice and travel behaviour they would need to think very carefully about the impact upon the rural communities as well as the impact on congested urban areas.
Cllr Walsh: I have some figures actually which are quite interesting. The forecast for the reduction of traffic into Manchester for peak periods with the Congestion Charge was around 12%. That was within the TIF submission. I think it was the RAC Foundation, though I stand to be corrected on that, which produced some figures before the poll took place which showed that as a result of higher fuel charges and the economic downturn around October/November last year the reduction had been 15%, but if you say to a motorist travelling into Manchester, "Has there been a reduction of traffic?" I suspect he would say, "No, there has not." So although the forecast was a 12% reduction, the current reduction is around 15% because of those factors and the public still believe that there is congestion, so therefore it laughs in the face of the benefits of the Congestion Charge.

Q370 Chairman: Is there any evidence of the impact of the recent fall in fuel prices?
Cllr Walsh: I can only quote the figures that I was given. I think it was the RAC Foundation which published these figures just before the poll was implemented last year.

Q371 Chairman: Councillor Johnstone, have you any information on that?
Cllr Johnstone: I have no recent information on the impact of the fall in prices, but it would not be unreasonable to suspect that people may go back to using their cars. Having said that, the impact of the recession and job losses may well again force more people back onto public transport, so I think there is a lot of work to be done to look at quite what the impact is and why people make the travel choices they do at a particular time.

Q372 Graham Stringer: One supplementary, Councillor Walsh, on this particular issue. We were on the same side in the referendum, but I would be interested in your views. You mentioned in your previous answer that this was not a referendum in actual fact, it was a poll under the Local Government Act and therefore there were different rules and participants had less rights then they would have done under a formal referendum. Do you think that if there are to be these kinds of large referenda, polls, the Government should change the rules, change the law so that there is a clear basis for a referendum in that?
Cllr Walsh: I do not believe—and, as you say, you were closely involved in the polling and the opposition to the implementation—the public have within their own minds a clear thought that this is only a poll and therefore for guidance, as opposed to a referendum, and therefore enforceable. The view was, "We don't want congestion charging and we will vote against it." I do not believe we would have seen a greater different result had it been the one rather than the other.

Q373 Sir Peter Soulsby: Could I very briefly return to Mr Gooding? It may be something I just missed, either already said or in the evidence we already had, but I just wondered if you could remind us, if we have already heard it, how much Nottingham were expecting to raise from the workplace parking levying? I am not sure we had that.
Mr Gooding: The charge actually starts at £185 per year and it rises up over the first five years to £364 per year per liable parking space. It expects to collect in the region of £6 million, rising to £12 million per year.
Chairman: Thank you very much for coming and for answering our questions.

Witnesses: **Mr Graham Dalton**, Chief Executive, and **Ms Ginny Clarke**, Director of Network Services, Highways Agency, gave evidence.

Q374 Chairman: Good afternoon and could I ask you to identify yourselves for our records, please?
Mr Dalton: I am Graham Dalton. I am Chief Executive of the Highways Agency.
Ms Clarke: I am Ginny Clarke and I am the Director of Network Services for the Highways Agency.

Q375 Chairman: Thank you. The Government is still investigating road user charging. What role does the Highways Agency play in that?
Mr Dalton: I think our role is to support the Department and we have been working with the Department for Transport, really looking at the

details of how the network is operating and what may need to be done on the network to support a system working, so really a support role on technical matters primarily.

Q376 Chairman: What sorts of technical matters have you been dealing with?
Mr Dalton: The layout of roads and junctions, the different sorts of schemes there may be, so if there was segregation of traffic, how would you lay out junctions, so looking at things like the weaving of traffic and movement of traffic.

Q377 Chairman: Have you done a great deal of work on this?
Mr Dalton: We have done some work over the last six months or so. I would not say it is a huge amount. It was an important work stream last summer for a while.

Q378 Chairman: Is this specifically related to road user charging, or is this general work?
Mr Dalton: The Department was looking at the feasibility of charging for tolled lanes in the context of the managed motorways schemes that we have been working up as a wider scheme and hard shoulder running.

Q379 Chairman: Has the option of charging drivers only on the motorways and trunk roads been considered?
Mr Dalton: The work we have done for the Department has only been about the motorways.

Q380 Chairman: Not on the trunk roads?
Mr Dalton: The Department may have done more, but we have been talking about motorways.

Q381 Chairman: What would you say are the technical issues which will need to be resolved in relation to road user charging?
Mr Dalton: I think the main things we were looking at, while we were looking at it, were particularly about traffic flow and traffic movement and where a charge lane would be and how traffic would move into it and move out of it, the location of signing, particularly in relation to junctions and spacing to junctions.
Ms Clarke: Those were the limits of our areas of involvement to do with the technical aspects of how you would move traffic in and out of the lane, and this was really a follow on from our work on how traffic moves in and out of lanes, whether it is hard shoulder running or high occupancy vehicle lanes.

Q382 Chairman: Have the technical problems been resolved, or which ones are still outstanding?
Ms Clarke: Yes. We would understand what the difficulties would be and if the scheme was then taken forward you would then have to look at those again in the context of the scheme.

Q383 Chairman: What are the difficulties you identified?
Ms Clarke: They are related to actually depending on where you do it, so effectively we understand the difficulties associated with traffic moving in and out of lanes and the issue to be resolved is in which location are the particular volumes of traffic, and that is location specific, so the issue then becomes where you apply it. It is a particular problem.

Q384 Chairman: Do you think the technical problems could be solved?
Ms Clarke: The issues we were looking at, yes, we would expect those to be solvable. If they were not, then how would you manage the traffic to make it solvable? I think that was the issue that would be resolved.

Q385 Chairman: How did this actually operate? Did the Government ask you to look at specific areas and then report back to them?
Ms Clarke: No, we did not look at anything further than that. It was really that basic work about what I would term the road safety aspects of it.

Q386 Chairman: So are you saying you do not see any problems that cannot be resolved from a technical point of view?
Ms Clarke: These are technical problems only about the roads, the traffic moving in and out of lanes. We did not get involved with the charging mechanisms, that aspect of technical things. We were not involved with that work.

Q387 Chairman: So you have not looked at anything related to charging mechanisms?
Ms Clarke: No.

Q388 Chairman: Nothing at all?
Ms Clarke: No, not at the moment.

Q389 Chairman: Have you been asked to?
Ms Clarke: No, this was work done by the Department, not by us.

Q390 Chairman: Have you done any work on the attitude of the public and business towards different types of road user charging schemes?
Mr Dalton: No, we have not.
Ms Clarke: No, not the Highways Agency.

Q391 Chairman: Do you look at the impact of road user charging schemes abroad? Do you have any knowledge of those? Is it within your remit?
Mr Dalton: Not specifically. We do have some quite strong ties with European agencies, particularly like Rijkswaterstaat, and the Belgian authorities and the Flemish authorities, with the work we have been doing there and that has been a lot about traffic management and not about road user charging as such. There have been Highways Agency officials on visits to the United States to see a high occupancy lane in operation just to understand how they do operate and that has been a fact finding trip only.

Q392 Chairman: What would you say you have learnt from those fact finding trips?

Mr Dalton: It has been supporting, as Ginny was describing to you earlier, how you actually get traffic moving in and out of lanes and the differences which maybe the physical set up in the States would have to the UK, where in many cases they have got more space and can actually have a physical separation between lanes.

Q393 Chairman: Did you find anything that helped to solve problems here, or was it just getting more information?
Ms Clarke: I think the differences in our types of freeways, the American systems compared with the English, were sufficient for us to understand how it might be solved, but the detail was still very different, whether it is about left-hand movement or right-hand movement, widths of lanes. Those things are very different, so yes. What we gained was an understanding of how you could make it work, but it did not answer all the issues we would have in road safety terms because of the differences of our roads really.

Q394 Graham Stringer: Have you looked at GPS Systems?
Mr Dalton: We have not as the Highways Agency, no.

Q395 Graham Stringer: When the Government were in favour of road user charging schemes were you involved in discussions with Government about how that would work?
Ms Clarke: Our involvement really was that we were asked to look at the feasibility of how any system could be fixed on the roadside, so our involvement was, for instance, if there was going to be a system that needed gantries for supporting equipment. So we were asked to look at the provision of gantries. So that aligns with very much our normal business, the provision of gantries, but we were not involved in any of the technology development.

Q396 Graham Stringer: Did you come across any technical difficulties which you advised the Government it would be difficult to do, or impossible, or easy to do?
Ms Clarke: I think the issue is because they were in quite a narrow band, they were to do with gantries, and the provision of gantries was not a difficulty, that was a possibility because we would be using gantries for other purposes. In that sense, yes, the things we were being asked about were things we could do because they aligned with facilities we would have been putting on the network anyhow.

Q397 Graham Stringer: So there are no fundamental difficulties?
Ms Clarke: Not if that system was used, which is the roadside system.

Q398 Chairman: What was the impact of the high fuel prices last year on traffic on motorways and on trunk roads?
Mr Dalton: On traffic volume, it is very hard for us to determine the rate of any direct attributable impact. The quarterly statistics shows there was a very small reduction of the order of 1% in traffic volumes on the motorways and very fractionally more on the trunk roads in the second quarter of last year and a little bit more in the third quarter, but whether that was due to fuel prices, the economy or whether it was due to the fact that it was a very wet summer and fewer people were taking day trips—there was a lot of other variables at play, so we did not see a big change in traffic volumes.

Q399 Graham Stringer: Is this done by counting vehicles passing a point or is it by measuring delays in journey times?
Mr Dalton: No, those numbers are based on a number of automatic traffic count installations.

Q400 Chairman: So in relation to congestion are you saying there was no impact?
Mr Dalton: I am saying that whilst the numbers are showing there was a very small, of the order of 1%, reduction in traffic volume. It is not clear that that was attributable directly to fuel prices or something else. In terms of traffic journey time reliability, which is the bit we do measure, we have been showing a steady improvement in journey time reliability and consistently for over 12 months and more, and that is still improving. Again, whilst that might be due to fuel prices, it might be due to lower numbers and we have also been investing quite a bit of capital in easing congestion at pinch points on the network to make traffic flow better and we certainly believe that quite a lot of the improvement in journey time reliability is as a result of those investments.

Q401 Chairman: What about the level of accidents? Was there any change there at that time?
Mr Dalton: I do not think we count accidents as such, do we?
Ms Clarke: No. Generally the statistics have shown a continued decline in killed and serious injury, which is the measurement which probably best reflects that, so there has been a general decline in that over the years and that was continued, but there was nothing out of the ordinary in the rate, so the trend was as it had been in the previous year.

Q402 Ms Smith: Does the Treasury consult with the Highways Agency when it is proposing increases in fuel duty taxation, fuel taxation in effect, in terms of its likely impact on traffic levels and congestion?
Mr Dalton: Not to my knowledge, but I have only been in the post for seven months.
Ms Clarke: No, not that I am aware of.

Q403 Ms Smith: What would be the most effective taxation measure, in your view, to reduce congestion?
Mr Dalton: I do not think I am really in a position to answer.

Q404 Ms Smith: Based on your expertise. You obviously have a lot of knowledge and years of experience in dealing with highways issues, motorways, trunk roads, and so on?
Mr Dalton: In terms of the most effective taxation, we run a strategic road network and there would be questions of how much of a network one were to apply any taxation or charge to and if you are talking about a charge that is specific to a journey then you would have to look at how it affected strategic roads that we deal with as opposed to local roads and whether there is any shift. If it were blanket charging, again it would vary by different users, different categories of users. Now, on the strategic roads at the busiest times, our morning and evening peaks, the national transport statistics show the sort of breakdown between commuter travel, business travel, school travel—which I do not think very much is on our network. So for a charge to be effective on attacking congestion on our roads, which is not necessarily the same as on local roads, then you would have to identify which group it was going to apply to. It may well be something that affects commuters it either forces, a reduction in commuter numbers or which shifts that peak, and a shift in the peak would be quite effective.

Q405 Ms Smith: A shift in the peak would be quite effective?
Mr Dalton: Yes.

Q406 Ms Smith: Can you explain that a little bit more?
Mr Dalton: Effectively something that convinces people that it is worth adjusting journey time and there is behaviour that shows people tend to time their journeys, within reason, to try and avoid the worst conjestion. So they might go in a bit later or a bit earlier and it is conceivable that a charging regime which allowed them to take benefit of, say, a lower charge at a lower peak time that might affect behaviours and just take the top off the peak. That would be quite effective in reducing congestion while still keeping the roads full and running at capacity.

Q407 Chairman: Are you assuming there will be a road pricing scheme at some stage in your own planning?
Mr Dalton: No, we are not.

Q408 Graham Stringer: Are you assuming a tolling scheme?
Mr Dalton: No.

Q409 Chairman: So all the work you are doing assumes no tolling, no road user charging of any sort?
Mr Dalton: That is right. We are not making any assumption or presumption that any form of charging regime will be in place.

Q410 Chairman: Have you been told to act in that way or is it just your idea?
Mr Dalton: Well, as the Secretary of State said on 15 January, "The Department for Transport is not pursuing a national road user charging scheme," or a road user charging scheme on the motorways. The Department was considering it as part of the investment programme which the Secretary of State announced on 15 January, but in deciding to go ahead he decided not to pursue legislation for charging in that, so we will progress the schemes without a charging scheme.

Q411 Chairman: Do you think that the managed motorway scheme and active traffic management could be an alternative to road pricing?
Mr Dalton: Can active traffic management be an alternative? You are almost saying—we are proceeding with –

Q412 Chairman: Is it going to deal with traffic congestion?
Mr Dalton: Yes.

Q413 Chairman: Without the need for any kind of road charging policy?
Mr Dalton: Yes, because it is effectively providing 20 to 25% additional capacity on a three lane piece of motorway, turning it into a four lane, and trials on the M42 have demonstrated that that makes the journey time much more reliable. So whilst everyone is moving at a steady speed does not make the quick journeys any quicker, the slowest journeys are a lot quicker than they had been.

Q414 Chairman: Does that mean you have done the calculations on that?
Mr Dalton: No, we actually measured it on the M42 where the pilot scheme has run.

Q415 Chairman: So you feel confident that traffic management schemes and the managed motorway scheme will deal with the problems of congestion?
Mr Dalton: For the foreseeable future, yes.

Q416 Chairman: And how long is that?
Mr Dalton: That depends on what continuing traffic growth may or may not be.

Q417 Chairman: What are you assuming?
Mr Dalton: I do not know what we take –
Ms Clarke: On the M42, when we were looking at that, we were looking at the 1 or 2% increase each year. I think if it was any greater we would assume that we would have to put in or with the local authorities talk about the things which might need to happen, which is the area-wide traffic management, so not just us managing traffic on our roads but actually the traffic coming to the motorway and leaving the motorway. So we effectively protect those benefits of the active traffic management. You would seek to also extend that traffic management out into the wider network. So that was part of one of the things we were looking at and has been mentioned in the Secretary of State's statement last month.

28 January 2009 Mr Graham Dalton and Ms Ginny Clarke

Q418 Graham Stringer: Does having a private company on the M6 toll road taking its tolls affect how you operate in any way?
Mr Dalton: There are protocols in the concession agreement which stipulate that we do not run the two as an integrated piece of road and we will put notification up that the M6 toll is clear when it is clear to give drivers that information.

Q419 Graham Stringer: That was really the question I was coming to. Why do you do that? When I am driving down I do not want to know that the M6 toll is clear, because it is basically always clear. What I want to know is that the M6 between junctions 8 and 12 is clear and then I do not have to pay. Why do you not tell me that? Why do you direct me towards somebody whose business is taxing me?
Mr Dalton: We are fairly constrained in the concession agreement which was clearly signed some years ago on what we can put out.

Q420 Graham Stringer: So you cannot tell me, even though you pay a fortune for those signs, that the junction between junctions 12 and 8 is clear?
Ms Clarke: We can do, actually. We provide information about our route through the variable message signs, it is just that the level of information we provide on our route, that information is a choice about what the M6 toll provide. So we sign our route and certainly give you that information, hopefully in advance of you getting to that section so you have the option.

Q421 Graham Stringer: But nearly all the signs say the M6 toll road is free, there is no congestion?
Ms Clarke: They do, but we also have signs which explain the condition on our road as well. They are both there in fact. So if you are coming up the M42 from south of there you will see warnings about our road, about the condition on our road. Some of it might be journey time availability information, the journey time to the next junction. So those are the variable message signs.

Q422 Graham Stringer: But specifically on the M6 travelling south—I do not want to labour this point too much, but it is interesting—you rarely put that information on it. It is nearly always "M6 toll road is free." So what I am not sure is, are you contractually obliged to put that information out at the expense of not being able to put out information about the M6 between junctions 12 and 8?
Mr Dalton: No.
Ms Clarke: No.

Q423 Graham Stringer: If you are not contractually obliged, will you do it, because I do not want to know the M6 toll is free? You can bet on it being free.
Mr Dalton: I do not know what time you travel, but I think the experience is regularly that the M6, even when it is flowing reasonably, is a slower journey and more congested through traffic volume going down the parallel route. That would not normally merit us putting up that it is congested or that there are delays on it and it is the tipping point that we put anywhere. We do not put delays up until there are significant delays on this route.

Q424 Chairman: Does the Treasury consult the Highways Agency about the fuel taxing process?
Mr Dalton: No.

Q425 Chairman: Not at all?
Mr Dalton: No.

Q426 Chairman: Do you have any views on what taxes would help to reduce congestion?
Mr Dalton: Similar to the question earlier. Not really. As I was saying, a tax or charge which shifted demand and spread demand a bit more evenly is the one which would be most effective because we would be making better utilisation of the road.

Q427 Chairman: What would that be?
Mr Dalton: I do not have a view on what that would be.

Q428 Ms Smith: I just want to ask if you have made any measurements of the different impacts of different kinds of uses of the Highways Agency network, in other words what kind of negative impact does freight traffic have on the network in terms of congestion and the cost of maintaining and repairing the network?
Mr Dalton: In terms of the question of congestion, I think it is quite sensitive as to the areas of the network. On a general three lane motorway a freight flow is part of the traffic mix. We do get problems where there are gradients and steep gradients which slow down the freight movements and where you get two lane pieces, particularly at motorways and two lane dual carriageways where overtaking freight trucks can slow down vehicles behind and on those, for example on the A14, we have been trialling overtaking bans on there.

Q429 Ms Smith: Or the A628 perhaps! That has got a real freight problem.
Mr Dalton: Yes. It is not a policy and, as you can imagine, they are not always popular with the freight operators because effectively if there is a slow moving truck then others are stuck behind it.

Q430 Ms Smith: What view would the Highways Agency have on a proposed shift of freight from road to rail? How would the Highways Agency view that? Would it have a view?
Mr Dalton: I think the first question one would ask is, how big a shift would that be, because it would have to be a very substantial shift to rail for it to have a noticeable impact upon road. Rail is carrying a pretty small percentage of freight now and if it was enough coming off the road for it to be a noticeable reduction of freight on road, I think rail would be running –

Q431 Ms Smith: But in certain parts of the network you said there were pinch points, so it could have a real impact in some areas and actually quite sensitive areas as well?
Mr Dalton: Yes, on routes such as the A14, so Felixstowe across to the West Midlands, there have been rail schemes to take the high containers across and that can only be a good thing as far as the road user is concerned.

Q432 Ms Smith: Yes, and in sensitive areas like the Peak District?
Mr Dalton: If it took noticeable flows off, yes. It would depend what the rail offering was.

Q433 Chairman: If there was not any form of road user charging, you have already said that you think the traffic management programmes we have got will deal with congestion, is that right?
Mr Dalton: Introducing hard shoulder running in traffic management, a managed motorway, which is about having an additional lane available, and controlling speed and having traffic all moving at a uniform speed or bringing the speed down from 70 to 50, for example, gives much better compliance to the speed limit, it gives a much more uniform speed and we find we are able to take a greater volume of traffic going through then. So that effectively is giving us additional capacity.

Q434 Chairman: What would the implications be for the road building programme if we did not have any form of road user charging? Would we need to build more roads?
Mr Dalton: The emphasis is now on the whole not building more roads or new routes. It is tending to be about improvement of what we have got. Now, by switching to active traffic management and hard shoulder running we are in effect budget constrained over this Spending Review period –

Q435 Chairman: No, I am not asking you about that, I am asking about you now thinking ahead and not constrained by budgets. If there is no road user charging, with the forecast for traffic that you already have does that mean we would actually need more roads? I am not asking you if you have got the funds available.
Mr Dalton: Are you talking about the impact for road building?

Q436 Chairman: That is right, yes.
Mr Dalton: For a given amount of money, by using the hard shoulder running we are therefore doing more parts of that motorway network than we would otherwise do.

Q437 Chairman: Yes, but what would the need be? I want you now to have a vision and guess that you have got a budget and told what you have to work with. I am saying that if the traffic projections are as you have got them now and there is no road user charging, does that mean we would actually need more roads than you might be able to provide?
Mr Dalton: I think the reality of the world—sorry, this appears like a lack of vision, but the reality of the world we live in is that we have one large transport system and certainly I do not feel that we have the competition between rail and road, or indeed any other specific mode. Each is trying to do its part. So we are doing—and even with unconstrained funds I think we would still be doing—schemes to look at alternative journey choices, alternative modes as developments come forward.

Q438 Chairman: But would we need more roads?
Mr Dalton: I think we will need improvements to the roads we have got and without a form of allocated charging there will be no disincentive to travel in that sense.

Q439 Chairman: Therefore, do we need more roads?
Mr Dalton: It is a politician's decision really on whether to meet the demand and to put in road capacity for unconstrained demand. I think it is unlikely that that would help.

Q440 Chairman: You think it is unlikely we would need more roads?
Mr Dalton: No, I think it is unlikely the decision would be taken to meet unlimited demand.

Q441 Chairman: Yes, but I am asking you to just think ahead a bit and the projections you have got, assume no road user charging, and the rest of the system stays as it is. Would that mean there would be a need for more roads?
Mr Dalton: Are you just talking of my network or the country as a whole?

Q442 Chairman: No, the things you are responsible for.
Mr Dalton: As Ginny Clarke was saying, with active traffic management and four lane running and more capacity on motorways, then actually the pressure is going to be on the local road network, so it is not our network that is particularly going to need it.

Q443 Chairman: So it would be a problem for the local road network, not for the road charge?
Mr Dalton: Yes. I mean, there will be questions about whether you can get onto the network then. All purpose trunk roads are a different animal. Some of them are not quite heavily used anyway. Some of them are in quite urban areas, so they are different to the question.

Q444 Sir Peter Soulsby: I actually feel quite sorry for you because you can neither advocate building more roads to meet the demand, nor can you advocate managing the demand by pricing people off those roads. You talked earlier about the foreseeable future and being able to squeeze more effectively on the existing strategic network for the foreseeable future. Is it not actually the case that that foreseeable future is actually quite a limited period of time and there has to come a time when either there is a massive extension in road building or the demand is managed by price?

Mr Dalton: To manage growth the demand probably has to be managed. We are doing and will continue to do a lot of other things from simple things like trying to work with the local authorities, the local networks, on integrating with the local network. We are doing things with developers because development increases hot spot pressures on the network, for example just north of Cambridge where a business park development up there is potentially putting huge demand on local parts of the A14, almost turning it into a local road around Cambridge, and that is where we are working with developers, very closely with developers. So as part of this development actually the only credible answer and the sustainable answer is to put in alternative transport modes as well.

Q445 Sir Peter Soulsby: Yes. As I say, I do feel very sorry for you because you are actually faced with having to squeeze more down an existing network in effect, but I think it is the case, is it not, that ultimately your political masters will have to make a decision either to provide a massive extension in road building or to manage demand through some form of road pricing?
Mr Dalton: I think they will have to make the decision on whether to provide more capacity or to manage demand, and I will not go into what that solution might be!
Chairman: I will not ask you!

Q446 Sir Peter Soulsby: I think that is ultimately the strategic decision which will have to be made by Government?
Mr Dalton: It is credible.
Sir Peter Soulsby: I just make the observation.
Chairman: Thank you very much for coming and answering the questions.

Wednesday 11 February 2009

Members present

Mrs Louise Ellman, in the Chair

Mr David Clelland	Ms Angela C Smith
Mr Philip Hollobone	Graham Stringer
Mr John Leech	Sir Peter Soulsby
Mr Eric Martlew	Sammy Wilson
Mark Pritchard	

Witnesses: **Mr Ferry Smith**, Public Affairs Manager, The Royal Dutch Touring Club (ANWB); and **Mr Thomas Fabian**, Senior Manager, Transport Policy, Federation of German Industries.

Chairman: Good afternoon, gentlemen, and welcome to our meeting today. Could I ask Members if they have any interests they want to declare.
Mr Martlew: Member of GNB and Unite unions.
Mr Clelland: Member of Unite.
Sir Peter Soulsby: Member of Unite.
Graham Stringer: Member of Unite.
Ms Smith: Member of Unite.

Q447 Chairman: Louise Ellman, member of Unite. I would like to welcome both of our witnesses here this afternoon. Before we proceed further could I ask you to identify yourselves for our records, giving your name and organisation.
Mr Fabian: Thank you very much. My name is Thomas Fabian and I work for the German Federation of Industries as Senior Manager, Transport Policy.
Mr Smith: My name is Ferry Smith and I work with the Royal Dutch Touring Organisation ABWB and I am Manager of the Public Affairs Department.

Q448 Chairman: Thank you. I am very pleased that you have both been able to come here this afternoon. I think you have met a number of us before and that is when we visited The Hague and Hanover and you made excellent presentations to us, and we felt it would be helpful for all our Committee to hear from you again, and for us to have the opportunity of asking you a little more, so we thank you for coming and for the excellent presentations to us when we came to see you. Could you start off by telling us something about the main transport taxes and charges that car users have to pay in both the Netherlands and Germany so that we can have a better informed background about the nature of the charges and taxes on car users.
Mr Fabian: First of all, thank you very much for the invitation. It is a great pleasure and honour to be here. The charges and taxes on road users in Germany, we do have a fuel tax and we do have a vehicle tax on private cars as well as on trucks and freight. For heavy goods vehicles only—and heavy means something like 12 tonnes and above—we have a truck tolling scheme on the autobahn network, which is the federal highway network.

Q449 Chairman: Mr Smith?
Mr Smith: In the Netherlands we have a fuel tax as well and we have a purchase tax, which is about 45.2% of the car price where you buy it as new, and we have an annual circulation tax, which varies as to the weight of the car and sort of fuel that is used.

Q450 Chairman: Is that 45.2%?
Mr Smith: 45.2%. This is decreasing because in preparation for the introduction of price per kilometre we are decreasing the purchase tax and increasing slightly the annual circulation tax because it is more easy to convert that system to a price per kilometre when we want to.

Q451 Chairman: Are there any other taxes or charges from the municipality, any local taxes?
Mr Smith: Well, to be honest, there is a tax which is within the annual circulation tax per province and it varies per province. It is a small amount but it is charged through the circulation tax. We have our parking fees, which is a form of tax as well, so that is an income for cities mainly.
Mr Fabian: We do have parking fees as well of course in the municipalities. There is an insurance tax on car insurances. I am not quite sure about the amount at the moment but it is something like 8% I think.

Q452 Mr Hollobone: I am very intrigued by the 45% purchase tax on cars. Forgive my ignorance, but why would anyone want to buy a car in the Netherlands? Why would they not buy it in Belgium or Germany and drive it over the border?
Mr Smith: Whenever you register a car in the Netherlands there is a Dutch registration form and you have to pay the tax, so it does not matter if you buy it in Belgium or Germany or whenever, when you get your registration you have to pay.

Q453 Chairman: What are your views on the European Union regulations that govern road pricing schemes, particularly in relation to the Eurovignette? Do you have any particular views on the regulations?
Mr Fabian: On the current proposal in the European Parliament?

Q454 Chairman: Yes, on the current regulations or the proposals, if you want to extend it to that in relation to charging schemes.

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Mr Fabian: The German truck tolling system is in accordance with the Eurovignette Directive, and one thing that is very important from our point of view is the issue of inter-operability of course. We need to have a free-flowing system which is guaranteed by the working system on the autobahn network. Since we have a lot of transit traffic on the roads this is a very important issue.

Q455 Chairman: Mr Smith, do you have any comments that you would like to make?
Mr Smith: It is more or less the same situation in the Netherlands. The Eurovignette will disappear when introducing the road pricing scheme because the plans are now that we will make equal both heavy goods vehicles and private vehicles and change the tax regulations into the price per kilometre scheme.

Q456 Mr Leech: A lot of HGV drivers in this country feel that they get unfair competition from Europe. Do German HGV drivers or Dutch HGV drivers feel that they get a hard deal?
Mr Smith: Sorry?

Q457 Mr Leech: In comparison to other HGV drivers from other parts of Europe, do your drivers in your countries feel that they get a bad deal?
Mr Smith: When I speak for the Netherlands I do not think there is at this moment, not on the point of taxation. What we see is that some transporters are moving to low income countries and they are going to schedule their business over there because they have cheaper workforces over there, but it has nothing to do with the tax on the truck or paying for use of the truck.

Q458 Mr Leech: You say that some companies are moving abroad. Has there been any political backlash from that in the Netherlands?
Mr Smith: No.

Q459 Mr Martlew: Mr Fabian, when we were in Germany the toll for all the HGVs was the same whether you were Polish or German or from the UK, but can you explain the sort of pay-back system that the German hauliers got, because they got some money back, did they not, so how does that work?
Mr Fabian: The pay-back system goes back to the introduction of the toll and with the introduction, because we have pretty high fuel taxes, for example, and high wages as well, so the haulage businesses said, and the government agreed, that there are particular competitive disadvantages for the German road haulage industry. First of all, I have to say that the haulage industry itself is not organised in the BDI so I cannot speak for the haulage businesses, but I will try to explain how the system works. It was agreed that the harmonisation differences between other countries and the German road businesses amounted to €600 million[1]. That was a political consensus and it was agreed that there should be ways to compensate the German road haulage industry, and that is done at the moment via the reduction of the vehicle taxes for heavy goods vehicles which have been reduced to the European minimum level. There is one more thing. There is an innovation programme which has a sum of €450 million, and that is available for the German haulage industries and gives incentives to buy heavy goods vehicles that are particularly environmentally friendly, which are not yet standard. Due to European regulations of course, this support can only last up to a certain date. I think Euro 5 vehicles are required from October this year, so the financial support for businesses to invest in those vehicles was limited in time.
Mr Martlew: Thank you very much.

Q460 Mr Clelland: Mr Smith, I think all of us were intrigued when we listened to your presentation in the Netherlands about the proposals for a national price per kilometre charging scheme. Perhaps you could remind the Committee why an organisation likes yours, which is a motorist organisation, is supporting such a scheme?
Mr Smith: We support the general idea, the principle of the system in which motorists pay per use. Our members, which are about four million motorists in the Netherlands, feel that it is an honest way of paying for your mobility. Another argument to support the idea of the scheme is that we are not going to pay any extra in the Netherlands; we are only dividing the existing taxes in another way. We will abolish the circulation tax and the registration tax and that amount of money is divided over the kilometres driven yearly. A third argument is that for the Dutch situation we calculated that everyone driving less than 16,000 to 18,000 kilometres a year is better off than he is now in the system. There are strong arguments for our members to look seriously to the proposals being prepared by our government, and working with them together, to try to work it out in a way that is accepted. Of course, there are also some other societal aspects on this scheme because we want to decrease pollution and we want to decrease traffic jams. But, to be honest, if you go over with those arguments to the car driver, he is not impressed by it, because he feels those problems are a societal problem not a personal problem, so it is very

[1] Further details from Witness: In 2003 the Federal Government and the Bundesländer agreed on a harmonisation of 600 Mio. Euro annually, which should be implemented with the introduction of the truck tolling system (Lkw-Maut) and that should benefit German hauliers. The harmonisation has been implemented stepwise and comprises:
— a reduction of vehicle tax for heavy goods vehicles (HGV) to the EU-minimum (total sum: 150 Mio. Euro).
— a "Innovationprogram" to support investment in environmentally friendly HGV (limited in time until 30.09.2008): total sum 100 Mio. Euro.
— de-minimis-support for hauliers for road haulage businesses. After the phase-out of the "Innovationsprogram" the de-minimis-support has a total sum of 450 Mio. Euro annually.

important that we convince our government that if we do so that there should be some kind of benefit and the benefit, as I told you, is more or less an argument in itself to convince car drivers.

Q461 Mr Clelland: You say your members are in support of this. Have you conducted a poll of your members? What was the percentage of members in favour?
Mr Smith: It becomes a little bit complicated, but we had a poll of our members and, at this moment, 30% are in favour of the scheme presented and 70% are against it, or have doubts about it. We know, however, because the poll was done in two phases, in the second phase we gave some in-depth details of the scheme and some arguments, and when we did so, and we did it in three stages, we saw that the percentage turned around. If you do it very thoroughly and very well and give them good information, then people decide in favour of the system, but it is all is based on the fact that of course the devil is in the detail, when the system is worked out that it is as solid as we want it to be. We have defined 11 criteria and we have made those criteria very transparent to our government and to our members and if the system does not fulfil those criteria we do not have any agreement on it.

Q462 Mr Clelland: Are you confident that this scheme will go ahead?
Mr Smith: Just yesterday I met our Minister of Transport and my confidence grows by the day.

Q463 Mr Clelland: How confident are you that the technology behind this scheme will work?
Mr Smith: Well, that is of course a challenge for the industry. I have the impression that they can provide suitable technology for this system, but of course we will only know that in time. Just a couple of weeks ago the performance criteria for the system were delivered by our government, so in the next couple of months we will have to see if the industry succeeds in defining an affordable system.

Q464 Mr Clelland: Because this is a system which has to work on every road in the country, it has to work in all conditions, in the sense of cities with high buildings that may block signals. Will your drivers have confidence in its accuracy and its reliability?
Mr Smith: I think that the confidence in technology is great, but we have to combine this with good information. I have seen systems that even in very hard conditions do work, so it is possible.

Q465 Mr Clelland: These are systems which have been experimented with in Holland, have they? Where did you see these systems?
Mr Smith: They were presented to us in Holland. They were developed in Canada and in Israel. Those are the different systems which I have seen which do perform in very difficult situations.

Q466 Sammy Wilson: Just on this one, you had mentioned that in the initial estimates you have done so far that a large number of motorists will be better off under this scheme which is proposed as opposed to what exists at present. The cynic might say well of course you would devise a pricing structure which would make it attractive initially, but what guarantees do you put into the pricing for the future to ensure that motorists are not disadvantaged once the scheme is in place and then charges of course go up? Has there been any thought as to how the pricing scheme would be regulated to ensure that you do not get a loss leader at the start, but once people are hooked on the system then you can charge whatever you want?
Mr Smith: What we suggested is some kind of customer council, as I think you call it in England, which has an advisory role in introducing new fees and deciding the per kilometre rate. I think that one of the ways that we want to avoid that unbalanced growth in burdens for motorists is we say that it is very important for us that all the fixed taxes disappear so we have only one tax left, and the income from the price per kilometre is earmarked for infrastructure. We can do that because the total income of circulation tax and a registration tax at this moment is about 6.2 to 6.8 billion a year, and it is more or less the same amount of money which is spent on infrastructure.

Q467 Sir Peter Soulsby: Just on this, obviously, by its very nature, those who make a lot of journeys and do a lot of travelling are going to significantly lose out as a result of a change to this system. Has there been a significant response from those who might potentially be big losers? Also perhaps, how have the media responded to the proposal?
Mr Smith: There are two ways to look upon this problem. From the principle point of view, even those who drive more than 18,000 kilometres a year say, "Well, I do not like it but it is honest, and I can understand and I appreciate the way of dealing with tax in this way; because I consume a lot, I pay a lot," so the principle is accepted. The reaction of the mainly professional drivers who are on the road for business was dealt with by their organisation, the employers' organisation in the Netherlands. They said it was in their best interests because they will pay some more money but the goal of the system is that it will give them more free flow than now, so in a way they get something in return for this. Of course, you have to very thoroughly investigate the effects of the system but, as far as we can see it at this moment, we see that there is a benefit for those who are driving a lot because they are gaining extra time.

Q468 Sir Peter Soulsby: What about the media? How have the newspapers in particular responded?
Mr Smith: It depends on the medium because we have some different newspapers in the Netherlands, and in particular there is one which the "voice of the public", you could say. It is very hard to deal with because they do not go for facts, they go for feelings and in this—

Q469 Sir Peter Soulsby: That was why I asked the question!

Mr Smith: That is a problem. It is even a big problem for us because in this debate, as you can imagine, we are very vulnerable as a motorist organisation. Nevertheless, we have said that we think it is the wise thing to do because the problems in the Netherlands are that big that we have to find a solution. I did not state it yet but a couple of years ago we went against the road pricing scheme, which was more or less a congestion scheme, paying extra at the entrances of the big cities in the Netherlands, and we cannot afford to do that twice because we will lose our basis to negotiate, and we are convinced from our societal role that we have to act to solve the problem.

Q470 Ms Smith: I just wondered whether you could share with us our observations about the way that we in the UK have gone about introducing congestion charging systems?
Mr Smith: The congestion charging systems in the UK are more or less the same as the congestion charge we rejected a couple of years ago in the Netherlands, because it comes down to paying extra, if I may put it a bit bluntly, and not getting anything in return for this. That was the main reason why we rejected it in the Netherlands because paying extra was not the way our members wanted it. The main reason for this, I think, but I do not know how the extra income is spent in the UK, but in the Netherlands it would disappear into the general budget, and it was not earmarked to improve the quality of transportation. You have to have a very strong and visual case to civilians if you say: "We are going to charge you something extra"; you have to show them what they are getting in return for this.
Mr Fabian: Since we only have a truck tolling system we are critical about congestion charging because it would only impact on the trucks at the moment. This is one of the arguments we are raising against the current legislation proposal from the European Commission and the Eurovignette Directive. The problem is that many freight transport users do not have any chance to use alternative roads or drive at different times because their transport needs require them to use the road network at certain places and at certain times. So we are critical about congestion charging—or, to put it differently, we are critical of a variation on the truck rates according to times or places.

Q471 Ms Smith: If the overall point of congestion charging systems here in the UK is not only to reduce congestion but invest in public transport, what would your view be of it then? In other words, the return is you invest in public transport to decrease the amount of traffic on the road.
Mr Smith: If I may react, motorists do not recognise this as a direct effect of their behaviour. Going back to the Dutch situation, we have about 7 million motorists and about 10% are driving every day in traffic jams—that is about 700,000. About 30% of those 700,000 are feeling the problem as a personal problem of the traffic jam, because the majority of people commuting back and forth are travelling about 10 to 15 minutes extra per journey, and that is not felt as a personal problem. So they do not want to change easily their behaviour; they have to be tempted to make the step to public transport. I do not know if public transport can offer a comparable solution for their transport needs in the UK, but in the Netherlands we have been working on this for 10 years and now it is slowly coming on and it is slowly becoming an alternative for motorists. Maybe a more direct answer—if you say: "Can you solve the problems on the roads with a solution in public transport", it is not a one-to-one solution.

Q472 Ms Smith: Do you have any suggestions as to how our Government and our local authorities might tackle traffic growth and congestion in urban areas? For instance, in my city there is 15% capacity left on the road and something will have to be done over the coming decade, I would have thought.
Mr Smith: To solve traffic jams today you need to have a variety of measures. Last year we presented, as a motorists' organisation in the Netherlands, a scheme which divides the traffic over the main network and the secondary road network, for instance. In the Netherlands a lot can be improved on this. You have to do something with your pricing system, I am convinced, because in the Netherlands, and I think in certain areas in Britain it is the same, we simply do not have the space to build extra infrastructure. So it is more or less the same as eating strawberries in winter time: if you want them you pay extra. That is what people should be aware of. To compare it to parking, for instance, parking next to the major department store in the city costs more than when you leave your car at the edge of the city and travel any further on public transport. All those kinds of measures should be taken. If you want to introduce a pricing scheme it all depends on the way you are marketing your goals. As I stated, I think that people are not enthusiasts about reducing traffic congestion in general; they are enthusiastic if you promise them that they will get an honest way for paying for their mobility and they do not pay anything extra, in general. If you can market your goals in that way and you have the benefits of a better environment and a better traffic system, as a sort of effect but not as a main marketing point to the public, I think there is a lot more success than if you stated: "We want to solve traffic jams", because you cannot split a pricing system, I am convinced.

Q473 Ms Smith: So you would suggest a simplified pricing system, in other words; one which, perhaps, looks at other forms of taxation and reduces it, on the principle that the road-user pays what he or she actually uses?
Mr Smith: I will not say it is more simple; I think in introducing it it is more complicated but it all depends on the effect you want to achieve and the goals you have in introducing the system. If the need is very big to improve the environment and reduce traffic jams, then you should consider if this measure is one of the many you should take, and the next step is how to introduce it.

Q474 Mr Hollobone: Can I just get this straight: if the pricing scheme is a success in the Netherlands, is the idea that the registration tax on the purchase of new cars would go altogether as well as the annual circulation tax—your equivalent of our vehicle excise duty?
Mr Smith: Let me put it very strongly: if it does not go completely we do not have an agreement on the system. It is a trade-off.

Q475 Mr Hollobone: Instead of going for a road-pricing scheme, with all the technology and the retrofitting of cars, and so on, what consideration was given to just increasing the price of petrol?
Mr Smith: It is a much-fought argument; it is less complicated but you cannot vary the price according to time and place, and that is what you want to have as an instrument to put a price on the strawberries in winter time. So if you want to vary the price and you want to manage your traffic flows in those conditions, according to time and place, then you should have a system which is capable of doing so.

Q476 Mr Leech: What were the reasons for deciding not to scrap fuel tax and just lump it all on to the price per kilometre?
Mr Smith: There was one big reason for this because we have some border effects. It would be efficient to go from Rotterdam to Belgium to fill up your tank and go back, because the price difference would be so big that, I think, half of the Netherlands will go abroad to fill up their fuel tank.

Q477 Mr Leech: If the fuel price went down in the Netherlands because you lumped—
Mr Smith: I am sorry, I misunderstood.

Q478 Mr Leech: My understanding is that there is not an intention of removing the fuel tax.
Mr Smith: No. That is right.

Q479 Mr Leech: Surely, there was some consideration for removing the fuel tax and adding that on to the price per kilometre.
Mr Smith: Yes, my understanding of your question was not correct. We talked about this but the total amount which is going to be distributed over the price per kilometre will increase, and the other effect is that there is a reverse effect; you get a lot of people in Germany and Belgium coming into your country to fill up their tanks. The question is do you want that or not?

Q480 Mr Leech: The petrol stations probably do.
Mr Smith: Yes, the petrol stations, but to avoid some extra kilometres driven I do not think you contribute to this.

Q481 Mr Leech: Was part of the consideration because you are not 100% sure what you are going to do with foreign vehicles?
Mr Smith: No, that was not part of it. The main thing was that if you do so we have now, as I have said before, an amount of money which is more or less the same amount of money we spend on infrastructure. So it is easy to earmark that income from the kilometre charge and spend it on infrastructure. We said that the tax on fuel we can put into the general state budget.

Q482 Mr Leech: Is there any pressure from the road hauliers in Holland to ensure that foreign registered vehicles are actually going to be charged?
Mr Smith: Not only from road hauliers but, also, from private individuals because they find it very dishonest if foreign cars will not pay as much for using the roads.

Q483 Mr Leech: Do you think you will come up with a solution?
Mr Smith: I think so.

Q484 Mr Leech: Just one final question: when we spoke to you in the Netherlands I think the cost of running the scheme was not down to 5%—I think it was somewhere between 5 and 10%. Has there been any more progress made in how much the scheme is going to cost to administer?
Mr Smith: The last investigation was about 7%, at the time you visited the Netherlands. The industry is optimistic but we will only know for sure when the last survey on this item is out, so we will see in the next couple of months.

Q485 Mr Leech: If it does not fall to 5%, will the scheme just not go ahead?
Mr Smith: I think that conclusion is correct. It is a very hard figure, perhaps.

Q486 Sammy Wilson: In relation to vehicles from outside the Netherlands, how do you intend or what proposals are there to ensure that they pay along with your own citizens?
Mr Smith: There are a couple of thoughts about this. It is not decided yet. It could be a vignette, as other countries do too. At the end of the day, we hope that the system will be as interoperable as it could be in Europe, but I think that is a long time ahead.

Q487 Sammy Wilson: Given the fact that countries do not tend to move together in unison on this, I think you probably have the same problems as we would have in the part of the United Kingdom that I represent, where we share a common land boundary with another country, and people can dip in and out and, very often, they are not using the main roads, they are using back roads to come in and out of the country. How do you ensure, even in those situations, that some people are not able to avoid the charges which the citizens of the country cannot avoid?
Mr Smith: You cannot avoid that 100%, I think. I see what is happening in Austria and Switzerland at this time. A vignette is always a hard thing to control. So I cannot guarantee that we will develop some thoughts about this in the next couple of months. It is not a main point of concern to a motoring club, by the way, because we have some other interests which have a higher priority at the moment.

Q488 Sammy Wilson: It is bound to create some tension if some motorists can avoid the charge while other motorists from your own country are forced to pay the charges. I just have one last question, and that is in relation to the monitoring of journeys and the interest element of that. Has there been any reaction from motorists as to their views if every journey is monitored and every street you have gone down is known, etc? Some people have concerns about intrusion into personal freedom.

Mr Smith: That is one of the main discussions we are having at this moment. What you see is, on the one hand, when you are obliged to have a system which controls your movements then everybody is strongly against it, which is understandable. On the other hand, every Dutch citizen is walking around with a mobile 'phone, which makes them traceable within about 100 metres, I think, at the moment. Nevertheless, it is a serious point. We said that the system should be guaranteeing the privacy of its user and in the criteria presented to the industry this is a very hard criterion. So they should fulfil some privacy standards in this and you could do it, technically speaking, in a number of ways. You can do it with a system which collects all the travel data in your own car, in your own computer, let us say, and which only shows the number of kilometres driven, in the circumstances. So you cannot relate where you have driven; only a count-up. So the system is more complicated in the car. You can also arrange this in the back office, but you should have a third party to divide that privacy related data. That is what we expect the industry to work out, and we will see their propositions on this.

Q489 Sammy Wilson: I do not know if it is the same in your country as here, but there is not that confidence that data is protected in the way in which you have described, and that people's information will not be made available on a wider basis.

Mr Smith: You are clearly correct in that that is a very difficult issue because when you look at ITS technology at the moment everybody wants, more or less, location-based services, and it is on a voluntary basis, but in this particular road pricing scheme you can relate your location-based service to the computer in your car, and the question is: are people in favour or against? This is one of the main things we put in our survey for next month and the month after because we want to know how our members are answering this question. What we discover, in practice, is that there are many different opinions on this.

Q490 Sammy Wilson: I may have picked you up wrongly. I got the impression that you were not so keen on the idea of variable pricing where, depending what road you were using or what time of the day you were using the road, there would be a different price charged as opposed, say, to using the roads when they were less congested. Was I wrong in that?

Mr Fabian: No, that is a correct impression. As I said, we currently only have a truck tolling system and there is no discussion about a general road-pricing scheme in Germany. Any discussion about a variation of prices according to time of day or places—specific roads—would only affect freight transport on the roads. Usually there are only very limited alternative modes of transport for the goods to be transported and also very limited chances for the transport companies to decide when and where to go.

Q491 Sammy Wilson: Does it not defeat the purpose then if you are trying to ration a scarce resource if you do not use the full range of the price alternatives? Really all you are paying is for people to travel at times of congestion and add to the congestion and there is no incentive for them to travel at times when, perhaps, the roads will be freer.

Mr Fabian: I agree with you. One of the objectives of the introduction of the tolling system in Germany was to cover infrastructure costs, wear and tear, which obviously for HGVs is a lot higher than for private cars and because we do have relatively high fuel taxes in Germany compared to neighbouring countries there was the feeling that the phenomenon that was described earlier, the border effect, meant it was possible to use the autobahn network without paying any fuel taxes, for example. It was the idea solely to cover infrastructure costs.

Q492 Chairman: Mr Fabian, would you say that the scheme in Germany has led to more freight going by rail?

Mr Fabian: This is the question of modal shift so to speak, between transport modes. We have seen increases in rail transport but this is most certainly not related to the introduction of truck tolling in Germany.

Q493 Ms Smith: Just on that, what then has led to an increase in the use of rail by freight if it has not been the charging scheme?

Mr Fabian: It has been the competition on the network and the quality of the services of the rail companies, the rail freight companies in particular, has increased. On the other hand there is another aspect to it: transport costs on roads have increased over the last years but only a minor part of that increase is due to the truck toll and the major part of course is due to increasing fuel prices.

Q494 Ms Smith: Has it led to increased efficiency in the use of HGVs in order to reduce the cost of the charge?

Mr Fabian: Efficiency has increased in terms of the empty runs on freight road transport; they have decreased over the years and they decreased before the introduction of the Maut in Germany and they have decreased further after its introduction, so it is not easy to say it was only the introduction of the truck toll that was responsible for the increased efficiency.

Q495 Ms Smith: In Britain there have been calls occasionally for the introduction of charges for HGVs on our A roads, not our motorways. For instance, the road between Manchester and Sheffield is a very difficult mountain pass and is used quite heavily by HGVs and there have been calls for freight limits and charges for HGVs on that road in order to encourage them to go on the motorways. Has there been, in fact, a significant shift away from the motorway network in Germany and onto other roads by HGVs?
Mr Fabian: This was an issue that was very intensely monitored and debated before the introduction of the system and the answer is no. There are a few occasions where the autobahn network has parallel roads, federal roads for example, so there would be the chance for traffic deviation but the amount was only about 2%, less than 2% of the traffic went to other roads. There was a discussion about two years after the introduction of the truck as to whether the Bundesländer, the federal level in Germany, would introduce a truck toll on certain segments of their roads that experienced heavy increases in freight transport but ultimately there were only three federal road segments in Germany that were included in the truck tolling system.

Q496 Ms Smith: Why do you think there was not a shift? Given that the HGV companies would have avoided those costs by shifting onto other road networks why do you think they chose not to do that, why did they choose to actually pay the charge?
Mr Fabian: It depends on which segment of road transport is being monitored but the truck toll is for long runs, long distance rolls. The toll of course has a higher share of the total costs in regional or local transport where you can use other roads as well and the share of the use of motorways is lower. This is one aspect and the other aspect is that overall the share of the toll on the entire transport costs is relatively low, a one digit percentage point.

Q497 Chairman: Would you say that the lorry charging scheme has helped or hindered German hauliers to compete with foreign competition?
Mr Fabian: It certainly has had an impact on hauliers and it certainly increased the competitive pressure on the haulage industry. One other aspect to this is that roughly four years after the introduction of the truck toll in Germany it is no longer debated in principle if shippers should cover the truck toll for example, they should come up with that. In principle this is no longer debated, the truck toll is accepted, but there are certain administrative costs for example that are for the haulier industry difficult to pass on to the shipping industry, of course, and then since the rates of the truck toll in Germany are differentiated by emission classes so more environmentally-friendly vehicles pay significantly less than the more polluting vehicles and so shippers tend to put pressure on the hauliers to use the more efficient or environmentally-friendly vehicles and the shippers will only come up for those rates. It is certainly an incentive to use more environmentally-friendly vehicles.
Chairman: Thank you very much, gentlemen, for coming and for answering so many questions.

Witnesses: **Paul Clark MP**, Parliamentary Under-Secretary of State, Department for Transport, and **Angela Eagle MP**, Exchequer Secretary to the Treasury, HM Treasury, gave evidence.

Q498 Chairman: Good afternoon; could I ask you to identify yourselves for our record?
Paul Clark: Paul Clark, Parliamentary Under-Secretary of State at the Department for Transport.
Angela Eagle: Angela Eagle, Exchequer Secretary to the Treasury.

Q499 Chairman: Does either of you want to make any opening statement?
Paul Clark: I am quite happy to move on.
Angela Eagle: Just answer questions.

Q500 Chairman: The 2008 Budget made proposals for altering vehicle excise duty bands; whose idea was that? Did it come from the Treasury or from the Transport Department?
Angela Eagle: The way that these things work prior to both pre-Budget reports and Budgets is that we are in constant communication with the Department for Transport, partially on policy issues but also to take advantage of their expertise in modelling any potential changes to the tax regimes that we might want to consider, so there would be a two-way process. Clearly since we changed the VED bands to take account of CO_2 earlier in this century—I think it was about 2001 off the top of my head—we were interested partly because of the work that we had been doing with various lobbies as well to see whether we could make the VED bands more sensitive to different decisions on emissions for cars as part of our work to try to reduce the CO_2 impact of car emissions. Therefore we suggested looking at how we might begin to do that and where different cars were, and of course at that kind of juncture the Department for Transport can use its expertise with its analytical tools to help us shape a potential policy. It is a kind of two-way thing; that is the way it happened.

Q501 Chairman: Would you say you have different objectives in the two departments, is perhaps the Treasury looking at revenue and the Transport Department looking at transportation objectives?
Angela Eagle: It is important to remember that different departments are all part of the same government.

Q502 Chairman: But they are still different departments, are they not?

Angela Eagle: They are different departments and they may have particular cultures or particular things that they concentrate on. Clearly the duty of the Treasury is to see what it can do to take account of the Budget as a whole, and that has particular implications in particular areas, but in general we have a co-operative kind of arrangement.

Q503 Chairman: Do you agree with that, Mr Clark?
Paul Clark: Could I add to that and say clearly I do agree with that because we are all part of the same government and one of the overriding concerns is to tackle congestion, for example. It is important that actually we share that objective, because that is equally as important, as I am sure Members of the Committee will appreciate, to the Treasury in terms of competitiveness of our economy, of our businesses and we are clearly having that turnover, so there is a shared objective in terms of reaching the goal. At the end of the day revenue-raising matters, obviously rightly so, are the responsibility of the Treasury but of course there is close working that goes on between our Department and the Treasury.

Q504 Chairman: And you have never felt any conflicts between your department and the Treasury in the discussions that you have and this joint approach that you have; there have never been any differences.
Paul Clark: As you would expect there would be robust discussions on issues of complexities—that is about taking forward decisions in government—but at the end of the day as Angela said we are one government that has a shared common objective, particularly in terms of dealing with the real issue that has been identified for us as a priority within the Department for Transport, and that is tackling the congestion issue, which is important not only for us as individuals in the travelling public but for Britain's productivity and competitiveness the world over.

Q505 Ms Smith: Can I ask therefore then does the DfT actually see taxes such as fuel duty and VED as important tools for achieving its transport objectives, or are they really just revenue-raising devices?
Paul Clark: I do not want to answer for the Treasury but they have always been recognised as revenue-raising. Having said that of course, as Angela has indicated, in terms of VED it is reflecting an environmental element as well with the banding that we introduced earlier on. So they are revenue-raising but they are part and parcel of the transport delivery of our policies.

Q506 Ms Smith: Does the DfT not recognise though that to charge the new higher rates, which will be the case from April this year, in fact we are penalising those who bought their cars before they ever imagined such increases in taxation would be introduced?
Angela Eagle: The new rates next year are only going to be a £5 increase.

Q507 Ms Smith: But they will go up.
Angela Eagle: By £5. In 2010 nobody will pay more than £30 more.

Q508 Ms Smith: So it is not £5, it is £5 to £30.
Angela Eagle: No, that is in 2010 because what we have done in the pre-Budget Report is stagger the increases in VED from what was suggested at the Budget so this year no one will pay more than a £5 increase and in April 2010 no one will pay more than £30.

Q509 Ms Smith: Is it still not unfair that people who bought their cars in the belief that they would be paying the standard flat rate are in fact being penalised?
Angela Eagle: There has never been a standard flat rate in that sense; VED has always gone up. Before we had the different rates it went up most years by inflation so people expect a certain amount of that. I do not think a £5 increase is really very much.

Q510 Ms Smith: But where there is going to be a £30 increase in the end—
Angela Eagle: Over two years[2].

Q511 Ms Smith: Over two years, but it is still a £30 increase on people who maybe would have made a different choice if they had known that green taxes of this kind were going to be introduced. Surely it would have been fairer just to introduce it on new purchases.
Angela Eagle: VED has never been introduced on only new purchases, it has always been applied across the board to the whole vehicle fleet, for obvious reasons. If you try to only introduce increases in VED on new purchases you then have to remake the VED system every year and you end up with a whole series of parallel systems which get almost impossible for the DVLA to administer, so I do not think it is a practical proposition after over 100 years nearly of VED that you should recreate the system every year. I never accepted the argument about retrospectivity, I think people expect their vehicle excise duty to go up a little bit. We had some discussions after the Budget about the rate of those increases and we had a widespread welcome for the concept of introducing new bands to take account of CO_2 emissions. We know that in future there will be increasingly stringent regulation within the EU about the emissions that cars will be allowed to emit, and this is part of giving consumers a signal that there will actually be declines in VED if you have lower-emitting cars, modest though they are, and increases in VED if you have slightly higher rates of CO_2 emissions.

Q512 Ms Smith: I do not know whether I entirely accept that not phasing it in is not an issue.

[2] Correction by witness: delete "two years" insert "In 2010".

Angela Eagle: We have phased it in Ms Smith.

Q513 Ms Smith: Can I ask about disabled people, particularly those who need a large vehicle to transport a wheelchair, for instance, or an electric scooter. Have you had any representations from disabled people on the introduction of the new VED regime?
Angela Eagle: We had many representations, as all of you will remember, following the announcements at the Budget. Since the announcement of the much slower introduction and the staggering of these increases that we made in the pre-Budget report there has been almost no comment or representation at all, people were largely satisfied with the changes that were made as a result of the representations we had after the Budget last year.

Q514 Ms Smith: Does the Treasury actually try to establish what people's views are of its changes in regulations or tax rates? Does it ever try to measure the impact of its announcements or its intentions?
Angela Eagle: HMRC model the likely impact of tax announcements. We cannot consult about tax rates in advance, for obvious reasons, but we do a lot of policy work, we do a very great deal of work both at official and ministerial level before either pre-Budget reports or Budgets, trying to engage with stakeholders. I see very many of them myself, my officials do the same; we do a lot of collecting of evidence and information about what people think and would like to see, but in the end the Chancellor has to balance all of these things when he makes decisions holistically about the Budget as a whole. What we tend to get and what I tend to get as a minister is particular interest groups coming from particular angles, wanting things that benefit them, that is understandable, but in the end though the Chancellor has to balance all of those interests in coming to the judgment that he makes, the best judgment he can make, about the economic realities, about the social and environmental realities of the decisions he makes. We try to do that, in answer to your question, with as much information and modelling as possible, with as much engagement as possible, but what we cannot do is negotiate in advance about tax rates.

Q515 Mark Pritchard: Minister, you mentioned £5 not being much earlier but it would probably buy you eight or nine loaves of bread—that is the problem, that every pound added is actually a cost to those already suffering with the credit crunch. For those that have lost their jobs, many more will have to travel further, travel more often to try and find fewer and fewer jobs; is there anything you can say today as a Treasury Minister, and indeed the Minister for Transport, that can encourage those people who are currently looking for jobs or are unemployed. Is there anything you can tell them today that you as ministers will do to help them in that pursuit?
Paul Clark: I was asked at the very beginning as to whether we had conflicts of interest; one of the things I am absolutely convinced about is that we do not have a conflict of interest when it comes to us receiving substantial monies to invest in the public transport system, whether that be in the railways, whether that be in bus services, cycling or alternatives in that way. In terms, therefore, of making sure that there are good provisions and alternative provisions when people can make choices then that is certainly our goal in terms of the towns and cities. Indeed, in fact, the example of the Local Transport Act, which received its Royal Assent at the end of last year, was very much about making sure that those alternatives were there for all of us to use in whatever circumstances we are in.

Q516 Mark Pritchard: You mentioned public transport; do you know what the minimum single journey cost is, for example, in London on a bus?
Paul Clark: In terms of the specifics of fares and so on, no, I am—

Q517 Mark Pritchard: A single journey fare.
Paul Clark: What I have to say to you is that in terms of the provisions that are there in terms of improving services, London has a very good system—

Q518 Mark Pritchard: Sorry, Minister, can I ask you quite clearly do you know—perhaps you do not know, because there is a reason I am asking it—what the cost is of a single bus journey in London?
Paul Clark: It depends on whether you are using Oyster cards as well—
Mark Pritchard: People can read into the record the fact that you have not answered. The cost is £1.20—
Mr Leech: No it is not. It is £1.

Q519 Mark Pritchard: Excuse me.
Paul Clark: This is exactly the reason why there is a dispute.

Q520 Mark Pritchard: £1.20 which is four journeys, using the £5 the Minister mentioned earlier; it clearly is not a lot of money but it is four or five journeys to a job interview.
Angela Eagle: We also have to remember that when it comes to transport costs, if you have a car, they have come down a very great deal from the very high oil price spike that we saw last year so that will assist. I know many people were having difficulties last year with oil spiking at the very high price that it did; fortunately we have had a 60% fall in oil prices since then and that has eased some of the pressure particularly for motorists.

Q521 Mark Pritchard: I am just aghast. I am disappointed at the Transport Minister, it is £1.20, so next time go and have a look. It just seems that ministers are out of touch with reality—£5 is a huge amount of money for somebody either wanting to buy a loaf of bread, struggling to get by and losing their job, or somebody wanting to attend a job interview, so for ministers just to dismiss it—I gave you an opportunity, what you can do to encourage people who are losing their jobs; the encouragement

and indeed the discouragement they have had as we have ministers that do not know the cost of a single bus fare—
Angela Eagle: First of all, Mr Pritchard, I have an Oyster card and I use it so let us not get—

Q522 Chairman: Let us have one at a time. The question is about helping people to get to jobs and to gain jobs; do either of you want to say any more on that?
Paul Clark: I wish to come back on that because we can all sit here if you want to to try and raise those points, but what I equally know is that in terms of the investment that we are putting in to making sure there are public transport facilities available for people to use, that is at record levels and we have been able to make sure that there are far more reliable services there. We still have a long way to go and that is why we introduced the Local Transport Act because it is very much about the backbone of our travelling, which is buses in our towns and cities, to make sure that people are able to get to job interviews, to be able to get to work, to be able to get to the college to get the skills, and that is the investment that we are putting in to this country's transport network. That is what is important and that is what I have seen the length and breadth of this country, whether it be in Newcastle where I was recently, or in York, or in Portsmouth and across the board. I have seen a great number of good practices about delivering decent services for the people of this country.
Angela Eagle: If I could say, in every comprehensive spending review, all four of them that we have had to date, we have had an increased amount of money spent on transport. That is now up by 70% and those of you—like you do, Chairman, who travel up using the East Coast Main Line will know about the improvements that the £8.8 billion of expenditure we have had on that particular rail line have brought to our weekend journeys.

Q523 Sir Peter Soulsby: I was going to suggest we all laid our Oyster cards on the table and returned to the matter in hand.
Angela Eagle: I have got mine.

Q524 Sir Peter Soulsby: If I might, Chairman, I would like to return to this question of VED banding because in answer to the earlier question the Minister talked about the modest changes and the staggering and the small differentials—in a sense really trying to minimise the impact of it. I really just want to approach it from a different direction and suggest that if the impact is indeed comparatively modest, is not also the effect likely to be comparatively modest? I would really just like to know how, perhaps, the Department for Transport intends to monitor the impact of the VED banding, what outcomes they are expecting from it and what they will count as success.
Paul Clark: In terms of any policy that is introduced there will be monitoring that goes on, and we have within the Department for Transport a number of modelling tools which are used, but equally, obviously, the Treasury will model the effect as well—and obviously I will leave the Minister to respond in terms of that on the Treasury's behalf. We would monitor the effect that that might have in terms of transport.
Angela Eagle: We are expecting this to save one million tonnes of carbon by 2020 which is a similar amount to that that we were modelling on the larger increases we suggested at the Budget. This is part of sending a signal to motorists when they buy new cars, that actually there will be rewards for buying cars that emit lower levels of CO_2 and that is to help prepare the market for the changes that will have to come with the EU regulations which will take emissions down to an average of 95 grams per kilometre of CO_2 emitted. It is part of a general approach to say take account of the emissions that your car is making, and in fact if you do and you have a lower emitting car you get far more miles out of it and the fuel efficiency increases.

Q525 Sir Peter Soulsby: I recognise it is important in terms of being a signal but I would suggest that it is a comparatively modest signal and although I understand the point about it being significant when you translate it into millions of tonnes of carbon it is actually a comparatively modest measure, is it not? I wonder quite how you will measure the proportion of cars of a particular size that will be purchased as a result of this and what targets you have set and anticipate.
Paul Clark: In terms of just being aware of data that is collected in terms of new car sales and what those are, of course we would monitor those new car sales in terms of CO_2 monitoring amongst other issues as well, so there is a range of data that is collected but we will see what the impact of this is.
Chairman: I must stop you Minister. We will suspend the Committee for 10 minutes if there is one vote or for longer if there are more. I ask Members to get back as soon as they can, please.

The Committee suspended from 4.00 pm to 4.11 pm for a division in the House.

Chairman: Sir Peter.

Q526 Sir Peter Soulsby: I had not quite finished. I really just wanted to pursue the question of how you measure success and to see whether the Department had actually quantified the effect it was expecting beyond the general aspirations that the Minister expressed.
Paul Clark: I had partially answered before the division, Chairman, the point the Honourable Member was making that the effect was going to be small. It is large when you clearly add up the effect but it is towards that overarching policy that the Government has in terms of reducing those emissions by 80% by 2050 on 1990 levels. That is the package that we work on in terms of new car registrations and the regulations on CO_2 and monitoring that as part of that whole package, which is what I was saying earlier on before the division, Chairman.

Q527 Graham Stringer: You mentioned getting rid of congestion as one of the priorities. Can you tell the Committee how you measure congestion and how you measure its economic impact?
Paul Clark: There is a whole range of things available there. In terms of the traffic management that we have and the programme that we have, which is actually contained in the national transport model and laid out clearly, it takes into account issues such as the travel time against what would have been a free flow where you had constant moving traffic at a given speed on a given stretch of road, what are the effects there, what is happening in terms of the travel time, what is happening in terms of delaying people in getting from a given point to another point, what are the costs that are involved there to them and, of course, as you may be aware, Chairman, there are different rates applied for time delays to different categories of drivers for example, whether it is business or pleasure and various effects in that way. There are additional costs that happen in terms of where there are then costs that are associated with, for example, accidents, local air quality, noise and trying to monetarise those. There is a whole range of things that come into the national transport model so that you are actually able to assess the costs involved. Substantial work was done in conjunction with the Eddington study back in 2006 and if I use the broad headline figure, although of course there is substantial work behind this, if we do not tackle congestion, if we do not deal with the issues that we face within our towns, within our cities, on our core routes then we are looking to cost this country an extra £22 billion every year by 2025. That is why, as you will appreciate, it is a priority of ours to deal with that issue immediately with a range of different tools.
Graham Stringer: The reason I ask is when we had one set of witnesses here and I asked them a question about the CBI's estimate of the economic impact of congestion, we were told that the RAC representative had trebled an academic estimate made by his wife and that was where the figure of £20 billion came from. That has been reported in *The Times* by Ben Webster. I just wondered if the Department has a better way of getting at congestion rather than trebling the academic estimate of the RAC's representative's wife.

Q528 Chairman: Mr Clark, can you help us with that?
Paul Clark: I certainly can; the answer is yes. Mr Stringer is well aware of the work and so on that has been undertaken through the Department for Transport and which has been robustly checked by various groups in terms of being able to be met and being realistic and viable in the way that it calculates these costs that are involved. It certainly is not taking a figure that one first thought of and multiplying it by three.

Q529 Graham Stringer: Can I push you a bit further on it because it does worry me that there is this CBI figure of £20 billion, and I have explained where that comes from. The Department have a figure that you just used of £22 billion and I think Eddington's original figure was £14 billion. What they do not seem to do—and maybe you could throw some light on it if we talk about how the figures were worked out—is differentiate between inter-urban congestion and its economic impact and congestion in cities. I think being in a traffic jam for 15 to 20 minutes in a city, listening to, say, the *Today* programme for a bit longer probably has no economic impact. Regularly, day in and day out, having an extra half hour or an hour on urban motorways has a real economic impact. I wonder if you would agree with that and whether that is taken account of in the Department's modelling.
Paul Clark: In terms of the effect of congestion on different categories of users then, yes, that is taken into account. For example, if you are doing a costing exercise that involves passengers on railways, who can sit there and work, the cost there of that process and that movement is lower than if you are behind the wheel of a car when you cannot work, so you obviously have to model in a range of different factors using data streams that you have available to you that have been built up, checked and peer reviewed over a number of occasions. That has to be factored into making a judgment as to the costs that are involved in terms of congestion or, if you are trying to compare one scheme with another, what costs are involved there and what benefits are there. There are complexities there that have to be worked through, but you have to have some base in terms of being able to do that and, as I say, this has certainly been built up over a period of time and has been peer-reviewed by a number of different sources so we can be fairly convinced that the costs that we are bringing forward are reliable figures.

Q530 Chairman: Ms Eagle, could I ask you, is this something the Treasury have done any calculations on?
Angela Eagle: Certainly we would expect that the experts on all of this with their model are actually the Department for Transport, so we would consult their model, we do not have a separate Treasury model trying to assess congestion; that would be a ridiculous parallel use of resources, so when we want that kind of detailed information we go to the model that the Department for Transport have, they are the experts in how that works. We might have a look at some of the assumptions behind it and challenge them; there is an intellectual process like that that goes on between officials, but obviously we would use the DfT model to come to conclusions about costs.

Q531 Graham Stringer: It is complicated, I accept that; do you think you could give the Committee a note on that?
Paul Clark: We can certainly provide a note in terms of many of the factors that get taken into account in producing that, for clarity.

Q532 Graham Stringer: Good, because what this does mean is that the conclusion that Eddington comes to is, if you think about it, a bit

counterintuitive because Eddington says that most congestion exists in urban areas, which is true, although this country compared to other countries in Europe has more inter-urban congestion than those countries. Therefore you are looking at road pricing concentrated on cities, whereas I think the biggest economic impact is on inter-urban areas. I would like your observations on that analysis and I would also like to know where the Government stands at the moment on the whole of the road pricing agenda on motorways and inter-urban areas.
Paul Clark: Fine. The issue of congestion, both inter-urban and within our towns and cities, is critically important in different ways and does affect us economically and competitively, which is a point I was making earlier on with the question from Mr Pritchard in terms of being able to move around our towns and cities. Approaching the issue about inter-urban, that is exactly why we have been working on a whole range of investment programmes including further announcements that have been made in recent weeks in terms of taking forward investment into, for example, High Speed Two and the future there, and of course the investment we have made into the West Coast Main Line, the improvements that have happened there, to allow far better movement inter-urban between our cities and our towns so that congestion is reduced, so speeds and times are improved and reliability is there. That is all part and parcel of that work.

Q533 Graham Stringer: If I could just interrupt you, we are talking probably of a time horizon of perhaps 18 years for high speed links and inter-urban congestion is with us now; what is the Government's policy for dealing with congestion on the inter-urban network? Is road pricing still on the agenda?
Paul Clark: I am going to come to the point about road pricing as a possible tool and where the Government might be on that, but in terms of investment the investment that has already gone into the rail network to improve reliability is one thing, the announcements that we have made, the work that we have been doing, the modelling work and the piloting work that we have been doing on hard shoulder running and increasing capacity on our motorways in certain areas and recent announcements by the Secretary of State that take that work forward, together with conventional road widening, is all about meeting the immediate problems of congestion that is inter-urban. In terms of congestion within towns and cities Mr Stringer will be well aware of a range of tools that are available through local transport planning, through RFA funding and in terms of TIF (Transport Innovation Fund) potential. In terms of road pricing it is not a matter of Government policy at this stage that there should be road pricing, that is a long way down the route. What we have done is to commission demonstration projects to give us answers as to what potential there is in terms of technology, in terms of opportunities, but having said that, that equally has to meet the requirements and genuine concerns of the travelling public and the car users, particularly in terms of the whole business about privacy and fairness of the system, but we are in at least a two-year period of the demonstration project that is going ahead and which is to provide answers as to what is possible, but the decision in terms of whether there is a national road pricing policy is something that certainly no decision has been made on.

Q534 Graham Stringer: Can you give the Committee a progress report on the demonstrations because there has been press criticism that the start has been delayed, has there not?
Paul Clark: We have actually appointed seven companies that will be involved in that process. There are the road user service providers; they are the ones that test out the technology, test out what is there, how does it work, how does it work against privacy issues, so that work is going on and there is a range of different technologies that might be available, and then there is the compliance side of this. How does it work against privacy issues, how actually can a car user have confidence that the system is charging them correctly and so on. There is, therefore, a whole range of questions that we need answers to before any further steps can be taken. Those companies have been appointed and we would expect projects to begin by the spring of this year and then there will be a roll-out programme there of at least 18 months to two years thereafter to be able to get robust data in terms of the answers to many of those questions that we have. It may equally throw up a number of other questions that need further work, but it is right that we look at it—congestion is there, it is an issue that you and I face, that people across the country face, that businesses face, and we have to look at a whole range of options that might be possibilities before being able to take any firm decisions.

Q535 Mr Clelland: In the written evidence from the Treasury we are told that "Her Majesty's Treasury continues to work closely with DfT to explore the potential for developing charging systems", yet the Minister has just told us that there are no plans for introducing road charging systems in the DfT. What is it that you are working on together?
Angela Eagle: Certainly the economic gains and productivity gains of reducing congestion are obvious to everybody so our interest as an economic department is more effective and efficient use of the road system. We sit on the Road Pricing Programme Board which is planning these early forays into practicality and demonstration projects and things like that.

Q536 Mr Clelland: Does the Treasury have a view on a national road charging scheme and have you conveyed that view to the DfT?
Angela Eagle: The Government has policies but there is not—

Q537 Mr Clelland: The Government's policy in 2006 was that the Prime Minister said it was a top priority.

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Angela Eagle: These are very complex issues and there are all sorts of different technologies that could be brought to bear. We have to work our way through them in a very planned way so that we can see whether the practicalities are that the costs are going to be less than the benefits. The overall effect of the proper introduction of a road pricing scheme would be to gain benefits from reducing congestion, not to cost ourselves a whole lot of money and then not see any productivity gains, so we are at the analytical stage and we are at the looking at process and technology stage, so it is far too early to say that we can be ready to have a national road congestion scheme going in the next three or four years. So there is work ongoing and the Treasury takes a close interest in co-operation with the Department for Transport in that.

Q538 Chairman: But the work has been on-going for many years, has it not?
Angela Eagle: It is a complex area.

Q539 Chairman: We have raised this issue a number of times, so what has been learned and what are you still looking for?
Paul Clark: There have been various options going on, there have been various feasibility studies on managing and getting better use of our existing networks, but in terms of taking forward detailed work in terms of any scheme—in fact our guiding principle was of course what was laid out in the 2005 manifesto on which we fought the election, which was we would look at seeking a consensus in tackling that congestion and looking at ways in which you could do that, including the possibilities of a national system of road pricing. The point is that there would be a whole range of different schemes that are potentially possible in our minds, if I went around the table, where they should be implemented, whether they would work, and how does that happen. Is that provided by one provider, is there a range of different providers; those are issues that we need to know answers to as to what is possible, what is not possible and then you can make an informed decision, but we are not at that stage yet, we are a long way in fact from that stage as I have indicated. The demonstration projects will get under way this coming spring and we will start to get feedback of data from those within around about 12 months.

Q540 Chairman: You do not give the impression of any sense of urgency about this, or are you hoping this will all go away?
Paul Clark: One of the things I know 100% is that the issue of congestion is there now; we need to look at a whole range of different tools that we can use either nationally but more importantly at local levels to deal with the local issues in the best way with the best knowledge that is there locally to tackle those issues. Road pricing could be one of those schemes but what would be wrong would be to rush to introduce something that did not achieve what is a common goal of ours, to reduce that congestion and improve, clearly, the well-being of our transport system and the individuals that are trying to use it.

Q541 Mr Clelland: To what extent is the managed motorways programme, including hard shoulder running, an alternative to road user charging?
Paul Clark: What it is is something that we can introduce relatively quickly and, having undertaken a pilot on the use of hard shoulder running, we have recognised that we can increase the capacity and we can actually reduce the level of congestion very substantially by actually increasing that capacity and managing that capacity at peak times in various ways with a whole range of facilities around that ATM model. That will help and a few weeks ago in fact the Secretary of State announced further rolling out of that as part of a £6 billion programme in some of our most congested areas, for example the Birmingham box and so on is a classic example of where there will be hard shoulder running as well as the M1 and the M6 in Greater Manchester.

Q542 Mr Clelland: What estimates have you made about the additional capacity we can expect from hard shoulder running and how long will that last before it is used up?
Paul Clark: In terms of the monitoring that we have done through the transport model that we have, we have been able to assess that in terms of motorways at peak times you could actually reduce the congestion by some 50%, which will obviously bring about further time savings in terms of congestion. There are then modellings in terms of forecast of growth and in terms of transport requirements as well, but certainly the business about utilising, for example, hard shoulder running and also other facilities in terms of management tools of flows onto and from motorways and strategic networks obviously help to improve the flow substantially by relatively small reductions.

Q543 Mr Clelland: Is it the Department's policy to put in place a national standard for motorways and should they all be three lanes with a hard shoulder, because there are some areas with very congested roads—I just pluck one out of the air, the Gateshead Western Bypass, which is a two-lane motorway with no hard shoulder. What are you going to do about that?
Paul Clark: You will accept that in terms of specific roads there are possibilities that can be introduced but of course you cannot have hard shoulder running on a dual carriageway if there is not a hard shoulder in the first place, so you have to look at other options and ranges of options there, and which I know you are well aware have been looked at. Obviously what you have to do is look at where it is most beneficial—and that includes safety options as well—to introduce hard shoulder running on whatever stretch of road we are talking about, but also being able to introduce other management techniques in terms of flows of traffic as well.

Q544 Mr Clelland: If we are going to have an efficient national motorway network surely it should all be up to a minimum standard.
Paul Clark: The investment that we are putting into clearly our network—we have some of the safest roads in Europe and that obviously shows that the standards—

Q545 Mr Clelland: It shows that we are standing still.
Paul Clark: It shows that the standards are high in terms of the provisions we have made and that the way we have developed our strategic road network has in fact been to a high standard, and of course that has improved. Speaking in terms of the time that has been taken to roll out some of these improvements to help to tackle the congestion issue is very much about making sure that the pilots that we have undertaken have been robust in answering exactly some of the issues that are obviously a cause for concern to this Committee and to others in terms of safety and efficiency and of course value for money in terms of the investment that goes into it, whether it is hard shoulder running or whether it is conventional widening of our motorway network and strategic roads.

Q546 Mr Clelland: I hope it is going to take a bit less than the 25 years it has so far taken to resolve the problem I have just referred to.
Paul Clark: We work on these problems.

Q547 Mr Hollobone: Can I congratulate you both on agreeing to appear together? It is good and our constituents would expect this one government approach. I imagine—I might be wrong—that you have overcome some institutional resistance to be here, so I would like to congratulate you both on being here together. I would like to ask you a series of questions to explore the balance between taxes and spending. Could I ask the Exchequer Secretary in round terms how much does the Government raise in taxes on motorists each year?
Angela Eagle: We have our fuel duty—if I could talk about the financial year that is coming to an end very soon—and in the 2007–08 financial year fuel duty raised £24.9 billion and we are expecting that to be £25.1 billion in the financial year just coming to a close; with vehicle excise duty it was £5.4 billion in the last financial year and we are expecting that to be £5.8 billion this financial year. Those are the two major motoring taxes although there are some other smaller ones—company car tax is around £2 billion from memory and there is a fuel benefit charge as well in company cars which raised about £0.5 billion.

Q548 Mr Hollobone: For a bear of little brain like me, if we say about £32 billion a year, that is a reasonable rounding up or down, is it not?
Angela Eagle: That is a good piece of bear arithmetic.

Q549 Mr Hollobone: Could I therefore ask the Transport Minister how much Her Majesty's Government spends on roads and associated services each year?
Paul Clark: There is a whole range of funding that goes in through a number of different mechanisms. For example, there are the local transport plans and provisions, regional funding allocations as well as the national schemes that go on, and that has risen by some 70% over the past 10 years, but nobody is suggesting that the spend on roads matches the level of tax that is brought in. Nobody has suggested that because there is a need to cover a whole range of demands upon the Exchequer and delivery of services in this country.

Q550 Mr Hollobone: I may have missed it but I did not actually detect any numbers in that answer.
Paul Clark: I can tell you that in terms of the local transport figures it is approximately £6 billion; in terms of the motorways it is £3 billion, so it is a total of £9.6 billion a year.

Q551 Mr Hollobone: Thank you. There is actually quite a big gap, is there not, between the Exchequer Secretary's £32 billion a year and the Transport Minister's £10 billion a year. The Transport Minister has already said that he does not feel there necessarily should be more of a balance between the revenue raised from road users and the spending on roads; would that be the view of the Exchequer Secretary as well?
Angela Eagle: The Government has always been open about the revenue-raising role of motoring taxes; I do not think we have ever been in a situation where we have suggested that we should only be raising the amount of money in motoring taxes that it costs to fund the roads. As with many, many taxes that have revenue-raising implications, they are not hypothecated only to expenditure on roads for obvious reasons.

Q552 Mr Hollobone: Some motoring organisations would actually say that the motorist is being used as a cash cow to pay for general government expenditure.
Angela Eagle: Yes, they come and say that to me when we have our regular meetings.

Q553 Chairman: Do you agree with them?
Angela Eagle: No, I do not. Clearly any advanced, sophisticated society with a welfare system, health and education systems, police, all of the things that we spend our public money on, have a role of raising money and I do not think we have ever tried to pretend that motoring taxes should merely be used to cover the costs of providing the road infrastructure. They do contribute to our general revenue-raising capacity.

Q554 Mr Hollobone: We have spoken about roads but perhaps I could expand this to railways, and if you have not got the answer immediately to hand I

am happy to wait a few moments, but what is the net expenditure of Her Majesty's Government on the railways each year?
Paul Clark: Can I also add to the answer in terms of the issue about roads. We are comparing the spending on roads directly but of course there is the spending that goes into the accident, the policing, the congestion, the air quality controls and so on that also are a cost from roads. In terms of the figure that is spent on the railways, I do not have that overall figure to hand.

Q555 Mr Martlew: I would suggest it is about £6 billion.
Paul Clark: About £6 billion.

Q556 Mr Hollobone: That is helpful from Mr Martlew. Perhaps the figure might emerge in the next few minutes from the back of the room, but could I just take this on to fuel duty because as I understand it tax and duty accounts for around 60% of the pump price of petrol in this country, which is the highest in the whole of the European Union. Can I ask the Exchequer Secretary does Her Majesty's Treasury know the public's views on fuel duty?
Angela Eagle: Yes, I know the public's views on fuel duty and I particularly know what they were when the overall cost of petrol spiked in the way it did last year. There is a poor understanding of the fact that fuel duty does not have to be passed on in prices; people often assume that fuel duty is increasing and that that is causing increases in prices but as we have seen very recently we have implemented an increase of 2p per litre in fuel duty on 1 December, but prices at the pump have come down by 30p per litre for petrol and 26p per litre for diesel since last July because of what has been going on in the wider oil market. I am well aware that fuel duty is not particularly a popular tax but, likewise, £25 billion of income in order to fund our infrastructure be it health, education, policing or any of the services that we provide is not easily replaced. Budgeting has to balance these things so we have to try to balance our expenditure with what we can raise in taxes. Those who argue that we should hypothecate miss two issues: one is that you cannot really allocate expenditure in the most efficient way if you have to hypothecate completely from where you raise taxes. People do not assume, for example, that only ill people should pay for the health service or that only those that actually have children should pay for educational services. It is a dangerous road to go down and it is an economically inefficient road to go down to argue that somehow hypothecation is the right approach to raising enough money to have a civilised, advanced welfare society.

Q557 Mr Hollobone: Does the public accept fuel duty as a green tax or do they accept that it is money given to the Government to spend on infrastructure, public services and so on?
Angela Eagle: It is hard to say, I do not think there is any one view about that in the correspondence I get. I do not think that fuel duty has ever been a green tax in that sense. It was introduced in 1909 or 1910 and far predated any view that we had on the bad effects that petrol and emissions may have on our climate, so it has always been a non-hypothecated, revenue-raising tax.

Q558 Mr Hollobone: My last question is this: why not scrap vehicle excise duty and simply put it onto the price of petrol? I would appreciate an answer from you both.
Angela Eagle: There are all sorts of ways that you can cut and change a tax system. Before I could have a firm view on that I would want to look at analysis, partially using the DfT's model, to see what effect that would have, but my initial response to you is that we would have to put fuel duty up considerably to replace £5.4 billion of income and we would have to look at the effects that that might have socially on the margins of car use, what effect that was likely to have, so there would be a whole range of work we would want to do if we were going to think about a policy like that which would inform us about the likely effects. Being faced with a question and no such policy analysis it is difficult for me to take a position, but I hope I have managed to convey some of the things that I would want to think about if I were to contemplate a policy change of that kind.
Paul Clark: In terms of that level of increase it clearly would have effects in terms of a business's knock-on costs and so on so you would very clearly need to do substantial work in that way and, at the end of the day, there are various ways in which you can raise that money, but there would be serious knock-on effects in terms of the levels by which you would have to increase fuel prices.

Q559 Mr Leech: I would like to bring you back to road user charging if you do not mind. The Transport Minister has told us of a number of things that have been done over the last few years towards some future prospects of road pricing; how much money has DfT actually spent on investigating possible road user pricing schemes?
Paul Clark: There are some monies that have been provided, for example, through congestion charging programmes through the TIF funding system, which has been some £18 million of pump priming money over the last three years. We are currently undertaking the demonstration projects which, as I have indicated, will involve work being commissioned with some of those seven companies that have been selected for the compliance contract and the road user framework.

Q560 Mr Leech: I would be interested to have an exact figure that has been spent by the Government in the last 12 years on road user pricing investigations. Given the lack of progress over the years whatever that figure might be would it be fair to say that that money has not been very well-spent?
Paul Clark: No, because any of the work that has been undertaken actually does help to identify some of the issues that are being faced; for example, the money that has been spent in terms of working up Transport Innovation Fund bids around demand management, if they do not necessarily come to

fruition, is not money that is necessarily wasted because it has identified exactly the issues that need to be dealt with; how they are going to be dealt with is then a matter for further consideration.

Q561 Mr Leech: Would you say then that within the next 10 years we are likely to see some form of additional congestion charging or road user pricing somewhere, or across the whole country?
Paul Clark: I cannot say to you that within 10 years you will see that because, as I have indicated, one of the major things about the demonstrations project is to find what is possible and what is not possible in terms of that before making a policy decision as to whether we go down that route. What I can say is that we have issues about congestion that are there that we have to tackle.

Q562 Mr Leech: If there is no prospect of anything happening in the next 10 years again I put the question to you, is it really a good use of money at the moment if there is no prospect of anything happening in the next 10 years?
Paul Clark: It is good use of money because of identifying exactly the issues that we are seeking to identify through that work of the demonstration projects.

Q563 Chairman: Mr Clark, do you have any targets on this, on when you are looking to find a solution because this does seem to be going on for a very long time and your answers are very vague.
Paul Clark: In terms of the timescale and in terms of the demonstration projects we have indicated that clearly we expect those to start by spring of this year, Chairman, and we would expect to have data clearly flowing from those within 12 to 18 months that was clearly usable. I will also say to the Committee that as we progress through those projects there will be information that will be available through various channels including the DfT website so people are kept up to date as to how that is progressing.

Q564 Chairman: You are saying that in 12 to 18 months you expect to have reached some conclusion.
Paul Clark: There will be data that I believe will be useful for us to be able to consider. I indicated earlier that it may raise other issues from what is possible.

Q565 Chairman: So it might go on further.
Paul Clark: I am not able to pre-judge, obviously, what the outcome of those demonstration projects will be. The whole point about doing them is obviously to get answers to the questions that I am sure members of your Committee and we have.

Q566 Mr Leech: I would like to move on a little bit to ask what discussions you have had with counterparts in the Netherlands about their proposed scheme.
Paul Clark: It will not surprise you that we have had discussions with the Dutch. In fact, very recently there were discussions at an official level with counterparts in the Netherlands about the steps that they were taking. We are well aware of those steps that are going forward and they are, as I understand the question, seeking to introduce their scheme from 2011 onwards.

Q567 Mr Leech: Questions have been raised of the Dutch scheme that technically it is not feasible, that the GPS system may not work and there have been some questions about privacy. Do you have any concerns about that?
Paul Clark: There are exactly those issues about the technology: will it work in certain areas, will it work in narrow streets, will it work in open areas, what information does it require to operate that gives a robust system that car users can have faith in is one thing and issues about privacy are another. That is exactly the point of the work that we are doing through the demonstration projects.

Q568 Mr Leech: Why does the DfT take a different view to ministers and officials in the Netherlands because they seem quite convinced that they can get it to work?
Paul Clark: I do not want to answer, clearly, for the Dutch. I do believe that this is actually the fourth attempt for them to introduce such a road pricing scheme and what I am saying is that we believe, by your own indications, that they have concerns about whether the system will work, whether GPS will work, whether there are issues about privacy. I want to make sure that we have answers to those as far as we can with technology that is evolving.

Q569 Mr Martlew: I have listened, Minister, and I am not convinced really; I suspect that the trials will carry on into the future. From what I can gather there is road pricing in Germany, there is road pricing in parts of Canada, there is road pricing in Italy and there is going to be road pricing in Holland, so it looks like we are reinventing the wheel. The reality is that the politicians sitting around here, perhaps with the exception of Mr Leech, I do not know, would not want to go into the next election on a policy of road pricing. Is it not right that until we can convince the motorists in this country that road pricing is necessary and that road pricing will not cost them any more money, we will not introduce road pricing in this country. Is not a fact that the Manchester referendum was a sort of death knell on congestion charges in the city?
Paul Clark: One of the things that Mr Martlew said there was about convincing the road users that it will not cost them any more money. I would not disagree that that is an element in any discussions that we have but we have to be able to answer what will be the cost of the scheme that you introduce, and the problem is one of the reasons for having the demonstration projects is to find what is the technology that we might want to use if we were to follow a national road pricing policy, what would be the cost of implementing that, what would be the cost of administration of that and then we could start to have some idea of whether we could have that argument and discussion with the road users of this country. At this moment we cannot do that.

Q570 Mr Martlew: What I was implying is that it is happening in all these different countries in the world and the only difference between them and us is we drive on the other side of the road, so why do we not just pick their brains and say this is the system that works and this is the system that does not work, because we are not going to introduce road pricing, are we, within the next decade?
Paul Clark: We do have a dialogue, as I was indicating, with the Dutch and with other countries that are investigating these issues the world over about what they have learned and what lessons they are learning, where they are going and the route. Obviously we do that because it would be senseless not to have discussions with some of those that have, but the countries that have been indicated have had a range of different schemes or are introducing a range of different schemes, such as the Dutch, compared to others—compared to Germany for example—in terms of their charging and in terms of just HGVs. There is a whole range of issues there but we have to meet the issues that we have in terms of our transport issues and problems here within this country.

Q571 Mr Martlew: That brings me to my final point, the issue about congestion charges for cities, the comment I made is that after the Manchester referendum that is dead. Do you believe that there will be any more cities that actually vote for congestion charges in a referendum?
Paul Clark: Let me assure you that the Transport Innovation Fund provisions are still there, we will still entertain plans that are brought forward by areas that are still looking at the possibilities of obviously bringing forward plans to tackle the congestion they have got in their towns, within their regions, and we are looking at those schemes that do come forward in terms of tackling that congestion through investment in public transport and the introduction of congestion charges. There are still discussions going on and I am hopeful that they will still come forward. Manchester was one such bid that happened and obviously Manchester is still receiving the monies and the investment through the other programme because the TIF money has always been additional to the general flow of funds for investment in road transport plans.

Q572 Mr Clelland: Is funding beyond TIF going to be dependent on whether or not the likes of Newcastle, Tyne-and-Wear and areas like that actually accept a road charging scheme?
Paul Clark: No.

Q573 Mr Clelland: Is that not what happened in Manchester?
Paul Clark: The Transport Innovation Fund has always been an additional stream of money that is linked to demand management and investment in public transport, but that is over and above the funding streams that are still there in terms of local transport plans and in terms of regional funding allocations—indeed, Manchester is still receiving the monies to go into the Metrolink extension to Rochdale and Oldham. That is still happening and that will still be the case.
Mr Clelland: But additional money was promised if the congestion charge was brought into Manchester.

Q574 Chairman: That is still there.
Paul Clark: That is still there.

Q575 Sir Peter Soulsby: Can I take you back to something that was referred to earlier which was the then Prime Minister in May 2006 writing to the then Secretary of State for Transport, and he said: "Managing demand for road transport and ensuring we get the best out of our existing network are vital." "Managing demand for road transport"—what you have described to us is an approach that is currently squeezing more into the existing network or tinkering with the network to try and improve the way in which that demand is catered for. What you have not described is the determination of the Government to actually try and manage demand, certainly not manage demand through road pricing. When you were asked earlier on about what you saw in 10 years time you certainly were not prepared to contemplate any firm commitment from the Government to actually taking forward any realistic prospect of road pricing. Really what has happened in the meantime has been a government reaction to a perception of public opinion—the Manchester poll has been referred to, there was a Downing Street e-petition; frankly have you not just got scared of the issue?
Paul Clark: No, not at all. What the Member should recognise is that we have actually taken up the issues that were being referred to in that quote that was brought forward, because it is about investing in our current network and getting better use of that; that is only right, that we should look at whether we can get better use of our strategic network, whether we can get better use of our railways, and we have been investing in that because we are able to deliver those issues relatively quickly. You are not overnight going to introduce a road pricing scheme if that were to be the policy; you are not going to do that overnight to be able to manage exactly the issues that we are talking about, but giving people alternatives is exactly a way of being able to try and manage that demand for road space at this stage and far more quickly, but the determination that is there in terms of being able to try and help, both with the strategic network and local authorities and regional bodies to meet the issues of congestion within their own areas is second to none.

Q576 Sir Peter Soulsby: If we can just take the end of that particular quote: "I would like you to identify the other key steps for the successful introduction of road-user charging within the next decade." You did not imply earlier on that you were still committed to that; are you still committed to that?
Paul Clark: We are still committed to getting on with finding the answers and what is possible and what is not possible within road pricing; that is exactly why we are doing the demonstration projects. I could sit

here and probably draw up a scheme and go out to some people and say "What is possible?" but you would expect us to be far more robust because you would expect us to be coming here if we were ever to say we are going to go down this route, and you would want to say "What is it going to cost; how are you dealing with privacy; how are you dealing with the robustness; how are people going to be assured that they are being charged for the right part of the journey and so on?" Those are issues we must answer.

Q577 Sir Peter Soulsby: You, the Department and the Government, are committed to identifying the key steps for the successful introduction of road user charging in the next decade.
Paul Clark: We are committed to finding out the answers to actually be able to make that final decision; that is the whole purpose of the road demonstration projects.
Sir Peter Soulsby: With respect I would suggest that is something very different.
Chairman: I think that is as far as you are going to get.
Sir Peter Soulsby: It may be as far as I am going to get but it is clearly something very different from the commitment in 2006.

Q578 Chairman: Do you have anything further you want to say on that point?
Paul Clark: I would say there is a commitment that we are taking forward those projects to get the answers that we need to be able to continue that work.
Sir Peter Soulsby: It is futile to pursue it, Chairman, but I think the difference is evident.

Q579 Ms Smith: I just wanted to go back to the issue you raised earlier about the revenues raised from motorists and it strikes me that there are hidden costs related to the use of the road network, and I would really like to know whether Government monitors those costs: for instance, does the DfT monitor the cost of policing the road network, not just in relation to speeding fines and all the rest of it but in relation to dealing with road traffic accidents, major incidents and so on. Does the DfT work with the Home Office to look at those costs, which are hidden costs to most people?
Paul Clark: Can I assure members that we do exactly that and we do actually work out the external costs that are involved because you are absolutely right that it is not just the obvious costs that are there in terms of maintaining roads and maintaining the infrastructure, building them, expanding them, whatever, it is in terms of the accidents that are involved, the air quality effect, the noise effect and those are taken into account in terms of various modelling that is undertaken.

Q580 Ms Smith: In terms of the Department of Health and in terms of road traffic accidents, the DWP in terms of long term disabilities that result from road traffic accidents and the Home Office in terms of policing costs, they can be clearly broken down and made available to the Committee, can they, for any given year?
Paul Clark: I can certainly let the Committee have the modelling that is done in terms of the costs that are involved and the external costs that are included within the modelling exercise, so we can certainly do that.

Q581 Ms Smith: It is not just the modelling, it is the costs, they can be made available to us for any one given year or a number of years.
Paul Clark: We can certainly give you the costs that are involved in terms of that modelling exercise; in terms of the full detailed costs, clearly it would be across the work and the collection that we have done, but the biggest external cost that is involved actually centres around the issues of congestion and the effect that that has on other users and so on, and other potential users. I can certainly give you a full breakdown and write to the Committee in terms of that data, that is part of the work that is done by the Department for Transport.

Q582 Ms Smith: To go back to the point about hypothecation, I take entirely the case that was made against hypothecation, but surely there is an argument now to be made for Government to invest on a broad scale if you like in the railway network, in the public transport network, as a means of reducing pollution, reducing health impacts and actually encouraging further economic growth. Is not the case for doing that, particularly in relation to the railways, one that cannot be dismissed at all, it is unassailable in my view.
Paul Clark: That is absolutely right and that is why there are record levels of investment that have been going into improving some of those main arteries in particular, in some of the work we have announced in terms of bringing forward some of those plans in terms of rolling stock et cetera through the physical stimulus at this current time. Of course, there is also the announcement of High Speed Two and the formation of that company to actually look at providing in the longer term a new line, certainly to the West Midlands, to connect then beyond the first stage.
Angela Eagle: Can I just reiterate there has been a 7% increase in capital investment[3] in transport and in all of the four Comprehensive Spending Reviews that we have had there have been real and meaningful increases in investment that we have put into our transport network.

Q583 Graham Stringer: Two different questions if I may. The first one is that the Government rightly insists, when it is looking at congestion charging schemes and car parking schemes as a way of managing demand, that consultation is carried out. I was shocked when we had a witness from Nottingham who told us of the consultees who were affected by the car parking charge that they are considering. He said 85% of them were against it,

[3] Correction by witness: delete "7% increase in capital investment" replace with "70% increase in investment".

and this was seen to be a sensible basis for giving the go-ahead to the scheme. What is the Government's response to that?
Paul Clark: I assume Mr Stringer is referring to the workplace parking levy. This is one of the tools that was provided for local authorities to consider.

Q584 Graham Stringer: I understand what it is, I am talking about the consultation process.
Paul Clark: Every local authority has a duty to consult on that process and to make then decisions accordingly depending on their local circumstances.

Q585 Graham Stringer: Eventually you will have to give the go-ahead to the scheme on that basis.
Paul Clark: You will appreciate that bearing in mind we are currently considering it as far as Nottingham is concerned it would be wrong for me to comment specifically on the Nottingham scheme at this stage, bearing in mind there is a quasi-judicial role that the secretary of state has to take.

Q586 Graham Stringer: I understand that so let us talk more generally. If there are 85% or 90% of the people against—does the Government have any threshold of response where it says that is too many people against; we will not go ahead when we are considering it?
Paul Clark: Of course we do not; we do not lay down to local authorities. We have been moving away from saying that we are giving local authorities—

Q587 Graham Stringer: I am asking for your assessment of the local authority's process, not laying down anything. The local authority have carried it out, they have said that 85% against is a really good reason to give it a green light, and I am just asking, the Government having insisted quite properly on consultation, what sort of background criteria do the Government have to assess that?
Paul Clark: One of the things that I indicated is about giving a range of tools to be able to make transport effective and efficient, in whatever form that may be, and to reduce the overriding issue of congestion.

Q588 Chairman: How do you assess the consultation, that is the question.
Paul Clark: We have provided those tools for local authorities to make decisions on. They have a general duty to consult on issues and about the well-being of their local residents, and that is part and parcel of the WPL as well, that they have that requirement to do that. They will therefore have to make a decision in terms of the scheme they are putting forward with relevant details. That is what we have to do and we make general provisions in terms of consultation and processes, but I am not going to discuss specifically the Nottingham issue any further.

Q589 Graham Stringer: I am trying to stay away from specifics because it strikes me that if the Government, and I agree with it, insists on consultation—we are not talking about Nottingham, I could give you the details in Manchester which were similar sorts of figures in terms of the number of people opposed and the consultation. What is the purpose of consultation if, when you have consulted, a very large number of people, a majority—maybe nearly 100% on some of these schemes—are against? Will the Government take that into account or does it not matter? Is it just a process issue, you have gone through the process, take whatever decision you like and we will accept it, or does the Government consider the figures in that consultation?
Paul Clark: The first issue is that the mechanism of consultation is a matter that is not prescribed, we do not lay down that you should have referenda for example or how you take that forward. Each case has to be considered on its merits when it comes forward in terms of what it is attempting to achieve and take forward and you have to judge it against those individual cases as to whether it meets those objectives and the criteria laid out for that given provision. That is why you have to consider each by itself and the only case that we have as far as WPL is concerned is currently from Nottingham.

Q590 Graham Stringer: I do not think I am going to get much further on that. I will move on to my second issue. You said we are going to make better use of existing facilities, the existing network, or words to that effect; do you not think that that is a profoundly reactionary thing to say when you have such regional imbalances in this country, to say that where there are problems we will just put the money there? What it boils down to in reality is that in dealing with congestion most of the money goes into the South East.
Paul Clark: I certainly do not think it is reactionary and I certainly do not think that that is reflected—

Q591 Graham Stringer: Do you disagree that most of the money and increasing amounts of money are going into the South East?
Paul Clark: In terms of investment that goes in through the regions it is widespread. It is about meeting a number of objectives and one is the issue about congestion, but that obviously then hits a number of other indicators. In terms of congestion affecting productivity, the ability in terms of jobs and prosperity clearly is important and those are some of the things that are led through a number of different fora in terms of, for example, regional development agencies having the responsibility to bring some of that together and the regional funding allocations process is very much about bringing together those issues.
Graham Stringer: Angela earlier said, quite rightly, this is a Labour Government and we have increased spending by 70% on transport. That is right, but the difference with transport—unlike education and health where there have been large increases as well which I am very proud of—is the gap between the amount of money spent in London and the rest of the regions has increased whereas in the other spending blocks it has stayed about the same. Is that not a direct consequence of just making use of the

network and not putting real economic drivers into the regions like a tram on Merseyside—one can think of many other economic drivers.

Q592 Chairman: Mr Clark, does that concern you and concern the Department?
Paul Clark: What concerns me is about making sure that we utilise the funds that we have, which have increased, as Angela has indicated, by some 70% since we have been in office, that they are used effectively and efficiently across the regions to meet the demands that there are. That is why I have already indicated that there is money going into Manchester, for example, to invest in the extension to the Metrolink because the cases have been made.

Q593 Graham Stringer: That is not the question I am asking. We know there is money going in and the biggest increase in the regions is into the Yorkshire region in terms of expenditure which happens to be the area with the lowest per capita expenditure, but what I want to know is not that there is money going into Humberside or into Newcastle, which there is, it is why is the gap between London and the South East and the rest of the country increasing? I would like you as a Transport Minister, with a different spending profile from all the other large spending departments, to justify it.
Paul Clark: Because of the demands that there are in terms of meeting the requirements of London as the capital city in terms of the demands that it has upon it.

Q594 Graham Stringer: So the rich get richer; those that have get more.
Paul Clark: No, because it would be wrong—

Q595 Chairman: Does that mean that you are satisfied with the distribution of spending in transport in terms of the regions?
Paul Clark: We have in place robust mechanisms to be able to allocate that money to where the priorities are. What worries me is that the indication would be that there is not spending reflecting the demands that are there within other areas, so that is why I do draw attention to investments, for example, in Metrolink in Manchester, investment in road networks that has been going in, in substantial amounts, also recently up in Tyne-and-Wear in terms of the £300 million that is going into the reinvigoration programme there for the Metro. They are all monies that are happening.

Q596 Graham Stringer: I would just like to repeat your question if I may, Chairman. Are you happy with the fact that the expenditure on transport per capita is increasing at a greater rate in the South East than in the rest of the country.
Paul Clark: In terms of per capita if I am correct, and I will check, the level of investment per capita, for example in the Tyne-and-Wear region, is one of the higher levels per capita compared to other areas, in fact I think it is the second highest. We do have a robust system that tries to bring it together where the priorities are.

Graham Stringer: No, it is where the investment already is, that is why it is a profoundly reactionary policy and it leads to a greater gap between spending in the South East and the rest of the country. I do not think we are going to get much further, but I will just leave that in the air.

Q597 Chairman: What is going to happen to the money allocated in the TIF for congestion charge-related schemes if it is not spent, Ms Eagle? Is it going to go back to the Treasury; has Treasury got designs on it?
Angela Eagle: Obviously the Manchester result has left a hole in what the spending programme might have been if it had been different, but my understanding is that there are other areas that are interested in accessing that money and, certainly, that money and its availability has been extended once more to 2018–19. We are not at this stage wanting it back, no, because we think there is still the potential to use it for its original purpose and the Department for Transport will be examining that in its handling of the particular areas that are coming forward with ideas.

Q598 Chairman: There is not going to be any cut-off point at which the money will be taken back.
Angela Eagle: So long as there is interest and there are ideas coming forward for the money to be used in the way it was originally allocated then it is up to the Department for Transport to see what it can do to make best use of that. If that were not to be the case, if suddenly everybody was to lose interest—

Q599 Chairman: What would happen if there was not that interest?
Angela Eagle: In that kind of hypothetical situation then we might have to have a look at what to do with it, but we are not anywhere near there yet as I understand.

Q600 Chairman: No decision has been taken to take that money back.
Paul Clark: No, we have a funding stream that is there until 2019. That is there and, as indicated earlier, there are still areas that are actively looking at schemes that they may well bring forward. That money is there, it is additional funding over and above normal transport funding.

Q601 Ms Smith: I just want to ask how aware the Minister is of the work done by the Northern Way Group—and it goes back to the point Graham was making a few minutes ago. The Northern Way Group have pointed out that if Government is to be proactive rather than reactive in terms of encouraging economic growth it has to reduce the distances effectively between the great cities of the North—Liverpool, Manchester, Leeds, Newcastle, Sheffield—and the distances to the Humber Estuary with its capacity as an important exporter of goods, one of the greatest in the country. The economic benefit to the North of a Trans-Pennine link would be £30 billion but over and above that it would have an economic benefit to the South East as well. Surely the Department for Transport can see the advantage of investing in the North proactively rather than continuing to invest in perceived capacity problems in the South East. Should it not do both, but should it not get onto the front foot in terms of making sure that we anticipate economic growth and encourage it rather than just reacting to problems that we have in the South East?

Paul Clark: I do not disagree in terms of the investment and let us not forget that in terms of the investment that has gone into improving some of those major links that we are talking about. I have referred to, for example, the West Coast Main Line, the £8.8 billion that has gone into improving those links in terms of investment that has gone into a number of schemes there. We are well aware of that in terms of looking at the case having to be made for all schemes to actually make sure that clearly they meet the criteria that are laid down. In addition to that, by nature of some of the transport issues we are talking about having to look long term and at long term planning; that is why the secretary of state, for example—agreeing entirely with what you say in terms of basically bringing our major conurbations closer together through better transport links—has announced improvements in terms of the strategic road network, in terms of increasing capacity now and in terms of setting up High Speed Rail Two, to look at a new high speed line that will actually be looking to take those issues forward.

Q602 Ms Smith: It takes an hour and a half to travel on the train between Manchester and Sheffield, is that acceptable? In 2009 is that acceptable? It is 40 miles.

Paul Clark: I do not think you would expect me to consider every single scheme that could be put forward, I am sure, if we went round the table and make a judgment and comment upon those.

Q603 Ms Smith: That is the new Trans-Pennine link that we are looking at now.

Paul Clark: I recognise also that I was very recently at the signing of a multi-area agreement that is looking at some schemes that will actually improve some of the links between towns and cities in fact in the Trans-Pennine area.

Ms Smith: We are talking about the major link here, this is the major link.

Q604 Chairman: The Government has said it wants to bring infrastructure projects forward in this economic recession to develop economies and to create jobs; are those the sorts of schemes the Government is looking at?

Paul Clark: We are looking at schemes that we are able to use as a fiscal stimulus, schemes that will actually have a direct effect very quickly in terms of being able to help us in the current economic climate, so a range of schemes has been considered and is being considered by officials in the Department.

Angela Eagle: Perhaps I could just add that the £3 billion of fiscal stimulus part of the budget for capital infrastructure was essentially bringing forward expenditure that had already been planned for and allocated in the Comprehensive Spending Review, bringing that forward to the time when we expect the economic downturn that we are in to be at its most acute. An important part of a fiscal stimulus is that you can bring it forward in a timely way so that it will impact at the time you wish it to; therefore it is important not to mix up that bringing forward of already scheduled capital investment with any potential capital investment going further out than the CSR period that we may all want that may even have a great deal of merit about it, so the fiscal stimulus part of the Pre-Budget Report was essentially about bringing forward all the ready-planned expenditure that could be brought forward quickly, and the most obvious transport example is the bringing forward of the contract for 200 new rolling stock which was already scheduled but could be expedited. We are hoping to get the contracts signed by April.

Q605 Mr Leech: Mr Clark said that he was confident that potentially other local authorities were going to come forward with possible schemes for using TIF money but earlier in the question session you said to me that you did not foresee any local or national road pricing/congestion schemes in the next 10 years. Surely those two statements are at odds?

Paul Clark: I thought you were asking particularly about national road charging schemes. There may be local ones that are brought forward through the local TIF programme.

Q606 Mr Leech: Which local authority areas do you expect to put in a bid for TIF money?

Paul Clark: There are active considerations going on in Leeds and Reading, for example, Cambridgeshire is another and there are others in the west of England as well that are actively considering things.

Q607 Mr Leech: All those local authority areas are aware that they have to have an element of congestion charging attached to them.

Paul Clark: We have laid down very clearly in terms of the Transport Innovation Fund that it is about bringing forward and tackling the issues of congestion through investing in public services and having a demand management scheme such as congestion charging, yes.

Q608 Mr Leech: Have you set a deadline for when schemes can be brought forward by local authorities that will have that element of congestion charging in them?

Paul Clark: No, we have not set a deadline. These are matters which we are well aware are complex and need to be worked on and that is what they are doing. Of course, there are dialogues that are going on at both local levels and of course with officials in DfT.

Q609 Chairman: Finally I want to ask you about lorry road user charging schemes. The Government has said it is not going to introduce any such scheme so how are you going to have a level playing field between British hauliers and foreign hauliers? We

have had a large number of complaints from the haulage industry, what are you going to do about that?
Paul Clark: The Secretary of State made clear in his statement in July 2005 that we would not go down the route of a distance-based charge for lorries, in reality because of the issues of the costs and benefits that were involved in that and the volumes of foreign vehicles that we have travelling here are not to the levels, for example, that often people refer to such as Germany or Austria.

Q610 Chairman: What are you going to do about the problem?
Paul Clark: What we followed that through with in fact was a feasibility study that was done on what needed to be done to in fact address the issues in terms of the impact of foreign competition, and one of those things was very much about making sure that there was compliance, a far stronger compliance, with our road safety and our rules of the road here. That is why we have actually invested some £24 million into those to actually increase and to take up the issue about making sure that those lorries that are on international trips do actually comply with the safety requirements of this country. In fact the level of enforcement has actually increased to double the number of those that were actually there before that.

Q611 Chairman: Is that the Government's total response to the issue of unfair competition as seen by the industry?
Paul Clark: In terms of making sure that the issue that came forward from the working group—which involved representatives of the haulage industry—and should be dealt with was the issue about safety and compliance with our rules on our roads. That was seen to be the most important thing to be dealing with at this stage.
Chairman: Thank you, both of you, for coming and answering our questions. Thank you very much.

Written evidence

Memorandum from Colin Prosser (TAX 01)

1. Increasing road tax on larger cars will not make people change to smaller cars. People need larger cars for numerous reasons, increasing RFL will not make them change vehicles. Encouraging them to make fewer journeys in their cars is the key.

2. Surely the people who use the road the most should pay the most in tax . . .this means fuel!!!! Increase the tax on fuel to reduce vehicle usage. Road-pricing tolls simply mean drivers will find alternative routes.

3. Commercial vehicles up to 44 tonnes cause more damage to the road surface—these vehicles should pay more tax than they currently do. The average fuel consumption of an HGV is much less than 10 MPG.

4. Diesel engines last longer than petrol engines—longevity should be praised as this means less scrap diesel-powered vehicles.

5. This country has a severely under-used rail-network in terms of freight. Encourage more freight use of rail to remove trucks from the roads. Local freight terminals will be needed but there is still plenty of un-used railway owned land for this. Re-opening of closed lines will help an enormous amount.

6. This country has a severely under-used rail-network in terms of passengers. Encourage more passenger use of rail to remove cars from the roads. Free car-parking at railway-stations. Passenger trains on the network 24/7. Speed of the train is unimportant, the cost of getting 2 minutes off a particular journey time is a complete waste of resources. Reliability and frequency of services are the prime concerns. Having extra carriages available rather than the fixed formations which are often too short to cope with passengers demand. Personally I'd much rather have a train with enough seats running every half-hour rather than having no seat and running every 15 minutes, and allow time for adding extra carriages. This country needs a co-ordinated rail network, not guided bus-ways, not trams. More stations in areas that need them should be built immediately.

7. Bus services are dismal in many parts, even in cities. The bus network should be massively increased, even if it means subsidies. A renationalisation of the bus network would be the simplest and best idea to achieve this. A viable alternative to cars has to exist to get people out of them.

8. A system of school-buses for every child should be introduced and paid for through the education budget. This would remove the need for school-runs up and down the country. Encouraging local schools for local kids rather than travelling miles and miles to get to supposed "better" schools outside the local area.

9. Encouraging shopping in the centre of towns and cities rather than simply agreeing to every application for out-of-town huge supermarkets and retail-estates—cars HAVE to be used to get to these places. Town centres are dead and decaying, we need to get the shoppers back into the towns using public transport.

10. Vast new housing estates are being built with little genuine local shopping, cars have to be used to "pop" down to the nearest Asda or Tesco. When new housing estates are built why not encourage more shops in amongst the house, not in one great big dollop in the middle of the estate?

11. Hybrid cars are still only for the few. Not enough investment in "new fuels". Used car-buyers (that is most of us !!!!!) are reticent about buying new unproven technology. Forcing car manufacturers to have extended warranties (10 years?) on the vehicles they make will encourage second-hand ownership of greener cars.

12. Introduce significant tax advantages for employers and employees for working from home, thus reducing the "rush-hour" with cars sat idling for hours in traffic.

July 2008

Memorandum from Adrian Ellis, Profil UK Ltd (TAX 02)

Foreign Truck Road Tolls

This is definitely an idea we should adopt; take Germany as an example as it sits in the midst of west and east Europe. They managed to introduce a fully automated monitoring system on all autobahns in order to collect tolls paid by foreign trucks using and damaging German roads. UK could easily introduce such technology as we have limited access points for HGV. The main benefits would be revenue raising for road repairs, and giving UK-based hauliers a more level playing field against foreign competition who pay less road tax and fuel tax.

August 2008

Memorandum from Steve Gilliver, Sanden International Europe (TAX 04)

1. All revenue raised from taxes on motorists should be made public and detailed (including; fuel tax/road fund tax/congestion charge/speeding fines).

2. Then there should be a clear and honest report on where all the money raised is spent in terms of Roads/Public Transport/Investment in Green Technology. Taxes raised for Green concerns should be clearly identified and shown how these are used to specifically reduce CO2 emissions.

3. ALL foreign trucks/vans/cars should be charged a fair toll to drive on the roads of the UK to compensate for the damage they cause to the roads/environment.

4. ALL foreign registered vehicles in the UK should be subject to the same laws and taxes as UK registered cars. Foreign registered vehicles should be required to pay parking fines/congestion charge/camera issued speeding fines etc.

5. Road users should be consulted regularly for ideas on how to improve spending of the taxes that are raised from them. Keeping people involved in the process will inevitably improve the relationship between Government and Public—something which is well overdue.

I hope these points are useful

August 2008

Memorandum from F. J. Steele (TAX 05)

One can only assume that the Government is aware that road charging was passed by the E.U. and the start date was 8 June 2008, for the whole of Europe, should a machine be available for use.

USK has such a machine and has the backing of the V.C.A., but has been blocked by the Department for Transport.

It would have created secure long term employment for 40,000 people, and a revenue stream for the treasury of £12 billion per annum.

There are only four companies that have E.U. authorisation to make the machine, one of which is in negotiation with the legal team that represent USK, to take it abroad.

I hope the above provides information on the subject of road charging.

July 2008

Memorandum from the Brewery Logistics Group (TAX 06)

1. Background

1.1 The Brewery Logistics Group (BLG) covers all main brewers' deliveries into London, made up of the following companies

Carlsberg
Fuller Smith & Turner (incl Gales)
Greene King
Hall & Woodhouse
KNDL (Scottish Courage etc)
Marstons
Shepherd Neame
Tradeteam (Coors, Inbev, M & B etc)
Waverley TBS
Wells & Youngs

1.2. Between them they run in excess of 1,000 vehicle days per week into London

1.3. The major concern covering this submission is that of Penalty Charge Notices (PCNs) issued under the premise of "illegal" parking which are ongoing, increasing and have become an unavoidable overhead due to HSAW and the current parking regime.

1.4 The latest statistics for BLG members highlights that in excess of £2 million per annum is being charged by the London Boroughs and TfL, and this is seen as yet another "tax" that will have to be passed onto the general public.

	May 2005	May 2006	May 2007	May 2008
Total PCNs issued	819	1,228	1,396	1,431
percentage increase		50%	14%	3%
Est cash value	£982K	£1,474K	£1,675K	£2,061K
percentage increase		50%	14%	23%

in addition there is in excess of £100k pa depot admin charges to try and control these PCN issues.

1.5 The top five areas in Central London issuing PCNs in 2007–08 were

Westminster
TfL
Camden
Lambeth
Islington

between them they issued 43.4% of all PCNs within the London Boroughs, and one of the most disturbing facts is that TfL has replaced Camden as the second largest issuer of PCNs.

1.6 There are several aspects of the new parking regulations that add enormous pressure and cost onto the commercial vehicle as follows

2. Differential Parking Charges

2.1 This was introduced into London on 1 July 2007 as a system requested by the public for those people who cause most disruption to others to receive a heavier penalty than those committing a lesser contravention. This following a very confusing consultation document with only 113 respondents made up of 60 members of the public (53.1%); 29 London boroughs (25.7%); TfL (0.9%) and 23 organisations (20.4%).

This was heavily weighted, as you can see, in favour of the basic road user and with the boroughs making up a further 25.7% there wasn't much chance for the commercial vehicle, which is hated by most members of the public despite their unrecognised reliance on it for day to day survival.

Despite this, in theory, it appeared commendable, but when analysed it became apparent that all codes under the higher rate are those issued to commercial vehicles, as stated above the lifeblood of the capital, which couldn't survive if it wasn't for these vehicles delivering all requirements of those who live, work and visit the capital.

2.2 Having analysed two periods of PCNs issued to the major brewery distributors since the introduction of Differential Parking Charges the following emerges

	total PCNs received	At higher rate	
KNDL 020108 300408 (4 months)	1,965	19,51	99.3%
Tradeteam Sept/Oct 2007/Jan 2008 (3 months)	1,240	1,222	98.5%
TOTAL FOR PERIOD	3,205	3,173	99%

2.3 London Councils have just issued their PCN statistics for year ending 31 March 2008, and boast just over a 1% (1.2% to be exact) increase in PCNs issued 2007–08 versus 2006–07, thus justifying their move to the two tiered system, but they fail to assess the financial implications following the introduction of the two tiered system.

When making some simple calculations on the figures issued it becomes apparent that the financial implications of the new system raises an increase of revenue year on year of 9.1% and this is for the system only running for nine months of the year under analysis.

As the brewery industry (which will be mirrored by all other distributors) has 99% of their PCNs at the higher rate it meant that the industry received an increase of 20% overnight, as can be seen from the statistics in 1.4 above. (May 08 v May 07)

2.4 From the above it can be seen that the introduction of this two tiered system penalised the commercial vehicle and added further costs to the already unacceptable levels of PCNs being received for just "doing their job"

And on the strength of the fact that London Councils have played down these claims by us, sticking to their 1% increase of PCNs issued, the scheme is now to be introduced nationally from 1 April 2008.

3. Definition of Loading/Unloading

3.1 Within the "Operational Guidance to Local Authorities: Parking Policy and Enforcement TMA 2004" loading/unloading has at last been clearly defined under 8.56 which states

> "Loading or unloading must be continuous while the vehicle is parked in restricted areas. It is therefore important to clarify to CEOs that loading or unloading includes taking goods to where the recipient may reasonably be taken to require them in the premises, waiting for them to be checked, getting delivery or collection documents signed and returning to the vehicle. Delivery staff are expected to secure their vehicle when they are not with it and a vehicle can be legitimately locked during some of these stages. Once the delivery process is complete, however, the driver must move the vehicle even if it is within the maximum period allowed for loading or unloading"

3.2 This is a very clear and concise interpretation of all deliveries made into the capital, with the special emphasis on the vehicle being secured when legitimate activity is taking place within the delivery point.

3.3 This would, if followed, to its "letter of the law" obviate a lot of "illegal" PCNs which have to go through the appeals procedure to be squashed, costing not only the operator a lot of time and money, but also the boroughs involved (see 7.3) However, CEOs will not check the premise if a vehicle is secured outside the building. They will abide by whichever observation period is operational on their patch (see 4 below) and then issue a PCN.

4. Observation Periods

4.1 Until recently there was a 20 minute observation period that kicked in after 1100 hours, well after the "morning rush", and this was in desperate need of updating, also it was interpreted in different ways by all London boroughs and in fact from borough to borough it varied from zero to 20 minutes through virtually every minute between zero and 20.

Therefore no commercial vehicle driver really knew what the period was, as he moved from 1 borough to another.

4.2 Once again London Councils reviewed this and moved it to 40 minutes, which on face value appeared very sensible, although this did not go quite as far as some operators would have liked.

Unfortunately there was a sting in the tail, as usual, which basically undid the positive move that had been made, which was namely that under the old scheme one could load/unload for as long as it took before 1100 hours, but under the new scheme—depending on the individual boroughs interpretation of the rules—before 1100 hours also carried the 40 minute observation before a PCN was issued.

This triggers the appeals procedure, which is both costly and ineffective to both the operator and the borough in question (see 7.3)

4.3 This became even more complex when the interpretation of observation in London was put on the table, and has since been adopted in the TMA Operational Guidelines as follows

Section 8.49

"There are two types of observation; casual and continuous. For casual observation, the standard procedure is for the CEO to note vehicle details when they first see a possible contravention taking place and to return a short while later or at intervals to see whether there is any sign of loading or unloading. If not, the CEO will issue a PCN"

Section 8.50

"For continuous observation, the standard procedure is for the CEO to note the vehicle details when they first see a possible contravention taking place and stay next to or near the vehicle, keeping it in sight at all times, for a set period (usually at least five minutes) to see if there is any sign of loading or unloading. If not, the CEO will issue a PCN"

4.4 As can be seen the observation period is now so complex that no one will really understand where they are as they move around the boroughs because it can be anything from zero to 40 minutes dependent on whether it starts early in the morning, after 1100 hours, is casual or is constant.

More PCNs to be appealed at a cost to all concerned!!!

5. Implications on Brewery Deliveries

5.1 As brewery deliveries take approximately 15 minutes per tonne, and some deliveries can be up to 7 tonnes, and up to 25% is inside the premises, with the problems highlighted in 3.3 and 4.4 above they have no chance of evading a PCN despite only doing their job, and once again kicking in the appeals process.

6. HSAW

6.1 One aspect of brewery deliveries that sets them aside from most other deliveries is HSAW.
Advice and guidance on the health and safety aspect of the brewing industry is highlighted in several documents

6.2 Because kegs can weigh in excess of 100 kilos when full (a 36 gall aluminium keg can weigh 193.6Kg) and have a height up to 65 cms and belly width of up to 50 cms they have to be handled very carefully and because of their weight and size the delivery MUST BE ADJACENT TO THE DELIVERY POINT, to safeguard members of the public, the drayman effecting the delivery and motorists in general.

This creates a major problem as most pubs were inexistence well before road traffic acts were introduced and unfortunately when planning permission is required for change of use (ie bank to pub or club) NO consideration is given to access for delivery.

7. Key Areas of Concern

7.1 The parking regulations do nothing for the commercial vehicle as they are basically aimed at the motorist who in turn are the local voters

7.2 The only similarity between the car and the commercial vehicle in this scenario is that they are both stationary, after this the needs of the commercial vehicle are entirely different to those of the car.

7.3 The enforcement protocol is basically controlled by third party operators who are in the business for one reason only—TO MAKE MONEY.

It is interesting to note that in the Centre for Crime and Justice Studies "Summary Justice Fast—But Fair? by Prof R. Morgan para 3 of the "conclusions" states:

> "In particular, the power to fine is now vested in many authorities and brings the risk that over zealous use may lead groups of citizens to believe that they are in reality the subject of a revenue raising initiative. There is often a perceived link with the way staff are managed and incentivized when there is outsourcing. This may cause substantial damage to public confidence. Such systemic issues could more readily be addressed by one inspectorate.
> (HM Chief Inspector of the CPS, 2007:4–5)

This sums up very clearly the feeling of all commercial vehicle operators with regard to the way parking enforcement has been handled in the past and with more councils/boroughs etc moving to third party operators this scenario is only going to get worse.

7.4 As the commercial vehicle is a better target than the thousands of unregistered, foreign and diplomatic cars that get away with parking illegally, erroneous PCNs can be the order of the day, with special emphasis on the commercial vehicle as they basically pay their PCNs after maybe appealing.

Tradeteam and KNDL have in excess of 20% of all their appeals upheld, in the largest Borough issuing PCNs, with appeals being approx 70% of all PCNs received

7.5 New regulations that have been issued over the past 18 months (Section 2 & 4 above) have basically an adverse affect on the commercial vehicle and comments made by the industry have been brushed aside and totally ignored, hence the PCN levels continue to grow thus having an adverse effect on prices being charged for goods and services

7.6 The needs of the commercial vehicle must be resolved asap as the planned growth of the London population over the next five years and 2012 will be in jeopardy if things cannot be resolved, as it will be unviable for distributors to operate in the Capital.

Inbev, for example, have already changed their policy of wanting a presence in every "drinks" outlet in London, to only operating in those that do not incur additional costs such as parking fines.

7.7 Whilst the bulk of PCNs are issued in London, and the policy of the DfT appears to be "what happens in London today becomes national tomorrow", PCNs will inevitably grow wef 1 April 2008 with the new regulations coming into effect.

As far as London is concerned it is time that London Councils stopped "burying their heads in the sand" as far as the commercial vehicle is concerned, congratulating themselves on "great" achievements, and got down to getting their members to revise those parking regulations that adversely affect the lifeline of the Capital (the commercial vehicle) and getting them fit for purpose instead of generating a "cash cow" for the boroughs under their care

7.8 More consistency across cities, counties etc.needs to be implemented urgently, not only for the commercial vehicle drives who visit several different areas each day but also for the motorist who must find the current regulations very confusing.

For example London has 34 different parking protocols to contend with, whilst the County of Kent has managed to get 12 out of its 13 councils to agree to a uniform parking protocol across each council making life much easier for all parties

8. Conclusion

The whole concept of linking loading/unloading with the parking regulations is questionable, as stated the only similarity linking the commercial vehicle's activity with the car is that they are both stationary.

However,

Differential parking and observation periods needs urgent review and to be more sympathetic to the commercial vehicle operators requirements to do their job.

A body needs to emerge within London who can actually ensure that basics are followed across all boroughs and not like London councils who can ultimately only advise on what should be done borough by borough (see what Kent has managed to achieve)

They must all sing from the same song sheet

September 2008

Memorandum from the National Union of Rail, Maritime and Transport Workers (RMT) (TAX 07)

The National Union of Rail, Maritime and Transport Workers (RMT), welcomes the opportunity to respond to the House of Commons Transport Select Committee Inquiry into taxes and charges on road users.

The RMT organises over 80,000 members and negotiates on their behalf with over 150 employers across all sectors of the transport industry. RMT is the largest of the rail unions and in addition represents around 7,500 members in the bus and road transport sectors.

Our long standing commitment to a publicly owned, environmentally sustainable and fully integrated transport system is well documented.

Summary

- Traffic volumes have increased significantly since 1997.
- Where congestion charges are introduced revenue raised should be used to improve public transport links and services.
- Overall motoring costs have declined whilst public transport costs have risen.
- Travel costs across modes should more accurately reflect carbon emissions levels.
- Government has to lead a well informed discussion on transport costs and choices.
- The liberalisation of cabotage rules will increase the number of non-UK registered HGVs, resulting in increased fears about social dumping and road safety.
- The DfT/VOSA should undertake a national survey of non-UK registered HGVs in order that firm conclusions can be drawn about drivers hours records and road worthiness.
- Non-UK registered HGVs should make a contribution to their external costs whilst using the UK road network.

Increased Traffic Volumes and Congestion

Recently published Department for Transport research[1] indicates that between 1997 and 2007 traffic on the UK road network has increased significantly;

- All vehicle traffic has increased on the whole of the UK road network by 14%
- Car traffic has increased by 11%
- Light van traffic has increased by 40%
- HGV traffic has increased by 9.4%
- Motorway traffic has increased by 23%

[1] Road Statistics 2007: Traffic, Speeds and Congestion (DfT July 2008)

— Urban A road traffic has increased by 0.5%

— Rural A road traffic has increased by 13%

The Department for Transport Annual Report 2008 indicated that measures to improve the reliability of the strategic road network "have not been sufficient to counter the negative impact on reliability from the growth in traffic level, higher levels of road works and particularly adverse weather during the 2007–07 measurement year compared with the baseline year".

Self-evidently further intervention to tackle traffic volumes and deal with the resultant congestion, not least in order to deal with the negative impact increased vehicle numbers have on climate change, will be required to ensure that the rather conservative Public Service Agreement target to make journeys more reliable on the strategic road network is delivered.

Taxes, Road User Charging and the Cost of Different Transport Modes

The sharp rise in the price of oil and the effects of the credit crunch has created increased pressures on household budgets. This is turn has consolidated public uneasiness about the cost of fuel, road tax, vehicle excise duty and proposed local and regional traffic demand management schemes. In response the Government has withdrawn plans to increase fuel duty by two-pence from October 2008.

Although protests have not been of the same scale with those organised during 2000, the 1.8million signatories on the Downing Street website last year caused the Government to step back from its tentative support for national road user charging.

Whilst RMT does not have policy either in favour or against road user charging, we do believe that if charges are levied, on a local, regional or national basis, the money raised should be wholly used to improve public transport in order to encourage modal shift from the private car to more environmentally sustainable forms of transport.

A written Parliamentary Answer of 22 July 2008 indicates that overall motoring costs have declined in real terms over the past three decades whereas the cost of travelling by public transport has increased.

Mode	*% change 1979–97*	*% change 1997–2007*
Private Car	−10	−8
Bus	+49	+13
Rail	+44	+5

The decline in motoring costs and the rise in the cost of using public transport reveals the need for a sober and well informed Government-led discussion on transport costs and transport choices.

Any such discussion should consider the impact that road user charging and fuel/vehicle excise duty has on a range of matters including employment prospects in the road transport sector, public aspirations to travel around the country in a safe, reliable and sustainable way and the contribution that the transport sector will make in meeting the challenging statutory targets to reduce carbon emissions set out in the Climate Change Bill.

It is simply not sufficient for Government to float the idea of national road user charging or propose increases in fuel duty and then retreat in the face of well supported on-line petition opposing the charge or the proposed increase.

RMT's view on this issue is clear. Using public transport is too expensive in comparison to overall motoring costs. A key feature of the transport sector's carbon reduction strategy should be that bus and rail fares have to be reduced in order that travel costs more accurately reflect carbon emission levels across different transport modes.

London Congestion Charge

The experience in London has been largely positive. Indeed, the newly elected Mayor of London, Boris Johnson, has not moved to abolish congestion charging although his administration has decided to scrap plans for the sliding-scale emissions based charge proposed by the previous Mayor, Ken Livingstone.

Since the introduction of the charge, traffic entering the central congestion charge zone has fallen by 21%[2] and early indications are that volumes have also been reduced in the western extension area. In terms of pollution, London Transport Commissioner Peter Hendy has reported that CO_2 emissions in the central zone are 16% lower than before the charge was introduced.[3]

[2] Transport for London: London Travel Report 2007

[3] Tribune Supplement: New directions for London's transport December 2007

An essential element of the London transport strategy introduced by Ken Livingstone, of which the congestion charge was a part, has been sustained investment in the London bus network. Fleet numbers have increased, and passenger numbers have risen by 49% between 2000–01 and 2006–07. RMT is concerned however that the Tory administration at City Hall is set to reverse this approach. It is our view the above inflation fare increases recently announced by Transport for London will discourage bus and tube use leading to an increase in car travel in the central zone, which will cause increased congestion, a reduction in traffic speeds and a rise in harmful carbon emissions.

Heavy Goods Vehicles External Costs

Fears in relation to the liberalisation of the cabotage regime, which RMT believes will increase social dumping in the road transport sector, and support for non-UK registered HGVs to make a financial contribution to their external costs whilst using the UK road network, were expressed at our 2008 Annual General Meeting.

Between 1992 and 2007 the number of non-UK registered powered goods vehicles travelling from Britain to mainland Europe increased from 394,000 to 1.7 million.[4] The result is that the market share of UK registered powered goods vehicles has dropped from 48% in 1997 to 19% in 2007.[5] The recent liberalisation of cabotage rules in the road transport sector, which will allow non-UK registered vehicles to undertake three additional jobs in a seven day period, will no doubt lead to further increases in the number of overseas registered vehicles.

Anecdotal evidence from RMT members in the road transport sector suggests that drivers of non-UK registered HGVs are being encouraged by their employers to flout the maximum hours driving specified in the Road Transport (Working Time) Regulations 2005. Our members have also raised roadworthiness and safety concerns in relation to overseas registered vehicles.

Cross-weight checks carried out on non-UK registered HGVs by the Vehicle and Operators Services Agency (VOSA) increased by almost 60% between 2003–04 and 2007–08.[6] A VOSA press release of 30 April 2008 suggests that the concerns expressed by our members have a foundation in fact.

During a 12-hour check 19 overseas-registered vehicles were inspected by VOSA officials for drivers' hours records and overloading records. The following prohibitions were issued‰

— 6 overloading prohibitions.

— 2 Drivers' Hours prohibitions for failing to produce any records.

— 1 Drivers' Hours prohibition for insufficient rest (9 hours rest enforced).

— 1 Drivers' Hours prohibition for insufficient rest (24 hours rest enforced).

— 5 Drivers' Hours prohibition insufficient weekly rest (45 hours rest enforced).

VOSA officials also issued eight immediate and one delayed probition after inspecting 13 non-UK vehicles and trailers for mechanical defects.

Given the concerns of our members and the prohibitions issued by VOSA on 30th March, RMT would recommend that the DfT conducts a national survey of non-UK registered HGVs in order that some evidence based conclusions can be drawn about the condition of these vehicles and their adherence to Drivers' Hours Rules.

Concerns about HGV costs are not confined to non-UK registered HGVs. Research published in 1999 by Oxford Economic Research Associates found that Heavy Goods Vehicles only meet between 59% and 69% of their external costs.[7]

In March 2008 the Metropolitan Transport Research Unit found that "using Sensitive Lorry Miles and counting fuel duty and annual licences as income, HGVs in the UK meet 36% of their costs—a shortfall of £6.7billion per annum.[8]

The MTRU also found that even if the lowest HGV damage and track cost estimates suggested in previous studies are used, then HGVs meet only 52% of their costs if fuel and vehicle excise duty only are included, and 61% if VAT on fuel duty is also considered. This, according to MTRU, represents a shortfall of between £2.75billion and £3.35billion per annum. It is apparent that should HGVs contribute more appropriately to their external costs several billions of pounds per annum would become available to investment in improvements to the transport infrastructure.

4 DfT Road goods vehicles travelling to mainland Europe 2007 (22 May 2008)
5 DfT Road Freight Statistics 2007
6 Written parliamentary answer 16 May 2008.
7 Environmental and Social Costs of Heavy Goods Vehicles and Options for Reforming the Fiscal System
8 MRTU—Heavy Goods Vehicles: so they pay for the damage they cause? 2008

The increase in the number of HGVs using the road network, led in 2005 to the introduction of the LKW-MAUT toll collection system for all HGVs over 12tonnes that use the German autobahn network. The toll is based on distance travelled, emission levels and the number of axles on a vehicle. In 2007, the average charge was 0.15 Euros per kilometre.

As previously noted in this response, RMT does not have policy in favour or against road user charging. Nevertheless, RMT would expect Government as part of their sustainable transport strategy to consider the effect that HGV charging in Germany has had on jobs, traffic volumes, congestion and the transfer of freight from road to rail.

Conclusion

RMT welcomes the opportunity to contribute to the current inquiry. The main issues we would recommend the committee to consider are:

- Traffic volumes have increased significantly since 1997.
- Where congestion charges are introduced revenue raised should be used to improve public transport links and services.
- Overall motoring costs have declined whilst public transport costs have risen.
- Travel costs across modes should more accurately reflect carbon emissions levels.
- Government has to lead a well informed discussion on transport costs and choices.
- The liberalisation of cabotage rules will increase the number of non-UK registered HGVs, resulting in increased fears about social dumping and road safety.
- The DfT/VOSA should undertake a national survey of non-UK registered HGVs in order that firm conclusions can be drawn about drivers hours records and road worthiness.
- Non-UK registered HGVs should make a contribution to their external costs whilst using the UK road network.

September 2008

Memorandum from A. Macmillan (TAX 08)

CO_2 Emissions and Private Car Taxation

1. *Summary*

1.1 This submission supports the concept of taxing private vehicles in proportion to the amount of fuel which they consume.

1.2 The principal points made are:

- Taxation on fuel used is directly proportional to CO_2 produced and the most effective way to tax pollution.
- Economical small cars which are extensively used produce more CO_2 per year than large cars which are little used.
- The high Vehicle Excise Duty proposed for existing medium to large cars is unfair to owners who cover small annual mileages.
- The introduction of a single annual registration charge (equal for all cars and just sufficient to cover DVLA costs) is suggested to replace Vehicle Excise Duty.
- An increase in fuel tax is proposed to offset the reduction in VED collected.
- The use of a graduated purchase tax to discourage the purchase of new high consumption vehicles can be expected to reduce the number of such new vehicles entering the national "fleet" and is supported.

1.3 A brief introduction to the writer is included at Appendix 3.

2. *Taxation on fuel used is directly proportional to CO_2 produced*

2.1 Every litre of motor fuel burned produces approximately 2.3 Kg of CO_2. (Appendix 1)

2.2 Very few people are aware of this fact—it is suggested that a campaign of public education should be started to increase awareness. Every cigarette packet carries a health warning and it is suggested that every fuel pump should carry a "CO_2" warning stating this fact.

2.3 Those who drive high mileages, use heavy vehicles and/or aggressive driving styles produce more CO_2 than more careful drivers. Higher fuel taxes, would encourage more environmentally friendly driving styles, car choices and journey plans. Higher VED does only one of these things.

3. *Economical small cars may produce more CO_2 than larger cars*

3.1 An economical car driven 15,000 miles per year will produce some 2.75 tonnes of CO_2 whilst a large car covering 3,000 miles will produce some 1.15 tonnes of CO_2.

3.2 This statement is substantiated in Table A.

4. *The Proposed Vehicle Excise Duty scales may be grossly unfair*

4.1 The proposed VED for a large family car of Group L is £415 per year. The owner may have bought such a car because he/she does low mileage every year but needs a large car to cater for a large family or disability. A £415 annual VED may be very difficult to fund.

4.2 If this driver covers 3,000 miles per year the fuel duty paid will be about £370 compared to a VED of £415. The combined taxation will be £785 and the CO_2 produced will be 1.15 tonnes—so total taxation will be about £680 per tonne.

4.3 Compare this with a very large car (Group M) covering a high annual mileage (40,000)—where the total tax per tonne of CO_2 may be about £303 per tonne.

4.4 Again compare it with an economical car covering a medium mileage each year (15,000)—where the total tax per tonne of CO_2 may be just £270 per tonne.

4.5 This is unfair—if pollution is to be taxed then the taxation should be proportional to the pollution generated.

4.6 Table A shows the derivation of these figures.

5. *A single Annual Registration Charge to replace Vehicle Excise Duty*

5.1 The proposed VED with 13 different tax bands is very complicated.

5.2 The proposed higher rates may cause real hardship to a significant number of car owners and may increase attempts to evade this tax.

5.3 A single Annual Registration Charge of say £30 payable annually by every car owner, including those subject to a SORN (Statutory Off Road Notice) would be very simple.

Additionally, because the annual rate is low, the whole process of refunds could be eliminated providing administrative savings.

5.4 It is suggested that the Annual Registration Charge should be set so that it covers the costs of operating the registration process—and nothing else.

6. *Increase fuel tax to offset the reduction in VED collected*

6.1 A "revenue neutral" increase in fuel tax is proposed to offset reduced VED collections.

6.2 An estimate suggests that a 10p per litre increase would be appropriate (Appendix 2). This additional tax would be in line with "polluter pays" logic—and it is a tax which is very difficult to evade.

6.3 Table B shows how this balances the taxation per tonne of CO_2 produced much more evenly between the three motorists exemplified in paragraph 4 above.

7. *Graduated purchase tax to discourage purchase of new high consumption vehicles*

7.1 If introduced progressively this seems a fair way to reduce the numbers of new high fuel consumption vehicles entering the national fleet—given reasonable notice manufacturers can still offer a wide choice of models with satisfactory performance. These can be differentiated by features and quality of materials (instead of by excessive size and performance).

8. *Conclusion*

8.1 It is suggested that this revision towards taxing vehicle use rather than ownership would be both simple and fair—and wholly appropriate to current economic and environmental circumstances.

Table A

ANALYSIS TO SUPPORT FIGURES IN PARAGRAPHS 3&4

Parameter	*Small car*	*Large family car*	*Very large car*
Proposed Vehicle Excise Duty band 2009	C	L	M
Proposed annual VED	**£30**	**£415**	**£440**
Typical fuel consumption—miles/gallon	65	25	15
Typical fuel consumption—litres/1,000 miles	70	180	305
Fuel tax paid per 1,000 miles @ 68p/litre	£47.60	£123	£207
Fuel tax paid per 3,000 miles @ 68p/litre		**£369**	
Fuel tax paid per 15,000 miles @ 68p/litre	**£714**		
Fuel tax paid per 40,000 miles @ 68p/litre			**£8,280**
Total tax paid	**£744**	**£784**	**£8,720**
Typical CO_2 production in gms/km	115	240	450
Typical CO_2 production in kg/1,000 miles	184	384	720
Typical CO_2 production in kg/3,000 miles		**1,152**	
Typical CO_2 production in kg/15,000 miles	**2,760**		
Typical CO_2 production in kg/40,000 miles			**28,800**
Taxation paid per tonne of CO_2	**£270**	**£680**	**£303**

Table B

COMPARISON OF THE TAXATION IMPACTS OF THE TWO PROPOSALS

	Current Government VED proposals with fuel tax @ 68p per litre			*Alternative proposal £30 ARC* (all cars) + 10p extra fuel tax per litre*		
Tax	*Pence/ mile*	**£/ton CO_2**	*Total tax £*	*Pence/ mile*	**£/ton CO_2**	*Total tax £*
Small car Group C 15,000 miles pa	4.96	**270**	744	5.66	**308**	849
Large car Group L 3,000 miles pa	26.1	**680**	784	15.1	**393**	453
Very large car Group M 40,000 miles pa	21.8	**303**	8,720	25.8	**358**	10,326

* Annual Registration Charge

APPENDIX 1

CALCULATION OF WEIGHT OF CO_2 GENERATED BY BURNING 1 LITRE OF FUEL

Consider a vehicle which is rated at 175gms of CO_2 per kilometre.

Such a vehicle may burn 1 litre of fuel in covering in 13 kilometres (ie 36 mpg).

Therefore CO_2 generated per litre burned = 175 x 13 /1000 = 2.275 kg.

APPENDIX 2

AN ESTIMATE OF THE INCREASE IN FUEL TAX NEEDED TO OFFSET THE LOSS OF VED

Assume the average VED paid under the proposed taxation arrangements will be £175.

Replacing VED with the suggested Annual Registration Charge at £30 for all vehicles would reduce revenues per vehicle by an average of £145 per year.

Assuming an average annual vehicle mileage of 12,000 and a fuel consumption of 8 miles per litre (36 mpg) the average vehicle consumption is 1,500 litres per year.

A 10p per litre increase in fuel tax would provide £150 extra tax per year per vehicle.

APPENDIX 3

A BRIEF INTRODUCTION TO THE WRITER

My name is Alasdair Macmillan and I am a citizen of the United Kingdom and resident in Surrey. I was born in 1939 and graduated from Bristol University in 1961 as a Mechanical Engineer. My career has included work in the aero engine business, management consultancy and extensive senior management experience in small/ medium engineering and transport related companies.

September 2008

Memorandum from UKLPG (TAX 09)

SUMMARY

— Running on LPG brings carbon savings over petrol and diesel.

— LPG vehicles bring significant air quality advantages over even the latest and future diesel vehicles.

— LPG offers improved security of fuel supply and is widely available now.

— Fiscal incentives have a fundamental role to play in encouraging the uptake of alternative fuels.

— Long term certainty of government support is required to provide consumers with confidence to take up alternative fuels.

— Fuel duty, VED, Congestion Charge/Road User Charge discounts are all vital to the consistency of message from national/local government.

WHO WE ARE

2.1 UKLPG is the trade association for the LPG industry in the UK, representing companies who are producers, distributors, equipment and service providers, and vehicle converters. UKLPG was formed by the merger of the LP Gas Association (LPGA) and the Association for Liquid Gas Equipment and Distributors (ALGED) in January 2008. Its roots are firmly established, with LPGA and ALGED established in 1947 and 1975 respectively. It is dedicated to the safe and effective development of LPG.

2.2 Member companies cover over 95% of the total LP gas sales in the UK, around 80% of autogas equipment sales and the participants in the LPGA Approved Installer Scheme account for around 70% of vehicle conversions.

2.3 The proposals outlined below are presented on behalf of the industry.

THE CASE FOR LPG

Environmental Advantage

3.1 Independent Pan-European tests(1) were undertaken in 2003 which demonstrated the following results:

— Petrol CO_2 is 20.3% more than LPG.

— Diesel CO_2 is 1.8% more than LPG.

— Diesel vehicles emit over 20 times the NOx of LPG vehicles.

— Diesel vehicles emit up to 120 times more fine particles than LPG vehicles.

3.2 The 2005 report by CONCAWE(2) found a small but a CO_2 advantage of LPG over diesel increasing to 10% as a result of the worsening CO_2 emissions of diesels as those engines struggle to meet Euro IV and Euro V emission standards.

3.3 The implementation of "Euro" emission limits is bringing about an improvement in the NOx and particulate emissions of new vehicles but this is only to a limited extent compared with LPG. This is demonstrated by the following table in respect of Euro limits (gm/km) for diesel commercial vehicles class N_1 up to 3.5 tonnes:

Emission[1]	*Euro III*	*Euro IV*	*Euro V*	*Euro VI Proposed*	*LPG Average*[2]
NOx	0.78	0.39	0.28	0.125	0.018
PM[3]	0.10	0.06	0.005	0.005	Below measurable levels

[1] Euro standards limits as per European Emission Regulations—source: www.dieselnet.com/standards/eu/ld.php.

[2] Figures taken from 2003 independent European Emission Testing Programme on EDC Type 1 testing.

[3] This limit refers to PM10—see Appendix III for information on more damaging fine particles

This highlights that even Euro VI diesel vans will have many times more NOx emissions than those running on LPG.

Security of fuel supply

3.4 The UK surplus of LPG is forecast to remain at, or above, two million tonnes pa over the next 10 years. Currently there are around 150,000 vehicles running on LPG in the UK (over 12 million worldwide) and with average LPG car usage at c.84 tonnes pa this surplus can fuel over 2.25 million vehicles at a minimum that would otherwise run on petrol. This additional number of vehicles would result in a carbon reduction of over one million tonnes per annum(3).

3.5 This reduction would be coupled with an economic benefit to the UK of both the social cost of carbon of £25 million (as per the DEFRA central value of around £25 per tonne at 2007 values(4)) and an estimated additional 15,000 jobs(5) in the LPG industry.

Availability

3.6 LPG already has in place by far the widest availability of all alternative fuels following an investment by the industry of over £50 million since 1999.

3.7 LPG is available through approximately 1,400 public access filling points—equivalent to c13% of all petrol/diesel forecourts. It is estimated that this network could accommodate a 400% increase in demand, based on European experience, before further investment would be needed to meet total rising demand—a point reached at c560,000 vehicles.

3.8 The filling points are predominantly on service stations and supermarket forecourts, but a number are in gas depots or other industrial units.

3.9 Not all areas of the UK have equal demand nor an equal supply infrastructure. The industry would respond, as it has in the past, to an environment where it believes there would be a significant increase in demand by increasing its infill rates in areas less well served and increasing the number of points in areas of high demand to compete for the business.

European View on LPG

4.1 European Parliament Resolution 24/10/2007:

> "To consider the role and potential of gaseous alternative fuels, such as LPG and CNG, which can contribute to the immediate reduction of CO_2 emissions and to the diversification of energy supply."

4.2 Both these contributions are relevant to the UK.

Responses to Questions

Q: *What is the impact of the current charging regime on individuals, businesses and the economy?*

5.1 There is significant evidence that markets develop in different ways directly in response to long term fiscal and/or regulatory support. This creates the demand and vehicle manufacturers respond to meet the requirements of the market.

5.2 Illustrative examples are:

Germany

In 2003 there were 13,000 LPG vehicles on German roads. Tax incentives were guaranteed until 2009 and the market had grown to around 30,000 conversions per annum in 2005 with vehicle conversions provided on a retrofit basis. This level of conversions was similar to that seen in the UK in 2000 and 2001 when the UK government announced the three year freeze on fuel duty for LPG until 2003.

The tax incentive in Germany is via fuel duty which stands at:

LPG	9 cents per litre
Diesel	47.04 cents per litre
Petrol	65.45 cents per litre

However in 2006 the German government announced that the fuel duty on LPG would be fixed to 2018 and the market is now growing to over 100,000 conversions per annum. It is projected that there will be 1 million LPG vehicles on Germany's roads by 2015.

Significantly vehicle manufacturers are now producing LPG options on an OEM basis.

Italy and Australia

Prime examples of countries who provide grants in addition to excise duty and tax incentives to speed the take up of LPG vehicles. Italy now has around 1 million LPG vehicles on the road. In Australia, following the announcement of grants in August last year vehicle conversions have more than doubled to 120,000 per annum. In both these countries the major vehicle manufacturers have now entered the market with factory LPG options.

UK

In 1999 the decision was taken to incentivise LPG in transport. In response to fuel duty and grant support the gas supply companies invested over £50 million to create a nationwide refuelling infrastructure and the major vehicle manufacturers (including Ford, MG Rover, Vauxhall and Volvo) committed to developing OEM LPG options. As a result the market was projected to grow to 50,000 vehicles per annum and reach 250,000 LPG vehicles on UK roads by the end of 2005. The UK was unique in focusing on emission targets and became the world leader in OEM LPG vehicle technology.

However the guarantee on the government fiscal incentives was only for three years and the uncertainty introduced by the review of these in 2003 and beyond that date for the grants resulted in reduced market demand (especially with the important fleet sector) and with the resultant market of only circa 15,000 vehicles per year the volumes were insufficient for the vehicle manufacturers to justify the expense of LPG options on their new models and they have since withdrawn from the market.

5.3 Additionally there is evidence that where specific cities have mandated the use of a clean fuel for transport to address local air quality issues, the markets develop and respond at this local level.

Illustrative examples are:

- Vienna which runs over 400 buses on LPG.
- Guangzhou, China where all 6,500 buses and 16,000 taxis run on LPG.
- Japan where 95% of taxis run on LPG.

5.4 It is worth noting that both the availability of LPG vehicles and the fuel supply infrastructure can be built form scratch if the fiscal regime offers the right conditions for market development.

Q: *Does the current system have different impacts on different categories of road user? If so is this fair?*

5.6 Basing VED on published vehicle data (V5) does not reflect the carbon benefit of an LPG motorist having an aftermarket conversion (the UK LPG market). Whilst a discount may seem small beer versus fuel duty, it is a something that is surprisingly visible and totemic to buyers who invest their money in an LPG vehicle and look for recognition of their action in the VED.

5.7 A future Reduced Carbon Discount could allow for the benefits of LPG:

5.8 We have proposals, supported by the DfT, to build a database to certify quality (safety and carbon reduction) on retrofit conversions—this database will be easily accessible to Government agencies. At a minimum it will include all vehicles converted by our Approved installers, but we hope that if we can get the support of the Association of British Insurers we can apply this to all LPG cars which has to be good for the public, the Government and the environment.

5.9 Uniquely this proposal include a check on the LPG emissions every two years to ensure that the carbon reductions over petrol are being maintained.

5.10 This database will be costly to set up. We want to work with DfT and Treasury officials over next six months to see if we can develop this in such a way that gives Government confidence in letting registered LPG vehicles benefit from a Reduced Carbon Discount on VED.

Proposals for LPG

6.1 It is not unreasonable for a mix of technologies to be available in the market place over the next 25 years as full advantage is taken of existing lower carbon technologies (eg LPG) and newer carbon technologies are tested for consumer and regulatory acceptance. Over time it may be that one or two prevail (as now) though with so much unproven it would be wise to keep most options open and let experience decide.

6.2 In the UK the government has a clear role to play through fiscal incentives. Whilst we understand that grants are not favoured, market transformation for the uptake of LPG to reduce carbon emissions can be achieved by providing clear signals of support for the long term.

6.3 This support should be long term such as adopted by Germany and consistent to include discounts in VED, Congestion Charging and Road User Charging schemes to reflect the environmental benefits that LPG can bring now.

6.4 UK government policy must allow and encourage the uptake of existing technologies, such as LPG, that can make immediate and significant inroads into UK road carbon emissions. This will ensure a reduction in carbon whilst longer term technologies offering benefits in the future are developed and brought to market. It is quite possible that those who switch to LPG are likely to be early adopters of future technologies.

Notes

(1) Results quoted are from the 2003 European Emission testing Programme. Full summary available from the Association.

(2) Results from the independent CONCAWE report in 2005. Summary and report available from the Association.

(3) The national average CO_2 emissions for new cars is around 170gm/km. A car being driven 15,000 kilometres per year will typically emit 2.5 to 3.0 tonnes of CO_2 per year.(source Transport for London). A saving of 20% by running on LPG on the minimum of 2.5 tonnes would result in a saving of a minimum of.5 tonne per vehicle. This minimum calculation does not take into account that LPG conversion are mainly on vehicles with larger than average size engines and cover higher than average mileages. The actual saving is therefore believed to be significantly greater than this minimum calculation.

(4) Based on the values derived for the Department of Food, Environment and Rural Affairs in the Government Economic Service working paper "Estimating the Social Cost of Carbon Emissions" 2002 and re-confirmed by the Department in 2006 in the light of research for the Stern Review, a tonne of CO_2 has a social cost (central value) of around £25 at 2007 values and prices, which increases in future years. (*Source—Transport for London*)

(5) A 2004 industry review estimated 1,500 direct full time equivalent jobs in the autogas industry. This included the gas suppliers, retailers of autogas, vehicle manufacturers and conversion companies. To convert 2.25 million vehicles over the next say 10 years would require the number of conversions to increase to an average of 225,000 per year—a 15 fold increase. With the economies of scale we estimate that this could be achieved by a 10 fold increase in the numbers employed.

September 2008

Memorandum from SPARKS (TAX 10)

Summary

— Enforcing current road user charges on Foreign Registered Vehicles (FRVs) is highly problematic: FRVs are currently twice as likely to avoid paying the London congestion charge than a UK registered vehicle.

— Enforcement capability will be improved when the Local Transport Bill receives Royal Assent, and SPARKS looks forward to the DVLA outlining how it will fund and operate the new system, and when it is expected to be established.

— However, the proposed EU Directive designed to facilitate cross-border enforcement in the field of road safety may not cover administrative offences such as evasion of road user charges.

— So unless the situation changes FRVs will continue to evade road user charges more often, and have less risk of penalties being levied effectively, compared to UK registered users.

— The rules on re-registration of imported vehicles are not effectively enforced, and are in any case weak—partly because major exemptions are vaguely worded. The re-registration system itself is outmoded, having been designed at a time when national borders were less porous.

— If enforcement of road user charging schemes is to be effective the Government will have to ensure that appropriate systems are in place in the UK, and that these are carefully integrated with other EU countries.

— SPARKS would be delighted to provide oral evidence to the Committee to support this written submission.

1. *SPARKS Programme*

1.1 The SPARKS Programme (Shared Parking and Registered Keeper information Service) is an initiative that enables traffic authorities in the UK and other EU Member States to collaborate and co-operate as they resolve the issue of cross-border enforcement of traffic violations. The initiative is the creation of London's Enforcement Task Force, a pan-London grouping of organisations that co-ordinates traffic enforcement activities across the capital.

1.2 The London Enforcement Task Force comprises Transport for London, Association of London Government, London Technical Advisors Group (LoTAG), Metropolitan Police Service and City of London Police, as well as representatives from the Drivers and Vehicle Licensing Agency (DVLA) and the Vehicle and Operators Services Agency (VOSA).

1.3 The aim of the SPARKS programme is to increase significantly the compliance of overseas drivers towards UK traffic laws relating to parking, bus lanes, moving traffic, the congestion charge, and other civil traffic laws that may be introduced in future.

1.4 We welcome this opportunity to comment on the Select Committee's inquiry into taxes and charges on road users, and hope that we will provide some useful insights into the problems associated with implementation and enforcement.

2. *Should foreign-registered vehicles pay for access to the UK's roads and if so, how?*

2.1 It is not within the remit of the SPARKS project to recommend whether foreign registered vehicles (FRVs) should pay for access to the UK's roads. However, by highlighting the lessons of current Penalty Charge Notice enforcement systems, such as London's congestion charge and local authority parking penalties, it will be able to provide insights into the challenges of implementation and enforcement.

2.2 Foreign registered vehicles that are temporarily brought into the United Kingdom by overseas residents are usually exempt from UK registration and licensing. Such a vehicle may be used by the visitor for up to six months in twelve without being subject to domestic registration and licensing requirements. Registration of foreign-owned vehicles in the UK enables rapid and efficient enforcement of UK penalty charges. However, 11% of all FRVs are operating in the UK beyond the date they should have been registered with the DVLA. For those foreign-owned vehicles which remain un-registered in the UK, enforcement is particularly problematic, as there is, at present, no legal basis or administrative system allowing for information about ownership to be shared across international borders, nor for the collection of payments.

2.3 The Local Transport Bill, currently at report stage in the House of Commons, includes provisions to allow the Driver and Vehicle Licensing Agency (DVLA) to receive vehicle keeper information from its foreign counterparts and to disclose such information to UK local authorities, the police and others for the purposes of enforcement.

2.4 Without this legislative ability to receive and disclose the keeper information of foreign registered vehicles (FRV) the DVLA has been unable to provide local authorities with the addresses to which Penalty Charge Notices should be sent after an FRV has committed a road traffic contravention (eg parked unlawfully, or driven in a bus lane) or failed to pay the London congestion charge. While other European countries have been able to establish bilateral agreements (Belgium/Holland and Romania/Italy), the DVLA has not even been able to conduct pilot arrangements with other European licensing agencies to obtain their data for these purposes.

2.5 Assuming that the DVLA is awarded these powers when the Bill is given Royal Assent, SPARKS looks forward to the organisation outlining how it will fund and operate the new system, and when it is expected to be established.

2.6 The lack of legal basis, and of an administrative system, for sharing information and collecting payment is of considerable concern as SPARKS research has shown that FRVs are more likely to contravene traffic regulations than UK registered vehicles; and are twice as likely to avoid paying road user charges.

2.7 In addition to an inchoate international information-exchange system in the UK, there is also no robust process for information exchange, or payment collection, established within EU members. So even when local authorities are able to identify foreign vehicle owners and issue a penalty charge notice, they still struggle to collect payment.

2.8 On 19 March 2008, the Commission published its proposal for a Directive on facilitating cross-border enforcement in the field of road safety. However, it is limited to only four road safety offences (speeding, drink-driving, non-use of a seatbelt, and failing to stop at a red traffic light).

2.9 Furthermore, the proposed Directive only addresses the issue of data exchange, leaving penalty enforcement reliant upon the Council Framework Decision on Financial Penalties 2005/214/JHA. While the introductory remarks to the proposal indicate that no distinction should be made in terms of the legal qualification of the offence (ie criminal or administrative) the Framework Decision only applies to criminal offences and is not applicable to administrative offences (ie parking tickets and road user charges).

3. *How closely enforced are the rules governing re-registration of foreign-registered vehicles which are brought permanently the UK and the consequent liability for VED?*

3.1 Foreign registered vehicles that are temporarily brought into the United Kingdom by overseas residents are usually exempt under the Motor Vehicles (International Circulation) Order 1975 from UK registration and licensing. If a foreign registered vehicle is kept abroad for more than six months in a twelve month period, EU directive 83/182/EEC stipulates that it should be re-registered and re-licensed in that country. SPARKS research has calculated that 11% of all FRVs—about 15,000 vehicles at any one time—are operating in the UK beyond the date they should have re-registered with the DVLA.

3.2 Article 5 of the Directive grants exemptions from vehicle re-registration and excise duty for students residing abroad to pursue their studies and for drivers commuting to work in another member state.

3.3 SPARKS believes that the directive and its exemptions are too vaguely worded to be effectively enforced, and the six month rule is in any case not well suited to 21st Century road usage, where national borders are increasingly porous.

3.4 In August 2006 the DVLA announced an enforcement trial: leaflets and windscreen warning notices were to be placed on offending vehicles and persistent offenders would find their vehicle wheel clamped and impounded and, if unclaimed, disposed of by crushing.

3.5 SPARKS feels that proper cross-border enforcement would decrease the necessity for re-registration, particularly if road tolls or congestion charging are more widely used.

September 2008

Memorandum from the Drivers' Alliance Ltd (TAX 11)

The Drivers' Alliance is a membership organisation representing the views of road users. We actively seek the opinion of our members and represent their interests as accurately as possible.

Summary

— Personal transport has evolved continuously for over 100 years with unremitting and innovative scientific and engineering advancement.

— The United Kingdom has for most of this period been at the forefront of the drive to improve efficiency and effectiveness of the private motor vehicle.

— As personal transport has become more affordable, we have experienced a steady increase in the number of vehicles on our roads and today this is causing some concern.

— In the years leading to 1997, we followed the "predict and provide" approach to the provision of transport infrastructure; which over the decades has provided the UK with the roads and rail systems we enjoy today. This philosophy has largely been abandoned in recent years with the idea that we should manage demand through pricing and restrict personal mobility through people's ability to pay rather than strive to enable freedom of transport choice to all.

— During the early years of vehicle use and road building, road users were charged through direct taxation. The Finance Acts of 1909 and 1910 stipulated that money raised from vehicular taxation should be "hypothecated" for road maintenance and construction.

— Hypothecation ended many years ago and today road users' taxes contribute around £50 Billion annually to the treasury with spending on roads and infrastructure at £5.88 billion. (DfT figures).

— Whilst the call for internalising the external costs of motoring strikes a chord with groups who wish to marginalise private transport, it is very clear that road user's are already paying far more in real terms than the costs associated with providing the facilities necessary to enable people to go about their daily lives without let or hindrance.

— To increase the cost of transport further is counterproductive and could very well do significant damage to the economic viability and wellbeing of the UK.

1. *Introduction*

1.1 The Drivers' Alliance was formed in 2008 to represent the opinions and views of road users. The alliance is a membership organisation committed to campaign for improved roads and transport infrastructure which minimises congestion and hence cost, including the removal of unnecessary traffic lights and the overhaul of known congestion blackspots.

1.2 The Drivers' Alliance is a full time organisation funded primarily from membership subscriptions and donations. It was conceived and founded following the petition to Downing Street against road pricing in 2007 which saw 1.8 million signatures in just 12 weeks. This groundswell of public opinion was a warning to policy makers who continue to believe the costs associated with personal mobility are too low and strive to push them higher still.

1.3 The Drivers' Alliance believes that enhancing road safety through driver education, well engineered roads, junctions and vehicles is of paramount importance, as is the efficiency of modern motorised transport to maximise the benefit to society with minimal impact on the environment.

2. *Current taxes and charges raised from road users*

2.1 The current level of taxation raised from road users is approximately £50 Billion and comes from the following sources:

Fuel Tax	£23.6 billion
VED	£5.1 billion
VAT charged on vehicles	£6.9 billion
VAT charged on fuel	£6.8 billion
Company car tax	£2.6 billion
Decriminalised parking charges	£1.2 billion
Vehicle first registration fee	£125 million
Total:	**£45.325 billion**

With the additional taxes paid on servicing and repairs, plus the charges for NHS parking, the income to government or governing authorities is probably in excess of £50 billion annually.

2.2 Spending on the road networks in the UK is woefully inadequate and has fallen well below that necessary to provide the infrastructure and capacity needed for the population and economic growth of the United Kingdom. Figures for 2007–08 obtained from the DfT suggest the following:

Capital (new roads)	£2.693 billion
Current (maintenance)	£3.185 billion
Total	**£5.878 billion**

The "current" value includes "shadow tolls" which are those paid to companies owning private road infrastructure such as the M40 and A1(M) North of Huntingdon. As can be seen from these figures, road users today are paying some eight times more than the cost to provide the transport network. The £44.2 billion in road user taxation taken by government already is more than enough to cover any external costs.

3. *Impact of the current charging regime*

3.1 With the current high levels of taxation on personal mobility, we are adding substantially to the debt of families and companies across the United Kingdom. Employees need mobility to seek work and can be dissuaded when the cost of getting to work outweighs the benefit of working. With the penal levels of tax levied on vehicles and drivers today, we are also adding significantly to the cost of goods and services. From the plumber who fixes your leaking tap to the price of bread in the supermarket; transport taxation impacts significantly on every part of the economy and adds significantly to inflationary pressures.

3.2 The Drivers' Alliance believes the cost of vehicle ownership should reduce but the cost associated with use increased. It is for this reason we recommend the transfer of the £5.1 billion taken in VED annually to fuel tax. This would remove VED evasion and drastically reduce the cost of enforcement. It would also result in vehicle usage costs increasing, thereby reducing short and unnecessary journeys.

4. *External costs*

4.1 There has been a lot of discussion around "external costs" incurred through road use and motoring. What is not being considered is the external benefit from road use and the ability to travel freely which provides such a large contribution to our economy. Consider what would happen if we stopped all road use tomorrow. The economy would cease to operate instantly and the value of this economic activity is seldom taken into account when those seeking to marginalise vehicle use evaluate the "cost of externalities".

4.2 Road users pay many times over for the use of our roads and increasing this cost still further will add to the already simmering resentment from drivers. Congestion is by far the largest external cost which is arguably the result of underinvestment in the road network and not a cost which should be assigned to the road user.

4.3 The Stern review investigated emissions of C02 and concluded a price of £44 per tonne was sufficient to cover the economic cost of climate change. A modern car which emits around 154gkm C02 will do about 50mpg. (Ford Mondeo 1.8l Diesel used in example). This car will travel 4,058 miles before releasing one tonne of C02. In travelling this distance the driver will use 81.17 gallons of fuel or 369.32 litres. As fuel tax is currently £0.68p per litre, the driver pays £251.14p for each tonne of carbon released. This is already nearly six times the level recommended by Stern and does not take into account all other motoring related taxes levied on road users.

5. *Purpose of taxes and charges on motorists*

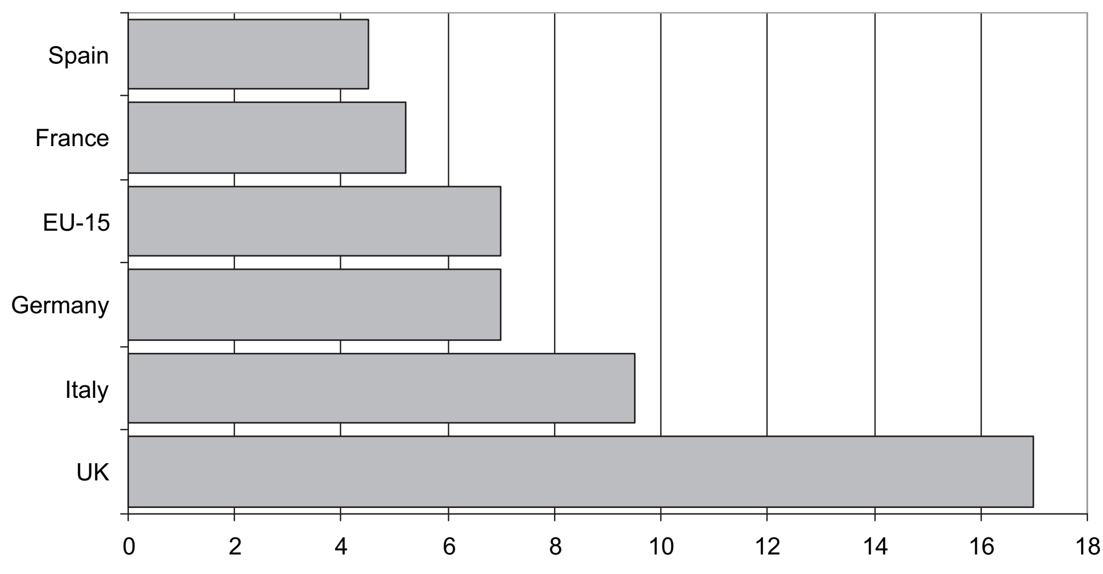
5.1 The taxation levied on road users should be used primarily to provide the roads and transport infrastructure needed to ensure congestion free and efficient journeys. There is some justification for adding specific externalities to this charge such as the cost to the NHS for treating transport related injuries and policing.

5.2 The principal of the "user pays" should not be extended to costs remote from the activity involved and using the road user to subsidise and fund general taxation is unwelcome. We do not for instance find excessive taxation on home heating systems or public transport users. Indeed motoring taxation is used to subsidise the public transport industry by several billion pounds as stated by Tony Blair "We have more than doubled investment since 1997, spending £2.5 billion this year on buses and over £4 billion on trains". This £6.5 billion is far more than spent on the entire road network and goes a long way to explaining why we suffer from congestion and crowded roads.

5.3 The strategic road network in the United Kingdom is inadequate to support the demand placed upon it. We have far less motorway miles per person than any comparable EU country. It is hardly surprising then that our roads are congested. As can be seen from the graph Figure 1 we have 17,000 people per km of motorway whilst Germany has 7,000 and France 5,000.

Figure 1

Thousand people per km of motorway



5.4 There is good reason to invest in building new strategic roads. This would reduce congestion, emissions and significantly reduce the external costs associated with road use.

6. *Impacts on different categories of road user*

6.1 The current system of road user taxation is predominantly fair but is far too high.

6.2 VED charges do not reflect vehicle use and should be abolished. Highly efficient, zero rated (for VED purposes) vehicles used every day for a long journey have more impact on the environment than a large class M vehicle for occasional use. It is therefore fundamentally unfair to tax vehicles by class when the duty cycle is unknown.

6.3 Charging showroom taxes and very high levels of VED based on vehicle type and emissions does not reflect the real environmental cost. A consequence of this policy is the difficulties being experienced today in the British motor industry. Vehicles manufactured in the United Kingdom are generally higher specification, high margin but low volume for specialist and niche markets. By adding penal levels of taxation on vehicles manufactured here we risk destroying these companies along with the jobs and economic benefits they bring. If we lose Land Rover, Jaguar, Aston Martin and Bentley along with several others, the cost to the economy will far outweigh the income from taxation levied on their vehicles and the companies themselves.

7. *Alternative charging methods*

7.1 The Drivers' Alliance was founded on the groundswell of public opinion against road pricing in last year's petition to Tony Blair. We believe the costs surrounding the implementation of road user charging far outweigh any perceived benefits.

7.2 Time and time again, the public are asked through surveys and occasional referenda their opinion on road pricing. The result is always similar—even when the question includes the promise to use the money raised for improvements to public transport, around 74.4% vote against (Edinburgh 2005). When the question is simply do you support the introduction of road pricing or congestion charging, the response is nearly 100% opposed as witnessed in a poll conducted in Manchester by The Drivers' Alliance and Memogo. The results were:

For a congestion charge	= 16
Against a congestion charge	= 2105

7.3 The current methods of charging for road use are efficient and cheap to administer. Replacing VED with a small increase in fuel duty would add to this efficiency by removing the need for enforcement and the administration cost associated with collection.

7.4 Removing VED and adding the tax to fuel would send a positive environmental signal and help those occasional users who today pay for unused garaged vehicles. It would be fair for pensioners and charge more for long distance travellers driving inefficient vehicles. It would be a just and fair way of charging for road use.

8. *Foreign registered vehicles*

8.1 It is our belief that foreign registered trucks using the UK's roads should contribute towards their maintenance and upkeep. How to achieve this is open to debate, but the simplest and most efficient method would be to charge a landing tax at the point of entry. An alternative could be tolling roads immediately outside ports for trucks only.

8.2 Widespread Lorry Road User Charging (LRUC) would bring benefits in providing the ability to charge for actual distance and road use, but as with general road pricing this is a very expensive and inefficient way to administer a tax. With the infrastructure costs, enforcement costs and administration costs the efficiency of the system to raise revenue is severely diminished.

8.3 With higher fuel costs in Britain than other European countries, foreign hauliers are able to fill their tanks abroad and avoid paying fuel tax in the UK. This is unfair on British hauliers and places them at a disadvantage. We do believe trucks entering the UK should contribute through taxation but feel it is unwelcome to charge the holidaymaker or businessman as these people generally contribute by purchasing fuel in the UK.

Conclusion

Road users in the UK already pay many times over with £50 billion taken in taxation and just £5.88 billion spent on our roads. Congestion is the highest external cost attributed to road use but the causes of congestion are not so much the number of vehicles, but the unwillingness of government to provide the roads needed for our mobile society.

Demand Management through road user charging will do little or nothing to prevent people from making the same journeys they do today. What will happen is the expectation that congestion will reduce and this is unlikely without additional spending on capacity. If new roads are to be built, it is our submission these are funded from existing transport taxation with the benefits from reduced congestion removed from "external costs" calculation.

Those calling to "internalise the externalities" of road use are ignoring the massive economic benefit from road use. Without the transport of goods, services and people, economic activity would stop overnight and this huge benefit would be lost. It is unwise and unfair to weigh the cost of transport externalities in favour of increasing taxation whilst ignoring the value to the economy from road transport.

To do nothing is not an option. But what is done is important and drivers today have reached the end of the road. They expect and require government to invest existing tax contributions in the road infrastructure to alleviate congestion and with it, emissions.

September 2008

Memorandum from Kapsch TrafficCom (TAX 12)

EXECUTIVE SUMMARY

— Kapsch is a global supplier of advanced toll collection and traffic management systems with an increasing presence in the UK.

— Many factors need to be taken into account when designing a system for charging motorists—these will be determined by the overall objective of any scheme.

— The current methods used for collecting revenues from drivers do not reflect the "true" cost of use of the roads.

— Our experience in Europe and around the globe, specifically in Austria and the Czech Republic demonstrates that technology can provide the means for more factors to be taken into account when charging for road use.

— The UK is beginning to utilise more advanced systems of revenue collection but these are limited to small, local schemes.

— The problems associated with foreign hauliers still remain due to the collapse of Lorry Road User Charging. Our experience shows that the problem could be solved through the use of technology.

INTRODUCTION

1. Kapsch TrafficCom, originating in Austria, is a supplier of advanced electronic toll collection and traffic management systems. We have considerable experience in the development of technical and operational solutions for tolling and congestion charging projects, as well as in the implementation, management and enforcement of specific schemes at both a national and local level. We operate and provide technology for projects across the world, including the Austrian National Lorry Toll System and the Czech Republic's National Truck Toll System. Kapsch's technology is used in over 200 projects in over 30 countries.

2. The company also has considerable experience in the UK. We have been involved in a number of congestion charging projects, including the Department for Transport's DIRECTS trials, the supply of on-board charging units for the M6 Toll Road and technology trials in London to develop the next generation of congestion charging systems. We were recently selected by the DfT to demonstrate our technology as part of their trials of pay as you go motoring. We continue to follow developments in the UK with interest.

3. As a technology supplier, we do not seek to dictate the factors the UK Government should prioritise when determining charges and taxes for the use of roads. However, we do have experience of a variety of different systems across Europe and the World and therefore have knowledge of what works and what does not work. The key lesson we draw from our experience elsewhere in Europe is that technology is already available to implement road charging and other forms of revenue collection at either a local or national level. Decision makers need to be clear about the objectives of pricing schemes, as this dictates the technology options available. We outline the main factors in this regard below.

CURRENT METHODS OF CHARGING

4. Currently road users are charged through the annual fixed payment of Vehicle Excise Duty and the variable Excise and VAT on fuel at the pump.

5. While these charges generate considerable revenues for the Government they do not take into account the level of time or distance travelled on the roads in the UK or indeed the CO_2 emissions generated. They are based on consumption of fuel and vehicle type which, although variable, does not ultimately reflect total road usage.

6. In addition, the road charging landscape in the UK already has a number of different elements, including the London congestion charging scheme, the M6 Toll Road and numerous tolled bridges and tunnels. These schemes are more adept at capturing costs, such as construction costs as they can hypothecate revenues to pay for construction or maintenance.

Establishing the Price Mechanism

7. The process of establishing a charging mechanism, including taxes and fuel duties, for use of roads should begin by determining the objective of this mechanism. Political, economic, social and environmental factors are the key determinants of developing charging mechanisms of any form. Any measure needs to strike a balance between these and other factors:

8. Factors include:

— Fairness—should the user pay for individual use of infrastructure? All users should be seen to be treated equally. There are also broader questions about the balance for infrastructure charging systems and fuel duties; and where the burden of paying should fall.

— Applicability—should the mechanism apply to HGVs and/or passenger cars? This is more directly related to Lorry Road User Charging which is discussed below.

— Scheme mobility goals: is the objective to enable mobility by reducing traffic or to shift traffic into different places and to different times? Or to encourage people to utilise other modes of transport/ public transport?

— Financing of investment and operation: In the infrastructure charging context there have been some criticism of schemes with expensive operation costs, such as the London scheme(cameras only; about 50% of the revenue raised is spent on operating costs). In Germany, their truck tolling scheme, based on satellite technology has 30% costs. However these costs are a reflection of scheme design and technology choices. They do not need to be prohibitive, as our experience with the Czech and Austrian schemes show. For these the operating costs are around 10% based on a microwave system.

— Revenue neutrality: Should a measure be revenue raising or revenue neutral? Criticisms of fuel duties for revenue raising have been commonplace, but should this revenue be hypothecated.

— Use of funds: What will the money be used for? The GLA Act and Local Transport Bill are clear that revenues need to be used to fund public transport schemes. There are also countless examples of more locally based tolls being used to fund construction through public private partnerships. In Austria, the revenues gained from road charging directly go to the highway authority, ASFINAG.

— Environmental drivers include the impact the scheme operator may want to have on feel renewal by encouraging cleaner vehicles or charging more to more polluting vehicles eg London Low Emission Zone. Of course traditional fuel duty can be used for this purpose, but is a much blunter instrument.

9. These will all determine which charging mechanism is most appropriate. Factors such as these will have an intimate impact on scheme design and, of course, the overall cost of such schemes.

10. As well as these factors other considerations, such as road safety and traffic management also need to be taken into account. Road charging schemes should ensure that traffic flow is not impeded and ensures drivers can continue to drive safely and confidently.

11. All these factors will need to be assessed alongside the current situation on the road network: what types of vehicles are on the road, what is the purpose of the vehicles (leisure/business), what are the types of roads.

12. Kapsch does not seek to dictate which mix of policy instruments is best in any given circumstance, or how government should determine which factors should be the focus of any road or congestions scheme's design; that is a decision for politicians and the electorate. We are seeking to inform the Committee of what is possible, through the use of technology and intelligent traffic management, when assessing methods of charging motorists.

Our Experience in Europe

Case Study: Austria

13. Austria, at the heart of the European highway network, was facing increasing pressure to maintain and improve its interurban road network and needed a source of revenue to recuperate the costs associated with an increasing level of traffic. Foreign registered hauliers were frequently using their road network but not paying for its use through fuel duty or road tax—a result of Austria's position in central Europe.

14. In response to this need Austria became the first EU member state to implement a nationwide truck toll system which charges Hauliers electronically using technology from Kapsch.

15. The scheme utilises a Multi Lane Free Flow characterised by gantries placed above the highway lanes, using microwave transceivers mounted on the gantries to communicate with On Board Units which work to complete the tolling transaction. In this system, road users are charged according to distance travelled and the number of axles of their vehicle. Simply, the more axles the greater the charge. From 2009 onwards, emission levels will also be reflected in the scheme.

16. To ensure that the charge is correct, the declaration of vehicle classification, depending on the number of axles, needs to be verified. Any anomalies need to be recorded accurately and fines collected from the road user based on secure, legally admissible evidence. Enforcement is therefore a key part of the system concept.

17. Every working day the system collects and processes over 2 million transactions in real-time which results in a daily income of between €2 million and €2,5 million for the operator. The system went in operation on 1 January 2004 on time and within budget. The cost of installing the technology was recovered after eight months.

Case study: Czech Republic

18. The decision of the Government of the Czech Republic in May 2004 to implement electronic toll collection on selected roads for heavy trucks was mainly driven by the need to expand their network of highways and expressways and find new sources of revenue to embark on such a programme. Tolling such roads grants the Czech Republic necessary financial resources to finish building its core network. With a distance based toll system the users contribute fairly and directly to costs related to construction, upgrading, maintenance and operation of important roads.

19. Kapsch was able to implement the system within only nine months of contract award. Tolls are currently collected on 1,000 km of motorways and major roads within the Czech Republic, with an additional 200 km of main roads added as of January 2008.

20. Over 325,000 on-board units are currently active within the Czech toll system, and 400,000 registered trucks are expected by the end of the year. These vehicles pay an average of €0.16/k and the Czech Republic can count on an income of at least €100 million due to a detection rate of over 99%.

Alternative Methods of Charging in the UK

21. Transport can be expensive to provide, especially in terms of investment in new infrastructure and costs continue to rise—the Campaign for Better Transport has found that some current road building costs have risen by over 80% since 2003. Meanwhile, delays and congestion cost money to the individual and the economy. Other countries are experiencing similar problems and governments across the world are working on innovative solutions. Other countries, as seen above, are embracing technology to ensure that revenue from roads is secured to pay for necessary improvements in all forms of transport reducing congestion in the long term.

22. The schemes highlighted above, as well as many others operated and installed by Kapsch throughout the world, demonstrate that the technology already exists and more sophisticated means of charging for the use of roads can work to generate revenues for government to improve and maintain infrastructure, reduce congestion and offset environmental costs.

23. London, as well as several key pieces of infrastructure such as the M6 Toll Road, has led the way in terms of making use of technology to collect charges and taxes from drivers.

24. The Transport Innovation Fund continues to offer encouraging possibilities for local authorities to make use of technology and design schemes which can reflect the chosen objective, such as reducing city centre pollution or raising funds for additional infrastructure and public transport.

25. The DfT's report Roads—Delivering Choice and Reliability outlines an interesting way forward, but more thought will need to be given about the technology needed to introduce this on a large scale. Kapsch is looking forward to working with the UK Government on these proposals.

26. Ultimately, technology providers will meet whatever brief is set for systems—different technologies suit different schemes. For example:

- Dedicated Short Range Communications (DSRC) offers a low-cost, easy to install onboard unit. The data gained from the system is very reliable and accurate with low communication (operational) costs. It requires roadside infrastructure (although it is possible to utilise existing roadside structures such as motorway bridges where these exist).
- GPS is a flexible system, and it is easy to add new roads and zones. It requires relatively little road side equipment. However, the in vehicle equipment is considerably more expensive due to high communication costs; problems receiving a good signal is also sometimes encountered in urban areas.
- ANPR or Automatic Number Plate Recognition is a simple technology based around reading vehicle license plates. This technology is good for dealing with occasional users and also for enforcing the scheme and identifying non-payers. However a tag and beacon system (DSRC) is much lower in terms of operational costs.

27. With a range of different technologies already in existence, it remains important for both technical and political reasons that systems are "interoperable"—in other words, that users can "roam" from region to region and country to country in the same way as they can currently roam with mobile phones. With different regions and cities considering schemes the Government needs to ensure the schemes are interoperable.

28. The EU Directive on interoperability of such schemes is seeking to ensure that all domestically introduced schemes can work together utilising the same technologies. This is especially necessary for the haulage industry.

Foreign Registered Vehicles

29. It is natural that the Government should seek to recover the cost of providing infrastructure for use by foreign hauliers who do not contribute though domestic taxation as they are registered in continental Europe and purchase fuel in countries where it is considerably cheaper. As we have outlined above, concerns such as these lay behind the design of the Austrian and Czech Republic charging schemes.

30. The implementation of a nationwide truck tolling scheme in the UK would allow the Government to charge all hauliers, both domestic and foreign, and provide a fuel duty rebate to domestic hauliers ensuring they are competing evenly with their foreign competitors who currently have far lower running costs.

31. This scheme would also ensure that foreign vehicles which use the scheme are contributing to the maintenance and the improvement of the infrastructure they use.

32. Smaller vehicles that are foreign registered, such as cars and motorbikes would not be included in such a scheme.

33. The proposed Lorry Road User Charge (LRUC), which Kapsch were short listed to supply the technology for, would have worked in this way and we are disappointed that the Government did not go ahead with the plan while the problem of foreign hauliers having an economic advantage still continues.

34. LRUCs, if designed in an equitable way, can quickly recoup the cost of introducing the scheme and installing any necessary infrastructure—the Austrian truck tolling system infrastructure, for example, was fully paid for after eight months of revenue being raised.

Conclusion

35. Increasing costs of motoring and infrastructure needed to increase capacity are placing a large financial burden on business and the economy. This is exacerbated by the lack of financial contributions by foreign hauliers to the exchequer which funds the roads they are using.

36. The current means for paying for road use in UK is not based on a clear objective and the payments made do not necessarily reflect the level of road use, especially VED.

37. The Government needs to decide what the objectives of charging motorists are based on a number of factors. Once these factors have been used to devise a charging mechanism a new scheme can be rolled out utilising innovative technology. The many forms of technology will fit to adapt any scheme designed.

38. Successful implementation of schemes abroad, show that these innovative solutions can quickly be installed to raising revenue in a more efficient and equitable manner.

September 2008

Memorandum from the National Alliance Against Tolls (NAAT) (TAX 13)

Introduction

1. The committee are conducting an inquiry into taxes and charges on road users and have invited comments and posed various questions.

2. This is the submission of the National Alliance Against Tolls (NAAT) which was formed in 2004 by local groups protesting against tolls in England, Scotland and Wales. Tolls are one of the taxes on roads users. We oppose all forms of toll regimes, even if they are given names such as "congestion charging", "road pricing" and "road user charging".

SUMMARY

3. Taxes on roads users are considerably greater (£50 billion or more) than the amount (£9 billion or less) which is spent on provision and maintenance of provision of road space for those who are being taxed. There is no valid excuse for penalising drivers with even higher taxes.

4. Fuel tax is the best way of charging for roads use. Vehicle excise duty should be reduced, particularly for lorries. Existing tolls should be removed, and no new ones introduced.

What taxes and charges are currently paid to government by road users, how much revenue do they raise and how does this compare with national and local government expenditure on the roads network and ancillary services?

5. The NAAT last looked at this in June and there will be no significant change to the data that was available then.

6. The figure for the more direct taxes is about £50 billion a year or about £57 billion if less direct taxes are included:

— £25 billion—Fuel Duty;

— £9 billion—VAT on fuel;

— £6 billion—Vehicle Excise Duty;

— £6 billion—VAT on purchase of new cars;

— £2.5 billion—Company car tax;

— £0.5 billion—Insurance Premium tax;

— £0.5 billion—Tolls and "congestion charges";

— £50 billion—Total of direct taxes on use of vehicles;

— £3.5 billion—proportion (one third) of other taxes on oil companies;

— £3.5 billion—Other taxes on garages and car repairers etc; and

— £57 billion—Total of all taxes related to vehicles.

(An appendix shows how the figures were derived.)

7. The NAAT in June also looked at roads spending. The last published figure for public spending on what was described as "roads" gives £9 billion for 2007–08 (Public Expenditure Statistical Analyses 2008, published in April—chapter 5, table 5.2, line 4.5—estimated outturn of £3,151 million for "national roads" and £5,525 million for "local roads").

8. This £9 billion will overstate the spending that is incurred on behalf of those who are providing the money. It may include some public transport spending as local authorities are now being given part of their spending allocation as an amount which can be spent on either roads or public transport. And a lot of the spending will not be on road space for cars, vans and lorries—but on the provision, maintenance and lighting of pavements, alleys, footpaths, bridleways, cycle lanes, bus lanes and pedestrianised areas—all places where cars, vans and lorries can't go. The £9 billion will also include spending on schemes which impede traffic and create congestion, eg closing and narrowing roads, demolishing flyovers and footbridges, traffic "calming", pedestrian operated lights.

9. So of the £9 billion that is spent on "roads", possibly only half is positive spending on increasing road capacity and maintenance and repair of existing capacity.

10. The PES for 2008 also gives public spending for 2007–08 on railways of £8,185 million and other transport of £4,297 million. Some people suggest that this spending should be included as part of the spending of road taxes. In our view if those who travel by train etc are to be subsidised, then that subsidy should be regarded as coming out of general taxes and not road taxes. The average person in a year travels 900 miles by public transport, and 5,700 miles by private vehicles (National Travel Survey 2006). If all travel was by public transport, then public spending would be far higher but there would be no drivers left to pay the £50 billion of roads taxes.

11. The committee also referred to spending on "ancillary services". We have not attempted to quantify this. It is a matter of opinion as to what extent other services are provided solely because of roads use, and would not be needed in some other reality where we all travelled on foot or bicycle or tram, and goods were delivered by trains, canal barges and horse and cart.

What is the impact of the current charging regime on individuals, businesses and the economy?

12. Putting a charge on anything discourages its use. But given the overwhelming need and desire for people and goods to move, even the present exorbitant level of charges probably has little effect.

13. To the extent that there is some effect there will be a distortion in that people and goods may switch to a way which is subject to lower or no taxation. It is a matter of opinion whether society is better off if these alternatives, eg air travel or rail travel, are used instead of roads. Though at the moment lobbies, such as those for rail travel, appear to be successful in arguing that their use should be encouraged even though their facilities may already be crowded and difficult and expensive to expand and their power sources at the margin are the burning of fossil fuels.

Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents, and CO_2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?

14. The costs of roads congestion are largely borne by the users of the roads. To put a tax on top would be a double charge. If any other public or private service, eg hospital beds or cans of beans, had excess demand, then the supply would be increased. Some people argue that improving the roads system will increase demand and not reduce congestion. Obviously if there is an inadequate system then increasing supply will increase use. But to suggest that demand and use will increase infinitely is nonsense. There are only 24 hours in a day and people do not want to spend them all travelling, indeed the average amount of time spent travelling has remained steady for the last 30 years at about one hour per day (National Travel Surveys).

15. Only part of air pollution comes from roads traffic. The latest Air Quality Pollutant Inventory published by the National Atmospheric Emissions Inventory earlier this month gives figures for what it regards as the six priority air quality pollutants. For England the proportion from "Transport sources" is—Ammonia—3%, Carbon Monoxide—51%, Nitrogen Oxides—45%, Non-Methane Volatile Organic Compounds—14%, Particulate Matter & Pm10—30%, Sulphur Dioxide—8%. That is an average of 25% from transport sources, and that is ALL transport, not just road transport or cars.

16. The most annoying forms of noise pollution are those which are irregular such as noisy neighbours and dogs, passing motorcycles and planes. To the extent that cars do cause a noise nuisance, the cost of reducing it through quieter road surfaces etc is minute compared with the billions of charges collected from roads users.

17. The costs of roads accidents are largely borne by roads users both directly and through insurers. Even some part of the cost of hospitals treating people hurt in roads accidents is recovered from drivers via Road Traffic Act claims by hospitals against insurers.

18. It is assumed that "the costs of CO_2 emissions" is referring to the anthropogenic global warming theory that there is warming due to additional atmospheric CO_2, and that the overall effect is negative. The UK Greenhouse Gas emissions for 2006 published by DEFRA in March gave ALL transport as being responsible for 151 million tons of CO_2 out of a total of 554 million tons, so the bulk of CO_2 emissions does not come from roads use. In any case fuel for roads use is already subject to punitive taxes, whereas other uses of fossil fuels are either untaxed or subject to taxes at very low rates.

Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social andenvironmental impact of transport, or some combination of these?

19. The primary purpose of any tax is to raise as much net revenue as possible without causing a revolt by those charged. The amount raised from roads users already exceeds the spending for road users by a factor of between five and 10, so the purpose is self evidently not "to cover the costs of the road network". Given that the taxes are already at such a high level it would be unreasonable to increase them with the claim that it was to meet any of these "purposes" or to hypothecate some part of any increase to say extra roads spending whilst ignoring the existing gross excess of tax over spending.

20. Some types of charge are better for UK Plc than other charges. They are those charges which are the cheapest to collect and which encourage fuel economy (whether achieved by driving less, using a smaller vehicle, less heavy use of the gas pedal, car sharing etc). On this basis the emphasis should be on fuel taxes. Other taxes and charges on road use should be reduced or eliminated.

Does the current system have different impacts on different categories of road user? If so, is this fair?

21. If "road user" includes ALL users then obviously it does have different impacts in that some users pay little or no direct charge for the use of the roads—walkers, cyclists, bus passengers, horse riders, animals. There are also some vehicles which are exempt from vehicle excise duty such as agricultural vehicles and crown vehicles.

22. Generally the present system makes little difference in the treatment of different types of roads users, though motorcycles and taxis may get preferential treatment in a few areas. One major exception to this rule is with vehicle excise duty. The maximum rate for a car until recently was about £200 (though for some cars there is now a £400 band). The maximum rate for lorries is £1,850. Lorries do cause far more damage to roads than a car does, but a lorry will also consume far more fuel and thus pay a lot more in taxes on fuel.

What alternative methods of charging for road use are available, such as road pricing in town and city centres and on the national road network, lorry road-user charging schemes, switching charges between fixed charges (such as Vehicle Excise Duty) and variable charges (suchas fuel duty)?

23. The committee as an example give a list of charges which are other names for tolls. For those affected, tolls are the most unpopular form of tax on roads, and as the committee would expect the NAAT is opposed to all these charges. In March 2006 the Government quietly published "Consumer Behaviour and Pricing Structures : Final report on Qualitative research". The report indicated that people did not want "road pricing" and preferred a "petrol tax".

24. Tolls are unfair and uneconomic and may result in unwanted outcomes such as people driving longer distances to avoid them. Tolls are also very expensive to collect.

25. Consultants reporting to the Government in 2004 said that a national road pricing scheme could cost up to £62 billion to implement, with annual running costs of £5 billion on top. The London congestion charge is even more expensive to administer per vehicle. In comparison the cost of collecting fuel duty is almost nil as it is assessed at the refinery and import depots. Some people turn a blind eye to the costs of collecting tolls and suggest that a national road toll would be just be a replacement for existing taxes or that any overall increased charge would be spent on new roads etc.

26. The committee also raises the possibility of switching between fixed and variable charges. The most recent changes in charges in roads use have been to increase fixed charges for cars with bigger engines. The declared purpose of these recent increases was to reduce fuel consumed and the resulting pollutants. If this was the real aim, then the emphasis should have been on fuel taxes not on fixed costs.

27. Most drivers think that fixed charges should be reduced. As vehicle licences are required for various purposes it is not appropriate for vehicle excise duty to be removed altogether, but the NAAT believe that there is a case for substantially reducing the duty and for relating it to the amount of road space that a vehicle (including vans and lorries) occupies.

28. Other charges that should be reduced or eliminated with the emphasis moved to the tax on fuel are the various forms of tolls and possibly the compulsory third party insurance.

29. One of the advantages of a tax on fuel is that it is difficult to avoid, whereas about 1.5 million roads users are currently evading payment of vehicle excise duty.

Should foreign-registered vehicles pay for access to the UK's roads and if so, how? How closely enforced are the rules governing re-registration of foreign-registered vehicles which are broughtpermanently to the UK and the consequent liability for VED?

30. The NAAT opposed the plans (eventually abandoned) for lorry road user charging. The problem that they were supposed to address—foreign owned lorries on UK roads—was real but the solution would have cost a very large amount to administer. There was also a risk that such a scheme might at some stage fall foul of EU rules, and a risk to the British haulier that the Government at some stage would use the system to get more from them.

31. In the view of the NAAT it would be more appropriate to substantially reduce the high levels of vehicle excise duty for lorries. This would reduce the costs of British hauliers, and would also mean that a higher proportion of the taxes that hauliers paid was related to roads use. We also think that there should be more standardisation of diesel duties within the EU. Britain charges the same duty on diesel as it does on petrol, but many EU countries have lower taxes on diesel. This is not appropriate as diesel engined vehicles get more miles to the gallon while creating more emissions of fine particulate matter. The EU was looking at the issue of harmonisation of fuel taxes but it was abandoned. Britain should try and revive the issue and should also explore the introduction of limits on the amount of fuel in vehicles entering the country, for safety reasons.

APPENDIX

CALCULATION OF TAXES FIGURE

The Road Users Association have been publishing road tax figures for some years. Based on their work, we have since 2005 done our own assessments. What follows is based on our last review in June 2008.

— £25 billion—Fuel Duty—2008 Budget report published in March, chapter C, table C6 "Current Receipts" gives £25.7 billion for 2008–09. About £0.5 billion would be the effect of the duty increase scheduled for the autumn, but postponed.

- £9 billion—VAT on fuel—An average fuel price of 118 pence a litre was derived from AA Fuel Price Report for May. The VAT works out at just under 17.6 pence a litre. Annual fuel sales are 50 billion litres per UK Petroleum Industry Association.
- £6 billion—Vehicle Excise Duty—2008 Budget report published in March, chapter C, table C6 "Current Receipts" gives £6.1 billion for 2008–09.
- £6 billion—VAT on purchase of new cars—Various sources give 2.3 million new car sales a year at £17,000 average price, giving total sales of £39 billion. Note that there is no VAT on used car sales, and most of the VAT on commercial vehicle sales (but not company cars) is reclaimable.
- £2.5 billion—Company car tax—HMRC Library—Taxable benefits in kind and expenses payments—Table T4.5 gives for 2006–07 on car and fuel benefits: estimated tax of £1,800 million and national insurance of £700 million.
- £0.5 billion—Insurance Premium tax—Association of British Insurers give premiums received by their members in 2006 for motor insurance as £10,277 million. At a rate of 5%, that yields £0.5 billion tax.
- £0.5 billion—Tolls and "congestion charges"—London charges £270 million, M6 Toll £65 million, about 20 other tolls in England and Wales yielding £230 million.
- £3.5 billion—proportion (one third) of other taxes on oil companies—HMRC website –"PRT and Government revenues from UK oil and gas production"—Table 11.11 shows a figure of £9.9 billion estimated for 2008/09. An arbitrary one third of this tax has been taken as relating to sales of road fuels.
- £3.5 billion—Other taxes on garages and car repairers etc—There are about 34 million licensed vehicles and another 1.5 million not licensed. They contribute to the sales of independent filling stations, firms selling vehicles and repairing them etc. That activity will generate VAT, Corporation tax and PAYE etc. It has been taken that the tax on sales and profits will average £100 per vehicle (excluding the VAT on new cars).

September 2008

Memorandum from the Association of British Drivers (ABD) (TAX 14)

SUMMARY

- Total revenue from road user taxes and charges exceeds £45 billion per year, which is at least seven times the amount invested by the Government in improving and maintaining the road network.
- Road user taxation affects the cost of goods and services to all members of society. High levels of road user taxation are regressive, affecting the poorer members of society the most.
- Current levels of road user taxation more than cover the full social and environmental costs of road use, as well as the costs of providing and maintaining the road network.
- Drivers already pay in taxation five times the amount recommended by the Stern Review to offset the alleged impact of CO_2 emissions on climate change.
- The massive benefits and vital nature of road transport to the economy and society are frequently overlooked when identifying costs.
- The main purpose of road user taxation should be to cover the costs of improving and maintaining the road network. The failure to invest adequately in new capacity is a major factor in today's levels of congestion.
- It is a fallacy that building new roads generates traffic. Traffic levels are related to growth of the economy, not of the road network.
- Britain's motorway network, in relation to the size of its economy, is less than half the average of the former EU-15 countries.
- Lack of sufficient investment in the road network has serious impacts on the economy, road safety, and the environment of towns and villages. There is a strong case for embarking on a major programme of strategic road building and widening of existing routes.
- The ABD is strongly opposed to all forms of road pricing or congestion charging. The costs of implementing and running schemes at the local or national level would add significantly to overall levels of road user taxation, as well as having a serious impact on privacy and civil liberties. It is also unlikely that such schemes would be effective in cutting congestion.
- Any road pricing scheme aimed at reducing traffic levels overall would require punitive charges to have a significant impact. These would have serious economic consequences, similar to those of a large increase in the price of oil.

— The ABD favours fuel duty as preferable to fixed charges like vehicle excise duty as the main method of charging for road use, since fuel duty is directly related to mileage covered and a vehicle's fuel consumption.

— Market conditions in the road haulage industry are distorted by the much higher fuel costs in Britain than in Europe. There is an urgent need to reduce fuel duty to the level of other European countries to enable British operators to compete on equal terms.

1. Introduction

1.1 The Association of British Drivers (ABD) was formed in 1992 to campaign for a better deal for Britain's motorists. One area of concern to the ABD has been the increasing imbalance between the revenue raised from road users and the level of investment in the road network.

1.2 The ABD is a voluntary organisation funded by subscriptions and donations from its members and supporters. It receives no funds from public bodies or large corporate donors, so is truly independent. The ABD is a member of the Parliamentary Advisory Council for Transport Safety and the National Council of Voluntary Organisations.

1.3 Many of the ABD's active members are from professional or managerial backgrounds. Malcolm Heymer, who is submitting this evidence on behalf of the ABD, holds a master's degree in Transportation Engineering and has over 30 years' local government experience in the fields of transportation modelling, highway engineering, transport planning and traffic engineering. Mr Heymer is willing to give oral evidence to the Transport Committee if requested.

1.4 The following sections of this submission address the questions raised in the call for evidence.

2. Revenue from Road Users and Expenditure on Roads

2.1 Figures compiled by the Road Users Alliance from official sources for 2005/06 show that £45 billion was collected in road user taxation, made up as follows:

Fuel tax	£23.7 billion
Vehicle excise duty	£5.0 billion
VAT on vehicles	£6.9 billion
VAT on fuel	£6.8 billion
Company car tax	£2.6 billion
Total	£45.0 billion

In addition, tax is paid on vehicle insurance premiums, servicing and repairs, and car parking charges are levied by many local authorities and NHS Trusts. The true total of taxes and charges, therefore, is likely to be around £50 billion.

2.2 In contrast, expenditure on roads in 2005–06 amounted to £7.5 billion, of which around 60% was on new construction and improvement and the remainder on maintenance. So road users are paying in taxes and charges more than seven times the Government's investment in the road network.

3. Impact of the Current Charging Regime

3.1 The current high levels of road user taxation have direct and indirect effects on the cost of goods and services to all members of society. Around 88% of inland freight movement is by road, so the fuel and vehicle excise duties levied on commercial vehicles affect the price of all commodities, including essentials such as food. The costs of travel by car undertaken as a necessary part of business also have to be recovered from end users.

3.2 High levels of road user taxation are also regressive, affecting the poorer members of society the most. The proposed retrospective application of emissions-based vehicle excise duty to cars bought since 2001 is grossly unfair on those with lower incomes, who cannot afford to replace vehicles that have been made virtually worthless.

3.3 The low levels of investment in improving and maintaining the road network also have a significant effect on the economy, through the costs of congestion, wear and tear on vehicles, and road accidents that could have been prevented by new or improved roads.

4. Capturing External Costs

4.1 It is frequently claimed that road transport creates external costs that are not covered by current levels of taxation and charges. These costs arise from impacts such as local air and noise pollution, accidents, and the claimed impact of CO_2 emissions on climate. Objective economic analysis leads to a different conclusion. In 1998 the Automobile Association published a report by David Newbery, Director of the Department of Applied Economics at Cambridge University, entitled "Fair Payment from Road Users: A review of the evidence on social and environmental costs." One of its main conclusions was "…there is no evidence that current transport taxes fail the test of sustainability, for they appear to more than cover the full social and environmental costs of transport, as well as the cost of providing the transport infrastructure."

4.2 In the decade since that report was published, emissions from vehicles have continued to fall and taxes have risen further. Far from taxation failing to cover the external costs of road transport, therefore, it has become even more excessive.

4.3 In 2006 the Stern Review on Climate Change suggested a "carbon tax" of £44 per tonne of CO_2 emitted, claiming that this level of taxation would be sufficient to cover the economic cost of the climate change allegedly caused by that tonne of CO_2. The ABD calculated at the time that drivers were already paying around five times that amount through fuel duty. (A typical 2-litre petrol car emitting 191g/km CO_2 and averaging 34.9mpg would travel 5,236 km per tonne of CO_2, using 424 litres of petrol. With fuel duty and VAT of 56.8p per litre, fuel tax would amount to £240, more than five times Stern's recommended £44 per tonne.)

4.4 So even if CO_2 emissions were a significant factor in causing climate change (which the ABD does not accept, since there is increasing weight of scientific evidence to the contrary), drivers are already paying far more in taxes than the economic cost of those emissions.

4.5 Those who wish to apply a greater burden of taxation on road users are quick to point out the costs to society of road transport, while ignoring the massive benefits. With road transport the main mode for both passenger and freight movements, it is of vital importance to the national economy. There seems to be a lingering impression in some quarters, dating back to the first half of the twentieth century, that "motoring" is a leisure activity for the wealthy. Such outdated thinking should be abandoned and the essential nature of road transport, to all sections of society, must be acknowledged.

5. The Purpose of Taxes and Charges

5.1 The main purpose of road user taxation should be to cover the costs of improving and maintaining the road network. As already shown, taxation exceeds the level of investment in the road network by at least seven times.

5.2 The failure to invest adequately in new capacity since the early 1990s is a major factor in today's levels of congestion. A much repeated claim is that building new roads or widening existing ones simply generates more traffic. But a study of historic traffic data shows that growth is related to the state of the economy, not the level of investment in the road network. Traffic levels fell in the recession of 1978–79, rose sharply in the second half of the 1980s, then stagnated from 1990 to 1993. Traffic growth resumed in the mid 1990s, even though this was a period of declining investment in the road network.

5.3 Between 1994 and 2004 the total length of the UK's road network grew by less than 1%, and the motorway network by less than 9%. In the same period, traffic levels overall grew by 18% and motorway traffic by 37%, so there is clearly no correlation between road building and growth in traffic levels.

5.4 Britain's motorway network, in relation to the size of its economy, is less than half as extensive as the average of the former EU-15 countries. The resulting congestion, unreliability of journey times, and extensive delays caused by road works and accidents have a serious impact on the economy and the prospects for economic growth. The failure to bypass towns and villages on major routes has also detracted from the environment and quality of life in those settlements as traffic levels have increased.

5.5 There is a compelling case, therefore, to embark on a major programme of strategic road building and widening of existing routes, to reduce congestion and make Britain's road network fit for the purpose of enabling economic growth to match that of our competitors. Far from being environmentally damaging, well designed and constructed road schemes can reconcile the needs of the economy with those of the built and natural environment.

6. Impacts on Different Categories of Road User

6.1 Road user taxes and charges fall almost entirely on users of motor vehicles. As already stated, high levels of road user taxation are regressive, impacting most on those with low incomes. Pensioners, rural dwellers, and people with disabilities, who may not have access to public transport or find it impractical to use, are particularly hard hit. This is clearly unfair.

6.2 The ABD would ideally like to see a reduction in the burden of road user taxation and charging across the board. Alternatively, some form of discount scheme for particular groups, eg pensioners, might enable them to pay a reduced rate of fuel or vehicle excise duty, similar to the bus pass scheme.

7. Alternative Methods of Charging for Road Use

7.1 The ABD is strongly opposed to all forms of road pricing or congestion charging. Whether schemes are based on charging for entering a specific area at certain times (such as the Central London congestion charge) or monitoring vehicle movements across the entire network (such as the proposed national charging scheme), huge bureaucracies are required that would absorb a large part of any income generated. This has proved to be the case in London, where most of the income has been swallowed up by running costs.

7.2 The London scheme has also failed to reduce congestion or improve air quality. Although traffic flows are slightly lower than before the scheme was introduced, Transport for London has admitted in its latest report that congestion has returned to pre-charging levels. This has been due to buses and taxis filling the road space previously used by cars, and the large discounts enjoyed by residents of the charging zone.

7.3 A national road user charging scheme based on satellite tracking technology, with real-time information on every journey transmitted continuously to a central processing office, would amount to an unacceptable intrusion into the privacy of citizens. There is also no reason to believe that a national system would be any more effective in reducing congestion than the London scheme, while adding considerably to the financial burden on road users.

7.4 There is some vagueness among the supporters of road user charging about what it is meant to achieve. Is it to influence drivers' choices of route and time of travel, in order to make more efficient use of the road network? Or is the intention to reduce traffic levels overall? If the intention is to encourage better use of the road network, it must be realised that congestion itself influences the choices that drivers make. People have different levels of tolerance to sitting in traffic jams, but there will be a point at which each individual will find another route, change their time of travel, go to another destination, or decide not to travel at all. This point comes when the value of the trip to the individual is exceeded by the perceived 'costs', which will not all be monetary.

7.5 Congestion is to a large extent self-regulating, therefore, as a result of the sum total of the choices made by individual road users. Road user charging seeks to influence those choices. Drivers would be charged different rates per mile depending on the level of congestion on particular roads at different times of the day. It is important to consider how this might work in practice. Charges would be set initially on the basis of pre-existing congestion levels, with higher charges on the more congested roads. Some drivers would decide to switch to roads with lower charges, thus increasing traffic levels on those. (This also has road safety implications, as drivers are likely to divert from motorways to all-purpose roads, for example.)

7.6 Consequently, the initial charging regime would change congestion levels across the network, so the charges would need to be recalculated. These new charges would lead to further traffic diversions, requiring the charges to be adjusted again. This iterative process could continue over a period of weeks or months, until a stable situation was achieved. In all likelihood this would be little different from the traffic pattern before charging commenced—but with the addition of a massive, intrusive and expensive bureaucracy.

7.7 It is unrealistic to believe that road user charging could be introduced without an overall increase in taxation on drivers. To avoid a loss in overall revenue, the maximum reduction in existing taxes from which drivers could benefit would be equal to the net income from charging, after the costs of running the scheme had been deducted. So drivers would pay, at a minimum, the costs of operating the scheme, in addition to existing levels of motoring taxation.

7.8 If the purpose of road pricing was to reduce traffic levels overall, the charges would have to be very high to produce any noticeable effect. The relatively small drop in traffic levels in summer 2008 resulting from the substantial increase in fuel prices is evidence of this. Since traffic levels are related to economic activity, forcing them down with punitive financial measures would have serious economic consequences, similar to those of a large increase in the price of oil.

7.9 While the ABD considers road pricing to be unacceptable, it favours fuel duty as preferable to fixed charges like vehicle excise duty as the main method of charging for road use. The amount a driver pays in fuel duty is directly related to mileage covered and a vehicle's fuel consumption. It is simple to collect, very difficult to avoid, and requires no additional bureaucracy or intrusion into privacy. This does not mean, however, that the ABD favours an increase in fuel duty, which is already the highest in Europe. Overall levels of road user taxation are, as already shown, far higher than needed to pay for investment in the road network and cover external costs. Vehicle excise duty should be reduced or removed altogether

8. Charging of Foreign-registered Vehicles

8.1 The main area of concern with foreign-registered vehicles is the use of Britain's roads by European lorries. There are two main financial impacts resulting from these vehicles: physical damage to the structure of roads, and undermining the viability of Britain's road haulage industry.

8.2 In an ideal, free European market, individual states should not charge for use of their roads by vehicles from other countries, as this use is reciprocal. There may be a case for some central European states charging lorries that are just passing through, since these lorries impose costs without providing any economic benefit to those countries. This is not the case with Britain, as the majority of foreign lorries have business here (apart from a small proportion in transit to the Irish Republic).

8.3 Market conditions in the road haulage industry are distorted, however, by the much higher fuel costs in Britain than in other European countries. This is enabling foreign lorries to fill their tanks in Europe, and operate in Britain at lower cost than British operators. There is an urgent need to reduce fuel duty to the level of other European countries to enable British operators to compete on equal terms.

The ABD requests the Committee to give serious consideration to the points raised in this submission.

September 2008

Memorandum from the British Vehicle Rental and Leasing Association (BVRLA) (TAX 15)

Executive Summary

- — As a key representative of the business and private users of over 2.6 million vehicles using UK roads. Transport taxes and charges play a pivotal role in our Members operation and we are eager to help shape the future structure of transport taxes and charges.
- — Our view is that the use of the vehicle should be a key factor in the structure of transport taxes and charges in the future to assist with influencing behavioural change and reducing congestion.
- — Road charging, as a transport tax, should only be considered as an alternative to current transport taxation. Failing to do so would be regarded as an additional taxation for use of the road network. Road charging should be tax neutral to ensure that motorists do not see new taxes and charges as excessive revenue raising.
- — All future road charging or local congestion charging schemes must be fully interoperable and provide a minimum administration burden on those who operate and manage fleets of vehicles. The tax impact on those who operate and manage fleets should be minimal and Government should aim for tax neutrality.
- — Foreign registered vehicles should pay for their use on the UK roads, this could simply be done by restricting the amount of fuel they are allowed to enter the country with if this is possible within EU legislation.

Specific Comments

What is the impact of the current charging regime on individuals, businesses and the economy?

1. The current transport charging regime can be defined so as to include the following: vehicle excise duty, fuel duty, congestion charges, parking charges, corporation tax, VAT fuel scale charges and company car taxes.

2. Fuel duty—This tax provides a good example of taxation based on use. It provides Government with a simple and crude method of charging for the amount people drive and encourages you to use a fuel efficient car. The more fuel efficient your car the less you pay in fuel duty. If the Government so wished they could raise fuel duty to a specific level so as to influence behavioural change in road users and get them to consider alternatives methods of transport. However, as there is no differential between categories of road users, for example, a bus company pays the same level of fuel duty as a car owner therefore raising fuel duty raises the costs on other forms of transport.

3. Vehicle excise duty—This simply taxes the car owner on their legal ownership of a vehicle. Once this tax is paid there is little or no incentive for owner or user to consider how often they use the vehicle, which roads they use it on and the time of day they travel.

4. VAT—The Government had been lobbying in Europe for variable VAT rates on the cleanest products in class, for example, the cleanest cars. Currently, however, there is no differentiation in VAT rates and therefore the regime has little impact on decision making.

5. Company car tax—The company car tax regime has been based on the level of CO_2 emitted by the car since 2002. This has had an impact on the make up of the company car fleet, research from HM Revenue and Customs shows average CO_2 emissions figures from company cars are estimated to be around 15g/km lower as a result of the company car tax reform. The research suggests that around 60% of company car drivers who were given a choice of car by their employers were influenced by the company car tax reform and chose cars with lower CO_2 emissions figures. The company car tax regime influences vehicle choice but again does not impact on use of the vehicle, use of the vehicle is influenced currently only by fuel duty.

6. Privately owned vehicles used on business—For individuals who use their own cars on company business the current level and structure of the Approved Mileage Allowance Payments scheme perversely creates an environment in which employees are being offered an incentive to use older, more polluting vehicles and to cover more miles than necessary. The tax free benefit is enhanced when the number of miles travelled is increased, which can lead to unnecessary business miles being travelled or recorded.

7. VAT fuel scale charges and fuel benefit in kind charge—Both these charges are based on the CO_2 emissions of the vehicle. For fuel benefit the cleaner the car the less you pay in benefit in kind. For VAT fuel scale charges the cleaner the car the less the VAT scale charge. This again has the impact of influencing vehicle choice on both the individual and the business.

8. Capital Allowance Regime—The current capital allowance regime is due to be amended in April 2009. Expenditure on cars with CO_2 emissions above 160g/km will attract a 10% writing-down allowance (WDA) and expenditure on cars with CO_2 emissions of 160g/km or below will attract a 20% WDA. Where the vehicle is leased and emits more than 160g/km then the business will only be able to claim 85% of the lease rental as expenditure for corporation tax purposes. Vehicle choice is again the key driver to reduce emissions in this regime.

9. The London Congestion Charge—In its current format, the charge does not address congestion in terms of changing behaviour for those journeys which have to take place in a vehicle. Provided the motorist is willing to pay the daily charge, the charge will not in anyway influence use of the vehicle, as the charge is merely an entry/movement based charge (you can travel as often as you want when you want throughout the charging period.) In his election manifesto, the London Mayor, Boris Johnson pledged to review the scheme so it is fairer and more effective. The Mayor also believes that there should be a move to a flexible pricing system, so he can more effectively target the worst congestion.

10. The congestion charge is seen by business users as a burden on their business as it does not offer the ease of payment for drivers or fleet operators. The fine regime is particularly burdensome in terms of administration for both rental and leasing companies and many of them have reported little improvement in terms of journey time.

Summary—Impact of Taxes

11. As you will see there is a spectrum of different tax regimes creating confusion between ownership and use of the vehicle. This has clearly created an impact on drivers and businesses to think about their choice of vehicle. Fuel duty provides some influence over how much people use their vehicle, however, perhaps more could be done to get people to think about the journey they are making. Consideration could be given as to how to reduce congestion through travel at different times of day and better use of the road network.

Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents, and CO_2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?

12. Generally the transport taxes and charges paid by motorists do not capture all of these external costs. CO_2, as demonstrated above is a key driver in encouraging people into cleaner cars and positive steps have been taken by motor manufacturers to reduce emissions from their vehicles and the European Commission has proposed mandatory targets for motor manufacturers to assist with the continuation of CO_2 reduction.

13. BVRLA Members have saved over 3.5 million tonnes of CO_2 from their fleets in the last four years.
14. It is therefore clear to see that using CO_2 has been a good starting point to improve the environmental impact of vehicles.

15. Accident statistics are steadily decreasing, the number of people killed or seriously injured on Britain's roads has been steadily decreasing since 1994 and the trend show this decline will continue, especially as vehicles are fitted with more and more safety features. Therefore factoring in the cost of accidents to charging for the use of the road may not be a stable base for HM Treasury to move forward with.

16. Local air, noise pollution and congestion could all be factors that are taken into account when determining future taxation structures for road users.

17. Over the last few years diesel engines have improved their air pollution impact to such an extent there is no longer a need to penalise these vehicles in terms of taxation supplements. All three of these factors can be linked, if you reduce congestion, local air and noise pollution will reduce. However, careful consideration would need to be given as to how this could be structured and what benefits would be gained for road users in using these as a basis for a tax structure. In addition, Government should be aiming to achieve tax neutrality. Looking at the time of day people travel and how this could be influenced would be a key element of a future taxation structure that used local air and noise pollution along with congestion.

18. The King Review recommended that the Government investigated mandatory scrappage for the oldest vehicles and the Government could still be doing more to encourage people away from older more polluting vehicles. A mandatory scrappage scheme is likely to have the same impact as the upcoming changes to the VED regime, in that you are seen as penalising an individual for decisions made in the past. A voluntary scheme which offers some incentive for the take up of a newer cleaner car could be a more acceptable solution than a mandatory scheme.

Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social and environmental impact of transport, or some combination of these?

19. The primary purpose of transport taxes and charges on motorist should be to raise revenue to cover the actual costs of the road network.

20. They should be structured to influence the motorist to do what he or she can to reduce traffic and congestion. For example, if a national road pricing scheme was considered it should encourage travel at off peaks times and make best use of the road network.

Does the current system have different impacts on different categories of road user? If so, is this fair?

21. In terms of categories of road user, this can be looked at in many different ways, for the purpose of our response to this question we have determined the categories as business users and private motorists.

22. The only impact is in terms of fuel duty in that the more you drive the more fuel you use. However, this does not take into account those journeys which are deemed essential. For example, commercial vehicle operators are paying a large amount of fuel duty for journeys which have to take place as part of their business operation and there is no differentiation for these operators. Fuel duty rebates could be a solution for commercial vehicle operators as was being investigated as part of the lorry road user charging scheme.

23. From a fairness perspective, it is important to consider whether there is an alternative available for the journey. An often used analogy is the van driver delivering 40 parcels on the London underground, is it a realistic or practical alternative probably not. Is it therefore fair to charge the business user the same in fuel duty and VED as the private motorist? Does the private motorist have an alternative, in terms of the time of day they travel or another mode of transport? Our view is that these are the types of scenarios which should be considered when looking at the impact and fairness of taxes and charges on motorists.

What alternative methods of charging for road use are available, such as road pricing in town and city centres and on the national road network, lorry road-user charging schemes, switching charges between fixed charges (such as Vehicle Excise Duty) and variable charges (such as fuel duty)?

24. We believe it is important to make the distinction between road charging and congestion charging. Road charging may be introduced on a tax neutral basis as an alternative to current taxation methods, such as fuel duty and VED, to ensure the motorist is paying for his own impact on the UK road network. Congestion charging can be defined as a revenue raising option for towns and cities to encourage greater use of alternative public transport.

25. Our Members are proceeding with caution in terms of road pricing, not enough is known about Government's wider policy intentions for road pricing and what the deal is for the motorist.

26. It is also essential for business users that any future schemes place a minimum burden on businesses in terms of administration and the functionality should accommodate the needs of businesses.

27. Lorry road user charging unfortunately turned out to be a highly complicated solution and the costs of implementation far out-weighed any benefits. If an alternative solution can be found which is tax neutral and helps with the objective of ensuring foreign hauliers pay for their use of the road network then our Members would no doubt be supportive.

28. Our rental and car club Members should be categorised as playing an integral role in the transport solution. Our sector continues to provide a cost effective and environmentally friendly alternative to car ownership, especially as the sector operates the cleanest vehicles therefore having a minimal environmental impact. As part of the transport solution consideration should be given as to how their vehicles are charged in terms of their use of the road.

29. Rental Members provide vehicles from 1 hour to 1 month and are a viable alternative to owning a car in city locations where good public transport exists. If a car owner gives up their vehicle and chooses to rent a car only when needed research has shown:

— One rental car takes at least 5–11 private cars off the road.

— Rental cars emit only 63% CO_2 compared to those they replace.

— Mileage is reduced by 53.6%.

Should foreign-registered vehicles pay for access to the UK's roads and if so, how? How closely enforced are the rules governing re-registration of foreign-registered vehicles which are brought permanently the UK and the consequent liability for VED?

30. Foreign-registered vehicles should pay for their use of the UK roads rather than access to them. It would be impossible for Government to charge on entry for foreign vehicles, however, it could be feasible to limit the amount of fuel these vehicles can bring into the country, especially for commercial vehicles. This would then ensure that these vehicles pay for their road use via the fuel duty contributions.

31. In terms of re-registering cars this is not currently closely enforced and we are not sure how feasible it would be to enforce it. Whilst cars are paying via fuel duty for their use of the road there are wider concerns in terms of: road safety, insurance and payment of VED. The only effective enforcement against this category of road enforcement is through monitoring via ANPR cameras, however, it is very unlikely that Police will have the resource to delegate on this basis.

Closing Comments

32. We hope that our comments add value to the ongoing debate on the future of transport taxes in the UK. We would be happy to come in and present our thoughts and discuss them with the Committee further in any evidence sessions on this subject.

33. We feel it is imperative that Government recognise the important future role that taxation could have in terms of reducing congestion in a manner which is fair and equitable yet achieves climate change objectives.

— The BVRLA is the trade body for companies engaged in the leasing and rental of cars and commercial vehicles. Its Members provide short-term self-drive rental, leasing and fleet management services to corporate users and consumers. They operate a combined fleet of 2.6 million cars, vans and trucks, buying 44% of all new vehicles sold in the UK.

— Through its Members and their customers, the BVRLA represents the interests of more than two million business car drivers and the 10 million people who use a rental vehicle each year. As well as informing the Government and policy makers on key issues affecting the sector, the BVRLA regulates the industry through a mandatory code of conduct.

September 2008

Memorandum from ITS (UK) (Intelligent Transport Systems UK) (TAX 16)

1. Introduction

The House of Commons Transport Committee announced on 21 July 2008 that it would be conducting an inquiry into taxes and charges on road users.

2. Background

2.1 ITS (UK) welcomes the opportunity to comment on current and future technology options that will assist how appropriate and proportionate tax and charging regimes can be introduced for all or certain sections of road users. The Committee's questions have been addressed in sequence however there are specific areas that lie outside the Society's natural expertise, especially those relating to quantitative taxation issues or questions of fairness, and as a consequence those answers are confined to describing various technological options.

2.2 *What taxes and charges are currently paid to government by road users, how much revenue do they raise and how does this compare with national and local government expenditure on the roads network and ancillary services?*

2.2.1 The main areas where the government raises revenues directly from road users comes from fuel duty levies, vehicle excise duties and VAT from related purchases and there is extensive factual evidence available from official sources. In addition levies on individual and corporate bodies through, income and corporation taxes and local government council charge precepts provide other substantial sources of revenue. ITS (UK) recognises that the Society's expertise on the distribution of revenue and expenditure at local and national levels is not sufficiently comprehensive and where relevant, has taken account of comments made by, or available from, Professors Bonsall and Nash of the University of Leeds Transport Studies Faculty who are the acknowledged experts in issues of taxing and charging on road users.

2.3 *What is the impact of the current charging regime on individuals, businesses and the economy?*

2.3.1 Whilst any charging regime is unpopular, road users appreciate and accept that essential charges have to be levied to ensure that the roads network is "fit for purpose". Where they do raise objections is when it is felt that revenues are either allocated elsewhere or not spent on essential infrastructure which then interferes with uninterrupted journeys. The biggest current problem is congestion. Delays occur, particularly at peak times. It is estimated that congestion and delays cost "UK PLC" a total of £17 Billion per annum, and although this is a somewhat anecdotal assessment the costs of congestion and their associated impact on "UK PLC" are significant. Individuals and businesses are increasingly investing in ITS technologies, for example Satellite Navigation devices, "Highways Agency Traffic Information" and the "Transport Direct" website, that enable motorists to identify delays thereby allowing them to take reactive and proactive action to circumvent those areas.

2.4 *Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents, and CO_2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?*

2.4.1 Roadside technology can be sufficiently sophisticated to be able to differentiate between specific types and locations where congestion, pollution and collisions occur. They are extremely effective at monitoring pollution levels and recording direct measurements to enable a "pollution cost" to be calculated. However it would be very much more difficult to calculate the costs of accidents, and thus charge motorists, in the absence of substantial on-board equipment to record each vehicle's trajectory and general behaviour in order to determine the collision causation. Conversely it would be possible to reduce the number, severity and cost of accidents by using 'Intelligent Speed Adaptation' (ISA)—a system that uses satellite position fixes and digital mapping either to advise drivers of local speed limits, or more controversially to limit vehicle speeds by accelerator pedal feedback (a "haptic throttle"). ISA has been trialled in Sweden and Australia, and will shortly be trialled by TfL in London, and by DfT. London has been largely successful in reducing congestion using camera and Automatic Number Plate Recognition (ANPR) technology. Other Road Authorities have shown how congestion can be managed using a range of relevant tariffs and business rules. Several examples are described below:-

- Stockholm recently implemented a sophisticated charging regime where most entrants to the city centre are charged using ANPR equipment supplemented by microwave "tag and beacon" technology. Certain residents are exempt owing to where they live;
- It should also be noted that in London the fee is a charge, and is levied on all non-exempt vehicles, including foreign ones, with civil enforcement penalties, whereas in Stockholm it is a tax and foreigners are exempt. Thus the technology is successfully used to implement varying and complex policies;
- Similarly for air pollution and CO_2 emissions. The London Low Emission Zone (LEZ) went "live" during 2008 covering HGVs in excess of 3.5 tonnes. It uses the same ANPR technology as the Congestion Charging Zone to monitor particulate emissions from diesel-engined vehicles with penalties being based on the known particulate emissions. Thus, by the same token, the penalty or charge could be related to CO_2 emissions or other pollutants, and to petrol-engined as well as diesel (and indeed alternative-fuel) vehicles. In October 2010 the LEZ will apply to vans and minibuses with stricter criteria being imposed.

2.5 *Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social and environmental impact of transport, or some combination of these?*

2.5.1 The purpose of taxes and charges is not something that ITS (UK) can comment on. However, ITS technologies are capable of making a significant contribution irrespective of which charging policy is adopted. These systems are effective in recording tangible issues such as traffic volumes, vehicle location and vehicle emission levels.

2.6 *Does the current system have different impacts on different categories of road user? If so, is this fair?*

2.6.1 The lack of differentiation between different road user groups in the current charging regimes prevents a more equitable system of revenue collection. Technologies are capable of delivering a more sophisticated charging regime. For example, "Time-Distance-Place" (TDP) charging, as implemented via satellite location technology and digital maps, are capable of allowing charges to be varied by time of day (eg higher charges in "rush hour"), by distance travelled (and hence by wear and tear on the road surface), and by the particular category of road or area (eg higher charges on urban roads).

2.7 *What alternative methods of charging for road use are available, such as road pricing in town and city centres and on the national road network, lorry road-user charging schemes, switching charges between fixed charges (such as Vehicle Excise Duty) and variable charges (such as fuel duty)?*

2.7.1 All of the above are applicable, including advanced concepts such as the dynamic pricing (adjusting to current congestion in real time) which characterises some of the US High Occupancy Vehicle or Toll (HOV/HOT) lane schemes. Road pricing in town or city centres, on the national road network and lorry road-user charging schemes, are really different facets of the same thing, so far as the technology is concerned, and the technology permits all options to be pursued.

2.7.2 There are three fundamentally different technologies for Road User Charging; they are:

— Using cameras with Automatic Number-Plate Recognition (ANPR) to detect vehicles entering and leaving the charging zone;
— Using a microwave beacon and in-vehicle tag to detect vehicles entering and leaving the charging zone;
— Logging a vehicle's actual track on the road network by satellite position fixing and digital maps and sending either a calculated charge or the journey details to the roadside by cellular radio.

These three technologies are complementary rather than competitive. Microwave technology is very mature, is in use world-wide, and is still being improved with smaller and cheaper tags and less obtrusive roadside equipment. The satellite approach is commercially deployed or under planned procurement to varying degrees throughout Europe and Singapore. Cameras and ANPR are widely used in many other stand-alone transport applications and will remain an important technology both for charging users and as a "back-up" to other technologies to ensure enforcement of unequipped or wrongly-equipped vehicles.

2.7.3 ITS (UK)'s conclusion is that the key technologies for charging and enforcement of local, regional and potentially National Road Pricing schemes are already commercially available but deployment must be phased, starting with town and city centres, appropriate sections of the national road network, and certain classes of vehicles (such as HCVs) before attempting a national charging scheme for all vehicles. A good example of incremental introduction of technology is DfT's phased approach of local implementation of charging schemes by Local Authorities, and of hard-shoulder running and the proposed "High Occupancy Toll" lanes (a.k.a. "Single-Lane Tolling") on motorways. Transport experts are agreed that it is imperative that far greater attention should be devoted to convincing the public of the need for road pricing. Public acceptability, rather than technology, is the biggest problem. However it is essential to be clear on the policy objectives—if the aim is to decongest urban and metropolitan areas and trunk road "pinch-points" then microwave technology could be used quickly and reliably. Moving to national Time/Distance/Place charging as an alternative tax regime would require satellite position fixing and significant in-vehicle equipment. An ITS (UK) White Paper publication "Technology Options for Road User Charging in the UK" offers technological detail; this is attached as an Appendix to this submission with particular reference to section 5.

2.8 *Should foreign-registered vehicles pay for access to the UK's roads and if so, how? How closely enforced are the rules governing re-registration of foreign-registered vehicles which are brought permanently the UK and the consequent liability for VED?*

2.8.1 To answer these questions a distinction needs to be made between two types of taxes and charges—those relating to vehicle ownership and those relating to the actual use of vehicles.
— "ownership" of a vehicle (eg VED)—there is little rationale for foreign vehicles to be charged in the UK as well as in their country of origin provided that a) owners can prove that all appropriate ownership taxes and charges have been paid in the vehicle's country of origin and b) the vehicle in question is only in the UK temporarily (assumed for this purpose to be no more than 6 months in any 12 month period);
— "use of the road" (eg congestion charge and emissions charging in London, road tolls, etc)—there is no reason why foreign-registered vehicles should be exempt from them. This rationale in France for example means that UK drivers are not exempt from paying to use autoroutes.

Exempting drivers of foreign-registered vehicles from road user charges would prove to be counter-productive as this could lead to the creation and subsequent formalisation of a "technical" loophole. Anecdotally this is already a concern as "domestic" Operators are increasingly using foreign-registered vehicles (or apparently foreign-registered vehicles) to evade the congestion charge in London as the complications of enforcing penalties imposed on drivers from outside the UK for non-payment of such charges is proving to be ineffective.

2.8.2 Even if the foreign driver concerned can be identified and traced through operational systems such as EUCARIS the majority of cross-border enforcement actions fail at this stage as there is no pan-European legal mechanism to ensure payment of the penalty charge. Some choose to pay in response to a notification from the enforcement agency but most do not. This practice is also thought to be linked to wider vehicle criminality including uninsured vehicles, stolen vehicles, cloned registration plates and unlicensed drivers. The European Commission is taking steps to enhance cross-border enforcement effectiveness but this is currently limited to several criminal offences, including excess speed, driving under the influence of alcohol, not using a seat belt and failing to stop at a red light. Assuming that the non-payment of road user charges will be a civil offence in the UK in future schemes no efforts are being addressed within the European Commission to the cross-border enforcement of these kinds of offences. To date, these issues have only been addressed by a limited number of predominantly national, profile-raising efforts such as SPARKS and EU-funded research projects such as EURO-SPARKS and in part, CAPTIVE. These have all broadly reached the same conclusion—EU-level legislation is required to make cross-border enforcement of civil offences such as the non-payment of road user charges effective. In contrast, operational and technical mechanisms for cross-border enforcement are already being tested through the VERA3 project and, while considerable effort would be required to translate them into the "real" world, this is not considered to represent a significant hurdle to pan-EU implementation.

2.8.3 Considerations over enforcement and recovery of charges for the use of the road also have cost implications. Although difficult to define, by its very nature, the cost of recovering penalty charges from foreign drivers will undoubtedly be more than the cost of recovering penalty charges from domestic drivers. This raises a number of questions in terms of its cost-effectiveness:

- Can the cost of recovering penalty charges be claimed from the violator?
- At what point does the cost of recovering penalty charges from foreign drivers become uneconomic?
- Even if the costs of recovery become uneconomic for the enforcing agency, is there still an argument to be made that the recovery of all penalty charges should be pursued in order to ensure that all violators will be penalised and that the enforcement regime is not discredited? This action can by itself, act as a deterrent but is difficult to measure.

2.8.4 Determining the extent of VED evasion by foreign vehicles is extremely difficult. However, anecdotal evidence suggests it is on the increase. Identifying whether a foreign-registered vehicle should have been re-registered in the UK and therefore should be subject to VED requires agencies to determine whether it has exceeded the threshold for being legal temporarily in the country. In principle, this requires two things:

- A record of the vehicle's passage through UK ports of entry and a determination of whether it has exceeded the legal threshold for being temporarily in the country; and
- The ability to provide this information to enforcement agencies in real time so that appropriate enforcement action can be taken.

Whilst automated VED procedures are efficient they cannot be as immediately effective as directed personnel-conducted roadside enforcement where driving offences can be detected and enforced, thereby leading to the ready identification and prosecution of foreign-registered vehicle owners. Recent changes in legislation will enhance the overall effectiveness of VED enforcement procedures enabling prosecution action to be undertaken where vehicles are parked in public places that are not an intrinsic part of a private dwelling nor where a Statutory Off Road Notification has not been made.

3. Conclusion

3.1 This submission seeks to respond to the implicit technological challenge incorporated into the Inquiry's question by offering current and future solutions that may assist. The Intelligent Transport Society for the United Kingdom through its Interest Groups, Members and industry links is ideally placed to provide independent expert advice into the effectiveness of ITS technologies and welcomes further opportunities to assist the Transport Committee in this process.

September 2008

Memorandum from the Chartered Institute of Logistics and Transport in the UK (CILT) (TAX 17)

Introduction

1. The Chartered Institute of Logistics and Transport in the UK (CILT) is the professional body for individuals and organisations involved in all aspects of transport and logistics. It has some 19,000 members in numerous disciplines. As it is not a lobbying organisation it is able to provide a considered and objective response on matters of transport policy. Through its structure of forums and regional groups it provides a network for professionals in the transport industries, local government and universities to debate issues and disseminate good practice.

2. The Institute has published a number of reports on road charging and has given evidence to previous Select Committee Inquiries.

Summary

3. The Institute's views can be summarised as follows:

- Road users should in principle pay for the full economic cost of their use of the roads.
- These costs include variable costs of use, such as maintenance, lighting, management, accidents and policing.
- They should also include the capital cost of providing the road system and its improvement.

- In an economically efficient system users should also pay for the marginal social costs of road use, ie:
  - congestion (by far the largest component);
  - air pollution and noise;
  - CO_2 emissions; and
  - other environmental impacts.
- In an ideal world the charges paid by road users would be sufficient to finance the cost of running and improving the road system and to balance supply and demand.
- The charges relating to external costs should be applied in part to mitigating those costs, eg: improving alternatives to the use of private cars, such as walking, cycling and public transport.
- At present road users pay charges in the form of taxes: vehicle excise duty and fuel duty.
- These taxes at present raise some £28bn a year, which is more than double the level of public expenditure on roads. But this does not include a rate of return on past investment in the road system or its replacement. And if the marginal social costs of road use are included, the overall revenues from road taxes are only a little higher than the overall costs.
- Charging for external costs solely through fuel duty is inefficient and unfair: it is a very effective and appropriate way to charge for CO_2 emissions, but does little to reduce congestion (the main element in external costs). Moreover, some people, using lightly used roads in rural areas or outside the peak period in towns, pay too much, while those using busy congested roads at peak periods pay far too little.
- If congestion costs were charged for by variable road pricing, congestion would be reduced; the amount to be collected from road users to cover marginal congestion costs would also fall; and the revenues could be used to improve alternatives.
- Heavy goods vehicles (hgv's) have a disproportionate effect on road wear and tear and should be charged for road use by distance and axle weight. This should apply to foreign-registered hgv's as well, which would level the playing field between UK and foreign hauliers.
- In moving towards such a system, we have to take account of the fact that over half the current taxes from road use are used by the Government to fund other public expenditure, including public transport subsidies and capital investment. If a road pricing system were introduced, existing road user taxes should in principle be cut, but a complete offset would require other taxes to be raised to compensate.

4. The Institute's replies to the Committee's detailed questions are set out below.

What taxes and charges are currently paid to government by road users, how much revenue do they raise and how does this compare with national and local government expenditure on the roads network and ancillary services?

5. Road users currently pay three types of tax to the Government:
   - Vehicle Excise Duty.
   - Fuel Duty.
   - VAT on the purchase and maintenance of vehicles and on fuel.

6. The VAT payments on vehicles and their maintenance should be disregarded for the purpose of this inquiry, since it is not a road-specific tax but comparable to the VAT paid on nearly all goods and services. [The VAT paid on the fuel tax element of fuel purchase should, perhaps be added to the fuel tax since it is a tax on a tax]

7. The income from VED and fuel duty in 2006–07 was:
- VED £5 billion
- Fuel duty £23 billion

This total of £28 billionn compares with public expenditure on roads of £12.7 billion as follows:

£bn

	Central government	*Local government*(1)	Total
Capital	1.4	2.7	4.1
Current	2.2	2.9	5.1
Totals	3.6	5.6	*9.2*

Source: Transport Statistics Great Britain 2007. Table 1.15 1 2005–06 figures

To these totals one should add:

the cost of policing roads:	1.75
DVLA costs	0.50
accident costs not met by insurance	1.20
Total	**3.45**

What is the impact of the current charging regime on individuals, businesses and the economy?

8. The current regime is unsatisfactory in a number of ways:

— people pay too much on quiet roads especially in rural areas;

— people pay too much at off-peak times;

— drivers pay too little on busy roads and much too little at busy times. There is no incentive to:

  — travel at a different time;

  — car share;

  — walk or cycle; and

  — travel by bus or train.

— as a result roads are congested and unreliable at busy times in busy places. This wastes valuable time for industry, businesses and individuals;

— Eddington estimated the economic cost at £25 billion by 2025. The cost was estimated by the Government's Feasibility Study at some £10–12 billion; and

— road taxation revenues are part of general tax income: there is no direct link between road use, what users pay and the financing of expenditure to manage and improve the system. As a result roads and related transport investments have been under-funded and long-term planning has been difficult.

9. The inadequacy of the current way of charging hgvs (see below) gives the wrong incentives regarding the amount of freight to transport (and therefore distribution systems in general) and—probably more importantly given the low overall elasticity of demand for freight transport—the wrong incentives regarding mode and type of vehicle to use, and where and when to use it.

Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents, and CO_2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?

10. The estimated external costs of road transport (e.g: congestion and pollution) are some £14bn. This excludes those accident costs already paid for by road users through their insurance premiums. In principle these costs should be met by road users

11. Overall the sums paid in fuel duty do cover the external costs, but they don't:

  — do so fairly and efficiently; and

  — provide an incentive to reduce the external costs.

Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social and environmental impact of transport, or some combination of these?

12. Taxes or charges on drivers (including buses and lorries as well as cars) should meet a number of objectives:

— pay for the maintenance and operation of the road network (with higher charges for lorries which cause the most damage) and for its improvement;

— help balance demand and supply by charging more for scarce roadspace (at busy times) than when capacity is ample;

— raise funds to pay for alternatives so that people who chose not to pay the charge have an acceptable choice;

— support land-use policies by encouraging denser urban developments and discouraging longer journeys and urban sprawl.

13. In addition, there is no reason, in principle, why they should not be a source of general taxation. However, the Institute considers that there should be a clear—totally transparent—distinction between road user charges, which are used to provide and maintain the road network, as well as other elements of the transport system that provide alternatives to the car, and taxation (ie the levy contributing to general government revenues)

14. Efficient use of the national capital invested in the road network requires a radical reform of road user taxation and charging, with charges related directly to demand, and with road users paying directly for the provision of the road network, through a rationally structured charging system.,

Does the current system have different impacts on different categories of road user? If so, is this fair?

15. No, it is definitely not fair, or logical. The present system penalises road users in rural areas and other places and times when roads are not busy, because they pay too much in fuel duty. It also penalises businesses and others (eg; families travelling to an airport to catch their holiday flight or taking a sick relative to hospital) for whom time is precious but who suffer from the congestion caused by unconstrained peak demand. It also penalises bus users whose buses are held up in congested traffic.

16. It would be fairer if road users travelling at peak times on busy roads had to pay much more—but only if alternative means of travel are improved so that they can avoid the charge if they can ill afford it.

What alternative methods of charging for road use are available, such as road pricing in town and city centres and on the national road network, lorry road-user charging schemes, switching charges between fixed charges (such as Vehicle Excise Duty) and variable charges (such as fuel duty)?

17. On most of the road network the cost of electronic road pricing is unlikely to be justified. A basic level of fuel duty for cars (much lower than the present rate) could cover road maintenance and management costs, CO_2 emissions, other environmental externalities such as air pollution and noise, plus the capital costs of the system.

18. In areas or on roads that are busy, particularly at peak times, additional electronic charges should be introduced to cover congestion costs. There are a variety of ways of doing this, varying from simple cordon or area charges to more sophisticated but more costly kilometre based charges. The consequences of charges on particular roads in terms of diversion to other roads must always be carefully considered, and may mean that some sort of area wide charge will generally be preferable to charges on individual roads.

19. Lorries are at present charged for the extra damage they cause to roads by paying much higher VED rates and pay more per mile in fuel tax because of their higher fuel consumption. But these are blunt instruments. The costs imposed by hgvs vary with mileage run, whereas VED doesn't. Road damage costs rise sharply with increasing axleweight, whereas fuel consumption varies more with gross weight and not to the same extent as wear and tear. Moreover road damage is higher on roads with thinner pavements (generally poorer quality roads).

20. The ideal system for hgvs in terms of reflecting costs would be nationwide electronic road pricing, with a charge per mile varying with the characteristics of the vehicle, the type of road, the location and the time of day. But it is doubtful whether the benefits of such a complex system would be worth the costs. However, a simple km based charge, varying with the characteristics of the vehicle and driven, as in Switzerland, by the tachograph, should be cheap and simple to implement and at least take account of axleweight, emissions standard and distance driven. Refund of part of fuel tax would be appropriate for vehicles paying a kilometre charge.

21. VED could be reduced or abolished, apart from the cost of registering vehicles. It might be possible to reduce fuel duty but this would have to take account of the need to raise money for:

- highway and public transport improvements;
- non-roads public expenditure currently funded from fuel duty. This is about £15 billion a year (£28 billion less £12.7 billion). Of this some £8.3 billion is spent on public transport, so the balance being spent on non-transport services is only around £7 billion (about 25%); and
- the cost of operating road pricing.

22. A large part of the net income from urban charging schemes will need to be retained in those areas both to fund transport improvements and to avoid putting them at an economic disadvantage.
Should foreign-registered vehicles pay for access to the UK's roads and if so, how?

23. Yes. Foreign lorries would be covered by a lorry distance-based charging scheme. They and other foreign vehicles would either have to be equipped with on board units to pay congestion charges or given the option of paying manually or by phone. Enforcement within the EU will require agreement at EU level (eg: on the exchange of information on registration numbers and vehicle owners and pursuit of owners for non-payment.

September 2008

Memorandum from the Royal Automobile Club (RAC) Foundation for Motoring (TAX 18 new)

1. Executive Summary

1.1 The Transport Committee's Inquiry is timely.

1.2 Road taxes and charges have been evolving: from the Fuel Duty Escalator and taxes attempting to encourage the purchase of low carbon dioxide-emitting cars to parking charges, congestion charging schemes and motorway tolls. This plethora of taxes and charges requires revision to ensure that they are relevant and effective.

1.3 The Treasury has, in effect, been setting important aspects of transport policy with insufficient consultation, analysis or explanation. This has led to errors and injustices and it has impeded the evolution of sensible transport policy.

1.4 The topic is receiving daily attention in the public debates because of:

(a) Rising oil and retail fuel prices.

(b) Controversy concerning a flawed attempt in the last Budget to use changes in VED rates to encourage ownership of more fuel-efficient vehicles.

(c) Associated Treasury policies to increase the total tax-take—the 2008 Red Book shows that the Budget changes will increase the tax taken by £465 million in 2009–10 and £735 million in 2010–11, constituting almost all of the increases across the whole economy.[9]

(d) The central role that taxation policy and the appropriate price for carbon in the debate up to and following the publication of the Committee on Climate Change's first advice on carbon dioxide emissions in December 2008 and the government's response in the 2009 Budget.

1.5 The Foundation endorses the principles set out in the Stern report on climate change and the Eddington transport review. They have been accepted by government. These principles must be applied to all sectors of the economy and not to road taxation in isolation.

1.6 A logical approach to the taxation of road users would have tax related to the use of the road network and to environment and carbon costs that are explicitly identified and quantified. It would bear some relation to the quality of service offered to users.

1.7 That part of taxation which relates to the development and maintenance of the road network should be ring fenced with the Department for Transport made responsible for setting it and accounting for the use of the funds. In time this could create a better climate for the introduction of some form of road pricing: that should be the long term aim.

1.8 The element of carbon tax should be explicitly identified, made consistent with the carbon tax in other areas of activity and take account of the recommendations of the Committee on Climate Change.

1.9 Any major changes in the structure of taxation should be put out for consultation. Time must be allowed to analyse the impact of any proposed changes.

1.10 With improving vehicle efficiency, the rate of duty on fuel would have to rise in real terms if the Treasury were to maintain the level of tax take. There should be an explicit policy on this.

1.11 The structure and level of tax should be technology neutral. The Treasury has occasionally tried to pick winning technologies and favoured them with tax concessions: most recently bio diesel. It would be better to create a stable long-term framework and then leave it to the market to establish the best new technologies.

1.12 Government should analyze the likely impact of higher VED and put forward proposals on how it will prevent further increases in the evasion.

2. About the RAC Foundation

2.1 The RAC Foundation explores the economic, mobility, safety and environmental issues relating to roads and the use of motor vehicles, and campaigns to secure a fair deal for responsible road users. Independent and authoritative research for the public benefit and informed debate are central to the RAC Foundation's standing.

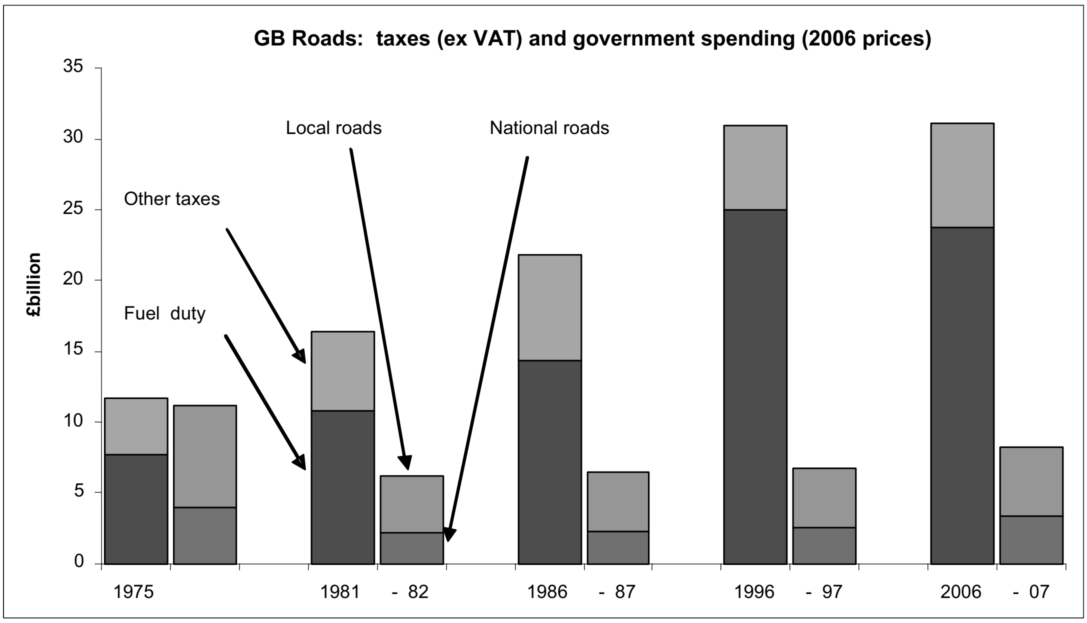
3. Taxes paid to Government by Road Users

3.1 This is a matter of fairly accurate public record. The Committee should not omit ancillary items such as insurance tax and parking charges.

3.2 The total annual tax-take of £45 billion is a considerable sum, constituting 7% of the Exchequer's total expenditure (£618 billion in 2008–09). As car ownership and use have become commonplace household spending has grown. Road tax revenues have grown commensurately. This is illustrated in Figure 1.

[9] Budget 2008, HMT, Table 1.2.

Figure 1



(*Sources*: Transport Statistics Great Britain and other official publications.)

3.3 The approximate balance which prevailed in the 1970s was lost by 1997. Whilst Treasury has been content to encourage revenues to grow to become a convenient source of general tax income, this policy has not been defended to the general public. Other sources of Exchequer income are under severe threat, and political demands on public expenditure are as great as they have ever been.

3.4 There are two principles that could be applied:

(a) Achieving a required total revenue for general government expenditure purposes (sumptuary taxation);

(b) "Efficient" charges for the use of the network.

3.5 Historically (a) has been an important driver, though there have been several attempts, both within government and outside it, to relate road tax revenues to (b).

4. Impact of Current Charging Regime on Individuals, Businesses and the Economy

4.1 The roads are one of the nation's most vital utilities. Service is poor and users are heavily charged. Those who regulate charges for other utilities have, with the support of successive governments, evolved a robust system of public consultation, publishing response to consultation, and publishing statements of intent with reasoning before finalising decisions. This includes the railways. The Department for Transport does much the same.

4.2 This is now expected as part of good governance but it does not happen with road taxes and charges.

4.3 The average household spends 14% of its budget on transport,[10] more than either housing or food and drink. 88% of this is on owning and operating their cars: £55 a week of which £18 per week is on fuel. This is in addition to the indirect payments we make to cover the transport cost embodied in the prices of the goods we purchase. Even the poorest ten percent of households spend a high proportion of their budgets on motoring and taxis (£10 out of £140 per week): six times more than on public transport. There are important questions relating to the balance of road user taxes and between rural and urban users.

4.4 The total exceeds government expenditure on roads by a factor of four. In "Roads and Reality" the RAC Foundation[11] set out in detail how the present, faulty structure of taxes and charges and the mismatch between revenues and the amount invested in strategic roads, are leading to substantial—and avoidable—congestion costs. The present system is neither efficient nor fair.

[10] ONS (2008) Family Expenditure Survey 2007 Edition.

[11] RAC Foundation, *Roads and Reality*, (2007).

5. Taxes, Charges and External Costs

5.1 The principle behind efficient charges is that road users should face the full cost imposed on themselves and others by each decision they take. This would include infrastructure capital and maintenance costs, congestion, accident risk, noise, air pollution and external carbon costs.

5.2 As concern with environmental matters has grown more interest has been shown in efficiency principles, especially in the context of how best to deal with carbon dioxide emissions. Stern and Eddington recommended that the solution is to price appropriately and then make sure users pay that price.

5.3 Present taxes and charges cannot capture these external costs because they vary enormously by location, time of day and type of user. The Department for Transport's *Road Pricing Feasibility Study* (2004), the Eddington Review (2006) and the RAC Foundation's study, *Roads and Reality* (2007) all illustrate how better charging could be achieved in principle: by reducing VED, replacing fuel duty by a carbon tax and charging on a distance basis depending on time and location. Meanwhile, Bayliss's paper[12] gives a detailed comparison of what is actually paid now against the corresponding average costs.

5.4 The Treasury has recognised the potential for differential prices to change behaviour, the differential rates of VED being one example. But there is more potential: for instance as a means to influence choice of travel mode in pursuit of some stated policy objective; to deal sensibly with carbon emissions; and to manage congestion on the road network. Eddington placed great emphasis on getting the prices right and recommended that "all users . . . should pay the full costs of their travel whether they are the costs of congestion or environmental damage."

5.5 But what is an "appropriate" price for carbon? SMMT[13] demonstrates that there is a vast range of carbon prices currently in use within government, with road fuel duty (if regarded as a carbon price) being far and away the highest. Using the price for carbon recommended in the Stern Report, the RAC Foundation reckon the carbon cost embodied in a litre of fuel is about £0.14,[14] to be compared to the current duty of over £0.50 (+ VAT).

5.6 If the inconsistencies in carbon pricing are not resolved there is the potential for a grotesque distortion in future with serious detriment to the public welfare from the use of roads.

5.7 Charges set according to efficiency principles 3.5 (b) would yield a revenue, which may, or may not correspond to any figure set by reference to 3.5 (a). In *Roads and Reality* the RAC Foundation estimated a substantial increase in efficient charge revenues above current tax levels in 2041 conditions: but that was principally because of higher congestion on an inadequately expanded network and aggressive assumptions about the future costs of accidents and air pollution. We draw the Committee's attention to studies by Newbery (1995)[15] and Mirrlees (2008).[16] Especially useful is the paper by Bayliss (2006)[17] which analyses the component costs of road use in detail and compares them with revenues.

5.8 Much discussion has been on whether the road user, on average (or in total) pays more or less than the costs on average (or in total). It is sometimes argued to be "fair" that average payments should at least cover average costs. But from an efficiency point of view what matters is whether a decision to travel an extra vehicle mile is faced by a price at least as high as the social cost of that extra mile.

5.9 A crucial, but little discussed issue is the extent to which, if at all, the revenues from taxes on congestion, emissions and other externalities are actually used to mitigate or compensate for the damages suffered. This could include capacity expansion in congested conditions, or expenditure to reduce or compensate for such things as noise, accident risk, air quality or visual intrusion. In practice the tradition has been largely to put all the revenue into the Exchequer and to use most of it for general purposes. However, this was not the case with the 1999 and 2000 Acts enabling local road pricing schemes, and the RAC Foundation argued in *Roads and Reality* that it cannot be the case in future for a national scheme if the public are to accept it.

5.10 This matter relates to the whole issue of whether what people pay for their roads should bear a closer relationship to the quality of service they actually receive. In other words should roads not be regarded more like other utilities where charges for use are independently regulated and closely related to expenditures on operations and capital investment?

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[12] Bayliss, D (2006) *Road user charging and taxation*, Transport, March. see http://www.atypon-link.com/TELF/doi/abs/10.1680/tran.2006.159.4.147?cookieSet=1&journalCode=tran

[13] Walker, R and Croucher, C (2008) *Is the motorist paying too much for carbon?* SMMT.

[14] RAC Foundation (2007) *Roads and Reality.*

[15] David Newberry *Reforming Road Taxation*, Automobile Association, 1995.

[16] Mirrlees Review, *Reforming the Tax System for the 21st Century*, Chapter 5 (2008), http://www.ifs.org.uk/mirrleesreview/reports/environment.pdf

[17] *Op cit*.

6. The Purpose of Taxes and Charges

6.1 The primary purpose should be to secure economy and efficiency. Providing that it is separately and transparently identified and debated there could be a separate item to bring the total yield up to an amount deemed necessary for purposes of general government expenditure. But road users are already paying more than other sectors towards the general budget. There is no reason that road users should be regarded as a special and endless source of funds and subject to no checks or balances independent of the Treasury.

6.2 There has been a failure to treat transport taxes, charges and investment as part of the larger national policy picture. It is difficult to make sense of taxation for roads in isolation. Different sectors are treated differently. The emissions from the housing and construction industries are likely to be significant but they are not regarded in the same way as transport.

6.3 The objectives of road tax and charge policy are not explicitly and consistently stated: To raise general Exchequer revenues? To mitigate environmental damages? To cover the public costs of providing the system? To redistribute wealth? To encourage modal shift; to incentivise congestion reduction and a more efficient use of the network? There has therefore been no informed discussion about whether the changes Chancellors make have contributed to any of these objectives.

6.4 There are anomalies: railways and buses pay reduced rates of duty (as do farmers); public transport fares do not carry VAT. The distortionary implications for transport policy and for policy more generally do not appear to have been adequately articulated.

6.5 It should be demonstrated that taxes for roads are transparent, efficient, equitable and sufficiently flexible to respond to changing circumstances. They should also be cheap to collect, difficult to evade, easy to understand and buoyant. Yields need to be reasonable predictable.

6.6 Treasury needs access to the relevant microeconomic advice. Presumably this kind of modelling will be central to the deliberations of the Committee on Climate Change. For some purposes, such as broad choices between congestion reduction and carbon dioxide reduction, they could be relatively straightforward. What is required is common sense and a few basic calculations. The Treasury should publish the models they have used in the interests of transparency and improvement though exposure to criticism.

6.7 Recent unfortunate "errors" and illustrate the proposition that it would be in the Treasury's own interest to strengthen its access to analytical competency and to discuss these matters more openly prior to issuing firm decisions.

6.8 It is not practical for the Chancellor to consult in advance on some matters. But this does not preclude more open discussion of the underlying principles, such as tax structures. We recognise that the Treasury does consult privately with relevant Departments but this is limited and technical and not about policy effects. There is a general feeling that the actual decisions reached are overly influenced by the Treasury's own immediate concerns.

6.9 The government must operate in a practical world and large-scale instantaneous reform of road taxes would be difficult. Even so, it is essential that the government states clear objectives from which to take guidance on the appropriate direction for incremental reform.

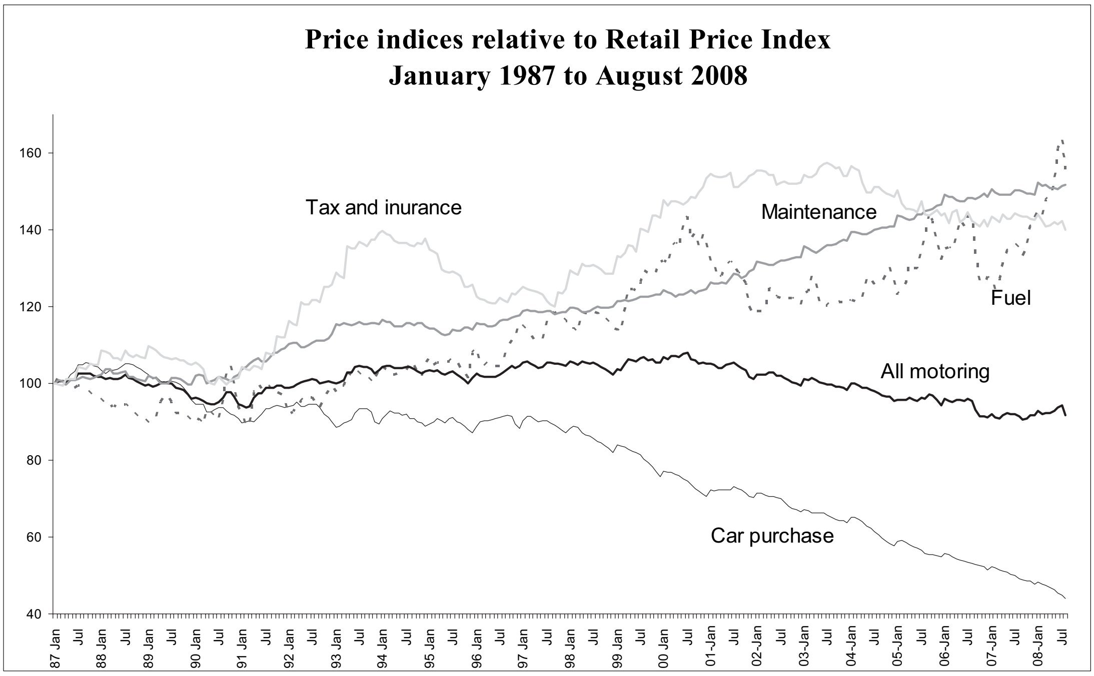
6.10 Within a total tax take there is the question of the appropriate balance between taxes on ownership and taxes on use.[18] There are arguments for some of each. But we have not seen good evidence from government in support of the present balance. Ownership taxes could be seen as fixed charges to cover administrative costs and as a contribution towards the traffic-invariant costs of proving the network. Taxes on use would reflect the costs generated by that use. If carbon emissions are the target then the solution is to price carbon into fuel duty directly.

6.11 The recent VED changes had the effect of shifting taxation away from use in favour of ownership. Although the government presented this as a move to give incentives towards purchasing more carbon-efficient vehicles, it was consistent with the possibility that the Treasury is concerned that as vehicles become more efficient they buy less fuel and pay less duty.

6.12 Policies on VED clearly have significant implications for both the new and the used car markets. These implications do not appear to have been given adequate attention. Changes in the relationship between ownership and use costs for vehicles are illustrated in Figure 2 below.

[18] *See* RAC Foundation (2008) Submission by the RAC Foundation for Motoring to the Environmental Audit Committee's Inquiry into VED.

Figure 2



(*Source*: Office for National Statistics price indices.)

6.13 Fuel duty is a particularly cheap tax to collect and relatively difficult to evade. Ownership taxes may be less attractive in this regard. Ease of understanding of complex tax scales (and road prices) by the general public is also concern, highlighted in the VED inquiry.

7. Current Charge Impacts on Different Road Users

7.1 The burden of vehicle ownership and use taxes on different groups in the population is an important issue. Again, not enough proper research has been done on this—and what many people believe to be true is not always the case. For instance, there is a myth that poor households use public transport and do not spend much on motoring; in fact they spend a far higher proportion of their income on motoring than on public transport and a similar proportion to the rich. The RAC Foundation gave detailed analysis of this in evidence to the Treasury in advance of the last Budget.[19] Almost certainly, if congestion and air pollution costs are taken into account, rural users are significantly over-taxed relative to urban users and they are the ones with the poorer access to public transport alternatives.

8. Alternative Methods of Charging

8.1 As noted in other parts of this paper, the RAC Foundation and others have documented some of the possibilities in principle. The practice has been demonstrated in London, Singapore, Scandinavia and other places. A practical scheme is under consultation in Manchester under the Transport Innovation Fund initiative. The obstacle to a reform at the national level is not technology but clarity about the policy "package". This, if it is to be acceptable to the public, must return something to the road user in the form of improved roads and improved public transport so as to protect mobility. Implementation costs must be demonstrated to be proportionate. The need to re-establish public trust dictates fundamental reform of governance, transparency and administration.

9. Foreign Registered Vehicles Payment for UK Road Access

9.1 The RAC Foundation leaves it to others to comment on these matters.

October 2008

[19] http://www.racfoundation.org/files/The%20cost%20of%20transport%20and%20its%20impact%20on%20UK%20 households.pdf

Memorandum from Campaign for Better Transport (TAX 19)

Summary

1. Taxes on motoring fail to capture the full external costs to society, but must instead focus on managing demand.

2. Motoring taxation should prioritise demand management by directly funding and subsidising sustainable alternatives to give people real transport choices; this link should be more clearly stated by the Chancellor.

3. The Government should introduce lorry road user charging and reform motoring taxes to encourage efficiency, manage demand and reverse the decrease in the cost of motoring. The cost of carbon should be reflected in the cost of varying transport modes: more polluting modes should cost more per mile than cleaner modes.

About Campaign for Better Transport

Since 1973 the Campaign for Better Transport has been helping to create transport policies and programmes that give people better lives. Working nationally and locally, collectively and as individuals, through high-level lobbying and strong public campaigning, we make good transport ideas a reality and stop bad ones from happening. We chair the Transport Taxation Group, which suggests fiscal initiatives to support sustainable transport.

We have limited our response to questions three, four and six.

Submission

Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents, and CO_2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?

1.1. Motoring does not cover the full cost of its impact on society, but of greater concern is the low level of public acceptability of motoring taxes. Forging an express link between impact and taxation is unlikely to make the public accept the level of taxation and may even fuel protest if the public disputes the methodology used to assess the cost of damage. It would be more acceptable to recognise that motoring has an impact (much of which is unquantifiable) and therefore policies, including taxation, should seek to manage demand for motoring and provide sustainable alternatives.

1.2. In 2006 the Treasury raised £23.448 billion from fuel duty, £4.103 billion from VAT levied on fuel duty and a further £5.010 billion from Vehicle Excise Duty,[20] totalling £32.561 billion. During that year motorists drove a combined 506.4 billion kilometres,[21] and emitted 120 $MtCO_2$.[22]

1.3. In order to calculate the aggregate cost to society and the economy of the external costs of motoring, we need to arrive at a standard measure of the value of damage, such as the cost of a road traffic fatality or one minute sitting in congested traffic. Academics disagree on the exact values, partly because of the inherent difficulties in valuing subjective experiences, but also on which values to consider as externals.

1.4. However it is possible to estimate the total monetised cost of motoring's externals. Using the methodology outlined in a report commissioned in 2001 for the DETR gives us high and low estimates in pence per kilometre (1999 prices) for operating costs (.42 to.54), collisions (.82 to 1.4), air pollution (.34 to 1.7), noise (.02 to.05), climate change (.15 to.62) and congestion (9.71 to 11.16).[23] Having adjusted for inflation, this gives us a figure of £70.6 billion / annum (low estimate) and £95.3 billion (high estimate) in 2006 prices; roughly twice to three times the revenue raised by central Government.

1.5. Despite higher charges heavy goods vehicles also fail to cover their costs; taking the lowest HGV costs and greatest income, calculations from various studies show that at best HGVs cover 61% of their costs—a shortfall of up to £3.35 billion a year.[24]

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[20] Environmental Accounts: Government revenues from environmental taxes, ONS, http://www.statistics.gov.uk/statbase/ssdataset.asp?vlnk = 5688

[21] Transport Statistics Great Britain: 2007, DfT, http://www.dft.gov.uk/162259/162469/221412/217792/2214291/TSGB2007Final_linksV12.pdf

[22] 3 UK Emissions of Carbon Dioxide, Methane and Nitrous Oxide by National Communication Source Category, DEFRA, http://www.defra.gov.uk/environment/statistics/globatmos/gagccukem.htm

[23] Surface Transport Costs and Charges: Great Britain 1998, Sansom et al, 2001, http://www.its.leeds.ac.uk/projects/STCC/downloads/SurfaceTransportCostsReport.pdf

[24] Heavy Lorries: do they pay for the damage they cause, MTRU 2008, http://www.bettertransport.org.uk/system/files/heavy_lorries_MTRU_research.pdf

1.6. Not all of motoring's impacts can be quantified satisfactorily. The permanent loss of ancient woodland to road building, or the impact of noise on once tranquil environments simply cannot be quantified and efforts to do so merely trivialise the impact. Similarly the impact of nocturnal traffic noise on sleep varies according to the amount of sleep lost; few would begrudge being woken once by a particularly loud vehicle, but the aggregate impact of being woken every night is far more costly than the sum of its parts.

1.7. There is no agreed consensus as to which marginal external costs should be included, and therefore how much damage motorists can be said to cause. Pro-motoring organisations dismiss many of the external costs included in the above calculation, and therefore arrive at a much smaller figure (conveniently below that taken by the Treasury in motoring taxation)[25]; environmental groups would broaden those externals even wider, including, for instance, the cost of social exclusion caused by the centralisation of services designed around car use (such as the closure of local post offices or hospitals, and the resultant impact on rural communities).

1.8. In the absence of a consensus, directly linking taxation to damage opens fiscal policy up to detailed and repeated argument about whether the level of taxation is set at the right level. Pro-motoring groups argue that it was too high; environmental groups that it was too low. It is simpler to decouple motoring taxation from damage, but to use the money raised to provide alternatives to driving (such as public transport schemes), thus reducing the amount of damage done and providing people with greater travel choices.

Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social and environmental impact of transport, or some combination of these?

2.1. Motoring taxation is perceived as a "green tax", and as such should penalise polluting behaviour while encouraging sustainable behaviour: in this case reducing demand for motoring by funding sustainable alternatives. This should be an overtly expressed objective, divorced from any attempts to make motoring cover its environmental impact or repay its societal costs. Motoring taxation should be used to discourage car ownership and use, with individuals rewarded for joining car clubs and car sharing schemes.

2.2. The Government's stated purpose for a tax should be consistent with what the revenue is spent on. It would be inconsistent, for instance, to state that motoring is taxed to cover the damage it causes to society but to invest the revenue in defence or education, because neither addresses the stated cause for the tax. Increasing taxes which operate in this manner can rightly be regarded as revenue raising, even if the result is a decrease in CO_2 emissions: in this case the direct intention is to fund Government spending, and the reduction in emissions is an indirect effect.

2.3. Taxation policy which links the penalising of polluting behaviour with the funding of greener behaviour is more politically acceptable than just penalising damaging behaviour. With "green" taxes, public support hinges on whether the revenue is earmarked for environmental ends; ie whether the revenue tackles the problem or expressly encourages less damaging behaviour. A recent poll by the Green Fiscal Commission showed that while 51% of people supported green taxes, this rose to 73% where revenue was hypothecated towards reducing CO_2 emissions.[26]

2.4. This is matched by determined opposition to taxes which are describe as environmental but where the revenue is not spent on reducing pollution. Earlier this year the right-of-centre newspapers ran a series of campaigns against the twice-postponed 2p fuel duty increase and the changes to VED, such as the Daily Telegraph's "Fair Deal for Drivers" campaign. These campaigns centred around resentment of tax increases to fund general spend. In an opinion piece entitled "Don't make motorists pay for state profligacy" the *Daily Telegraph* complained about tax increases which would fund, amongst other things, "the notorious NHS computerisation scheme, which is expected to cost £12 billion and which few believe will ever actually work." The article concluded by pointing to "many more such dispensable big-ticket projects to which ministers should look for savings, rather than squeezing motorists for yet more revenue."[27]

2.5. Although it is clear that the public is more likely to support motoring taxes where the revenue is ringfenced, the Government and the Treasury has consistently opposed calls for hypothecation. Responding to the Stern Review, the Treasury Select Committee remarked that "We have considered the desirability of an extension of hypothecation in relation to environmental taxes, but do not think that such an approach

[25] See, for example, the Taxpayers Alliance report, "The Burden of Green Taxes", which dismissed every external save the cost of highway maintenance. It justified ignoring the cost of road traffic collisions and fatalities because the measures taken to reduce collisions, such as "driving tests, speed limits, speed cameras and… speed bumps… impose significant costs on drivers", as though the cost of travelling within the speed limit equated to the cost of being hit (and possibly killed) by a driver.

[26] Green Fiscal Commission, Public Attitudes to Environmental Taxation, November 2007, http://www.greenfiscalcommission.org.uk/images/uploads/baselinepoll.pdf

[27] Don't make motorists pay for state profligacy, *Daily Telegraph*, 23 May 2008, http://www.telegraph.co.uk/opinion/main.jhtml?xml=/opinion/2008/05/23/dl2301.xml

would be appropriate." The Government's response was equally dismissive: "Hypothecating taxes to particular spending programmes causes inflexibility in spending decisions and can lead to a misallocation of resources, with reduced value for money for taxpayers."[28]

2.6. In order to diffuse the situation, the Government should rethink its opposition to hypothecation and set aside a substantial portion of motoring taxation for sustainable alternatives to reduce CO_2 emissions, give people real travel choices and undermine the argument that motorists should not be taxed because they have no alternative but to drive.

2.7. There should also be a marked increase in funding for initiatives to reduce CO_2 emissions from motoring. The Treasury made a modest start to this through the creation of a £40 million fund to research cleaner vehicle technology (announced in the 2008 Budget), but this amount was just 10 percent of the predicted revenue increase from the contemporaneous VED increases.

2.8. In addition to capital funding for new sustainable transport infrastructure there should be significant revenue funding for local transport through a single revenue pot as recommended by the Eddington Study. This could be distributed according to local fuel duty / VED revenue intake.

2.9. The postponed 2p tax rise will doubtless meet with further opposition, despite the marked decrease in fuel prices from their mid-Summer peak. The Government should, as a precursor to a wider rethink of motoring taxation, match any additional revenue with equivalent spending on walking, cycling and public transport initiatives. To further increase transparency, the money could be made available to local authorities according to the amount of revenue taken from local motorists.

What alternative methods of charging for road use are available, such as road pricing in town and city centres and on the national road network, lorry road-user charging schemes, switching charges between fixed charges (such as Vehicle Excise Duty) and variable charges (such as fuel duty)?

3.1. The Government should work with the haulage operators to introduce lorry road user charging to "level the playing field" between British and European hauliers. Motoring taxes should be reformed to halt and reverse the growth in per capita car ownership and mileage, and to increase the average fleet efficiency.

3.2. Current motoring taxation policy is neither correctly priced nor sufficiently transparent to achieve its stated end. Vehicle Excise Duty is described as an environmental tax because it is said to encourage the purchase and ownership of more efficient vehicles. However recent opposition to the VED changes complained that the tax penalised people according to ownership not usage: "once the road tax [sic] is paid, drivers can then use their cars as often as they wish without being penalised for polluting the air."[29]

3.3. Despite the recent protests at increases in VED, the proposed level is unlikely to have any meaningful effect on behaviour and car ownership. Many of the most polluting vehicles (those above 225 gm/km) are purchased as status symbols; the highest band of purchase tax would increase the cost of a vehicle by just £950, a small percentage of the price of a luxury car.

3.4. A 2004 report commissioned by the Department for Transport found that "Key players in the industry, as well as the car drivers themselves, feel that for these initiatives to be taken up they need to 'hit people in the pocket'. The current VED scheme does not."[30] It is doubtful that the current measures are stringent enough to "hit people in the pocket", despite widespread protestations from the motoring public.

3.5. Taxation on vehicles should send a clear message to car manufacturers which encourages them to increase their fleet efficiency. At present many manufacturers produce models with wide-ranging efficiencies: while the cheaper models may be below the 225 gm/km level, the premium version is often above the 225 gm/km limit.

3.6. Transport consultant Keith Buchan of MTRU has proposed a showroom tax linked to carbon emissions and charges at £50 per gm/km of carbon dioxide emissions (in bands of 5 gm/km) over a target average would be sufficiently high to encourage people to into purchasing more efficient cars. His model starts at 170–174 gm/km (£50 showroom tax), then moves to £300 for 175–179 gm/km and increases by £250 per 5 gm/km band. Over time the target CO_2 emissions would decrease, so that by 2020 a new car emitting 170–174 gm/km would be charged £1500 and the £50 band would cover cars emitting 105 to 109 gm/km. To accompany this, VED would be reformed so that cars above a target average would pay £2 per gm/km, starting at £20.[31]

[28] Treasury Select Committee, Climate Change and the Stern Review: implications for Treasury Policy, Fourth report 2006–2007 session, quoted in the Government's response, http://www.publications.parliament.uk/pa/cm200708/cmselect/cmtreasy/495/495.pdf

[29] ANALYSIS: Alastair Darling the cash guzzler, *Daily Mail*, 27 May 2008, http://www.dailymail.co.uk/news/article-1022345/ANALYSIS-Alistair-Darling-cash-guzzler.html

[30] Cited in Vehicle Excise Duty as an Environmental Tax, Environmental Audit Committee, Tenth Report Session 2007-2008, http://www.publications.parliament.uk/pa/cm200708/cmselect/cmenvaud/907/90705.htm

[31] Environmental Duties to Encourage More Efficient Cars. Buchan, Keith. http://www.transportclimate.org/documents/mtrulocarb_carduty2.pdf

3.7. Fuel duty tangibly linked to annual emissions: the more you drive (and the less efficient your vehicle is) the more fuel you consume and the more fuel duty you pay. During the high oil prices of summer 2008 the AA reported that 55% of their members were driving less because of the price of fuel,[32] figures mirrored by those released by the DfT, which showed a 2% decrease in second quarter 2008 traffic levels on both urban and A-roads.[33]

3.8. Fuel duty has not kept up with inflation since 1999 (when the Government abolished the Fuel Duty Escalator) and becomes less expensive in real terms every year. There has been just one increase in fuel duty since 2000. Cars have become more efficient, needing less fuel to travel a given distance. Driving is now 8% less expensive in real terms than in 1997.[34] Despite rising fuel prices, the cost of motoring fell 4% in real terms between January 2005 and April 2008.[35] Meanwhile public transport costs have been rising in real terms; bus travel is up 13% since 1997 and train travel up 5%.[36]

3.9. The falling cost of motoring is one of the primary drivers of traffic growth, itself the main cause of increasing congestion, rising CO_2 emissions and decreasing air quality. "[N]ational traffic forecasts currently assume that at least part of the predicted increase in traffic is due to motoring costs falling. At least half of this is due to an assumed increase in car efficiency making driving cheaper, and thus encouraging more of it."[37]

3.10. To increase parity between transport modes it is imperative that the cost of motoring rises in line with inflation and efficiency, so that a journey in 2020 has at least the same fuel costs as in 2006. To achieve this, fuel duty would rise need to rise gradually each year, and the Chancellor should explicitly link a substantial proportion of future increases to sustainable transport.

3.11. While national road user charging could play a valuable role in discouraging trips at the busiest times or on the most congested roads, public opposition and the cost of associated infrastructure are likely to prevent its implementation for some time. Congestion charging schemes should therefore focus on urban conurbations where road space is at a premium and there is greatest potential to effect modal shift to public transport, walking and cycling. Revenue needs to be invested in alternatives to make the schemes acceptable and to provide alternatives to private car use.

3.12. Although the summer's protests by the road haulage industry have subsided in the aftermath of the postponement of the 2p fuel duty increase, there are still measures which the Government should implement to tackle the disparity between European and British hauliers. The Department for Transport should work with haulage operators to introduce road user charging for lorries, which would be charged on a weight/mile system, and encourage efficient usage of the road network by rewarding hauliers for maximising load. British hauliers should be reimbursed for the costs through subsidised training or increased subsidy for the most efficient vehicles.

3.13. In rural areas, subsidised parking acts as a significant driver of traffic growth, particularly in out-of-town supermarkets and business / retail developments. Free or subsidised parking encourages people to ignore local services (where they might have to pay for parking) in favour of out-of-town developments, putting more pressure on the road network. The Government should look at additional ways to limit the number of available parking spaces; either by encouraging further adoption of the Workplace Parking Levy (WPL), or through new taxes levied on out-of-town developments. Any new tax should model itself on the WPL, and provide revenue for alternative modes of transport, including additional Kickstart Funding or Rural Bus Subsidy Grants.

Recommendations

The Government should:

1. Decouple motoring taxation from damage and set it at a level which would manage demand for private car use.

2. Explicitly link a substantial proportion of any increases in taxation to equivalent spend on sustainable alternatives, to provide people with real travel choices and increase acceptability of motoring taxation.

3. Reform Vehicle Excise Duty to encourage greater efficiency, providing greater discounts to cars with below-average emissions and greater costs to cars with above-average emissions. Forthcoming tax increases should be detailed in advance to avoid further complaints of "retrospective taxation".

[32] AA/Populus panel, 7 August 2008, http://www.theaa.com/public_affairs/aa-populus-panel/aa-populus-traffic-levels-fall.html
[33] DfT, Road Traffic and Congestion in Great Britain: Quarter 2 2008, http://www.dft.gov.uk/pgr/statistics/datatablespublications/roadstraffic/traffic/qbtrafficgb/2008/q208
[34] Written Answer, Jim Fitzpatrick, 22 July 2008, http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm080722/text/80722w0015.htm#column_1049W
[35] Written Answer, Jim Fitzpatrick, 19 May 2008, http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm080519/text/80519w0006.htm#08051944000011
[36] Written Answer, 22nd July 2008.
[37] National Project on Transport Policies to Address Climate Change, Buchan, Keith. http://www.transportclimate.org/documents/Perspectives%20final.pdf

4. Increase fuel duty in line with inflation and efficiency gains so that the average cost of motoring stays static year on year.

5. Work with road haulage operators to introduce lorry road user charging to increase parity with European operators.

6. Abandon increased per capita car ownership as an indicator of economic growth and seek year on year reductions in per capita private car mileage.

7. Examine the impact of out-of-town parking on traffic growth and implement further measures to halt and reverse the growth in subsidised parking.

8. Investigate ways to support car clubs as a means to halt and reverse per capita car ownership.

9. Provide additional revenue support for car-sharing schemes to increase average vehicle occupancy (which has been falling), in conjunction with the DfT's National Business Travel Network.

September 2008

Memorandum from North East Chamber of Commerce (NECC) (TAX 20)

NECC is the North East's leading business membership organisation and the only regional chamber, representing 4,500 businesses on a regional, national, and international level. Our members are drawn from all sizes of business across all sectors; collectively they employ about 30% of the region's workforce.

Introduction—NECC Position on the Taxes and Charges Effecting Road Users

— Many people have become familiar with the terms "economic downturn" and "credit crunch". Businesses are facing an uncertain future amidst rising prices, deteriorating credit markets, and a general constriction of markets throughout the UK. Part of this constriction emanates from the high price of fuel and the excessive duty charged by the Government on fuel. Added to this there are a number of charges that affect road users.

— We need a national integrated, sustainable transport system linking regions to one another, and which delivers choice across different modes of transport and that meets the needs of business. National strategic networks linking roads, rail, ports and airports should be backed up by strong regional and local decision-making.

Below are some of the issues related to taxes and charges that affect road users, and that NECC thinks are of relevance to this inquiry.

1. There is a need to ensure that all fiscal policies affecting road users are judged and implemented according to the impact that they will have upon the budgets of businesses and families alike.

2. Fuel duty needs to be reformed if a national system of road pricing is to be introduced. At a time of rising inflation and instability in commodity markets, the Government should not be contemplating raising fuel duty.

3. The national framework must be backed by a real and sustained commitment to increase Government expenditure in a formula linked to GDP and GDP growth. There should be a commitment to increasing the percentage of GDP spent on transport infrastructure to a level similar to that of comparable successful world economies.

4. Over the past 25 years, the UK has invested around 30% less than its main European competitors. Because of the long lead times, funding allocations should extend beyond Treasury controlled 2–3 year spending cycles.

5. The productivity category of the Transport Innovation Fund should be used to make sure that funding allocations are made based on the impact that they will have on economic growth. Putting cities in competition with each other for central funding awards is not efficient or strategic.

6. Road pricing should form a coherent part of the local transport infrastructure and revenue raised should not just be absorbed into general tax revenue.

7. NECC is opposed to the Work Place Parking Levy.

September 2008

Memorandum from the Freight Transport Association (FTA) (TAX 21)

Freight Transport Association

1. Freight Transport Association (FTA) represents the freight transport interests of businesses throughout the UK. Its members range from small and medium size enterprises to multi-national public companies and are involved in all modes of transport. FTA members operate over 200,000 heavy goods vehicles, about half the UK fleet, and around 1 million liveried vans. They are responsible for 90% of freight moved by rail and 70% of goods shipped by sea and air. This unique multi modal mandate enables FTA to speak authoritatively on all aspects of freight based on the broader transport needs of industry in the economy.

Background

2. FTA welcomes the Transport Committee inquiry into road taxation and charging. Road taxes in the form of fuel duty and VED represent up to 32% of the costs of running a truck. FTA is concerned that the Government's approach to road user taxation, and fuel duty in particular, is undermining the competitiveness of the UK road transport sector and placing an unfair cost burden on UK businesses using road freight services.

3. Independent research carried out by the national Economic Research associates (NERA) on behalf of FTA suggests that the costs of operating a 40 tonne articulated vehicle in Great Britain are 8% higher than our near continental neighbours and 21% higher that East European carriers who now regularly use the UK road network. The current structure of diesel taxation within the UK creates a competitive inequality with the rest of Europe where diesel duty is half the level of the UK.

4. Charges imposed on the road freight sector, for example the London Congestion Charge, deliver little if any useable benefit to operators. Minor improvements in average journey time cannot be utilised by operators of hgvs which typically do less that six drops per day into extra deliveries. While journey time unpredictability remains a feature of urban traffic conditions, parcel companies cannot confidently schedule in extra work. Traffic management schemes, such as the London Lorry Control Scheme and local delivery curfews means that freight operators have little choice but to use the roads in the daytime peak period. As a result, the London Congestion Charge is simply a tax in servicing London's businesses and residents.

Questions posed by the Committee

What taxes and charges are currently paid to government by road users, how much revenue do they raise and how does this compare with national and local government expenditure on the roads network and ancillary services?

5. HM Treasury currently receives around £41.6 billion in tax revenue per year from the road transport industry. It spends just £3.1 billion a year on investing in and operating the strategic road network and a further £5.6 billion on local roads. For every £1 taken in tax receipts, just 21 pence is spent on the road network.

Taxation of road transport spending on road transport infrastructure

Taxation revenue stream	*Annual revenue (£ billion)*	*Spending on road network and support services*	*Annual spend (£ billion)*
VAT on new vehicles	5.7	National roads (capital)	1.4
Fuel duty	23.7	National roads (current)	1.7
VAT on fuel	3.6	Local roads (capital)	2.7
VED	5.0	Local roads (current)	2.9
Insurance premium tax	1.0		
VAT on vehicle maintenance	2.3		
London Congestion Charge	0.3		
TOTAL	41.6		8.7

Source: FTA, Transport Statistics Great Britain 2007

What is the impact of the current charging regime on individuals, businesses and the economy?

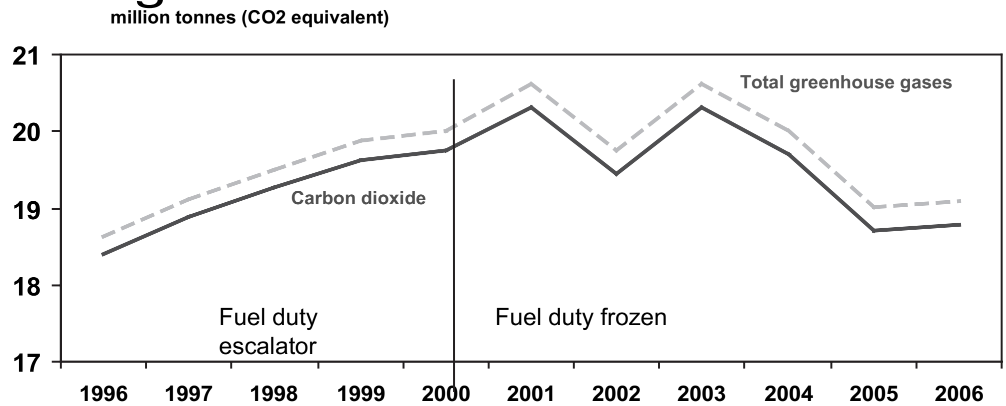
6. Road taxation is used primarily by Government as a revenue generating tool. Road transport demand, and road freight demand in particular, is relatively price inelastic. Consequently, as duty rates are increased so is the cost of transport.

Fuel duty

7. The impact of fuel duty escalator which was applied between 1993 and 1999 and the Government's failure to tackle the competitiveness problems for the haulage sector that this has created, leaves the UK transport sector at a significant cost disadvantage compared to its foreign competitors. This is jeopardising the long term viability of small and medium sized road transport businesses. It also strips cash out of businesses that could have been invested in cleaner, more fuel efficient vehicles.

8. The premise for high levels of road fuel duty is that road users will be encouraged to modify their driving style to become more fuel efficient. There is no evidence from Department for Transport data on the road freight industry than this has occurred.

Global warming emissions from hgvs in Great Britain 1996–2006



Source; Road Freight Statistics 2008

Vehicle Excise Duty

9. Lorry vehicle excise duty is graduated to reflect the road wearing characteristics of the vehicles. Vehicles with heavier laden axle weights pay a higher level of VED. The role of VED to encourage less road wearing vehicle combinations has been increased following the introduction of paper downplating. This welcome change to the law in 2005 means that operators do not need to physically change the vehicle if they want to take advantage of lower VED rates by reducing the vehicle's plated weight.

10. A further incentive is provided by the VED system to encourage operators to leapfrog current vehicle emission standards and operate vehicles which have the cleanest engines. FTA believes that this scheme of Reduced Pollution Certificates provides an important price signal for the industry and should be persevered in 2009 when Euro 5 becomes mandatory to encourage operators to consider Euro 6. Without the VED incentive, the extra fuel consumption penalty associated with Euro 6 and the likely higher purchase price will put off operators from investing in these vehicles until they become mandatory in 2013/14.

Insurance Premium Tax

11. Insurance Premium Tax is at odds with Government's principle of taxing "bads" and encouraging "goods". In its existing form, IPT adds cost to road users through an action (ensuring vehicles are insured) that the Government should be encouraging. Moreover, because the absolute level of IPT increases as premium rise, this acts as a disincentive for road users to take out policies that provide better cover than the bare minimum.

Congestion charging

12. Congestion charging is aimed at private motorists who can shift to other modes of transport. There is no alternative to road deliveries for many freight movements. Current charging regimes simply add cost to delivery companies serving businesses and residents located within the congestion charge zone. Hgv operators cannot take advantage on incremental improvements to journey times and insufficient time is saved to warrant and addition drop being added. For van deliveries, whilst the time savings could conceivably be utilized by adding extra deliveries, in practice journey time unreliability means savings cannot be assured. Operators are often hampered in responded to the price signals created by congestion charging scheme to use the roads at less congested periods. Outside of the business day, premises to which deliveries are made are either closed or have restricted accessed due to local authority imposed delivery curfews.

Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents, and CO_2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?

13. FTA believes that as a general principle, the external costs imposed by road transport operations should be internalised and paid through the road taxation. Work undertaken by NERA for the Department for Transport in 1999 suggests that at that time the costs imposed by goods vehicles in terms of road wear, road accidents and emissions are broadly covered by the level of taxation they pay. Arguably, since then the overall cost imposed by goods vehicles has reduced as a result of:

- more stringent Euro emission criteria for engines Current, Euro 4 vehicle produce 42% of the particulates and 13% of the oxides of nitrogen of a Euro 2 vehicle—the best available technology in 1999
- less road wear resulting from 44 tonne articulated vehicles on six axles, rather than 38 or 40 tonnes on five axles
- Less sulphur dioxide emissions as a result of reduced sulphur levels in diesel
- Reduction in the incidents of road accidents involving hgvs (figures).

14. However, road users paying their external costs through taxation is only acceptable if:

- Other modes such as rail freight cover their full external costs, through the track access charges and energy taxes
- Foreign carriers visiting the UK pay a similar contribution to external costs as UK operators, with a UK vignette topping up any shortfall in taxation from fuel that they pay
- There is a tough enforcement policy in place for non-compliant operators who flout the law by avoiding VED or use illegal low taxed gas oil in their tanks

Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social and environmental impact of transport, or some combination of these?

15. The primary purposes of taxes and charges for road users should be to encourage modifications in behaviour in relation to the

- wear the vehicle imposes on the road network
- emissions that are produced by the vehicle that affect air quality
- safe use of the vehicle
- global warming emissions produced by the vehicle

16. An overarching principle of the road user taxation regime is that the price signals is creates must be enduring and can be relied upon for the life of the asset.

17. The tax regime must not be used to excessively penalise the less compliant road user. Instead it should reflect the benefit (to society or the environment) of a more compliant behaviour.

18. As a minimum, the level of taxation that any road users pays whilst in the UK should, cover the road wear costs that they impose.

19. Road charges are only effective in reducing traffic and congestion and encouraging use of other modes where other modes present a credible alternative to the road user. In the case of freight congestion charging must be linked to improved delivery access during periods not covered by the charge. Road freight operators must also see benefits from paying the charge where there is no alternative but to make deliveries during the charging period. As operators are unlikely to see productivity increase from small improvements to average journey times, improvements at the delivery point should be considered within the wider congestion charging initiative—for example better kerbside delivery provision and off-road delivery bays.

20. Where road charges are introduced and no credible alternative exists it raises and expectation of better performance from the network that cannot be fulfilled. This lack of joined-up-thinking undermines the wider credulity of road pricing.

Does the current system have different impacts on different categories of road user? If so, is this fair?

21. The current structure of the fuel tax regime for road users is fundamentally unfair and is at the heart of the competitiveness problems that are current experienced by UK domestic road hauliers. At 50 pence per litre, fuel duty in the UK is twice the price of diesel purchased on the continent. In mainland Europe, diesel is taxed as an industrial fuel and well below that of unleaded petrol. In the UK diesel is taxed at an identical rate to petrol.

22. British domestic carriers have no alternative but to purchase high-taxed fuel. Visiting foreign hauliers, are able to purchase low-taxed diesel on the continent before entering the UK, with a range of 1,500 miles. This gives them a prices advantage when looking for domestic haulage work in the UK which British hauliers cannot compete against. The cost advantage for a French haulier for example is around 8% in an industry where margins are typically 3%.

23. At present British hauliers have some protection against low-cost foreign carriers because of EU cabotage rules. These restrict the operations that can be undertaken by foreign carriers to non-contract or "spot" work. The European Commission is discussing relaxing the cabotage definition to all limited contractual journeys to be carried out. The European Parliament would like to go even further and liberalize the domestic haulage market completely. While the Parliament's view is unlikely to prevail, there is a real possibility that cabotage rules could be relaxed, say to three cabotage journeys in seven days (either on a contract or a spot basis) from as early as 2010.

What alternative methods of charging for road use are available, such as road pricing in town and city centres and on the national road network, lorry road-user charging schemes, switching charges between fixed charges (such as Vehicle Excise Duty) and variable charges (such as fuel duty)?

24. FTA believes an electronic distance-based charge either in the form of a national system of road pricing (covering all roads and all vehicles) or a Lorry Road User Charge (covering all roads and all hgvs in the UK) is the most attractive tax mechanism. This would create a consistent framework to incentivise use of roads at quiet times and the use of appropriate roads. Such a scheme would need to be accompanied by a cut in fuel duty to EU minimum levels for all vehicles covered by the charge. This would ensure a fair tax playing field for all hgvs in the UK and one in which the charges paid by an individual vehicle could be aligned to the external costs that the vehicle has imposed.

25. FTA is opposed to switching tax between variable (fuel) and fixed (Vehicle Excise Duty) for hgvs. This would place an unwelcome burden on the cost of UK-based assets.

Should foreign-registered vehicles pay for access to the UK's roads and if so, how? How closely enforced are the rules governing re-registration of foreign-registered vehicles which are brought permanently the UK and the consequent liability for VED?

26. FTA believes that the most attractive mechanism for taxing foreign hgvs on UK roads is through an electronic, distance-based national road pricing scheme or Lorry Road User Charge. However, the prospect of such a mechanism is still in its infancy with Government still trialling possible technologies. As an interim measure, FTA believes that the Government should introduce a time-based UK vignette. This should be set at a level well above EU maximums to ensure that the road wear costs of foreign carriers are fully reflected in the daily charge they pay. Currently the maximum charge set in the Eurovignette Directive is £7 per day. The daily charge for the UK vignette should be at least £15 per day for a maximum weight 40 tonne 5 axle articulated vehicle. EU competition rules would require all operators in the UK (whether UK-based or foreign) to pay the vignette. A UK vignette must not result in a cost increase for UK-based hauliers. The UK vignette must therefore be offset against existing road user taxes. UK lorry Vehicle Excise Duty rates taxes are already close to EU minimum levels once Reduced Pollution Certificate reductions for the very cleanest vehicles are taken into account. The cost of the UK vignette should be offset against the duty paid on fuel purchased in the UK.

27. FTA is unaware that re-registered hgvs in the UK are an enforcement issue. Some UK-based international operators do register left-hand drive vehicles in the UK. This is not a common practice, but where it does occur, there is potentially an enhanced road safety risk whilst these vehicles are in UK roads. The poor offside visibility of left hand drive hgvs on motorways, for example, has meant a higher incidence of sideswipes.

September 2008

Memorandum from The Caravan Club (TAX 22)

Introduction

The Caravan Club is delighted to have the opportunity to submit evidence for this Select Committee Inquiry and looks forward to seeing the outcome in due course.

As Europe's premier touring organisation, The Caravan Club currently represents one million caravanners, motor caravanners and trailer tent owners. The Club has around 200 large Sites and some 2,500 Certificated Locations (small sites with a maximum of five pitches), providing the equivalent of over 18 million "bed nights" per annum across the UK. The Club itself is a successful £100 million turnover business providing a wide range of services and activities for its members. It is a member of the Fédération Internationale de l'Automobile, the FIA, whose member clubs represent over 100 million people worldwide. Within the EU, FIA touring and motoring clubs have a combined membership of 34 million citizens.

The Caravan Club has been active, with colleagues in the FIA member clubs across Europe in responding to Europe-wide consultations regarding the cost of motoring, and its effect on their members.

Summary

- The Inquiry should address the spectrum of existing fiscal burdens on the motorist.
- While accepting the "user pays" principle, it should be noted that motorists currently pay much more than the infrastructure costs they cause.
- External costs are not an acceptable basis for taxes or charges as there is no defined way of measuring these. The mobility benefits of car use should not be overlooked.
- In view of the above The Caravan Club believes that any shifts in taxes or charges must be revenue neutral.
- Congestion charging as a means of managing demand is only acceptable where alternative modes of transport are offered. Where alternative routes are available, then the road safety implications of diverting traffic onto the secondary road network must not be forgotten.
- Revenues from infrastructure charging should be earmarked for the road transport network.
- The Government is ultimately responsible for the provision of a good quality road network.
- Data protection issues arising from implementing road pricing and charging schemes must be addressed.
- Road charges for the personal motorist are unnecessary and may unfairly penalise certain groups.
- The principle of free movement and the rise in mobility across Europe will be compromised by the introduction of additional charging and road pricing schemes.

1. Position

1.1 Any discussion on motoring taxes and charges needs to consider the whole range of existing fiscal burdens. These either refer to fixed costs like annual circulation tax or registration tax, or variable costs like fuel-taxes and distance related charges. According to objectives and the national situation, the balance between these two kinds of fiscal instruments can be shifted, for example to more strongly emphasise the variable costs instead of fixed costs.

2. User-pays Principle

2.1 European motorists accept the user-pays principle. In fact they pay much more than the infrastructure costs they cause. It is fair and justified to raise revenues from users in order to cover the costs of a publicly supplied transport infrastructure. When discussing new approaches in infrastructure funding, existing taxes which have developed historically as a means of funding roads must not be forgotten. Conversely other transport infrastructures do not cover their costs (rail, waterway). The user-pays principle—when contrasted with the actual taxation situation—provides no justification for higher motoring costs at all.

3. Internalisation of so-called External Costs

3.1 Motorists must not be burdened with costs exceeding those for building and maintaining roads. External costs are not an acceptable basis for taxes or charges. Up to now, no unified and broadly accepted methodology to define and value external effects has been presented. In addition, when discussing external effects not only costs but also benefits have to be considered.

3.2 Road transport's undisputed broad social acceptance for literally more than a century indicates that its tremendous benefits for society surely exceed its social costs. Road traffic has become an indispensable tool for mobility.

3.3 The car, and the road sector in general, is the transport mode of choice for the vast majority of citizens. The reason for this is that the car offers a means of mobility that cannot be matched by other transport modes in terms of independence, flexibility, convenience and comfort. For many it is a key to freedom. In a European context, 80% of all journeys undertaken are by car and 56% of all tourism journeys taken are by car.[38] Access to a car is essential for economic and social activity for the majority of people both in their daily lives and in their tourism activities.

3.4 Although emissions from the transport sector as a whole are a significant contributor to greenhouse gases, emissions from the private car pool which account for around 13% of the total, are in fact stable despite growth in the number of vehicles. The focus on innovative engine technologies by the car manufacturers, coupled with legislative compliance and fuel quality improvements, means that toxic emissions from cars have reduced by three quarters since 1992. This downward trend will continue as the car pool renews, coupled with behavioural changes such as eco-driving (which itself can result in fuel efficiencies, and therefore emissions reductions, of 15–20%).

3.5 The Caravan Club agrees however, that mobility has some negative effects on the environment and safety and that these result in costs for others. The Caravan Club believes that the focus should be on reducing these costs, rather than them being paid for by the motorist.

3.6 Stricter norms and higher safety standards for new cars are a way that really helps to reduce the external effects caused by motorists.

3.7 Turning to the specific benefits of the use of the car in the tourism sector, in the UK caravanners contribute more that £1bn per annum in local spending and in their VAT and motoring taxes to the Exchequer. Caravan Club members alone spend over £320 million every year in local purchases when caravanning.

3.8 For many disabled tourists the car offers a flexibility of mobility, convenience and comfort not offered by other means of transport. No other mode will provide a disabled person with a door-to-door journey and it reduces the logistical challenge often required to use public transport. Many disabled caravanners and motor caravanners have specially adapted vehicles giving them freedom to travel while retaining a "known environment" for to meet their accommodation needs. This aspect should be considered. Car-based tourists provide an important source of income to rural economies that would otherwise be unsustainable as tourist destinations without motorised touring.

3.9 For many tourist attractions, whether they are located in urban, rural or coastal areas, the capacity to welcome visitors arriving by car or other motorised vehicle plays a crucial role in their economic viability.

4. Revenue-neutrality of Charging

4.1 Given the facts cited above, any shifts in taxes or charges must be revenue neutral. Social hardship must be avoided. Low income groups should not be loaded more strongly by the road charge than high income groups. Any social exclusion of individual social groups must not take place. With a system change from taxing to charging, motorists must not be burdened with additional costs.

4.2 It is widely acknowledged that many motorists have lost their trust in the Government to deal fairly with motoring taxes and charges. Too often, fuel taxes have been increased without resulting in improved services for motorists. Keeping this in mind, merely promising revenue-neutrality within any proposed shift from taxes to charges is not enough, the Government needs to prove its will to do so in advance, for example by cutting existing taxes or designing a new institutional framework.

5. Demand Management

5.1 Charging can be used as a tool of demand management. Cutting car usage should not be a primary objective of charging, however, because of the social benefits of the private car. Levying road charges can influence the citizen's behaviour in theory, though in reality the effectiveness of such measures is strongly limited. Experience shows that shifts in modal split (eg from road to rail) by influencing user costs hardly happen at all since the quality of modes for specific transport demands differ greatly. Any effect on the choice of travel time or routes is dependent on alternatives from a user perspective—which are not available most of the time. In the case of non-existing alternatives for the motorists (public transport, alternative routes) it risks significant shift effects onto the secondary road network that is less or not charged. Road safety on these less safe roads and routes will decrease and environmental damage rise.

[38] Europeans on Holidays 1997–98, Eurobarometer Survey

6. Road Revenues have to be Earmarked

6.1 The revenues from charging should be earmarked for the road transport network. A cross-subsidisation between the traffic infrastructures should not take place. The goal is a funding system in which the annual investments in road construction do not depend on political eventualities of the general budget. User tolls must be earmarked and can be fed into an independent motorway funding company directly as an option. The Austrian toll road operator ASFINAG is a good example of this kind of model.

7. Public Responsibility for Infrastructure

7.1 Government and state institutions must be held responsible for a good quality road network in total. Roads, primary and secondary, are an important public service and prerequisites for mobility as a way to participate in social and economic life. At all times, citizens must be provided with an acceptable road network to satisfy their basic needs free of charges, even when there are higher-quality roads which may be charged.

8. Data Protection Issues need to be Addressed

8.1 Electronic systems for implementing road charges bear the potential of collecting huge amounts of data about motorists and their travel habits. The misuse of personal data by intent, negligence or lack of enforcement lie is a serious threat. Protection of personal data needs to be guaranteed to comply with national and EU regulations on this issue. Furthermore, personal data must exclusively be used for the clearly specified, explicit, legitimate and transparent purpose of road charging and those data must be kept no longer than necessary for that purpose. Otherwise the data should remain totally anonymous.

8.2 The use of the personal data is of great value for commercial reasons. However, the use of data for these reasons is rejected, unless by explicit consent, given freely by the user on the basis of full information. For public purposes such as traffic offences, the information is of great value as well. But, unless it is of great public service and authorised by court, this is rejected by The Caravan Club also.

8.3 For individual car drivers, the data must always be verifiable, in order to check the tax amount payable. In the case of errors, there must be access to justice if needed.

9. Road Charges for Passenger Cars

9.1 Levying charges from passenger cars is not necessary. In fact, even today private motorists cover much more than the costs they impose on society. The introduction of road charges for passenger cars must not imply additional costs for the motorists. Any passenger car toll will cause high system costs compared with existing taxes, since the passenger car fleet is so large.

9.2 In addition, the social effects of levying tolls for passenger cars must be considered. Commuters must not be unfairly disadvantaged by a passenger car toll. Personal mobility must remain affordable and the social exclusion of individual social groups is not acceptable.

9.3 In the case that a specific new infrastructure project (like a bridge or a tunnel) cannot be financed out of the public budget, the use of tolls can be considered as long as an alternative infrastructure is free of charge. The car drivers can decide for themselves if the new project is worth paying for.

10. Free Movement

10.1 The rise in mobility has been a key growth factor for both cities and countries across Europe. In a Single European Market, motorists must be able to drive across borders and within each member state without problems. Thus any national charging schemes must not pose a barrier to the free movement of people or introduce distortions to competition. In accordance with the four freedoms of the European Union and European legislation protecting citizen's rights to legal certainty and justice, such national schemes must not represent a barrier to the free movement of motoring consumers or introduce distortions for competition.

September 2008

Memorandum from the Green Light Group (TAX 23)

Green Light Group

The Green Light Group (GLG) is a collaboration between professional organisations whose technical expertise informs our advice about the best methods of delivering a road pricing system in the UK. The Group is led by the Institution of Civil Engineers and includes representatives from the Chartered Institute of Logistics and Transport, the Institution of Highways and Transportation, the Institution of Mechanical Engineers and the Transport Planning Society. The bodies making up GLG have over 185,000 members.

The Green Light Group has prepared a number of documents on the subject of road pricing and is working on further material looking specifically at taxes and charges on road users. The Group is currently consulting its members on the broad options available for the future funding and charging of road infrastructure and on more specific local and national applications. The consultation paper is attached.

The tables featured in this submission show one example of what a road pricing system—a revenue neutral one—might resemble.

Summary

— A conservative estimate is that road pricing could reduce the costs of congestion to the UK by £12 billion a year.

— Road pricing can be used to provide much needed investment in transport, to reduce both congestion and local and global environmental impacts, and to improve people's lives.

— GLG recommends a total restructure of the way we pay for our roads, with a new charge, directly related to all the costs of road use replacing some of the taxes we currently pay.

— Congestion is the result of historic underinvestment in transport; transport projects are long-term and need a long-term funding commitment. GLG advocates ring-fencing user charges for transport improvements in order secure this long-term funding commitment.

1. *The Roads Balance Sheet*

1.1 In examining the costs associated with road use we look at Great Britain as a whole, simply because it is not possible to obtain the information necessary to consider costs on a regional level. Despite transport being a largely devolved responsibility, with England, Scotland and Wales able to adopt different policies, taxation remains the responsibility of central government. Changes involving taxation have to apply to the whole of Great Britain: different rates of fuel tax either side of the Scottish and Welsh borders would be highly impractical.

2. *The Total Expenditure on Transport in Great Britain*

2.1 In the Table below we see what the total public expenditure on transport was in 2007.

Table 1

TOTAL EXPENDITURE ON TRANSPORT IN GREAT BRITAIN—2007 (£BN)

Funding Source	*Roads*	*Public Transport*	*Other*	*Total*
Central Government				
Capital	1.4	4.6	0.5	6.5
Current/Resource	2.17	3.8	0.63	6.6
Local Government				
Capital	2.8	1.5	0.1	4.4
Current/Resource	3.0	3.9	−0.6	6.3
Total	**9.37**	**13.8**	**0.63**	**23.8**

Source: Approximated from Transport Statistics Great Britain 2007 Table 1.15

Of the expenditure on public transport, almost £5 billion is spent on subsidies and concessionary fares including £1.2 in Scotland.

3. *Road Costs including Operations*

3.1 We now examine the roads "balance sheet" in a little more detail and take into account the operational costs of other public agencies such as the police and the DVLA together with the less tangible costs such as those of accidents. These are shown in Table 2. Many road users and indeed roads authorities would argue that there is underinvestment in road maintenance and indeed in new capacity and that the low level of maintenance stores up major problems for the future.

3.2 The cost of policing is an estimated £1.7 billion a year. We also need to include the costs of vehicle registration by the DVLA, £0.5 billion a year.

3.3 Yearly road traffic accidents and environmental costs are estimated to be £2.25 billion, however much of the cost of accidents is met by insurance, leaving a true external balance of some £1.2 billion a year.

Table 2

ANNUAL ROAD COSTS INCLUDING OPERATIONS (£BN)

Item	*Annual Cost*
Direct Investment in new and Existing roads	9.37 (from Table 1)
Policing costs	1.7
Accident and environmental costs	1.2
Vehicle Registration Costs	0.5
Total	**12.77**

These are the direct costs of maintaining and operating our roads. To these we must add what economists call the "externalities"—the costs road users impose on the community.

4. *Revising Road Costs to Reflect Improved Maintenance, Externalities and Road Pricing*

4.1 Local authorities estimate that the higher quality of road maintenance they believe is necessary would cost around an additional £2 billion a year.[39]

4.2 The costs of congestion are difficult to estimate. The value of congestion cost savings achievable through road pricing and have been put at between £12 billion and £20 billion a year.[40] The costs of congestion are met by both road users and the wider community as we all depend on goods and services delivered by road.

4.3 Annual carbon costs due to road transport are estimated to be £3 billion. Again, as with congestion costs, the carbon costs would reduce with road pricing.

4.4 A government study estimated that a nationwide road pricing system would cost between £10 billion and £62 billion to implement and between £2 billion and £5.5 billion a year to operate.[41]

4.5 By taking these external factors into account together the costs of setting up and operating a road pricing system we can see how overall costs are likely to change if road pricing were to be introduced. The example in Table 3 below shows the effects on costs assuming a similar revenue to the Exchequer before and after road pricing.

4.6 In 2006–07 road users paid the government a total of £28 billion in fuel duty and vehicle excise tax or 9p per mile for the 316 billion vehicle miles driven in the year. Some users, particularly those driving on uncongested roads are paying far too much, whilst users travelling on busy roads are paying far too little.

4.7 It would be possible to devise a new fiscal model incorporating road pricing whereby the road pricing charge is introduced with a corresponding reduction in vehicle excise duty and fuel duty. This is the so-called "Revenue Neutral" model. The illustration in Table 3 shows this together with an increased public spend on "quality maintenance" and on road pricing operations.

[39] Annual Local Authority Road Maintenance (ALARM) Survey 2008, London—http://www.asphaltindustryalliance.com/images/library/files/ALARM_2008_report_web.pdf
[40] Department for Transport (2004). *Feasibility Study of Road Pricing in the UK*
[41] Ibid

Table 3

ILLUSTRATION OF ANNUAL ROAD COSTS INCLUDING EXTERNALITIES—WITH AND WITHOUT ROAD PRICING COST (£BN)

Expense	*No Road Pricing Costs*	*With Road Pricing- "Revenue Neutral"*
Public Costs		
Direct Capital Investment into Roads	9.37	9.37
Policing	1.7	1.7
Accidents	1.2	1.2
Vehicle Registration	0.5	0.5
Quality Maintenance	0	2.0
Road Pricing Operations (annualised to include set-up costs)	0	4.0
Total	**12.77**	**18.77**
Private Costs*		
Vehicle Excise Duty	5.0	3.0
Fuel Duty	23.0	12.0
Road Pricing Charge	0	19.0
Congestion Cost Savings (conservative estimate)	0	−6.0
Total	**28.0**	**28.0**
External Costs		
Carbon Costs	3.0	2.0
Overall Total	**31.0**	**30.0**

* Excluding private operating costs other than fuel tax and VED

4.8 It can be seen from the illustration in Table 3 that there is no change in overall private costs but an increase in public costs before taking into account the increased revenue derived from road pricing charges. However the perceived private costs are higher though balanced by the saving in congestion costs. With this scenario the £2 billion per annum "Quality Maintenance" expenditure to be financed by road pricing could be spread over both roads and public transport. Additionally, the saving in carbon costs could be deemed to be tradable and therefore could justify further investment in low emission transportation initiatives.

4.9 A "revenue neutral" road pricing model for the Treasury is illustrated in Table 4.

Table 4

THE NET ANNUAL EFFECT FOR THE TREASURY (£BN)

Source	*No Road pricing*	*With Road Pricing*
Vehicle Excise Duty	5.0	3.0
Fuel Duty	23.0	12.0
Net Road Pricing Revenue	0	15.0
Expenditure on Roads	−12.77	−13.77
Expenditure on Public Transport	−13.8	−14.8
Total	**1.43**	**1.43**

4.10 It can be argued that the case for maintaining the current level of public transport subsidies is reduced as road pricing is introduced. The illustration in Table 4 shows an increase of £1 billion a year for public transport which could possibly be doubled in favour of capital expenditure if subsidies were reduced.

5. *Paying Road User Charges*

5.1 The government study of national road pricing concluded that congestion charging could achieve the most benefit employing charges ranging from nothing in uncongested areas to the highest charges on the busiest roads at peak times. Only a small percentage of drivers would face the higher charges, mainly in cities during peak periods.

5.2 Table 5 shows how the pricing regime suggested in Tables 3 and 4 would affect the private costs of drivers in rural areas and in busy urban areas. The illustration assumes that the mileage driven is 10,000 miles in each case.

Table 5

ILLUSTRATION OF ANNUAL COSTS (£ PER VEHICLE) FOR RURAL AND URBAN CONDITIONS

Expense	*Current*	*Current*	*With Road Pricing*	*With Road Pricing*
	Rural	*Busy Urban*	*Rural*	*Busy Urban*
VED	200	200	120	120
Fuel Duty	650	725	350	400
Road Charge	0	0	250	1,000
Congestion	300	460	170	220
Total	**1,150**	**1,385**	**890**	**1,740**

6. *Why Road Pricing Would Help*

6.1 If every journey costs the same, regardless of congestion levels, the only incentive we have to avoid using very busy roads is the time we waste sitting in traffic jams. By paying more to use roads which are regularly congested and less where roads are rarely congested, some road users would be encouraged to change when and where they chose to travel.

6.2 Of course, congestion is related to capacity as well as demand, and one of the UK's problems is decades of underinvestment in its transport systems. Traffic in the UK has increased by 81% in the last 25 years with no comparable increase in capacity. As a result our roads are among the most congested in Europe. A conservative estimate is that road pricing could reduce the costs of congestion to the UK by £12 billion a year.[42] Concern is also growing about the harm traffic does to the quality of our lives and to the environment, and of course its effects on the climate.

6.3 Underinvestment and the congestion it has caused are in part related to the lack of a direct link between road user taxation, traffic demand and transport funding. Not only has transport long been low on the political agenda, but long-term road and rail funding has always been an easy target compared to health care or education when government expenditure is under pressure.

6.4 Unless we change the way we pay for the use we make of roads, then congestion, and all its harmful effects on the economy, on the environment and on the quality of our lives will get worse—potentially very much worse. Congestion already steals too much of our time.

7. *What Form of Road Pricing?*

7.1 At present, the cost of providing and maintaining our roads is met by general government revenues. A large proportion of the revenue gathered from motorists goes on non roads-related expenditure of which fuel duty and vehicle excise duty (VED) are just two sources. There is no direct link between these taxes and expenditure on roads, or indeed transport expenditure generally. Fuel duty and VED go into the government's coffers, along with income tax, VAT and all other duties and taxes, and the government decides how much of its total income will be allocated to roads, schools, hospitals, defence and all other responsibilities.

7.2 If however we take fuel duties as a charge for the use of roads, then it's a charge which varies little between clear roads and those which are highly congested. On the other hand, the majority of transport services, trains and airlines to name but two, charge more during peak times and less when it's quiet.

7.3 This is the core principle of road pricing: a charge which directly reflects the costs associated with road use, including charging more when demand is high, and less when demand is low. At present, the congestion element of charging is therefore largely missing.

7.4 Congestion charging, as applied in London, and as the government is encouraging other local authorities to adopt, is a particular form of road pricing, with the profits being ploughed back into local transport—much of London's revenue goes towards better bus services. We know from London, as well as from Singapore and Stockholm, that paying to drive in congested areas reduces traffic and improves conditions for those who choose to pay. However, those paying the charge in London continue to pay the same rate of fuel duty and VED as everyone else.

7.5 A more radical approach would be a total restructure of the way we pay for roads, with a new charge, directly related to all the costs of road use replacing some of the taxes we currently pay.

[42] Department for Transport (2004). *Feasibility Study of Road Pricing in the UK*

7.6 However, even if the ultimate objective were a nationwide road pricing scheme covering every road from the M25 to the most remote country lane, a "big bang" approach is going to be difficult to implement. In practice road pricing would have to be introduced on some roads before others: logically, the most congested areas and roads first. Indeed, the best arrangement might well be a combination of taxation and road pricing, with road pricing applied to those parts of the network where congestion occurs regularly, and with a modified fuel tax being used as the charging basis for the rest.

8. *The way forward*

8.1 Congestion is having a damaging effect on our national and local economies, the environment and the quality of our lives. Doing nothing is not an option and neither is attempting to build our way out of it.

8.2 If we change the way in which we pay to use roads—paying more for heavily congested roads and less for those lightly used—we can provide the means to improve our transport system. A sensible first step, in advance of any significant changes to road user taxes, is the introduction of localised congestion charges in areas and on routes where traffic is a real problem. For the local areas, the Group considers that schemes should be jointly promoted by central and local government as experimental demonstration projects.

8.3 Whereas the Government is already seeking to encourage some city local authorities to introduce charging schemes it must develop ways of introducing charging on certain strategic inter-city routes where congestion is rapidly worsening. This would be more acceptably and best introduced on routes where additional effective capacity is being provided and where there is sufficient attraction to charge for the use of premium service lanes. In doing this there is less likelihood of diverting traffic onto non-strategic routes.

8.4 Congestion is the result of historic underinvestment in transport; transport projects are long-term and need a long-term funding commitment. This takes us to the second step—a national road pricing system together with a complete overhaul of the way transport investment and operations are funded.

8.5 Ring fencing user charges for transport improvements is one way of securing that long-term commitment. Indeed, the potential of congestion charging to provide a stream of revenue against which money can be borrowed to fund capital investments in transport would be one of the key attractions to highway authorities and may also attract private finance.

8.9 So, road pricing can be used to provide much needed investment in transport, to reduce both congestion and local and global environmental impacts, and to improve the quality of people's lives.

8.10 For the system to work effectively road pricing revenue must be securely committed to transport, both roads and public transport. Road pricing will only be acceptable if the charges have a clear rational basis and do not act simply as a new tax on motorists to be varied in accordance with short term financial and political pressures.

8.11 Without either national road charging or a major and very rapid increase in funding to improve the capacity of the UK's transport system, we will have what Eddington calls "the worst of both worlds … developing investment plans in anticipation of road pricing and then delivering neither pricing nor the necessary level of investment without road pricing".

8.12 Changing the way we pay for our roads must happen. If we do not grasp the challenge soon, the economy, the environment and our quality of life will all suffer. The challenge is finding the most efficient way of moving to a new and improved transport funding system—sooner rather than later.

8.13 The GLG is working with other interested groups and stakeholders to prepare a practical way forward—a route-map—to guide decision-makers well away from Eddington's "worst of two worlds" scenario.

September 2008

Memorandum from the Automobile Association (AA) (TAX 24)

1. Introduction and Summary

1.1 Throughout its 103 year history the AA has been looking after the interests of drivers. It has sought to improve the condition of the roads they drive on, looked after their safety and campaigned to ensure they are treated fairly. The AA is the UK's largest motoring organisation. The AA engages with its members through numerous communication channels, ranging from the internet, a mailed magazine, direct contact by letter and telephone and through polling. A recent significant innovation has been the creation of a "members' panel" which comprises of 40,000 people who agree take part in monthly surveys on a range of motoring issues, the survey is conducted in association with Populus.

1.2 AA members have differing views on many key motoring issues but most say that the cost of motoring is their main concern. They are generally cautious about the intentions of government towards motoring, at national and local level. Law abiding drivers resent those that seek to avoid their motoring responsibilities and also especially resent being harshly dealt with by the authorities when they themselves accidentally break the rules. Motoring tax evasion is a serious problem and despite this receiving considerable government attention the motoring underclass (ie unregistered and uninsured vehicles and unlicensed drivers) continue to impose a significant cost to society. Motorists accept they must pay for their motoring but resent being seen as a "problem" and oppose escalating costs such as fuel, road tax, parking charges and potential congestion charges. Yet private motoring is an essential part of 21st century life and is something people continue to aspire to and even enjoy. Motoring is the main form of transport for 86% of passenger journeys. Many people are dependent on the car and the mobility of the car benefits society in many ways.

2. Member Opinion

2.1 In our research AA members say:

— the cost of motoring is their greatest concern;

— they are divided on the principle of national pay as you go motoring with 45% opposed and 42% in support, 66% are opposed to local charging schemes;

— in earlier AA research members said they would prefer retention of fuel duty rather than a national road pricing scheme;

— if road pricing was introduced 86% do not believe government would deliver any promised quid-pro-quo reforms to motoring taxation;

— they get poor value for money for what they pay in taxes and charges with two thirds saying road condition is worse than a decade ago;

— recent proposals to reform the graduated VED scheme is regarded by 82% as a way of simply increasing tax take;

— they express concern about national and local government motoring policies eg parking charges and permit schemes, proposed pay lanes on motorways, tolls at Dartford, congestion charging in London, the M6 toll in the Midlands, they also have to pay increasing sums to stay legal eg MOT fees, photo-card licence renewal, new vehicle first registration fees etc;

— record high fuel prices are having an effect with 55% cutting some car journeys and 77% cutting their household budgets; and

— despite the high cost of motoring 82% still enjoy driving and the freedom and flexibility the car affords them and 79% could not imagine life without the car.

3. AA Comments on the Questions Raised in the Call for Submissions

3.1 *What taxes and charges are currently paid to government by road users, how much revenue do they raise and how does this compare with national and local government expenditure on the roads network and ancillary services?*

Estimates show that motoring taxation amounts to around £46 billion—this includes fuel duty, VED, VAT and business motoring taxes. The amount spent on the roads is less than a quarter of this—just over 30 years ago there was much greater equity with £11.4 billion of £12.8 billion motoring tax revenues being spent on the roads (The Great British Motorist 1998—AA). The current tax and charge regime for motoring is flawed—it lacks transparency and motorists pay far more than they "receive" in return. Investment in the roads is insufficient to prevent serious congestion, provide a long-term improvement plan and improve road condition.

3.2 *What is the impact of the current charging regime on individuals, businesses and the economy?*

Motoring costs are spread disproportionately amongst the population with rural poorer users paying more to drive where there are often no alternatives. They may, through necessity, drive further so pay more fuel duty. Some have larger vehicles due to size of family or type of driving but VED and other policies often seek to target perceived "gas guzzlers" even though some have them through need not choice.

The young, the elderly, women, and disabled and less mobile people are now much more likely to hold a driving licence than a few decades ago but for many of them their motoring is a costly but essential burden. The average total cost of motoring shows that a typical retired person's motoring can cost them around £3,000 p.a. if they drive 5,000 miles in a smallish car costing under £10,000 new. An average driver covering 10,000 miles per annum or a family would pay more.

Motoring costs make a significant impact on the retail price index because the vast majority of goods and people move by road and many pass the costs on to customers through the amount they charge for their products and services. The Governor of the Bank of England cited higher petrol and diesel costs as a contributor to the higher inflation rate of 4.7%.

The government makes much of the fact that fuel duty is about 11 per cent lower in real terms than it was a decade ago but fails to acknowledge that households face petrol costing 71.3% a litre more than a decade ago and diesel 87.4% more. (AA fuel price reports—September 1998 unleaded at 65.9p per litre and diesel at 66.3p. September 2008 unleaded at 112.9p per litre and diesel at 124.3p).

These prices have resulted in VAT windfalls for government, even when fuel duty has been frozen. Running cars is a significant element of household budgets with some £28.60 per week being spent on private motoring, of this £18.20 per week is spent on fuel and oil (Family Spending 2007—Office for National Statistics).

3.3 *Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents, and CO_2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?*

The AA believes that private motorists fully meet the external costs of their motoring. Arguments on external costs tend to overlook the benefits that motoring brings to the lives of millions, whose personal mobility to get to work or visit family and friends would be much diminished without the use of cars.

Business drivers too pay considerable sums to use the roads and are also taxed, as are the drivers of company cars. The AA believes that external costs should be paid by all road users not just "motorists".

Cars are becoming cleaner, greener and safer therefore their external costs are diminishing. Road users already pay more than the full cost of their carbon emissions.

There is no transparency when it comes to environmental taxation. If motorists were able to see how the environmental element of fuel duty or VED was spent to help the environment, they would be less likely to resent such taxes. During the period of the fuel duty escalator there was no clear link between the "environmental" charge and any initiatives funded by it. Despite recent freezes in duty the AA is particularly concerned about the planned return of above inflation fuel duty rises in subsequent budgets as announced by the Chancellor in the March 2008 budget.

3.4 *Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social and environmental impact of transport, or some combination of these?*

The AA believes that a combination of taxes and charges should continue to be the way that motoring is paid for. However, the AA believes the current situation is flawed, because it is opaque. The primary purpose of motoring tax and charge should be to fund and maintain the roads and deal with the externalities in a transparent manner. A degree of hypothecation is therefore essential to bring back an element of public trust in the system—perhaps to the extent of setting up an independent fund dedicated to spending on the roads. We accept that the government takes revenue from motorists for the general fund but this needs to be spelt out more clearly and balanced more evenly with the UK's road and transport needs.

3.5 *Does the current system have different impacts on different categories of road user? If so, is this fair?*

See 3.2 above. The AA is concerned for the many "marginal" motorists who can barely afford to run the family car which performs a vital role for the family. Often the car is essential to get and keep a job for many who work shifts or live in areas where public transport does not operate.

3.6 *What alternative methods of charging for road use are available, such as road pricing in town and city centres and on the national road network, lorry road-user charging schemes, switching charges between fixed charges (such as Vehicle Excise Duty) and variable charges (such as fuel duty)?*

AA members have shown that they understand how some may benefit from pay as you go motoring but they are sceptical that such a system could be delivered fairly and honestly. Governments have shown that they are prepared to overlay the current system of charging / taxing motoring with additional charges, whether it is in London, Manchester, on the M6 or at the Dartford Crossing. The AA believes that that trust must be re-built before any new or extended proposals are put forward on paying for road use. The record number of people who responded to the Downing Street petition on road pricing (who may not have been given a complete appraisal of government thinking on the subject) showed how sensitive and sceptical the motoring public are.

AA members are opposed to new pay lanes on motorways (53%) of whom a third were strongly opposed. And 58% are opposed to paying to use car share lanes when travelling alone.

3.6 *Should foreign-registered vehicles pay for access to the UK's roads and if so, how? How closely enforced are the rules governing re-registration of foreign-registered*

In the UK in 2007 some 1,275 people were killed or injured in accidents involving foreign-registered trucks. On UK motorways almost 1% of traffic is foreign registered. Motorists are concerned at the increase in foreign HGV's and the increase in crashes involving these vehicles. These vehicles should pay to use the UK's roads as they often do not pay fuel duty or road tax in this country and hence use and damage our road network free of charge. We were concerned that the failed Lorry Road User Charging scheme might have cost more to implement than it brought in revenue. The AA believes that any system of imposing charges for road use by foreign drivers, especially trucks, should be used to pay for the improvement and repair of the infrastructure they use. It should be a simple scheme perhaps linked to a vignette to use our roads.

4. Spending to Save

4.1 Short term fiscal expediency often obscures the significant financial gains to society that can be made by spending now to save later. In motoring there are specific examples. The AA has supported many initiatives developed by the government to make roads and drivers safer including reforms to vehicle and driver licensing. However, insufficient attention has been given to funding the associated DVLA infrastructure needed to achieve these objectives. Over the years the DVLA has sold around £1 billion worth of "vanity" or personalised number plates yet, aside from covering operating costs, the revenue goes into the general fund. Recently DVLA has been forced to suspend key improvements to its systems (tracking vehicles through the trade) to reduce vehicle related crime. The vehicle systems database is outdated and overloaded, due to DVLA having successfully implemented electronic re-licensing. More funds could be made available from motoring taxation to fund initiatives which will reduce vehicle crime and make the roads safer.

4.2 Local road maintenance is another area in which significant benefit can be derived from investment now. It is estimated that there are around one million pot-holes on local roads and the cost to fill them in England & Wales in 2007 was £52.2 million. Some local highway authorities are spending significant sums in defending claims and paying compensation (over £53 million paid out in England and Wales in 2007) rather than using similar sums to repair the roads. Whilst the condition of some roads has improved following the injection of extra cash in 2000 more can and should be done to improve road quality which in turn can reduce casualties. The skid resistance of 49% of principal roads in London, 25% in unitary authorities and 22% in county council areas is below the level that requires further investigation. It is estimated that there is a local authority road maintenance backlog of £1 billion—meaning that in England an unclassified road will not be resurfaced for on average 122 years (AIA Alarm Survey 2008).

4.3 Proposals to introduce hard shoulder running on UK motorways like the scheme on the M42 may appear to represent value for money but how sustainable these schemes will be in reality is open to question. The capacity improvement by adding a lane is 25% whereas hard should running at peak times is estimated to provide only around 10%. AA members support the concept of controlled hard shoulder running (50%) with only 29% being opposed. If the scheme is rolled out across the English motorway network it should not be done on the cheap.

5. Taxing and Charging "Fairness"

5.1 In motoring there are many schemes which harm the relationship the motorist has with those who tax and charge. For example, "CO_2 schemes" based on ownership not use like the one in Richmond on Thames which surcharge cars with larger engines which are parked outside people's houses, whilst neighbours with driveways pay nothing. Or the scheme in Norwich which charged more for a parking permit for longer cars. Schemes like these do little to promote fairness or an authority's true green credentials they just seek to punish and perhaps ridicule those who cannot afford to quickly change to a smaller car.

Vehicle Excise Duty is a general tax and has become a very complex tax. From March 2001 it became based on a vehicle's CO_2 emissions. The AA has been supportive of a graduated VED system aimed at incentivising the purchase of cleaner and more fuel efficient cars. The proposals announced in the March 2008 Budget are for 13 new bands based on CO_2 from 2009. However, there is no clear concise explanation of the new system on any Government website. The Treasury has said that if it published details for 2009–10 it would pre-empt Parliament, as these changes have not been ratified.

These announced changes are meant to be sending out green signals to motorists but they are hidden away, and are complex and unfair on those that already own some of these vehicles. People may be buying cars today but they do not know which ones will fall into the much higher VED bands in 2009 and 2010. Up until budget 2008 VED changes, aimed at larger vehicles, had not been retrospective, for example, when band G was introduced this was only for new cars from 2006. If approved the retrospective proposals announced in Budget 2008 will overturn this principle and punish people for the cars they chose under the new graduated VED scheme since 2001.

Many motorists have expressed concern that vehicles they purchased before these new VED changes were aired will be hit by large increases over the next two years. The purpose of graduated VED was to send out a message to motorists to help influence their vehicle purchase. A "retrospective" tax does not send out such a signal but affects many motorists who cannot afford to change their vehicles, particularly as the second hand car market is at a low ebb, partly as a result of these proposals. The "retrospective" nature of the planned VED changes should be scrapped.

5.2 Parking income from motorists in the UK totals around £1 billion. Around half this amount is from penalties for contraventions. In terms of fairness the AA believes that it is right for parking penalties to be set at levels which deter and parking tariffs that are aimed at maximising parking turnover and encouraging visitors. However, some local authorities set very high penalty levels for example, in London a higher level parking penalty is £120 and if the vehicle is removed it is an additional £125. The penalties are often disproportionate for example, if paid for parking time is exceeded the penalty for just a few minutes overstay is often £40 or more. The AA accepts that those who break the rules should pay a penalty, but motorists often feel that they are a source of ready revenue for councils. Even the unexpired time on a pay and display parking ticket cannot be given to another car park user.

Parking penalties on private land are not governed by any regulations yet perhaps a million motorists a year are on the receiving end of often blunt enforcement. Clamping and towing away are rife with often unsavoury operatives demanding around £300 to £400 from people to get their car back—the licensing of clampers has not curtailed the ruthless tactics employed by some enforcement operatives or called a halt to cowboy practices. A growing business is "private parking tickets" which often recorded automatically and are served by post once DVLA has given the enforcer the car owner's home address.

Both these activities raise huge sums from motorists in an unregulated, cavalier and sometimes criminal manner. The AA estimates that hundreds of millions of pounds may be raised in this way and it is time for regulation to control the excesses and criminality.

AA Populus Surveys

The data referred to in this submission originates from the following surveys:

AA/Populus panel survey of 17,481 AA members conducted between 14 March and 9 April 2008

AA Populus panel survey of 18,547 AA members conducted between 23 May and 2 June 2008

AA/Populus panel survey of 15,306 AA members conducted between 4 and 16 July 2008

AA Populus panel survey of 12,146 AA members conducted between 8 and 14 August 2008

September 2008

Memorandum from SERA Scotland (TAX 25)

Summary

- Road users, particularly road hauliers, do not pay the full cost of road use.
- The road system should be operated on a commercial basis with higher charges, introduced gradually.
- Road users who have relied on long term subsidy will find change difficult and will need education and political understanding.
- Some charges, such as VAT on petrol, should not be considered as road user charge.
- Charging the full commercial cost would result in environmental and safety improvement.
- Any increase in consumer prices would be reflected in lower personal taxation.
- Any job losses in road transport would be balanced by gains in other transport employment.
- Anomalies such as low duty fuel imported by hauliers must be addressed.
- There must be fair competition for rail and water based transport operators.

Q1 *What taxes and charges are currently paid to government by road users, how much revenue do they raise and how does this compare with national and local government expenditure on the roads network and ancillary services?*

A1 Road fuel duty and vehicle excise duty are direct charges on road use. VAT on fuel, MOT charges, "ordinary" fuel oil duty, etc. are part of general taxation and not a road user charge. Parking and congestion charges are debatable but probably are road user charges. Traffic regulation infringement penalties are, in principle, not road user charges but possibly should be commercialised or civilianised given the inordinate cost of policing the road system. The evidence, see Q3, is that true road charges fail to pay the costs of the roads by a very large factor, even excluding environmental costs.

Q2 *What is the impact of the current charging regime on current individuals, businesses and the economy?*

A2 Given that road users fail to pay the true road costs by a very large factor the impacts are a massive loss to essential government funding, unfair competition against rail and water transport businesses, a much higher volume of road traffic than is commercially viable, very much increased environmental damage, loss of regional employment through centralisation and the denial to businesses of the opportunity to make transport choices on a commercial business basis. The relatively wealthy sector of society is subsidised by the poorer sector and people who cannot, or do not want to, afford to run a car are relatively isolated. The variable car VED impacts against people who cannot afford to change cars to lower taxation classes but who may only travel low mileages. High VED rates impact unfairly against low mileage drivers. Road hauliers who are already highly subsidised are undercut by those road hauliers (British and foreign) who are able to import and operate on low duty diesel from other countries. These effective subsidies to road users forces government to invest in road expansion instead of health, education, relief of poverty, technology, etc.

Q3 *Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents and CO_2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?*

A3.1 Taxes and charges paid by motorists (and road hauliers) do not even cover their direct costs by a large margin and fail to pay environmental costs by a larger margin. The independent Royal Commission Report on Environmental Pollution 1994 outlined the degree by which road users failed to pay their true costs by something like 100% and recommended the fuel escalator. Since 1994 road user charges have actually been reduced due to organised opposition by roads interests. Oil may have increased in costs but this is to the advantage of the oil producers rather than increased funds to the road system.

A3.2 It is essential for economy and environment that road users pay the full costs of their road use. The discrepancy is so great that it can only be achieved gradually. Government must keep, audit and publish full commercial accounts of the road system. Government must start education of the true costs of road use as presently many road users prefer to believe that they are subsidising the economy rather than the other way round. Road use must be seen and treated as a commercial activity (albeit an essential activity) and not as a social service to the better off. This means that road use should pay a return on capital of the road system. Some defined road use should be eligible for grant where essential services cannot otherwise be maintained. Road charges reflecting principally mileage or tonne mileage charges, mainly in the form of fuel duty, should be gradually increased.

A3.3 While the main unfairness is that between high mileage road users and low mileage users (essentially non-car users, rail and water transport operators) there are individual unfair impacts. Low mileage users of larger vehicles are unfairly discriminated against through VED. Users able to afford cars attracting low VED, including electric and LPG vehicles, are unfairly advantaged as they still use the road system even though their pollution impacts may be less. Road hauliers able to import and use in the UK low duty road fuel from other countries grossly impact unfairly on those hauliers that are unable to do so and also on alternative operators such as railfreight.

Q4 *Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social and environmental impact of transport or some combination of these?*

A4.1 The purpose should be a combination of all these plus fair competition with rail and water transport operators. The primary purpose is to achieve this combination through raising revenue to cover the costs of the road system including a return on capital employed in the road system in proportion to the costs imposed by individual users. Commercial disciplines can be a good guidance to the other objectives given intervention where appropriate. Other criteria can be quite blunt with unintended consequences. Our economy and society understand money and probably will not accept any other regime. As a socialist society we perhaps wish it otherwise. There are no presently viable alternatives. The roads cost a lot of money, the more they are used the more they cost and they are presently funded by too high a proportion of general taxation. The only other controls are rationing and prohibition. Today's society would not accept those. At present only congestion imposes a limit to road traffic growth.

A4.2 Road use is essentially a commercial activity. It is bizarre that, since 1979, hospitals, schools, prisons etc. have been commercialised (to some extent) while roads are effectively funded out of general taxation according to "need". It is also counterproductive to our objectives that while rail and water transport is expected to operate "commercially" with certain closely defined grants the road transport system is funded on a generally subsidised basis even though much of it could and should be commercially viable.

Q5 *Does the current system have different impacts on different categories of road users? If so, is this fair?*

A5.1 Yes, as answered previously. Low mileage users, especially of larger cars, are impacted unfairly. Those able to afford to switch to low tax vehicles have an unfair advantage on those who cannot, albeit the incentive is to get less polluting cars into the national stock. Internally operating UK hauliers are unfairly subsidised compared to rail and water operators but all are most unfairly impacted by road hauliers, British and foreign, who can import and operate on low duty fuel from other countries. Buses are in some ways a special case but receive a general subsidy of lower taxation compared to vehicle weight. In particular, clumsy politicking has changed the former fuel duty rebate system for buses (to operator grant) so that it is no longer, as originally intended, an incentive to provide public transport to communities not served by trains.

A5.2 While some of these impacts are "Unfair" they are often also counterproductive to other objectives such as environment, social inclusion and the economy.

A5.3 Under this question the typical concerns of road users should be addressed.

A5.4 The rural user is often quoted in attempts to reduce the level of road charges. While there are always genuine marginal cases the vast majority of people, even in the Scottish Highlands, live in or close to communities which could sustain public transport. Many rural people drive relatively short distances on uncongested roads, live in cheaper houses and pay lower rates. Many of the longer distance rural drivers actually commute to towns and cities and many of these prefer to bypass public transport and drive all the way to town or city centre. All these drivers have every right to choose their mode of travel but not to demand special consideration on road user costs. Many rural roads are highly "unprofitable" on a commercial basis but a road was never closed because it did not make a profit!

A5.5 The road haulier is often quoted on two counts, that of the haulier and that of the consumer.

A5.6 The road haulage cost component of most consumer goods is very small. (eg A lorry delivers 25 tonnes of meat, retail value £50,000, haulage cost £500, even double the haulage cost adds 1% to the retail cost, this is 1% less the Exchequer has to take in personal taxation). Much of these goods have already come from the other side of the World. The fact that haulage is so cheap encourages unnecessarily lengthy journeys. Local farmers have to compete with produce from the far South. Manufacturers have to compete in transport systems which have centres in the English midlands. Lower value products such as sand or waste are affected by haulage costs. Low costs results in haulage of these products over longer distances. There are problematic examples. Higher haulage costs to remote areas are often more affected by lack of bulk demand rather than high fuel costs. Grants must be available to cover essential services which cannot be provided commercially rather than subsidise all road haulage. A particularly difficult example is the long distance haulage of animal fodder from the south to the North-West Highlands. Almost unaffordable anyway, much of this type of traffic used to go by sea. The bottom line is that the few pence saved by consumers as a result of low road user charges is lost by the taxpayer having to pay more for building and maintaining roads.

A5.7 Road haulage is plagued by cut-throat competition. Even if diesel fuel were free hauliers would still be going out of business but immediately replaced by new entrants to the industry, often operating from low cost bases on farm properties.

Q6 *What alternative methods of charging for road users are available, such as road pricing in town and city centres and on the national road work, lorry road user charging schemes, switching charges between fixed charges (such as VED) and variable charges (such as fuel duty)?*

A6.1 Charging should achieve the various objectives primarily by charging a commercial rate for the costs imposed on the road system by road users including return on capital. The charges should be appropriate to the costs imposed by individual users on individual parts of the road system. It should allow for subsidy or grant for essential services which could not be provided commercially. This is a complex demand. In theory a computerised charging system for miles, time, routes and weight imposed will become available within 20 years with acceptability taking longer.

A6.2 For cars and light vehicles the most practical and convenient system is by fuel duty which should be increased to provide a commercial return for the road system. These increases must be gradual so people have time to accept, react and adapt their transport methods. VED should be phased out unless a nominal administrative charge is retained. Road wear and gas guzzling should be taxed rather than just car ownership. Also VED is a lump sum, difficult to find for the less well off while fuel duty is in individual smaller purchases. The environmental incentives to car change by retaining penalising levels of VED must be carefully considered as to whether they really are productive. A significant proportion of a car's environmental cost is in its construction and end of life recycling.

A6.3 Fuel duty does not cover parking (when a car is on valuable land but not using any fuel to be taxed) or in highly congested areas (when in high demand areas, travelling little and therefore using little fuel to provide to tax revenue). Present parking and congestion charges, where appropriate, are the best practical means.

A6.4 For heavier vehicles fuel duty alone is insufficient to pay road costs. Heavy vehicles are fuel efficient in relation to weight imposed on the road. For example a 1 tonne car may average 50 miles per gallon. A 40 tonne lorry may just achieve 10 miles per gallon. For 10 miles x 40 tonnes the lorry pays the duty on 1 gallon while for the same miles x tonnes the car pays the duty on 8 gallons. The lorry simply does not pay its way. The extra VED for a lorry goes some way to paying the cost but for a lorry doing, say, 60,000 miles a year the VED cost is spread quite thin. Increasing VED is not wholly acceptable as some lorries will cover a relatively small annual mileage. Note that increasing VED incentivises operators to do the maximum mileage. Until computer monitored GPS road charging is sufficiently developed the hauliers will "get away with it". However there must be no concessions on fuel duty rises. Neither are "scrap and build" incentives acceptable as manufacturing new vehicles has a major environmental cost and the taxpayer is subsidising new build for little environmental improvement. Included in the costs lorries impose on the road system is the additional cost of building roads and bridges designed for increasingly heavy individual loads.

A6.5 The most controversial issue is that of "foreign" lorries using UK roads as discussed in Q7.

A6.6 Road tolls had been considered appropriate some decades ago, especially for expensive, new road infrastructure. These have been opposed by road user protests and previously existing tolls have been abolished with no compensating increases in other charges. It is felt that increasing the level of fuel duty is probably fairer between road users and much more effective, especially given the concept that all roads, nor just newly built ones, have capital value and cost.

A6.7 Some road users consider road traffic infringement penalties as "taxation". In principle this is not correct and "If you don't want to pay the fine then don't do the crime" is good advice. There is only rhetorical concern for the use of the money taken in fines. Contribution to a charity would not lessen road user resentment. On the other hand a vast amount of police time and money is devoted to policing the roads. Many of the penalties are not for vicious criminal acts. Some traffic infringements have little actual danger involved. Every driver makes an unintentional error now and then. With the 40mph limit some road hauliers' drivers break the speed limit hundreds of times every day as part and parcel of the operation. Should most non-accident infringements be de-criminalised and commercialised to meet other objectives?

Q7 *Should foreign-registered vehicles pay access to the UK's roads and, if so, how? How closely enforced are the rules governing re-registration of foreign registered vehicles which are brought permanently into the UK and the consequent liability for VED?*

A7.1 That the use of low duty fuels on UK roads is tolerated is hard to understand. It damages competition and loses the UK economy or exchequer vast amounts of money. The issue is that of foreign and UK hauliers bringing in up to 1.5 tonnes of low duty diesel from overseas or the Republic of Ireland and using it to operate on UK roads for possibly 3,000 miles without paying anything towards the cost of these roads. Of course, it does not cancel out in the opposite direction. The same hauliers ensure their fuel tanks are almost empty before leaving the UK. It would appear that importing low duty fuel for business use contravenes general Customs & Excise rules.

A7.2 It is relatively easy to calculate the amount of low duty fuel being imported in a vehicle. It takes staff and infrastructure but the loss of revenue involved and damage to internal UK hauliers (and rail and water freight) is massive. One lorry with a maximum sized fuel tank full will lose the UK Exchequer some £800. This could be checked and charged in a few minutes. It does not have to be accurate to more than 5%. Other countries have enforced the dipping and payment of excess duty or tanks holding minimum fuel before being allowed in to their country. Computerised road user charging (for lorries) would reduce the need to check fuel quantities although the fuel tank quantities themselves could be accurately monitored electronically.

A7.3 There may be a working EU agreement which should be unacceptable. A formal EU agreement is being negotiated for several years hence. It is essential that UK duty is paid and that internal hauliers are protected from unfair competition. Government should initiate a public investigation. The one off "Vignette" charge proposal cannot recover the full cost and is a blunt instrument between different overseas hauliers. Do note that UK hauliers operating internationally also import low duty fuel.

A7.4 We are not aware of the degree to which foreign vehicles are operated long term in the UK without UK registration. The financial implications are suspected to be much less than the low duty fuel issue. It is essential the all road hauliers pay the full cost of their use of UK roads.

September 2008

Memorandum from Intellect (TAX 26)

Intellect welcomes the transport Committee's inquiry into this topic; our members have been following the debate for a number of years and would like to inform the work of your inquiry by enclosing an industry White Paper on road user charging.

Intellect is the UK trade association for the IT, telecoms and electronics industries. Its members account for over 80% of these markets and include blue-chip multinationals as well as early stage technology companies. These industries together generate around 10% of UK GDP and 15% of UK trade. More information about Intellect can be found at: www.intellectuk.org

The Intellect Transport Group represents the interests of ICT suppliers and consultants who specialise in the transport sector. Intellect is committed to broadening and deepening the dialogue between industry and government and believes that suppliers and purchasers can operate more effectively when they are better informed about the strategies and thinking that are shaping the market. Indeed last Friday we had a very positive meeting with Simon Lydiard, Deputy Director Procurement at the Department for Transport.

In echoing both the Stern Review and Eddington Study, it is Intellect's view that road charging is required in the UK in order to maintain the effectiveness of the UK economy—congestion is costing the UK economy £20 billion per year. Any system of road user charging should, however, form part of an overall transport strategy that includes greater investment in the road and rail infrastructure and public transport, in addition to more efficient use of current capacity.

Standards and interoperability are essential to any system of road charging. If, as it appears, local government will be tasked with implementing local systems then they need to ensure they are not reinventing the wheel for every scheme, and that drivers need only have one transponder, one account and one bill, irrespective of the number of schemes they traverse.

The government's decision to postpone the proposed Lorry Road User Charging scheme cost suppliers greatly—much money was spent on what turned out to be fruitless bids. Starting schemes and then cancelling them is a waste of national resources. A coherent and consistent national strategy would hopefully prevent a similar situation in the future. The government should apply lessons and skills learnt from previous programmes, ensuring that a consistent, efficient approach to planning, procurement and project delivery is undertaken. This approach should lead to projects being delivered more efficiently and effectively, both for the public sector and the supply side.

The arguments for road user charging are clear, and have been made on numerous occasions by a wide variety of stakeholders:

- Technology used in road user charging systems is mature and has been proven to work.
- Products have been designed that are informative, usable and robust without being intrusive or distracting.
- The industry is keen to engage with government—but it is essential that government is clear, open, honest and consistent about its plans for road charging.

The main problem with road user charging is the lack of public acceptability. What we feel is lacking is any real attempt on the part of the Government to explain to road users why the current system of taxation is becoming more and more inadequate, and hence needs reform, an important part of which will be road user charging—which is also the best way to tackle road traffic congestion in the opinion of most transport experts. Ministers have called for a national debate on these topics, but have signally failed to stimulate or inform it.

Intellect would welcome the opportunity to give further evidence to the Transport Select Committee and explore the issues discussed in this letter in more detail.

September 2008

Memorandum from the Scottish Association for Public Transport (TAX 27)

Introduction

1. This submission should be read in conjunction with a copy of the Association's response to the National Conversation and the Calman Commission on Future Constitutional Arrangements affecting Scotland. Paragraphs 6, 8, 10–13 and 14–21 of this response have a particular relevance for the UK Road Charges Inquiry.

Specific Comments

2. The Association welcomes the Road Charges Inquiry as a means of improving transparency and acceptability in relation to changing policies for infrastructure provision and use in the context of wider policies (and global challenges) in relation to energy and climate change. The focus must be on these issues rather than on the narrower issues of fairness and efficiency in relation to charges related to road use. In practice, current policy retains considerable incentives for shifts to car and lorry use. These are in increasing conflict with the aim of a sustainable economy, cumulative and substantial cuts in CO_2 emissions, the development of public transport capacity, "fair and affordable" fares and the greater use of policy to encourage shorter trips and less energy-intensive movement. The current approach to road charges and to fares is neither fair nor efficient.

3. Infrastructure Charges and External Costs In addition to considering overall assessments of road taxation and charging in relation to external costs (and benefits), there is a need for the inquiry to investigate:

(a) variations within the road network (ie some users may be "under-paying" while others may be "over-paying" under the present approach which has a heavy reliance on standard rates of road fuel taxation); and

(b) equivalent comparisons with the rail network (ie some rail users may be "under- paying" but with many, though not all, of these underpayments justified on social grounds while others, relative to road user charges, may be "overpaying" in that they are being asked to make much larger contributions to infrastructure and signalling improvements than equivalent, direct contributions from road users towards major road improvements).

4. In seeking to establish the current position in relation to income from road taxation and charges and related costs arising, account needs to be taken of the fact that external costs vary considerably both from road to road and by time of travel. Some external costs—such as those relating to air quality, noise, accidents, CO_2 emissions—will require to be incorporated in a broad brush approach to the level of charging (with fuel charges remaining a major source of income) but the important issue here is to ensure that such calculations of external costs are not only reflected in the level of fuel duty but in transparent allocations of road charging income to:

— help reduce such external costs;

— to accelerate changes in vehicle design, fuel efficiency and alternative fuels; and

— cut other types of taxation.

5. It is suggested that the Inquiry should take into account the issue that the high level of car ownership has created an added external cost with respect to the provision of both adequate minimum levels of public transport coverage and affordability and of an improved network offering a realistic alternative to car use. Under present pricing and charging arrangements, commercial public transport operators have insufficient incentives to maintain networks and deliver fares for individual and family/group travel comparable to the perceived costs of car use. Hence the need to include in road costings an allowance for a contribution from road charges towards the maintenance and improvement of public transport within a revised regulatory system. For example, Bus Operator Grant and payments to companies to operate rail passenger franchises should be regarded as one of the external costs of the roads network which should be internalised in road charging.

6. Though the Association expects petrol and derv charges to be the major source of road income over the next decade, the yield from charges is likely to fall due to stabilised road traffic levels, more efficient oil-based engines and shifts to alternative fuels. Due to major difficulties in matching fuel-related road charges to actual road costs, the Association anticipates that electronic-based national charging (as distinct from congestion charging) on major roads will become the future norm. The Association supports an early return to former proposals for priority for a lorry-charging system on major roads—this would ease present problems of undercharging of foreign lorries and also give added encouragement to the shift of longer hauls from road to rail or shipping.

7. With respect to other costs considered to be external, the Association suggests a different approach in relation to congestion costs and provision of substantial increases in infrastructure capacity. In 1994, the Royal Commission on Environmental Pollution recognised that congestion costs were different in that, rather than being external, they are currently costs borne by other users in the form of time delays and additional operating costs. Subsequently, this argument has been widened to draw attention to the costs both to business and to individual users arising from erratic levels of reliability. In many ways, unreliability is a greater source of concern than a fairly predictable level of moderate delay at peak periods. Another key issue had been than much congestion and unreliability can be attributed to poor use of limited road space by lone occupant cars—often accounting for over 80% of cars at congested peaks.

8. This suggests that, rather than incorporating often suspect costs for congestion ad unreliability in an overall Roads Account, these issues should be tackled by a mix of congestion charging and other management measures to influence modal shift, raise vehicle occupancy and ensure a lesser degree of unreliability. The proceeds of congestion charging should be earmarked for such purposes—including the use of income from road charging to assist with public transport investment and fares restructure.

9. With respect to the capacity and quality of infrastructure, the Association wishes the Inquiry to consider the issue of appropriate cover for depreciation, renewals and return on asset value which should be included in road and rail costings. Regarding the use of such funds, sustainable, efficient and fair policies for transport require serious consideration of greater use of the asset return on roads to improve public transport infrastructure and to allow rail passenger franchising to shift from a policy of minimising franchise costs (where government payments are made to operators) and maximising franchise returns (where operators make payments to government for franchise rights on more profitable services) to a policy of accelerating modal shift to rail, tram and bus services and achieving better use of existing road and rail facilities. Within road and rail investment, there needs to be a substantial shift from major road schemes to better maintenance, lesser schemes and phased delivery of a large rise in present rail investment plans.

10. Subject to further investigation, the Association's preliminary conclusion is that there is a strong possibility than the charges presently levied on more lightly used parts of the road network will require to stay at, or around present levels (in real terms) in order to cover direct costs and internalised "external costs". However, to meet full costs and reduce congestion and unreliability, it is likely that charges will require to rise on busier sections of the network. Part of a "road surplus" should be made available to assist rail and other public transport improvements.

11. In addition to road charges, it is reasonable to expect that transport users should, in the main, be liable for VAT and any future rises in energy taxation provided that the latter is part of a package reducing other taxes.

September 2008

Memorandum from Mark P. Quigley (TAX 28)

Road taxation, congestion charges, toll roads etc are all far too complicated and expensive to operate. What are the main objectives?

The proposed scheme for cars is far too complicated, and unfairly taxes the people who have bought older cars as they can't afford new ones, or have kept their vehicles from new expecting the rates to be reflective of the rates they were when the vehicles were purchased.

To expect these people to scrap these vehicles and go and buy new ones in order to satisfy the latest emissions regulations is grossly unfair. Also have you considered the environmental impact of this.

First of all the old vehicle has to be disposed of. All the old metal and plastics have to go somewhere, any CFC's from air-conditioning systems disposed of, oil from engine gearbox and shock absorbers disposed of, foam from the seats, rubber from tyres, brake and clutch linings all of this has to be disposed of in an environmentally friendly manner.

Then the process started again to manufacture the new vehicle;

The metals have to be mined, purified, formed, moulded, stamped, machined, the plastics manufactured from fossil fuels, the oils for the engine, gearbox, shock absorbers, the rubber extracted, formed moulded vulcanised etc for the tyres, cam belts etc.

Just how large is the environmental impact of extracting all the raw materials and forming them into the correct components, shipping them often half way round the world in order to give the owner a vehicle which will be more environmentally friendly? How does this compare to say running the vehicle for 50,000 miles?

Why waste all those valuable resources in owners old car just to dig up new ones damaging the environment even more to give him a less polluting car? This does not make sense. The owner of a well maintained older car should be helped for protecting the environment by not following the throw away mentality of the people pushing for lower emissions.

Cars which produce less emissions often use more raw materials in there manufacture as they have more complicated methods of producing power, a hybrid for instance uses more raw materials and is heavier than a petrol or diesel car thus impacting the environment in that these materials have to be sourced from somewhere, shipped to the manufacturer then the customer. When on road the heavier the vehicle the more it damages the road.

Hydrogen powered vehicles > Where does the hydrogen come from? fossil fuel !!!!

Electric vehicles, charged from mains electricity, generated in UK mainly from burning fossil fuels, ok so less fuel burned but uses a lot of copper etc in the electrical components.

To reduce emissions, to reduce the usage of fossil fuel thus not depleting the earths reserves.

The easiest manner to tax all of this is on the fuel duty.
The less efficient your vehicle, the more you pay. The less people travelling in a vehicle the more all the people pay to travel the same route, everyone has to pay, the longer your vehicle sits in a traffic jam > the more you're paying for that fuel only a very few people get away consistently without paying for their fuel. The 4x4 tax that was considered is also outrageous. Some small cars are 4x4 VW Golf, Fiat Panda etc. If someone

wants to run a big engined Range Rover to tackle the school run then if the duty is charged to the fuel they will pay for it as they use it, not once a year when it is then forgotten about. But rather one big 4x4 with five kids and one parent than five small cars with a parent and a child in each.

Give transport operators some discounts, like red diesel scheme, and only give this fuel to vehicles over 3,500kg so long as driver has relevant ID and record vehicle mileage at each refuel to eliminate people filling tank then selling down the street to someone else. A computer system could easily check if one vehicle or operator is using more fuel than the mileage recorded shows, with some latitude depending on their operation.

It's a very easy system to administrate, no complicated electronic systems to set up and monitor around cities, no horrendous administration charges. Everyone will understand it, it would be very simple but effective. And when everyone purchases their vehicle they will have some idea what it is going to cost to run them and not suddenly get hit further down the line with massive increase in tax.

A nominal compulsory road tax scheme needs to be maintained in order to ensure that vehicles are correctly insured and tested, no-one disagrees with this its the way that the government are messing with the rates. If you own an un-economic vehicle you will pay for it in fuel duty, but don't forget the vehicles that you're now trying to class as polluting and nasty were only a small number of years ago considered as the best we could do.

Obviously levy the fuel with regards to the amount of pollutants.

How much does it cost to introduce a road toll scheme, like the one in London? Enough to build a good hospital or a few schools.

September 2008

Memorandum from RAC Rescue Services (TAX 29)

About RAC

1. RAC provides a comprehensive range of motoring and vehicle services for both consumers and businesses. RAC has around seven million members in the UK, providing roadside assistance, car insurance and up-to-the minute traffic travel information to both private and business motorists. RAC is part of Aviva, the world's fifth-largest insurance group and the biggest in the UK, where it currently operates under the Norwich Union brand.

2. Since 1998, RAC has produced an annual research publication, known as the Report on Motoring, which reports motorists' views on the most relevant issues in motoring. This year marks the twentieth anniversary of the report, and as such RAC will be publishing three special reports throughout the course of 2008. The three reports respectively provide an overview of how motoring has changed over the past 20 years; a reflection on the technological changes and how these contribute to road safety and the sustainability of motoring; with the final report focussing on motoring, its impact on the environment, and what factors influence motorists' behaviour. Our first report was published on 9 July 2008, and the remaining two reports will be published shortly. In conducting our research for the 2008 Report on Motoring we have polled over 3,000 UK motorists.

3. RAC welcomes the opportunity to give evidence to the Transport Select Committee's Inquiry into Taxes and Charges on Road Users, and share with you some of our findings from the Report on Motoring. In particular our research has shown that motorists think the single biggest change in motoring over the last 20 years has been the increased cost of motoring.

What taxes and charges are currently paid to government by road users, how much revenue do they raise and how does this compare with national and local government expenditure on the roads network and ancillary services?

4. RAC understands that the Government's annual tax take from Britain's motorists totals around £45 billion,[43] which is raised from the following taxes and charges:

— Fuel duty (£23.7 billion)

— Vehicle Excise Duty (£5 billion)

— VAT on vehicles (£6.9 billion)

— VAT on fuel (£6.8 billion)

— Company car tax (£2.6 billion)

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[43] Road Users Alliance (2007) *Road File 2007–08*

This compares with approximately £7.5 billion re-invested back into the road network, a disparity of around £37.5 billion. Whilst RAC understands it may be impossible to reach equilibrium between motoring taxation and expenditure by the Government, we believe a greater proportion of this revenue should be spent on motoring-related issues. In addition, we believe there should be greater transparency from the Treasury as to what motoring taxation is used for.

5. Our 2008 research has shown that UK motorists think the single biggest change in motoring over the last twenty years has been the increased cost of motoring. To follow this up, RAC conducted a special analysis to decide whether this has actually been the case. Our analysis showed that despite the perception, the cost of motoring in real terms has fallen, even when rising fuel prices were taken into account. In real terms, we found it is 18% cheaper to buy or run a car (comprising service and repair costs, insurance, road tax and breakdown cover), including fuel costs, in 2008 than it was in 1988. However given that the most visible cost—fuel prices—has almost doubled over that same period, it is perhaps unsurprising why motorists remain unconvinced by this.

What is the impact of the current charging regime on individuals, business and the economy?

Fuel duty

6. As mentioned under question 1, the real cost of motoring has fallen significantly over the past 20 years. However, motorists do not perceive this to be the case, perhaps unsurprisingly when we realise that over the same period, fuel prices have risen by double the rate of inflation.

7. The price of fuel in the UK is complicated: it fluctuates according to the cost of crude oil and is affected by international demand. In addition, UK motorists pay two taxes—fuel duty and VAT. As has been demonstrated over the past six months, when oil prices rise, so does the amount in tax taken by the Government in fuel duty and VAT, thus effectively hitting motorists twice. RAC recognises there is no easy answer to this, particularly given the volatility of the oil markets we operate in. Whilst welcoming the Chancellor's announcement to postpone the 2 pence per litre increase in fuel duty which was expected to take place on 1 October 2008, we do not feel this goes far enough.

8. RAC believes the Government should adopt measures such as the fuel duty stabiliser, which would allow fuel duty to be reduced when factors outside of its control, such as world oil prices, force the pump price of fuel to increase. Thus any increase in world oil prices would be shared by the Government, rather than simply absorbed by motorists. In addition, RAC believes there is a role for Government and retailers to work more closely together to ensure petrol prices react more quickly when oil prices fall.

Vehicle Excise Duty

9. For our third report, RAC is conducting extensive research into motorists' understanding of the present Vehicle Excise Duty (VED) system, the proposed changes announced in the Budget, and the level of acceptability. At the time of submitting our response to the Committee, our research is still underway. However we would be happy to share our findings with the Committee when they become available.

10. That aside, RAC is aware that VED presents many motorists with substantial costs. The banding of VED means that the amount payable is higher for cars with greater levels of CO_2 emissions. This system is designed to encourage drivers to opt for more "environmentally friendly vehicles". At the 2008 Budget, the Chancellor announced a change to the VED system, which will see six new bandings introduced from 2009–10. Under the proposals, if a car is registered after 1 March 2001, there will be a series of bands (A-M) which will be based on fuel type and CO_2 emission levels.

11. RAC does not understand the logic in backdating the charges to 2001, given that few, if any, carbon savings will be made. The highest emitting cars will still be in existence, but motorists are simply charged more. If the Government wishes to pursue greener motoring taxation, RAC believes it should be looking at influencing purchasing decisions made now, rather than penalising motorists for decisions they made seven years ago.

12. RAC is also concerned that basing VED charging simply on carbon emissions of the vehicle, does not discriminate between those who choose to buy higher emitting cars through choice, and those whose purchasing decisions are through necessity, for example large families who may require a large car.

Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents, and CO_2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?

13. RAC recognises that congestion, and the resulting pollution, is a growing problem on the UK's busiest roads. Our third report will focus on motoring and the environment, as such we will be questioning motorists' understanding of "greener motoring taxes" and their attitudes on both their fairness and effectiveness. At the time of submitting our response to the Committee, our research is still underway. However we would be happy to share our findings with the Committee when they become available.

14. Congestion is not only bad for the environment, but also for the economy in general. This is a problem that motorists themselves recognise. Our research to date has shown that motorists are worried and frustrated about levels of congestion on our roads, and they expect it to get worse in the future. When asked what measures they think will be needed to help manage traffic, motorists responded in the following way:

— 58% said drivers will have to pay to drive in all cities;

— 58% said there will be tolls on all motorways;

— 51% said gridlock on our roads will become the norm;

— 51% said cars will not be allowed into city centres.

Whilst these measures are not attractive to motorists, they recognise that congestion is a problem and as such this leads to an acceptance that much harsher traffic measures will be necessary.

15. RAC recognises that we cannot simply build ourselves out of congestion. We believe that current Government plans[44] for active traffic management and hard shoulder running should be implemented in their outlined timescales. These schemes should also be rolled out on all suitable motorways, with thorough feasibility analysis and targeted public communication and driver education.

Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social and environmental impact of transport, or some combination of these?

16. RAC believes that reforms to the taxes and charges paid by motorists should be driven by the desire to ease congestion and minimise the pollution that results from motoring. However, as outlined in our response to question 1, we believe that Government already places an unfair burden on the motorists in comparison to the amount that is re-invested back into the road network, and we would therefore oppose further taxes that simply seek to penalise the motorist.

Does the current system have different impacts on different categories of road user? If so, is this fair?

17. RAC believes the current taxes and charges do have different impacts on different categories of road users, and in some instances this is unduly unfair on the motorist. For example, the system does not differentiate between those who have no choice but to drive a car, such as those in rural areas who have no viable alternative means of transport. Neither do the proposed changes to the VED system differentiate between those motorists who have little or no choice over the type of car they drive, such as large families who may require a larger car.

What alternative methods of charging for road use are available, such as road pricing in town and city centres and on the national road network, lorry road user charging schemes, switching charges between fixed charges (such as Vehicle Excise Duty) and variable charges (such as fuel duty)?

18. Rather than focusing on which method of taxation is used, RAC believes it is important to ensure greater transparency in our system. It is clear that motorists lack trust in the Government to implement a system that is fair. Furthermore, they believe many of the systems implemented (such as speed cameras, road pricing) are simply another means of raising revenue. In response, RAC calls for greater transparency about what motoring taxes and charges are used for.

19. As mentioned in our response to question 3, motorists believe one of the greatest challenges they face in the next 20 years is rising congestion levels. Motorists appreciate that journey times may not shorten in the future, but their priority is to know that a journey is reliable. RAC tentatively supports the use of road pricing as part of a package of measures to tackle congestion that includes upfront investment in public transport in order to provide motorists with a viable alternative to using their cars and selective capacity increases through by-passes and other de-bottlenecking schemes. However it is clear that there is still some way to go before motorists are convinced of the benefits. For example, almost three quarters of motorists polled in our survey thought that road pricing does not reduce traffic; it only creates the same problem elsewhere.

September 2008

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[44] Department for Transport Press Notice, 16 July 2008

Memorandum from The Central London Freight Quality Partnership (TAX 30)

EXECUTIVE SUMMARY

- The Central London Freight Quality Partnership (CLFQP) is a partnership of public and private sector organisations whose aim is to improve freight transport and servicing in central London. Our membership includes seven central London Boroughs, Transport for London, London businesses and freight operators serving central London. The partnership is responding to this enquiry solely on the issue of penalty charge notices (PCNs) issued for on-street loading and unloading in London.
- Regrettably it is not possible to provide an accurate figure for the cost of loading / unloading in London for the reasons set out in the response below.
- However, national research by the Freight Transport Association (FTA) estimates this substantial cost to be in the region of £500 million per annum in the United Kingdom (UK) (http://www.fta.co.uk/news/item/parking-fines-to-deliver-to-london---600-million-per-year). Within this headline figure, they have identified four operators that pay more than £1 million in fines each year in London. They have also identified a further £100 million cost borne by the UK freight industry for processing and appealing PCNs.
- Research by the CLFQP indicates that these are costs that have increased following the introduction of differential parking under the Traffic Management Act 2004.
- This submission highlights why it is not possible to provide accurate information on the cost to the freight and servicing industries of loading / unloading, and suggests possible actions that may be taken to achieve this. It sets out the view that loading / unloading costs should reflect the provision of loading / unloading facilities, with other taxes and charges being used to fund other freight related transport costs.

1. *What taxes and charges are currently paid to government by road users, how much revenue do they raise and how does this compare with national and local government expenditure on the roads network and ancillary services?*

1.1 There are three sources of publically available information regarding PCN issue in London. These are the London Councils annual parking statistics, which have been published since the 2004–05 financial year, and can be found at:

> http://www.londoncouncils.gov.uk/transport/transportservices/parkinginformation.htm?showpage=1; data provided by the London Boroughs on request; and the annual statement of accounts produced by each individual London Borough which contains limited information regarding their parking account as required by section 55 of the Road Traffic Regulation Act 1984, subsequently amended by the Road Traffic Act 1991. These can be found on the web sites of the relevant authority.

1.2 The London Councils statistics only make reference to the number of PCNs issued under the generic heading of "Parking PCNs" as this headline figure is the only information provided to them by the individual boroughs. They are unable to break down the global figure, either by vehicle type to identify commercial vehicle activity, or offence code to identify loading and unloading activity. In addition, it is not possible to estimate the cost of Loading / unloading PCNs from this data as no information is provided regarding the number of tickets cancelled at the informal or formal stages of appeal in the representation process.

1.3 All central London boroughs are able to analyse their parking data by offence code. However, currently only three of the seven central London boroughs have the capability to identify commercial vehicle activity. Out of these, only two were able to provide information on loading / unloading PCN issue following a request by the CLFQP when compiling this response to the select committee. Of these, one could only provide data relating to Civil Enforcement officer issued PCNs, and not for PCNs issued by CCTV which amount to 27.3% of their total.

1.4 The data provided by the annual statement of accounts for each borough is provided for accounting purposes. It is therefore not in a format suitable for calculating the costs of loading / unloading in London. In any case, that data would be subject to the caveats identified in the above paragraph.

1.5 The CLFQP, with funding from Transport for London, is working with the central London boroughs to facilitate the use of a commercial vehicle marker in their PCN issuing software to enable the provision of accurate data on loading / unloading costs in central London. It is suggested that the department for Transport recommends this approach for all existing Civil Parking Enforcement schemes and makes it mandatory for all new requests to implement Civil Parking Enforcement. Also, the cost to business for non-compliance with loading / unloading restrictions should be included in the annual parking reports produced by enforcement authorities under the Traffic Management Act 2004.

1.6 It is interesting to compare the £500 million estimated cost to industry of loading / unloading in the UK provided by the FTA, with the £500K of monies spent by the Transport for London Freight Unit on Local Implementation Plan funded freight projects in the nations capital city. Whilst there are other public sector monies spent on freight transport in London, eg the Boroughs and other sources of funding from Transport for London, these figures clearly show the difference in scale between loading / unloading costs bourn by industry and public sector expenditure on freight infrastructure.

2. *What is the impact of the current charging regime on individuals, businesses and the economy?*

2.1 The cost of loading / unloading in central London is considered a tax by the freight transport industry as there is no alternative method of making deliveries to the businesses that comprise London's economy. No research has been undertaken as to where the cost of PCNs resides. It is either met by the delivery company or passed onto the business that they are serving. This may or may not be a contractual arrangement. That business may then decide to absorb the cost or pass it on to their customer. Either way, the economy looses either through reduced corporation tax or increased prices leading to inflationary pressures.

2.2 There are also the costs to business of managing PCNs to be considered. The FTA has estimated the cost to UK business of this activity as £100 million per annum to process and appeal PCNs. More and more businesses are finding it cost effective to employ staff solely to administrate PCNs. It is of note that in 2007–0 8 the Parking and Traffic Appeals Service (PATAS) awarded costs to business amounting to £7,187.70. Again, this shows a difference in scale between the costs to business and any recompense received.

3. *Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents, and CO2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?*

3.1 The CLFQP is unable to comment on the first part of this question.

3.2 It would be desirable for the industry to meet all its own external costs. The CLFQP notes the debate as to if this is already the case, or not.

4. *Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social and environmental impact of transport, or some combination of these?*

4.1 Charging for loading/unloading should reflect the cost of provision of loading / unloading facilities only.

4.2 The freight industry serving London already pays business taxes to cover road provision and the congestion charge to cover congestion costs. Vehicles either meet the Low Emission Zone criteria or pay a charge to cover polluting vehicles.

5. *Does the current system have different impacts on different categories of road user? If so, is this fair?*

5.1 The CLFQP requested data from its private sector members to provide clarity regarding the effect of the changes in loading and unloading in central London following the introduction of the Traffic Management Act 2004. Responses were received from seven operators working in the food, drink, supermarket, convenience, retail (2) and office supplies sectors.

5.2 Four of the seven operators reduced the number of PCNs they received between May 2007 and May 2008. This appears to be in line with the decrease in PCNs issued that is reported by London Councils, although it should be noted that the reduction for commercial vehicle operators is of a smaller percentage (3.4%) than the overall total reported by London Councils (6.1%).

5.3 However, the picture changes if the cost of PCNs is compared between the years. Whilst three operators experienced an increase in the number of PCNs received, five operators experienced an increase in the cost of those PCNs. This amounted to a cost increase of 14.1% across all operators in the survey.

5.4 If the overall number of PCNs issued is falling, but loading / unloading costs have increased following the introduction of differential charging, it seems to indicate that the freight industry is bearing a greater proportion of "parking" charges than private car owners.

6. *What alternative methods of charging for road use are available, such as road pricing in town and city centres and on the national road network, lorry road-user charging schemes, switching charges between fixed charges (such as Vehicle Excise Duty) and variable charges (such as fuel duty)?*

6.1 The CLFQP notes the developments in technology that are improving the parking process and experience. These should be developed for loading / unloading activity.

6.2 Pay by phone parking has proved very successful in the Westminster and other central London boroughs. The Cooperative Vehicle Infrastructure Systems (CVIS) loading bay project will show how kerbside loading / unloading can be managed in real time.

7. *Should foreign-registered vehicles pay for access to the UK's roads and if so, how? How closely enforced are the rules governing re-registration of foreign-registered vehicles which are brought permanently the UK and the consequent liability for VED?*

7.1 Foreign registered vehicles should be equally liable for loading / unloading PCN s as domestic vehicles. The CLFQP welcomes and supports the work of the Eurosparks project that is trying to achieve this.

7.2 The CLFQP is unable to comment on the second part of the question.

September 2008

Memorandum from M. J. Pink (TAX 31)

The submitter is a director of a road haulage company based in Dorset.

The points raised in this response relate specifically to the road haulage industry.

Summary

A request for the committee to review the reasons for the existence of the road haulage industry in relation to the current thinking on congestion, pollution & emissions, road upgrading, and lorry road user charging.[45]

1. Road Haulage is considered the same as motorcycles, cars, and public transport in the form of Bus and rail in that, by adjusting the taxes and cost of usage, congestion, pollution etc can be controlled. This could not be further from the truth.

1a: Tax cars at 10 times the current rate and the use of public transport, cycle and motorcycle use would increase dramatically. The reverse would apply if public transport were taxed heavily. However, regardless of how much road haulage is taxed, the goods still need to be delivered with the increased cost being borne by the consumer. The only control that taxation exercises is on consumer spending.

1b: Tax vehicles on the time of usage to control peak time congestion. With regard to road haulage this is unlikely to have any impact as most hauliers already try to avoid sending lorries into congested areas at peak times due to the increased costs of fuel and lost time.

1c: Current thinking is that lorries have a choice on where and when they travel. Reality is that the choice is limited solely to where and when the goods are required.

2. Road haulage is considered as a large polluter and the larger the lorry used the more the pollution. Two aspects need to be considered, size of lorry and distance travelled.

2a: The largest lorry can carry approximately 28 tons of goods. It would require nine small lorries, or 20 large vans, or 56 small vans to carry the same load (by weight). Not only does the largest lorry take up less space on the road against the smaller but numerous alternatives but the pollution/emissions figures are very much less.

2b: The shortest distance between two points is the most economical. The Romans found this out 2,000 years ago and we have been adding bends ever since. Various levels of government from Parish, Town, County, Regional and Central continue to dictate and reduce the routes lorries can use to the point that

[45] South West of England Regional Development Agency—Regional Economic Strategy For South West England 2006–15. This document barely mentions road haulage.

many journeys are now double what they need to be.[46] {note 2} That relates directly to double the fuel usage, double the pollution and double the cost. Obviously this would not translate to every journey made but does reflect an area that could offer a sizeable reduction in road usage, pollution and costs. One point worth noting is that haulage accounts for 7% of the costs of goods, (generally accepted figure in the industry (RHA)) and any reduction in overall costs would therefore reflect in a reduction in inflation.

September 2008

Memorandum from the National Caravan Council (NCC) (TAX 32)

The National Caravan Council (NCC) represents the collective interests of the UK caravan, motorhome and park home industry. The industry has a turnover of £3 billion and employs nearly 100,000 people. We represent over 800 industry outlets, including over 90% of UK production of touring caravans, caravan holiday homes and park homes, and the leading parks, dealers, suppliers and service companies. The industry serves over one million caravanners and 250,000 park home residents. The National Park Homes Council, a division of the NCC, is the representative body of the park home sector in the UK.

Summary

— Taxes and charges on road users impact directly on the owners of touring caravans and motorhomes, and on people who travel by car to caravan holiday parks.

— Caravan holidays are a vital part of domestic tourism, and make a significant contribution to local economies, including in less affluent rural and coastal areas.

— Caravanning is one of the more environmentally friendly forms of tourism (for example caravan holidays taken in the UK often substitute for flying abroad).

— Because of these benefits it is vital that road taxation policies should not have the unintended consequence of discouraging domestic caravan tourism.

Consideration

1. We represent the UK caravan industry, which has a turnover of £3 billion and employs nearly 100,000 people (see above). There are currently some 500,000 touring caravans and 138,000 motorhomes in the UK, as well as 300,000 caravan holiday homes (and 70,000 residential park homes).[47] Taxes and charges on road users impact directly on the owners of touring caravans and motorhomes, and on people who travel by car to caravan holiday parks. The subject of the Committee's inquiry is thus of considerable interest to our industry and its customers.

2. Caravan holidays are a vital part of domestic tourism, and make a significant contribution to local economies, including in less affluent rural and coastal areas. Nearly one in five (18.8%) of adults holidaying in the UK take a caravan holiday.[48] Pitches for touring caravans and motorhomes, together with caravan holiday homes, holiday chalets and camping pitches, account for tourist spend of some £2.76 billion each year, accommodating some 21% of all holiday bed nights.[49]

3. Caravanning is one of the more environmentally friendly forms of tourism. The great majority of customers live in the UK; by taking caravan holidays here they often substitute for flying to overseas holidays. Moreover, caravan touring compares favourably with other modes of transport (for examples a Ford Focus with a family of four towing a small caravan from London to Inverness produces only 38% of the $C0_2$ output of flying[50]—a large, fuel-hungry car is not needed for towing[51]). The National Caravan Council has set up a website—www.greencaravanning.co.uk—to show holidaymakers how well touring in a caravan compares with other modes of transport.[52]

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[46] Shaftesbury Dorset to Bristol Centre. Direct distance 46 miles. Using regional directed routes, via M5, 105 miles, via A34, 142 miles.
[47] NCC statistics.
[48] TGI/Mintel data, 2004, for adults whose last holiday was in the UK.
[49] UKTS 2007.
[50] NCC calculations.
[51] Diesel Mondeos and Passats have been voted "Towcars of the Year". Car and caravan just need to be properly matched.
[52] Other "green" aspects of caravanning include: 90% of caravans on UK roads are actually made in Britain (unlike many manufactured items, which have clocked up "air" or "sea miles" before reaching the end user); In many holiday parks, great attention is paid to protecting the environment, with eg use of solar power to heat communal shower blocks, wildlife areas, recycling points etc.; It allows families to immerse themselves in the great outdoors (research has shown caravanners are great walkers and cyclists once they have arrived). The website also includes a number of helpful tips, including how to drive more fuel-efficiently, to help would-be greener holidaymakers lower their footprint.

4. In view of the economic and environmental benefits of caravan holidays it is vital that Government policies on road taxation should not have the unintended consequence of discouraging domestic caravan tourism. Examples of policies which could have this effect are road pricing and congestion charging (particularly if they extend outside peak times), increasing fuel duty, retrospectively changing the system of vehicle excise duty or other taxation for vehicles which have already been purchased.

September 2008

Memorandum from the Society of Motor Manufacturers and Traders (SMMT) (TAX 33)

1. Introduction

1.1 The Society of Motor Manufacturers and Traders (SMMT) is the leading trade association for the UK automotive industry, providing expert advice and information to its members as well as to external organisations. It represents more than 500 different sized member companies ranging from vehicle manufacturers, component and material suppliers to power train providers and design engineers. The motor industry is a crucial sector of the UK economy, generating a manufacturing turnover of £51 billion, contributing well over 10% of the UK's total exports and supporting around 850,000 jobs.

1.2 SMMT welcomes the opportunity to submit a response to this inquiry. This response has been developed by SMMT in consultation with its membership. We support the Committee in looking at taxes and charges on road users in the UK and look forward to its final report and timely Government action on this issue.

1.3 To summarise our response:

- Fiscal measures have an important role to play in raising revenue and reducing the environmental impact of road use. However, Government needs to be clearer on its environmental and revenue policy aims for motoring taxes, their cumulative cost impact on motorists and actual environmental gains secured.
- The main driver for lower carbon vehicle technology entering the market will be the forthcoming EU regulation on CO_2 emissions from new passenger cars. Motoring taxation should support, not hinder fleet renewal so that lower carbon choices across all car types continue to enter the market at increasing rates, supporting the industry in meeting its obligation and Government in reducing CO_2 from road transport.
- SMMT believes the current system requires a more coherent approach based on use rather than ownership. It does not differentiate between business types, income households and personal needs.
- Road pricing could be a valid option if it recognises differences such as time, place, vehicle type, and user. Other factors such as emissions can be considered if there is consistency and clarity.
- In summary, SMMT supports a clear, focussed, consistent and stable system of taxes and charges on road users.

2. Questions

1—*What taxes and charges are currently paid to government by road users, how much revenue do they raise and how does this compare with national and local government expenditure on the roads network and ancillary services?*

Motoring taxes and charges represent a significant revenue stream, accounting up to 10% of all revenue raised by the Government. The main taxes in terms of revenue are Fuel Duty and Vehicle Excise Duty (VED). The revenues obtained for these duties account for £31.8 billion. Tax receipts from VED and fuel duties are expected to stabilise at about 5.5% of all current receipts, down from a peak share at the turn of the decade. Details on the main motoring tax receipts and all receipts are given in the table below.

Table 1

TAX RECEIPTS £S BN—FUEL & VEHICLE EXCISE DUTIES & ALL RECEIPTS

financial years £bn	*Fuel & VED Duties £bn*	*All current receipts £bn*	*Fuel & VED % share of all receipts*
1998–99	26.3	335.9	7.8%
2000–01	26.9	383.0	7.0%
2005–06	28.5	486.1	6.0%
2006–07	28.7	519.7	5.5%
2007–08	30.5	549.9	5.5%
2008–09	31.8	575.2	5.5%

Figures 2006–07 to 2008–09 from Budget 2008

Other sources of revenue are VAT on Fuel Duty at about £9 billion and income tax from company vehicles at £2.5 billion. The use of roads and parking facilities, namely toll charges, congestion charges and public and private parking charges, also bring about a significant amount of revenue.

Details on how revenue compares with expenditure on the roads network and ancillary services are produced and collated by the Department for Transport and its agencies, primarily the Highways Agency.

Road transport pays more in taxes and charges than is currently used to cover infrastructure costs. Although expenditure is increasing modestly the total spend on transport sits at about half of revenue raised from transport taxes, remaining substantially below that collected from taxes on motoring. This disproportionate approach should be addressed.

2—*What is the impact of the current charging regime on individuals, businesses and the economy?*

Mobility is a key driver of business competitiveness and individuals' right to achieve personal freedom. The current regime imposes a charge on fuel and vehicle ownership whilst disregarding the actual use of the vehicle. With that as a premise, we see motoring taxes and charges as having in some cases a regressive and distributional effect on the society, because household incomes, personal circumstances and business needs are not taken into account. Careful consideration is hence needed when deciding about further increases in the costs of transport to prevent them from having a negative impact on accessibility and ultimately quality of life.

Recent changes to VED announced in Budget 2008 will result in significant cost rises for many motorists with limited environmental benefit. These measures are likely to distort buying behaviour and decrease residual values at a time when many household budgets and the automotive market are already under pressure. SMMT believes that plans for a new "First Year Rate" for VED from 2010–11 should be abandoned and the impact of VED rises and retrospective rebanding from 2009–10, which significantly increase motoring costs for families and lower income groups, should be mitigated.

3—*Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents, and CO_2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?*

SMMT recognises the benefits and costs of road transport. The European Automobile Manufacturers' Association (ACEA) concluded in its discussion paper "The internalisation of external costs in the transportation system" that "road users effectively pay the costs they engender"[53]. The RAC Foundation report "Roads and Reality" also confirmed that view[54]. Whilst costs are commonly attributed to road transport, it also gives rise to a multitude of external benefits. The external costs have to be set against the external benefits of the transport mode, for instance, mobility improves the distribution of labour, increases productivity and leads to more growth, income and employment.

All of the advantages and disadvantages of full internalisation are dependent on the reinvestment or hypothecation of the funding generated from it.

Pressures on modes and real transport choices need to be considered, as do the employee/employer and wider needs of society.

Looking ahead to 2012–15 and 2020, the EU new car CO_2 regulation currently under negotiation in Brussels will set challenging targets for vehicle manufacturers. The automotive industry acknowledges the importance of environmental protection in relation to the manufacture and use of its products and recognises the need to balance economic progress with environmental care and social responsibility. More particularly, vehicle manufacturers are committed to bringing ever lower CO_2 emitting models to the UK market. SMMT supports a move towards a more linear system of CO_2 based VED, but it has to be effective in sending consistent and long-term signals to the market. To work effectively as a green tax and be credible in the eye of the buyer and supplier, such a regime has to be clear, predictable and fair. It must give consumers and manufacturers sufficient time to plan and adapt and be reinforced by a sound communications strategy on the rationale for change.

[53] *The internalisation of external costs in the transportation system*, Discussion paper, ACEA http://www.iru.org/index/cms-filesystem-action?file=PPP/ACEA_discussion_paper.pdf (December 2007)

[54] *Motoring Towards 2050—Roads and Reality*, RAC Foundation http://www.racfoundation.org/files/Main%20document.pdf (December 2007)

4—*Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social and environmental impact of transport, or some combination of these?*

Primarily, taxes and charges on motorists should be spend on maintenance, extension and improvements on the road network and ancillary services. However, social costs arising from the use of vehicles must be covered when these costs are proven attributable to road transport and not due to other factors.

5—*Does the current system have different impacts on different categories of road user? If so, is this fair?*

Please see answer to question 2.

6—*What alternative methods of charging for road use are available, such as road pricing in town and city centres and on the national road network, lorry road-user charging schemes, switching charges between fixed charges (such as Vehicle Excise Duty) and variable charges (such as fuel duty)?*

In the UK, there are a plethora of local and national policies which affect the motorist. Recently we have seen a proliferation of local transport policies and proposals for pricing which will require a coherent and integrated approach to road pricing if it is to work and make sense to road users.

Replacing the current approach with a user-charge based approach would be more effective in providing clearer signals to road users about the marginal cost of individual journeys. This would discourage low-value journeys and hence would have an impact on congestion. However, road pricing cannot be seen in isolation and it must be accompanied by a range of measures for it to be effective and viable (ie development of public transport to provide alternatives, linkage with land use planning, investment to add capacity, etc).

The Lorry Road User Charging (LRUC), intended to level the playing field with foreign hauliers, would have also contributed to differentiate between essential and non-essential users of the roads. However, the LRUC was discarded by the Government in 2005 following a Transport Select Committee inquiry into Road pricing.[55] It was found to be overly complicated and costly. No other scheme has been devised in its place.

Fuel duty has a direct effect on vehicle use as people tend to reduce their vehicle use when pump prices raise substantially. However, this is a blunt, untargeted instrument and, as such, it has undesirable social effects affecting people on lower incomes the most.

As a non pricing option, SMMT advocates the Integrated Approach, that is, behavioural changes and also other measures such as eco-driving, consumer information, gear-shift indicators, etc.

7—*Should foreign-registered vehicles pay for access to the UK's roads and if so, how? How closely enforced are the rules governing re-registration of foreign-registered vehicles which are brought permanently the UK and the consequent liability for VED?*

There is an increasing number of foreign vehicles that operate almost entirely on diesel purchased in mainland Europe—where duty levels are considerably lower—and are not subject to any road tolls or levies. As aforementioned, this situation puts them at a competitive advantage vis-à-vis British hauliers.

The Government announced in the Budget 2008 that the vignette (data-base) scheme would not be implemented. Although the *Freight Data Feasibility Study*[56] concluded that a vignette scheme would give a data base robust enough to target "non-compliant foreign operators" vehicles in a similar manner to those of UK operators', the case for "was not compelling". Financial, legal, practical and enforcement issues render it poor value for money. The eventual business case was influenced far more by the revenue raised than any other benefit.

3. Recommendations and Further Information

There have been substantial changes to fuel and vehicle taxation in recent years. Most of the changes have been prompted by environmental concerns and have been designed to guide the purchase and use of motor vehicles. The industry firmly believes that there needs to be greater certainty and information available to motor vehicle users'.

A period of thorough review is needed to assess the impact of the measures currently in place, identify areas of overlapping and deliver a more integral policy. All measures should have sound impact assessments and not be politically motivated.

September 2008

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[55] Government's response to the Transport Select Committee's report, *Road pricing: The next steps* http://www.official-documents.gov.uk/document/cm65/6560/6560.pdf (July 2005)

[56] *Freight Data Feasibility Study*, http://www.dft.gov.uk/pgr/freight/road/feasibilitystudyfinal.pdf (April 2008)

Memorandum from Campaign to Protect Rural England (CPRE) (TAX 34)

Summary

— The Campaign to Protect Rural England (CPRE) believes that the environmental and social costs of more road traffic are now exceeding the benefits. While there are special circumstances in more remote rural areas, overall, we believe road users, particularly HGVs, ought to pay more to reflect the increasing environmental and social costs of motor traffic and to help narrow the gap between the cost of motoring and public transport.

— Spending on sustainable modes of transport is not only lower in the UK than comparable European countries but it is also top-down with excessive central control. A greater proportion of revenue from road user taxes and charges needs to go directly to local government and be directed towards accessibility improvements, particularly in rural areas.

— While taxes and charges on road users are the most effective means of reducing environmental and social costs, it is counterproductive to suggest that such charges would be able to cover these costs, due to their complexity and incommensurability.

— Therefore there should be lower speed limits in town and country and better routing of vehicles combined with greater enforcement against driving and vehicle contraventions rather than attempting to make all drivers pay for the external costs currently incurred.

— Reducing private ownership of cars by greater use of car clubs would reduce unnecessary journeys by car and help reclaim public spaces while making it easier for cars to be used, particularly lower emission ones, for the journeys that really need to be made by car. Abolishing or reducing VED would be counterproductive to such an aim.

Introduction

1. CPRE welcomes the opportunity to submit evidence to the Transport Select Committee inquiry into taxes and charges on road users. As a leading environmental NGO, CPRE has worked to promote and protect the beauty, tranquillity and diversity of rural England by encouraging the sustainable use of land and other natural resources since our formation in 1926.

2. CPRE is deeply concerned not just about the direct impacts of transport on rural areas, such as damage to landscape from new roads and to tranquillity from ever growing levels of motor traffic, but also the need to promote accessibility so that the countryside is vibrant as well as beautiful. For example, there is a need to reduce car dependency by protecting local services from closure and exploring new, non-transport means to promote access to essential services. More also needs to be done to ensure people can walk and ride with confidence on country lanes.

3. Increasing taxes and charges on road users has been shown to be the most effective way of reducing motor traffic and dealing with the external costs.[57] Indeed it is notable that the recent increases in the price of fuel had a greater effect on motor traffic than all the other policies and initiatives combined. However, any increases must be carried out fairly and with regard to the special circumstances of those living in rural areas, and communicated well to carry the motoring public with it.

4. CPRE has been disturbed at the increasing tendency to try to monetise everything, whether at the macro level in terms of the Benefit Cost Ratios of a major transport scheme, or at the micro level in terms of attempting to ensure that a road user pays the full cost to society of their journey. The more complex and the greater number of the effects being turned into a simple number, the greater the inaccuracy and lack of transparency of the decision-making process.

External Costs

Climate change

5. Given the uncertainty of the nature, severity and timing of climate change, trying to put a value onto CO_2 emissions is particularly difficult. However, putting a fixed value on carbon is untenable as such values are predicated on certain carbon reduction pathways, eg 60% by 2050, which such fixed carbon pricing is most unlikely to lead to. There are strong arguments in favour of moving to a cap and trade system, such as by bringing road transport fuels within the EU Emissions Trading System[58] that would lead to carbon

[57] p.33, Marshall & Bannister (Ed.), *Land Use and Transport: European Research towards Integrated Policies*, Elsevier, 2007
[58] IPPR, *Tailpipe Trading—How to include road transport in the EU Emissions Trading Scheme*, 2006

having a dynamic value for transport uses. If this is unlikely to happen in the near future then there needs to be consideration of alternative ways of adding a more realistic carbon cost to fuel duty, ie a dynamic value that responds to progress or rather lack of it in reducing greenhouse gas emissions.

Noise pollution

6. Research by CPRE on rural tranquillity[59] has revealed that the noise of motor traffic was the most important factor detracting from tranquillity for most people. The impact on health of such noise is becoming increasingly apparent and noise maps have recently been published for urban but not rural areas.

Congestion

7. Estimating the cost of congestion is problematic as congestion itself is the major restraint on further motor traffic growth. Furthermore, congestion is usually calculated in terms of delay per motor vehicle, ignoring the difference in numbers of people travelling on a fully loaded bus and an empty taxi looking for a fare. Unpredictability of journey times is, we believe, a more important concern.

Collisions

8. The financial cost of road traffic collisions is primarily the congestion and disruption to reliability of journey times, the cost to the NHS and lost labour. There needs to be more claw back by the NHS of the costs imposed on it from such events, which would feed back into insurance premiums, as claims for personal injury and lost income already do. The cost of congestion caused by collisions is difficult to apportion precisely. It would be both fairer and more effective to increase enforcement against speeding and dangerous, careless and inconsiderate driving such that only deviant drivers would pay more, albeit in fines.

Fear of collisions/Severance/Intimidation

9. Just as fear of crime can be of greater consequence that crime itself, so fear of collisions can cause even more damage than the collisions themselves. This leads to people not feeling safe enough to cross a road or to walk, cycle or ride along it, even to people having fewer friends.[60] CPRE has produced research on the issue of motor traffic intimidation[61] and there have been attempts to monetise the costs in some countries.[62] Costs include longer journeys, lack of exercise with resultant costs to society of greater rates of obesity and greater congestion as people may be too scared to use active modes of travel, for example parents driving children to school rather than letting them walk or cycle alone.

10. Guidance on improving conditions for walking and cycling[63] states that reducing the volumes and speeds of motor traffic are the two most important interventions to promote them. While drivers often assert that they should not have to pay more until public transport is improved, research shows that cycling has the greatest potential as a substitute for driving trips[64]: leadership is needed in this area if we are to move forward.

Spatial efficiency

11. As more people in a community drive, their average journey length increases: it can be just as easy if not easier to go to the supermarket rather than the local shop. As catchment areas increase, there is greater centralisation and local services close. While those without access to cars suffer particularly, everyone loses from having no choice but to travel further.[65] The resilience of and social value in communities are decreased. While it is difficult to quantify the resultant changes in monetary terms, this does not mean that such changes should be overlooked.

Taxes vs. limits

12. Rather than trying to guess values of green taxes and then let the "invisible hand" do its work, CPRE believes it is better to set targets to reduce external costs that take account of environmental limits and social justice. An integrated set of policies is needed to meet such targets. Road user taxes and charges will be an important, if not the, key element of such a package.

[59] Newcastle University, *Tranquility Mapping: Developing a Robust Methodology for Planning Support*, CPRE, 2008
[60] Hart, No Friends? Blame the traffic, UWE, 2008
[61] CPRE, *Rural Traffic Fear Survey*, 1999
[62] DfT, *Understanding Community Severance II: Monetisation of Severance Impacts*, 2006
[63] See the hierarchies of provision in Table 3.6 of DfT, *Local Transport Note 1/04 (Draft): Policy, Planning and Design for Walking and Cycling*, 2004
[64] Socialdata/Sustrans, *Sustainable Transport Demonstration Towns*, 2005
[65] CPRE, *The Proximity Principle*, 2008

Enforcement

13. Different road users impose different levels of external costs. For example: speeding drivers cause disproportionate amounts of noise and collisions; drivers disobeying pedestrian zone signs;[66] badly tuned engines spew out air pollution; faulty vehicles are more likely to be involved in collisions, while faulty or non-approved silencers are especially noisy.

14. Just as it is inequitable for law-abiding drivers to have to pay extra on their insurance to compensate for uninsured drivers, it would be unfair to expect all drivers to pay equally for noise, accident and localised air pollution costs, when some drivers who break the law cause a disproportionate amount of such effects. Enforcement in these matters seems currently to be a low priority, despite the significant costs to society and the environment that result from this failure. CPRE believes such enforcement needs to be stepped up significantly and would be an easy way to reduce the damage.[67]

Types of Taxation

15. Any system of road user taxation must deal with the "rebound effect". As motor vehicles become more efficient, then it will become cheaper to drive and so driving lengths are likely to become longer. A similar situation applies with congestion charging: unless the charge is increased, the congestion benefits will be reduced as more drivers can afford to take advantage of the increased amount of road space. The fact that the incomes of higher earners have been rising faster than inflation is another factor.

Fuel duty

16. While fuel duty has been much maligned, the reality is that a fixed tax on a litre of fuel has stabilised fuel prices and helped businesses cope with the unpredictable changes in fuel price. Attempting to go further to stabilise the price of fuel would not work and is based on the incorrect notion that short term variability is more of an issue than long term trends in the price of oil due to growing demand elsewhere in the world and the peaking of supply in many oil fields. The short term benefits to some that would accrue from lowering fuel duty would be massively outweighed by the costs to society of becoming ever more dependent on and locked in to oil intensive transport and patterns of land use.

17. Motor fuel is much more expensive in rural areas and ways to lower fuel duty to ensure that fuel is at least as cheap as in urban areas should be looked into. CPRE supports[68] an increase in fuel duty, such as a return to the fuel duty escalator, particularly with the proposed reductions in CO_2 g/km of new cars that would otherwise lead to greater growth in motor traffic. It is often said that fuel duty fails to distinguish between congested and free-flowing roads, but, this ignores the wider impacts of driving set out above. More should be done, however, to ensure that the revenue raised is used to improve public transport, as well as conditions for walking and cycling.[69]

Vehicle Excise Duty

18. Much of the recent public debate about VED has been confused with suggestions that proposals to increase VED are "retrospective" or involve "backdating". Increases in council tax apply to people irrespective of when they moved home or indeed their home was built: it makes as little sense to describe council tax as being retrospective as VED. No one would seriously suggest applying changes to local taxation only to new home owners and it is a good indication as to how distorted this debate has become that they this suggestion is made in relation to drivers. Keeping a particular motor vehicle is a choice that can and should be influenced by the taxation system as much as buying a new (or second hand) vehicle. The positive effects of VED changes will be limited if they only apply to new vehicles.

19. CPRE believes that there is a need to end the growth in ownership of motor vehicles per capita and that changing VED is a key way to achieve this. However, along with sticks there must be carrots. We recognise that, even outside rural areas, some journeys are best made by car. While there are increasing numbers of urban car clubs, there are only a few car clubs in rural areas. We believe that there should be changes in the tax system to encourage people to offer up their cars for use in car clubs in rural areas, such as through the CommonWheels scheme, which involves the installation of an ITSO Smartcard compliant device in a car. Lower-income rural residents who have a demonstrable need for vehicles such as Land Rovers should have a reduced VED rate.

20. A single car club car can take up to 10 cars off the road and members who previously owned a car reduce their mileage by up to 50%.[70] Car clubs can offer a range of vehicle sizes, enabling users to downsize to the smallest appropriate vehicle for their particular trip, while making the latest efficient technologies such as hybrids available to those who would otherwise be able to afford a new car let alone a more expensive one.

[66] Although powers for effective enforcement of such signed restrictions were included in Schedule 7 of the Traffic Management Act 2004, the relevant part has still not been brought into force.
[67] pp 38–40, Taylor, Newsom, Anable & Sloman, *Traffic Noise in Rural Areas*, Transport for Quality of Life, 2008
[68] CPRE, *Road Transport Demand Management*, 2006
[69] CPRE joined 70 other organisations in April 2008 to call for 10% of transport spending to go on walking and cycling.
[70] Carplus national car club member survey, 2008 www.carplus.org.uk/carclubs/env-bens.htm

Congestion charging

21. While generally supportive CPRE is concerned about the potential impact of road charging on rural areas, an issue explored in a new think piece by the Commission for Rural Communities.[71] This is very helpful in drawing attention to the complexity of first and second order effects means that any proposal needs carefully worked out and to be rural proofed.

Lorry charging

22. CPRE is disappointed by the continuing failure of the Government to implement a national lorry road user charging scheme, despite the updating of the Eurovignette Directive and the benefits that such a scheme would produce.[72]

Car parking charges

23. Restraint of car parking has proved a particularly effective tool in terms of managing demand and helps reduce spatial inefficiency: in other words by reducing sprawl, there is less need to travel.[73] CPRE believes that local authorities should be given the power to introduce taxes on large private car parks, for example of retail parks. Further, there should be greater flexibility to use revenue to improve accessibility, whether providing Demand Responsive Freight Transport for local shoppers or even supporting local services such as post offices.

24. Charges in residential Controlled Parking Zones (CPZs) are based on the administrative cost of permits and do not take into account the value of the land used, or the opportunity cost. For example, one of the most reported reasons for being unable to implement sections of the London Cycle Network is the space now taken up by parked cars.[74] Further evidence is emerging that children in Nuremburg who live in Home Zones and streets with fewer cars are a couple of years more developed compared to those living in streets with higher traffic flows. CPZ and other charges ought to be increased to take account of the indirect costs of parking, particularly where car clubs exist. Local authorities ought to be encouraged to make more use of their powers to raise revenue to make better use of transport capital funding.

Purpose of Taxes

25. The idea that taxes on road users should only go towards the costs of the road network and ancillary services is one grounded in the thinking of the inter-war period before the Road Fund was abolished in the 1930s Now, with the general acceptance of the polluter pays principle, it is one which is very out of date.

26. While understanding of the environmental costs of motor use is increasingly well understood, social costs such as severance and spatial inefficiency are not. While full hypothecation of increased revenue may be too much of a straight jacket, there should be increased spending on accessibility. Accessibility rather than mobility, as the former embraces supporting local services like post offices and village primary schools, to reduce the need to travel in the first place, and as it focuses on social need more than Benefit Costs Ratios which can disadvantage schemes in rural areas.

27. A problem with public acceptability of taxes and charges on road users is that money is seen as being taken by the Treasury to spend where it likes. It is true that there is dislike of parking charges that are taken by local councils but at least local people have some means to influence local policies and know that money will be recycled back into the local community.

28. A fundamental problem with transport funding is that it is skewed towards capital rather than revenue schemes. This results in a bias towards infrastructure over support of services or “soft” measures which is the biggest impediment to improving local transport.[75]

Impacts of Taxes

29. It is relatively easy to work out how much money one might save immediately after a particular road user tax or charge being changed or abolished. It is much harder to work out the effects over the short let alone medium term of such changes, particularly as reducing such taxation, all other things being equal, will lead to less spending or less taxation elsewhere. If the calls of the motoring lobby and businesses to reduce road taxes had been heeded, CPRE believes the country would be in a much worse position, with greater congestion and car dependency.

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71 Commission for Rural Communities, *The Potential Impacts of Road Pricing on Rural Areas*, 2008
72 For example see: MDS Transmodal, *Impact of Road Pricing on Freight Transport in Great Britain*, Transport 2000, 2007
73 See footnote 8
74 London Cycle Network, *Annual Report 2007*
75 Figure 8.1 in Atkins, *Long Term Process and Impact Evaluation of the Local Transport Plan Policy*, DfT, 2007

Key Recommendations

1) Swift incorporation of Eurovignette based charging of HGVs on all roads.

2) Increase VED, focussing on least efficient vehicles, combined with reductions for cars converted into car club vehicles in rural areas, to encourage reduction in car ownership while increasing access.

3) Greater enforcement against bad drivers and vehicles so that law abiding drivers are not penalised through the tax system for the behaviour of others, nor indeed the public forced to pick up the social and environmental costs.

4) Pressure on the EU to include transport within Emissions Trading Scheme and develop a back-up option in case this does not happen soon.

5) Expand workplace parking charge powers to cover retail and other large car parks.

6) Better communication and use of green taxes, including funding accessibility (rather than just transport) improvements.

September 2008

Memorandum from the Local Government Association (LGA) (TAX 35)

The Local Government Association (LGA) represents over 400 councils in England and Wales. The LGA exists to promote better local government. We work with and for our member authorities to realise a shared vision of local government that enables local people to shape a distinctive and better future for their locality and its communities. We aim to put local councils at the heart of the drive to improve public services and to work with government to ensure that the policy, legislative and financial context in which they operate, supports that objective.

Introduction

— The LGA welcomes the opportunity to submit evidence to the Committee's inquiry into road taxes, however, we are clear that this inquiry needs to be in the context of a larger debate on what we are trying to achieve from transport policy and spending. Road taxation alone will not produce a more intelligent transport system.

— Any discussion on road taxes and charges needs to take place against a wider understanding of the challenges we face in delivering integrated transport networks required to support economic growth, tackle climate change and deliver better access to services. Per capita spending on public transport is significantly lower in the UK than in other European cities and there is considerable disparity within the UK in levels of investment in London and the rest of the country. Many European cities have excellent public transport systems without road pricing. We need to look at examples from overseas and consider specific changes to investment policy required to deliver integrated transport systems.

— The LGA believes that road pricing has the potential to contribute to significant reductions in congestion and vehicle emissions in our cities, but only if it is part of an effective integrated transport system and preceded by upfront investment in public transport.

— Ministers have made it clear that they are looking to local government to initiate local road pricing schemes and that a national road pricing scheme is not being contemplated in the foreseeable future.

— For road pricing to be acceptable locally, it cannot be, or be perceived to be, a revenue raising exercise. Any scheme must have clearly visible pay-offs for road users, in terms of faster journeys brought about by reduced levels of congestion and better local transport alternatives.

— Any road pricing scheme must demonstrate—and achieve—clear benefits for communities and road users in particular. This requires an ability to understand, communicate and adapt in response to specifically local circumstances and sufficient powers and funds to implement the necessary measures needed for the wider integrated transport package into which any pricing scheme must fit.

— Local government is willing to take forward local road pricing schemes and are developing plans in areas of greatest transport pressure to cut congestion and improve the environment. But as every area is different any road pricing proposals must be carefully designed to fit in with local circumstances and priorities.

— To pursue road pricing initiatives seriously, central government needs to reconsider the scale of funding it has on offer through the Transport Innovation Fund, and also empower councils to develop innovative funding mechanisms to allow them to develop integrated transport plans. It also needs to clear away any roadblocks that could prevent local authorities using the revenues from road pricing to invest in local infrastructure and tackle local problems such as congestion and pollution.

What taxes and charges are currently paid to government by road users, how much revenue do they raise and how does this compare with national and local government expenditure on the roads network and ancillary services?

1. A satisfactory answer to this question will require further research to fully evaluate the cost of road use, including, but not limited to direct costs of highways maintenance and policing of the road network, depreciation of the asset value of the road network and the cost of investment capital. It also needs to consider external costs, in particular the economic, environmental, health and wider social impacts such as congestion, air and noise pollution, impact on nature and landscape and accidents caused by motorists.

Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents and CO_2 emissions? Would it be desirable for them to do so and, if so, how would this be achieved?

2. Any road journey has wider consequences for other motorists and those in the wider community. These consequences come in the form of congestion, pollution, road accidents, and damage to infrastructure amongst others.

3. At the moment these externalities are not factored into the cost of a journey to the motorist meaning that the costs resulting from road use are far greater than the amount of revenue taken from road users through fuel duty, taxation etc.

4. To adhere to one of the key principles of sustainable development, transport users should pay the real economic, environmental and social costs of their journeys and the motorist must be made aware of what these costs are. The LGA supports these ideas.

5. Trying to determine the external costs of road use in monetary terms is difficult, as some (such as the costs to health and the environment) are not directly identifiable. As stated above, we recommend that further detailed analysis on this issue is required. The European Commission has been working on a model for assessing the costs of transport and we have used this to estimate the costs of road usage to the UK economy.[76]

6. Using this model and combining it with 2005 UK traffic models would imply that congestion, pollution and climate change costs caused by cars and light vans fall somewhere in the range of £9 billion to £46 billion a year with the actual cost likely to fall somewhere in the middle of these parameters at about £20 billion.

7. These estimates do not include the direct costs of road use, namely maintenance and policing, which have been estimated at £3.9 billion annually.

8. In addition we must add a cost representing the depreciation of the asset value of the road network and the resultant cost of investment capital. While this is difficult to define in monetary terms a value of £7 billion annually has been suggested in an academic study on financing of roads.[77]

9. Taking these costs into account, and that motorists pay an approximate total of £21 billion in Fuel Duty and VED, we can suggest that there are unfunded costs of about £10billion for current road use.

10. As part of their work on the issue of infrastructure deterioration the ALARM survey 2008 shows that the average shortfall per local authority for maintenance of roads is £7.5 million per annum, which is around 50% of the budget required. Local authorities are not receiving the funding they need to deal with deteriorating infrastructure under the current system.

11. As above, to adhere to the key principles of sustainable development, transport users should pay the real economic costs of their journeys and the motorist must be made aware of what these costs are.

12. Fuel duty payments by urban car users are in very many cases not covering the external costs they impose through pollution, congestion and depreciation. As congestion, where it is experienced, is by far the greatest economic cost of travel, it is particularly in congested urban areas that road users are not covering the costs of their journeys through the payments they make.

13. The logical conclusion to this is that driving in heavily congested areas at peak times should cost more as a result of the heavy external costs, particularly through congestion, that result. This principle is similar to that whereby people using electricity, for example, pay more to do so at peak times. This is not, however, an argument for penalising motorists as many of the costs associated with congestion directly affect the motorists themselves.

14. Road pricing is about choice, and it is for this reason that any scheme must come on the back of an investment and improvement in public transport infrastructures before a road pricing scheme is introduced that will allow potential motorists a genuine, realistic choice as to whether or not they use their cars as opposed to another mode of transport.

[76] LGA 2007 *"Breaking the Gridlock—moving the road pricing debate forward"*

[77] Newberry 1998: *fair and Efficient Pricing and Finance of Roads*, Dept of Applied Economics, Cambridge University, May 1998

15. Furthermore, to ensure public acceptance of a road pricing scheme, it must be demonstrable that revenues raised are being ploughed back into the transport infrastructure to further improve the facilities in the locality. This has been shown in London, where the congestion charge has been accepted by the public on the proviso that clear benefits to the city's transport system are visible.

16. To provide better transport options before a road pricing initiative begins, and to use the resultant revenues from the initiative will require the development of a comprehensive integrated transport packages that clearly relate to the needs of a locality and how those needs can, and will, be best addressed by the creation of a road pricing initiative.

Should the primary purpose of taxes and charges be to raise revenue to cover the cost of the road network, to reduce traffic and congestion, to minimise social and environmental impacts of transport, or some combination of these?

17. The LGA believes that the primary purposes of any road pricing scheme must be to benefit road users by reducing congestion as well as benefiting communities by reducing pollution and emissions. The specifics of creating these benefits will vary from area to area, depending on specifically local issues.

18. Any road pricing scheme must be part of a wider focus on creating a sustainable transport infrastructure which offers car users a genuine, realistic choice as to how they should travel. This will require substantial investments in infrastructure prior to a road pricing scheme being initiated to demonstrate to car users that the scheme is more than just a revenue exercise but part of a long term strategy to combat congestion and emissions.

19. Local authorities must be sure that the measures they understand to be necessary to implement a pricing scheme can be funded, in particular the vital investment needed before a charging scheme begins. This is key to gaining public acceptance of such schemes.

20. It is vital that, once a road pricing initiative is in effect, the revenues raised are used in the most constructive ways for the benefit of communities and transport users. This will involve choice at a local level.

21. This will mean that local authorities will need to have certainty about long-term access to the revenues received from a charging scheme as well as understanding of how they are permitted to use these.

22. Local authorities need the powers to use revenues for the benefit of their communities. Present commitments allow local authorities to keep the proceeds of a road pricing scheme for 10 years only. This is insufficient, and raises uncertainties as to the availability of funding for long term transport strategies.

23. Furthermore, under current Transport Innovation Fund (TIF) rules there is a prohibition on local authorities using road pricing revenue directly to secure borrowing. This constitutes a major barrier to unlocking the economic benefits of road pricing and allowing authorities to tackle congestion and invest in local transport, and must be removed.

Does the current system have different impacts on different road users? If so, is this fair?

24. As stated in paragraphs 11 and 12, many urban road users are failing to cover the external costs of the journeys they are making in congested areas at peak times. Costs of car journeys in rural areas are far lower, especially in non-peak times. Under the current system, all drivers pay equal amounts of fuel duty regardless of the costs of their journey. This is clearly not a fair and equitable system.

25. The tenets of sustainable development, backed by the conclusions of the Eddington Transport Study (2005), suggest that transport users should pay the real economic costs of their journeys and the motorist must be made aware of what these costs are.

What alternative methods for charging for road use are available?

26. Fuel duty, which correlates closely with the amount of travel a motorist undertakes, is the most obvious alternative to road pricing. However under the current system, the size of the gap between tax paid and external costs incurred will depend on when and where the journey is taking place, with costs at peak times in congested urban areas having a far higher cost. One suggestion is that rates of fuel duty should vary according to area type. However, it would not be possible to prevent fuel being purchased at a "low duty" rural location and then used in "high duty" urban locations. This is therefore not a fair and legitimate alternative to road pricing.

27. Other methods of demand management, such as parking charges or restrictions or work place parking levies could offer a more realistic ways of tackling congestion and raising revenue to off-set costs of road use. Many councils have already implemented controlled parking schemes and in one case, proposals have been developed for a work place parking levy (Nottingham). However, the equity and effectiveness of such schemes are limited because they cannot affect people parking at home addresses or other private parking facilities.

28. A further alternative is London's low emission zone scheme, under which vehicles failing to meet certain emissions standards are charged for diving within the zone. This could offer an alternative means of off-setting the environmental costs of and improving the environmental performance of the most polluting road users. However may be of use as part of a package of measures rather than as a comprehensive way of dealing with the costs of road use.

Should foreign-registered vehicles pay for access to the U.K.'s roads and if so, how? How closely enforced are the rules governing re-registration of foreign-registered vehicles which are brought permanently the U.K and the consequent liability for VED?

29. It is right that foreign registered vehicles should pay for the costs of using roads in the UK and this should be consistent with the way that other road users are charged. If a local road pricing scheme is in place, foreign registered vehicles should also be required to pay that charge.

September 2008

Memorandum from the UK Petroleum Industry Association (TAX 36)

The UK Petroleum Industry Association (UKPIA) represents nine companies engaged in oil refining and marketing in the UK. Our member companies supply most of the transport fuels and other oil related products used in the UK. As such, we have an interest particularly in the topic of taxes on road users as a significant proportion of the revenue raised from road users is collected by our member companies from duty on fuel and the associated VAT.

RESPONSES TO QUESTIONS POSED BY THE SELECT COMMITTEE

Q1 *What taxes and charges are currently paid to government by road users; how much revenue do they raise and how does this compare with national and local government expenditure on the roads network and ancillary services?*

— Revenue from road fuel duty and associated VAT amounted to £30.8 billion in 2006–07 and this represented 68% of the total £45 billion in tax revenue raised from road users from duty on fuel and Vehicle Excise Duty. (Source: National Statistics/DfT Transport Statistics GB 2007)

— Of the £45 billion total above, the amount spent on the road transport network was £7.5 billion in 2006–07 (17%) (Source: National Statistics/DfT Transport Statistics GB 2007)

Q3 *Do the taxes and charges paid by motorists capture the external costs of road use*

— The UK road network brings considerable economic and social benefits. The UK has little hypothecation of tax revenues. Taxes on road users represent an important contribution to general revenue and as such should adequately cover what might be regarded as the external costs associated with road use.

Q4 *Should the primary purpose of taxes and charges be to raise revenue to cover the costs of the road network or to reduce traffic and congestion etc*

— As with funding of the rail network, there will be a range of opinions as to the proportion of the capital and operating cost of the various networks that should be funded by charges or taxation on users as opposed to funding from central funds.

— Fuel duty and VAT are the main taxes on road users in terms of revenue raised. Excluding tax, pump prices of for road fuels in the UK have consistently been amongst the cheapest in the EU for many years. Fuel duty and VAT charged on road fuel represents a significant proportion of the total cost that the consumer pays at the pump (between 60% to 70%+ in recent years).

— The level of fuel duty is a matter for government. However, fuel duty could be regarded as having a direct marginal cost impact on the consumer as the cost is directly linked to the fuel consumption of their vehicle as well as the frequency of use. As such it could be an influencing factor on car use as most surveys indicate that motorists regard fixed costs such as purchase, insurance, VED and depreciation as "sunk costs".

— It is comparatively simple to administer and little of the collection cost falls on government. The downside is that fuel duty is not a "progressive" tax or indeed one that distinguishes between road users who may have alternatives such as public transport and those who do not.

— The Government has set a challenging target for the UK to reduce its emissions of carbon dioxide in 2050 to 60% of the 1990 level, with reductions coming from across all sectors. For road transport, the contribution is expected to be two to four million tonnes carbon/year by 2020,or about 5–10% of expected emissions, to be derived largely from a combination of improved vehicle efficiency, biofuels and a modest change in consumer behaviour. Taxes and charges on motorists can be used in a number of ways to help achieve policy objectives and influence behavioural change but there should be demonstrable benefits for consumers from doing so.

— However, it is vital that there is adequate warning, clear direction and consistency of approach in the application of tax policy upon road users, whether this be at the point when vehicle purchase decisions are made or when the vehicle is used on the road.

— The road network in the UK is essential to the efficient running of the economy, as well as providing social benefits and freedom derived from greater mobility. Road congestion is partly a product of an expanding population in a comparatively small country combined with greater economic prosperity. Given that further significant expansion in the road network is unlikely or indeed desirable for quality of life, key policy challenges for government remain more efficient use of the current road network, encouragement of modal shifts by provision of viable alternatives and measures to encourage higher levels of car occupancy on heavily congested roads at peak times.

— Encouraging a shift in transport mode will require public transport alternatives that are more attractive to consumers in terms of cost and convenience. In real terms motoring costs have reduced by 2.4% in the last five years whilst bus and rail charges have increased by 1.8% (source: CFIT) but motorists value the convenience of car travel.

— Congestion is closely linked to demographics, GDP growth and planning considerations. The latter can be influenced in part by better integrated policies linking proximity to home, work and shops, although the problems in many towns are inherited over decades. Solutions tend to be long term in nature.

Q5 *What alternative methods of charging for road use are available, such as road pricing or lorry road user charging?*

— Although congestion charging is a possibility on the busiest of roads, this is likely only to redistribute demand during the day, or on to other routes, rather than reducing overall demand for travel, which is relatively inelastic. The upfront capital costs are considerable.

— The UK is virtually alone amongst major W European countries, with the exception of Switzerland, in charging the same rate of duty upon petrol and diesel. For some years this has been a major concern for UK road hauliers who argue that this puts them at a competitive disadvantage to hauliers based on the continent.

— Over the last six years, a number of possible solutions have been examined, including a lorry road user charge applicable to all lorries using UK roads and a reduced rate of duty on a "marked" diesel for qualifying heavy goods vehicles.

— A separate marked grade of diesel on UK forecourts is not feasible given the limited flexibility of underground tank storage at filling stations, the existing considerable demands upon the fuel distribution network associated with biofuel distribution and the scope for fraud.

Q6 *Should foreign registered vehicles pay for access to the UK's roads*

— The VED for heavy goods vehicles in the UK is partly based upon the assessment of the higher rate of wear and tear upon the road network although this is not related to the amount of use or mileage.

— It would seem logical that HGVs wherever registered should make a contribution to UK the upkeep of the UK's road network.

Thank you for the opportunity to contribute to this important debate.

September 2008

Memorandum from Transport for London (TfL) (TAX 37)

1. Introduction

1.1 Transport for London (TfL) welcomes the opportunity to contribute to the Committee's inquiry into taxes and charges on road users. This memorandum is structured in line with the questions that the inquiry is addressing. A primary focus of the memorandum is on TfL's road user charging schemes, examples of which have been operating in London since 2003.

2. Background

2.1 A range of taxes and charges apply to road users. Many of these are set at the national level, such as Vehicle Excise Duty and fuel duty. Some are applied at the local level such as parking charges.

2.2 Some charges fall within the remit of the Mayor and/or TfL. These include:

— licences for taxis and private hire vehicles;

— penalty charge notices; and

— road user charging schemes (Central London Congestion Charging Scheme and London Low Emission Zone).

2.3 The Central London Congestion Charge was introduced in 2003 and was extended westwards in 2007. The charge is intended to act as a financial disincentive to private vehicle travel. The objective is to deter a proportion of less-essential traffic from travelling within the charging zone, such that traffic congestion within the zone is reduced. In this way the remaining traffic benefits from faster and more reliable journeys.

2.4 The charge is only one component of a wider scheme, which includes, for example, improved bus services and a range of complementary transport measures in and around central London.

2.5 TfL has recently consulted on the future of the Western Extension Zone. Options put forward for consultation included removing the Western Extension; keeping it; or changing it. The consultation closed on 5 October 2008. This is a non-statutory consultation and would need to be followed by statutory consultation before any significant changes could be made.

2.6 The London Low Emission Zone scheme is a daily charge designed to encourage operators of heavy diesel-engined vehicles to reduce the impact of vehicle emissions on local air quality. The Low Emission Zone began in February 2008, applying initially to diesel lorries over 12 tonnes. It was extended to all lorries, buses and coaches over 3.5 tonnes in July.

3. Total Costs and Revenues

What taxes and charges are currently paid to government by road users, how much revenue do they raise and how does this compare with national and local government expenditure on the roads network and ancillary services?

3.1 TfL collects the following revenues from road users:

3.2 *Congestion Charging*. In 2007–08, the Congestion Charge raised around £137 million in net revenue. By law, the net revenues from the scheme must be spent on measures to further the Mayor's Transport Strategy. The allocation of this net revenue in 2007–08 from the Congestion Charge in 2006–07 was:

— Bus network improvements: 82%.

— Roads and bridges: 11%.

— Road safety: 5%.

— Walking and cycling: 2%.

3.3 London's experience suggests that hypothecating revenues from charging schemes for reinvestment in the transport system has been vital in promoting public acceptability—as well as to maximise net benefits through the reinvestment of revenues.

3.4 The main aim as highlighted above is to reduce traffic and congestion by deterring some journeys. Currently a relatively high proportion of revenue is raised as a result of Penalty Charge Notices. Efforts have been focused on reducing the number of PCNs issued (eg by introducing a Pay Next Day facility). In the future, further changes, such as the potential introduction of accounts, could also help to minimise the risk of incurring a PCN, reduce compliance costs and help enhance acceptability.

3.5 *London Low Emission zone.* The scheme requires operators of such vehicles in London to meet minimum emissions standards, with the expectation that most vehicles will comply. A daily charge applies to vehicle operators whose vehicles do not comply. The consequence is that revenues from the scheme are not intended to, and will not, offset the costs of implementing and operating the scheme.

3.6 *Taxis and private hire vehicles.* The Public Carriage Office received £18.4 million in 2006–07 from licensing taxis, private hire vehicles and their drivers and operators. The monies received from the licensing of vehicles by the Public Carriage Office do not result in any surplus for TfL but are intended to cover the costs of administration of the various licensing schemes.

3.7 *Penalty Charge Notices*. TfL issued 737,000 penalty charge notices (PCNs) for parking, bus lane and moving traffic violations in 2007–08, producing a gross income of approx £34m (this excludes PCNs issued in relation to Congestion Charging). The purpose of these penalties is to improve compliance with the regulations and so smooth traffic flow, not to raise revenue.

3.8 In 2007–08, TfL's expenditure on Surface Transport totalled £2.561 billion. The £190 million of capital works within that includes the renewal works programme on the Transport for London Road Network (TLRN); safety improvements to bridges and tunnels; developing bus priority systems; improving the Blackwall Tunnel southbound; replacing the Western Avenue Bridge on the A40; implementing walking and cycling initiatives; traffic signal modernisation; and improvements to road safety.

4. Impacts

What is the impact of the current charging regime on individuals, businesses and the economy? Does the current system have different impacts on different categories of road user? If so, is this fair?

4.1 TfL has monitored the impacts of the congestion charge every year. The most recent report, *Central London Congestion Charging: Impacts Monitoring—the Sixth Annual Report*, was published in the summer, as was the baseline report on the Low Emission Zone. These can be found at http://www.tfl.gov.uk/roadusers/congestioncharging/6722.aspx and http://www.tfl.gov.uk/roadusers/lez/about/2027.aspx respectively. Other annual monitoring reports are also published on the TfL website. TfL has also published an ex post quantified evaluation of the impacts of the original scheme at http://www.tfl.gov.uk/assets/downloads/Ex-post-evaluation-of-quantified-impacts-of-original-scheme-07-June.pdf

4.2 Evidence from TfL's monitoring work suggests that the original central London charging scheme removed around 30% of car trips during weekday charging hours, and typically up to 10% of commercial vehicle trips. The impact on traffic which does not pay the charge (eg taxis) was very different. The impact of the western extension was somewhat lower, reflecting the particular characteristics of this zone. There are 70,000 fewer cars entering the original charging zone on an average charging day, and about 30,000 fewer cars entering the Western extension.

4.3 This has led to reductions in congestion of around 30% in the original charging zone (Figure 1 shows the equivalent of this in terms of speeds) and around 20% in the western extension, compared to conditions in the notional absence of the scheme.

4.4 The key comparison here is between the situation "with" and "without" the charge, as shown in Figure 1. Comparing "before" and "after" (as in Figure 2, included for completeness) is increasingly inappropriate when the underlying situation has changed significantly. This is the case here, where a substantial increase in road and street works, reflecting sub-surface infrastructure replacement as well as traffic management changes, have contributed to the deterioration of conditions in the original central London zone in 2005 and 2006. Similar works and changes alongside significant development works in the western extension have also had considerable impact on road network capacity there. The importance of road safety, bus and pedestrian improvement schemes, the urgency of infrastructure replacement, and the importance of new development are not disputed; a degree of disruption was the inevitable consequence. The congestion reduction over time has therefore dissipated, reflecting reduced road capacity. The congestion charge nevertheless continues to have an effect on traffic and congestion.

Figure 1

LONG-RUN CONGESTION TRENDS (IN TERMS OF DAYTIME TRAFFIC SPEEDS) IN THE ORIGINAL CENTRAL LONDON CHARGING ZONE, SHOWING ABSOLUTE AND RELATIVE CHANGES FROM CONGESTION CHARGING

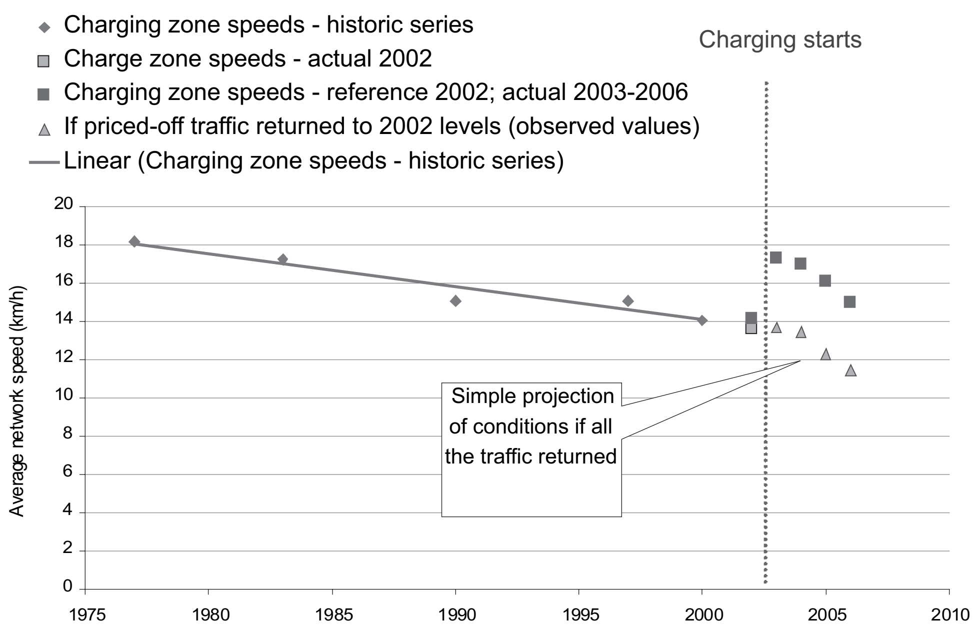

Figure 2

CONGESTION WITHIN, AND TRAFFIC ENTERING, THE ORIGINAL CENTRAL LONDON CONGESTION CHARGING ZONE

	% Change in congestion since 2002 (min/km)	*% Change in traffic entering zone (four or more wheels, during charging hours)*
2003 post-charging	−30	−18
2004	−30	−19
2005	−22	−20
2006	−8	−21
2007	0	−21

4.5 In general, the impact of the scheme on individuals and businesses depends on a number of factors.

— Those who pay the charge will benefit from the impact of the scheme through improved congestion and reliability while facing increased cash costs.

— Those people not liable for the charge (eg, taxi passengers, users of electric vehicles, bus users, cyclists and blue badge holders) will similarly also benefit, albeit to varying degrees.

— Those who are eligible for the 90% residents' discount will gain from the reduced traffic, as well as from improved bus services and environmental improvements.

— For those who opt not to pay the charge, the financial impact depends on whether they continue to make the same journey by a different mode or at a different time or by a different route.

— TfL estimates that the majority of these deterred terminating car trips have transferred to public transport (bus, Underground and rail). The remainder of the trips no longer made either divert around the charging zone, have transferred to non-chargeable modes such as walk, cycle or taxi, or are now made outside of charging hours. TfL estimates that less than 10% of deterred car trips are no longer made.

— A proportion of commercial vehicle operators may have responded in more complex ways (consolidation, time-shifting etc.) but the remaining commercial trips benefit from journey time savings, as do the remaining car trips.

— Non-drivers not directly affected by the charge have also benefited from increased investment in public transport, particularly better buses, funded through charge revenues.

4.6 In terms of impacts on businesses, the basic trade-off is between the additional cost of the charge (actual charge plus compliance costs such as administration) and the value of the journey time benefits gained. The impact of the charge on business is small—because the costs and benefits involved are small relative to the overall value of business activity in central London. TfL has estimated, in aggregate, that the overall financial impact of the charge on central London businesses is considerably less than plus/minus 1% of total business costs.

4.7 Studies of business and wider economic trends in central London have shown that trends in business costs and performance closely reflect wider economic trends. Factors such as the economic down-turn between 2002 and 2003 and security concerns affecting tourism have been the primary influences on business performance. Although the introduction of the original charging scheme in early 2003 coincided with a down-turn, more recent data has confirmed that the charge has had no visible impact on business performance in central London. Indeed, contrary to concerns expressed before the scheme, in recent years across several indicators measured by TfL, the central London economy has outperformed the economy in the rest of London (see, for example, Figure 9.2 of the Sixth Annual Report)—and the London economy has grown faster than the rest of the British economy. The most recent annual data (for 2007) shows that London's economy has grown by 17.6% since 2002, ie, before the introduction of the charge, while the equivalent figure for the UK was 14.3%.

4.8 Fairness is also an important consideration. The scheme reallocates a proportion of limited road space to "higher-value" trips, as these (remaining) trips benefit from faster and more reliable journeys than would otherwise be the case. With a fixed daily charge, some drivers will inevitably gain more (in terms of the scheme benefits) than others (eg if they drive for longer or further within the charging zone). Exemptions and discounts also play an important part.

4.9 The costs and existing disincentives of making a car trip to central London (particularly parking charges and the time cost of congestion) are relatively high, with private parking charges of sometimes £40 a day. That is part of the context against which an £8 charge should be considered. Nevertheless a proportion of charge-payers find the charge difficult to afford. TfL studies in this regard have revealed a large diversity of individual circumstances, such as shift-workers, whose specific mobility requirements do not allow ready adaptation to avoid the charge. It is however notable from these studies that residents, entitled to a 90% discount, report in survey a similar level of difficulty paying as non-resident charge-payers who are liable for the full charge. The nature of a charging zone boundary inevitably leads to discontinuities between those living inside the zone and those outside. TfL has introduced some small "buffer areas" in respect of specific issues.

4.10 Different prices (which do not always reflect externalities) apply to some users to try to avoid potential disproportionate impacts. For example, residents of the charging zone are eligible for a 90% discount, while Blue Badge holders are entitled, upon registration, to a 100% discount.

Impacts of the Low Emission Zone

4.11 Following the introduction of the Low Emission Zone, there have been reductions to NOx and PM10 emissions—leading ultimately to improvements in air quality in the areas worst affected by vehicle pollution. This has been achieved by increasing levels of compliance with the requirements of the scheme. By April 2008, 96% of vehicles affected by the first phase of the Low Emission Zone were complying with the scheme. As compliant vehicles on average travelled longer distances in London than non-compliant vehicles, 98% of travel by vehicles over 12 tonnes inside the Low Emission Zone were meeting the environmental standards and were not therefore liable for the charge.

5. Charges and Externalities

Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents, and CO_2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?

Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social and environmental impact of transport, or some combination of these?

5.1 One of the arguments for congestion charging (or road pricing) over fuel duty is that the former can be a more flexible and sophisticated instrument than a per-litre charge and can therefore more accurately reflect the marginal external costs, particularly the delay in congestion imposed on other vehicles.

5.2 Congestion charging can be viewed as a way of people deciding for themselves which are their lowest-value trips, and the value they place on a trip (or travelling at a particular time). People can choose to avoid a charge by travelling at a different time, route, or mode, or make a different trip—though some will think they have little choice.

5.3 However, economic efficiency does not necessarily guarantee a fair outcome. As noted, fairness is an important policy consideration and is also important in relation to the use of revenues.

5.4 Inevitably, policy decisions on the use of taxes or charges involve balancing competing objectives, for example resource (allocative) efficiency, fairness and revenues. The approach will also depend on factors such as technological feasibility, administrative efficiency and, crucially, public acceptability. Decisions about the design and objectives of any scheme will also take into account specific issues and circumstances.

6. Foreign-registered Vehicles

Should foreign-registered vehicles pay for access to the UK's roads and, if so, how?

6.1 Foreign drivers should be subject to the same regulations regarding payment of charges as domestic drivers. To do otherwise could undermine effectiveness and public acceptability. In the context of the Low Emission Zone and central London congestion charge, TfL has undertaken advertising campaigns in a number of different languages and across Europe to make drivers aware of the schemes. TfL has arrangements to recover penalty charges incurred by non-UK registered vehicles by using an experienced Europe-wide debt recovery agency. However, TfL (and other authorities) currently has no means in law to recover penalties for civil offences (which most driving offences are) incurred by drivers of foreign registered vehicles, as EU legislation is focused on criminal offences.

6.2 TfL has been actively raising the profile of this issue with the Government and European institutions. In the longer term, the solution may involve new legislation at EU level. In the shorter term, it is vital that TfL and other regional and local authorities develop bilateral agreements on data sharing and enforcement with partners in other Member States.

October 2008

Supplementary memorandum from Transport for London (TAX 37A)

1. Introduction

1.1 During our oral evidence to the Committee, Transport for London (TfL) was asked to provide the following additional information.

2. Penalty Charge Notices (PCNs) Issued to Drivers Living Outside Greater London

Total PCNs 2008	*1,344,708*
Issued to drivers living outside Greater London	43.16%
Issued to drivers living within Greater London	56.84%

Average number of vehicles entering the Congestion Charging Zone each day (2008 average): 185,192.

Average number of PCNs issued per day (2008 average): 5,700 (3% of all vehicles).

Average number of PCNs issued per day to non-London based vehicles (2008): 2,451 (1.3% of all vehicles).

3. Allocation of Congestion Charging Net Revenues

3.1 By law, the net revenues from the scheme must be spent on measures to further the Mayor's Transport Strategy. This is in accordance with an appendix to the Scheme Order approved by the Secretary of State for Transport.

3.2 TfL is also required to report every four years to the Secretary of State on the expenditure of scheme revenues; the first such report was delivered in August 2006.

3.3 The following Table, taken from the Central London Congestion Charging Impacts Monitoring—Sixth Annual Report, provides a provisional summary of the areas of expenditure of the net revenues in financial year 2007–08.[78]

Table 10.3

APPLICATION OF CONGESTION CHARGING SCHEME REVENUES, FINANCIAL YEAR 2007–08. (£ MILLION PROVISIONAL)

Bus network improvements	**112**
Continued enhancement of London's bus operations and infrastructure.	
Improvements to bus stations to provide accessibility and space.	
Replacement of bus shelters; provision of illuminated bus stops.	
Support to the iBus project to give passengers better information.	
Transport policing activities to improve safety and security for bus passengers.	
Borough plans	**2**
Support to London Boroughs for local transport improvements.	
Roads and bridges	**13**
Support for reconstructing and resurfacing carriageways and footways.	
Upgrading and strengthening of highway structures.	
Road safety	**4**
Various measures on TfL roads and on borough roads via LIP funding.	
Road safety cameras; support to road safety campaigns	
Environment	**2**
Support for further trials of hydrogen fuel cell buses.	
Walking and cycling	**4**
Support for new pedestrian crossings and cycling initiatives.	
Total	**137**

[78] http://www.tfl.gov.uk/assets/downloads/sixth-annual-impacts-monitoring-report-2008-07.pdf

4. The Supply of Effective Road Capacity

4.1 The Committee asked about the increase in congestion in central London, when traffic levels remained broadly stable after initially falling when the congestion charge was introduced.

4.2 Congestion in the original central London congestion charging zone during charging zone hours of operation fell 30% between 2002 (when the charge was introduced) and 2003. This resulted from less traffic: vehicles (with four wheels or more) entering the zone fell by 18%. Traffic responded in ways consistent with economic incentives: 27% fewer vehicles subject to the charge entered the zone, while there was a 17% increase in vehicles that were not subject to the charge (taxis, buses, coaches, motorcycles and bikes) (as illustrated below in figure and table 3.1 from the Central London Congestion Charging Impacts Monitoring—Sixth Annual Report).

4.3 Traffic in the original charging zone has been broadly stable since 2003, while congestion has gradually increased. By 2007, congestion in the original zone had returned to the level that existed prior to the introduction of the charge (as illustrated in figure and table 4.1). The congestion reduction in the western extension was shorter-lived, although the shape (initial reduction in traffic and congestion, followed by broadly stable traffic and rising congestion) is similar.

4.4 TfL's annual congestion charging impacts monitoring reports have noted a trend towards increasing congestion and more variable network conditions in central and inner London. Given effectively broadly stable traffic levels, this is believed by TfL to reflect a reduction to the effective capacity of the road network for general traffic. These capacity reductions are a consequence of the re-allocation of a proportion of the effective road space to other users, together with a sharp rise in the incidence and intensity of road works.

4.5 The capacity reallocations included pedestrian, cyclist and bus priority measures and several major urban realm improvement schemes—all of which have required either specific allocation of road space (eg bus lanes) or junction capacity (eg pedestrian "all green" traffic signal phases). These initiatives, while generating beneficial effects, have reduced road capacity for general traffic and have led to increased congestion.

4.6 Increased road works have primarily reflected an accelerated programme of infrastructure replacement by the utility companies—generally agreed to be an urgent priority—together with increased development and construction work. A range of other factors are also considered to contribute towards increased congestion, including new security measures, changes to the composition of traffic (eg more buses and taxis) and various local borough schemes, taking advantage of reduced traffic levels to introduce urban realm or local highway network improvements in their areas.

4.7 A major contributor to the loss of congestion benefits inside the western extension is estimated by TfL as being due to the major development near the junction of Sloane Street with Brompton Road (the "Scotch House Corner" junction) in Knightsbridge. This is a key junction within the western extension zone.

4.8 Road works associated with this development have temporarily reduced effective capacity at the junction by up to one half. This reduction in capacity and associated traffic management has caused a proportion of drivers to divert to other parts of the network, with widespread effects throughout the extension zone. The resulting congestion in the southern area of the extension zone is further exacerbated by the limited alternative options for radial traffic, given the river to the south and Hyde Park immediately to the north, and other significant junction alterations at nearby Grosvenor Place.

Figure 3.1 Traffic entering the central London charging zone (across all inbound roads), Charging hours, 07:00-18:00, 2002 to 2007

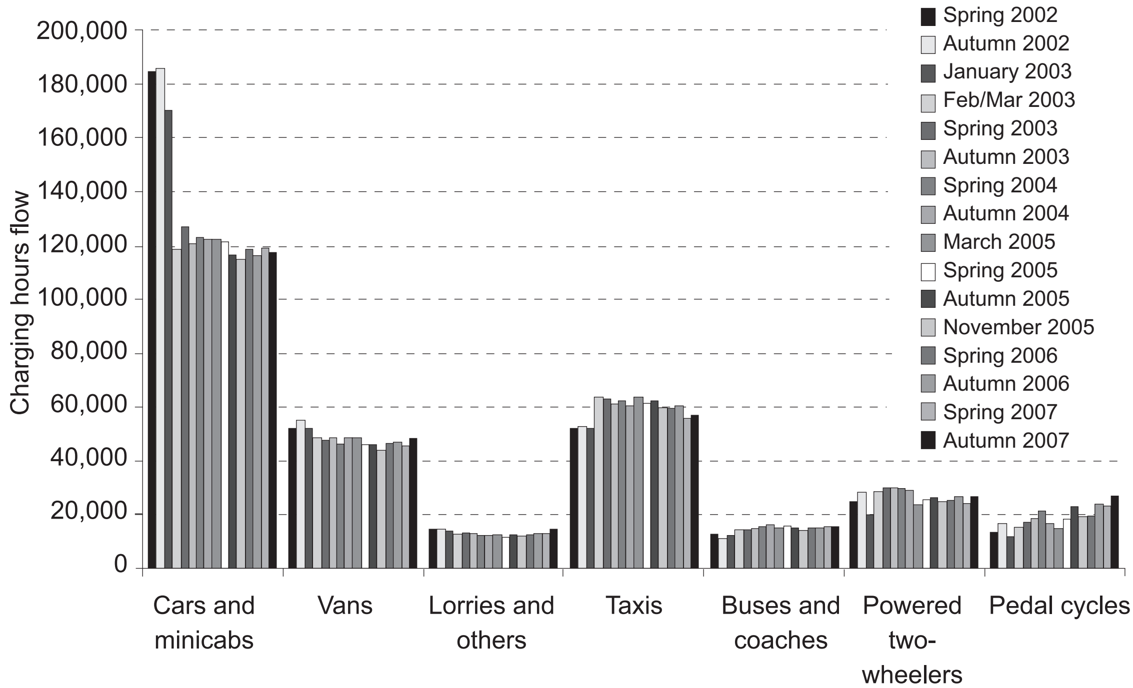

Table 3.1 Key year-on-year changes to traffic entering the central London charging zone during charging hours, 07:00 - 18:00.

	2003 vs 2002	**2004 vs 2003**	**2005 vs 2004**	**2006 vs 2005**	**2007 vs 2006**	**2007 vs 2002**
All vehicles	-14%	0%	-2%	0%	0%	-16%
Four or more wheels	-18%	-1%	-2%	-1%	0%	-21%
Potentially chargeable	-27%	-1%	-3%	0%	1%	-29%
- Cars and minicabs	-33%	-1%	-3%	-1%	0%	-36%
- Vans	-11%	-1%	-4%	2%	1%	-13%
- Lorries and other	-10%	-5%	-4%	6%	9%	-5%
Non-chargeable	17%	1%	-1%	-1%	-1%	15%
- Licensed taxis	17%	-1%	1%	-3%	-5%	7%
- Buses and coaches	23%	8%	-4%	-3%	5%	31%
- Powered two-wheelers	13%	-2%	-9%	0%	-3%	-3%
- Pedal cycles	20%	8%	7%	7%	12%	66%

Figure 4.1 Congestion in then original central London charging zone during charging hours.Moving car observer surveys.

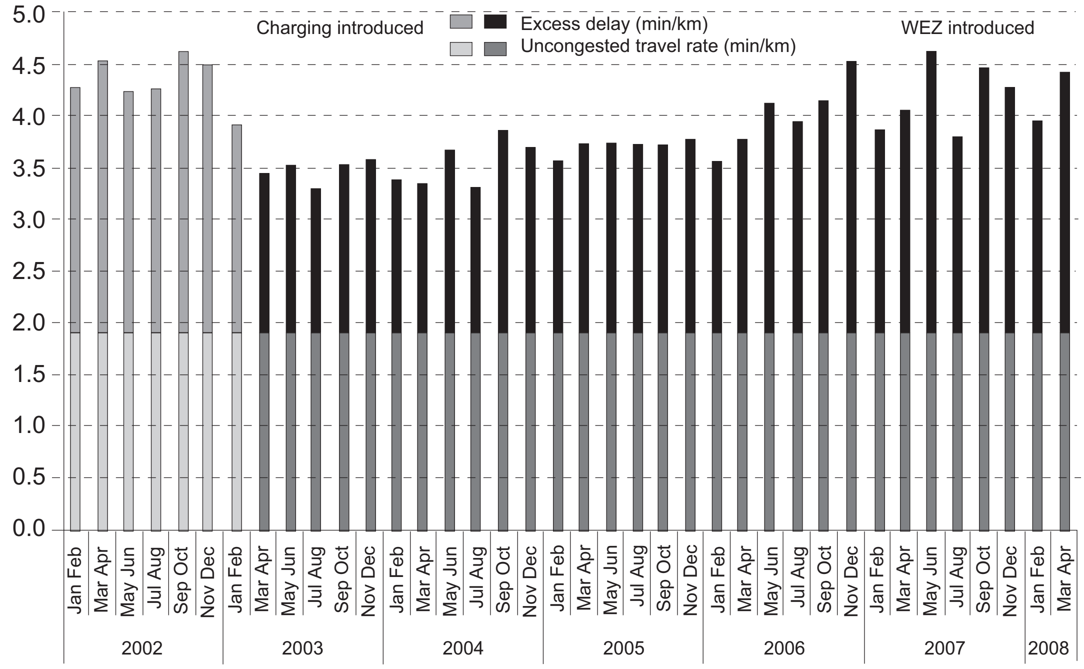

Table 4.1 Comparative congestion statistics for the original central London charging zone. Moving car observer surveys. Charging hours

Averaging period	Number of surveys	Mean excess travel rate (minutes per kilometre)	Difference 2002 representative value (%)
2002 calender year – observed average	6	2.5	+8%
2002 calender year – representative level	6	2.3	base
2003 post charging	5	1.6	-30%
2004 post charging	6	1.6	-30%
2005 post charging	6	1.8	-22%
2006 post charging	6	2.1	-8%
2007 post charging	6	2.3	0%
2008 January – April	2	2.3	0%

5. PCNs Issued to Foreign Registered Vehicles

5.1 In 2008 TfL issued around 23,000 PCNs to foreign registered vehicles for non payment of the Congestion Charge. This equates to around £184,000 in lost charging revenue. However, TfL can expect to recover around £800,000 in penalty income recovered from drivers of foreign registered vehicles although, due to the difficulties in issuing penalties and recovering penalty payments the "lost" penalty income is around £1 million per annum.

March 2009

Memorandum from the Technical Advisors Group Transportation Committee (TAG) (TAX 38)

We would particularly like to draw attention to the fact that on this subject we represent professional officers working for the transport policy authorities in urban areas where the management of vehicular travel demand is most important. In consideration of the role for taxes and charges on road users is the responsibility of our members to advise local politicians on appropriate measures in our individual authorities and through organisations like the House of Commons Transport Committee, the Association of Local Government and London Councils to national politicians.

Our association has not got the necessary resources to trace down all numerical evidence and sources for the views and policies put forward in our evidence, however many of the facts are very well known. Others, we do believe, require additional research to be commissioned.

As a preface to our response to specific questions we have the following general comments:

— Before the consideration of the details of charges and taxes it is essential that a framework policy such as the 1998 Integrated Transport Policy is accepted and any charges are directed towards achieving the national and local policies set out in such a framework.

— Taxes and charges for road users (or any other communication system user—post, telephone, rail, bus etc) have been in place for a very long time indeed. Many roads through private areas are still tolled and several centuries ago there were tolls on a number of national routes. Other countries still toll their main motorway network and many countries toll river crossings. It is notable that in the UK most road use is free at the point of use and the present system is inadequate to control excess demand. In consideration of excess demand, road use in the UK is one a fairly few services where peak demand prices are the same as at other times unlike rail fares, electricity or phone use.

— The storage of road vehicles is also another important place where tolls or charges are levied. This principle extends back to stabling fees and the 1833 Highways Act where it was stated that the King's highway is not to be used as a stable yard. Charges for parking on the street have been levied since 1958 for motor vehicles in London extending to most significant towns in the UK since then. Charges on trip-ends for parking are an important surrogate or alternative to charges for actual use of the highway, as without a parking space a trip cannot be made on a highway, other than for the "enjoyment" of the trip alone. The use of parking controls and parking charges has become an important tool for local traffic authorities in dealing with their transport policies and, in particular, demand management strategies. Consideration in the use of parking charges needs the flexibility to include all parking spaces including shopping centres etc.

TURNING TO THE DETAILED QUESTIONS

1. *What taxes and charges are currently paid to government by road users, how much revenue do they raise and how does this compare with national and local government expenditure on the roads network and ancillary services?*

Taxes and charges currently paid to government, including local government, by road users include:

— Parking charges for on street and off street publicly owned parking.

— Congestion charges.

— Fuel Tax.

— Fines and charges for parking or other road offences.

— Vehicle excise duties.

— VAT on new vehicles.

— Tax paid by bus companies on revenue from bus passengers.

— VAT on shoe leather, bicycles etc.

— Tax paid on the income of utility companies (they are a major user of roads constructed and maintained at public expense).

— Council tax and business rates including the notional value of any parking spaces included.

We are not aware of the quantity of revenue that all these taxes raise and it would not be appropriate for us to evaluate these on our own. Nevertheless we would very much appreciate being involved in any re-evaluation of the tax and charge revenues and what costs should be apportioned.

On the second part of this question, road based organisations like British Road Federation, AA, RAC etc, frequently put out information saying that the government expenditure on roads and ancillary services is substantially less than the tax taken. We believe that the expenditure figures are very historic and do not properly include all the costs that relate to road users, and particularly the costs by car users and lorry users. Very substantial parts of local authority spending are result from the presence of the motor vehicle. Furthermore certainly for local authority roads the present level of funding is insufficient to maintain the assets properly, including a number of safety aspects, or replace local infrastructure when needed—for example in redevelopment areas.

Also within company expenditure it is not clear, without careful thought, exactly how the present subsidies provided to people, who drive to work to business premises and are provided free parking, affects the revenue from road users listed above. Nevertheless it is certain that this subsidy to car drivers, in relation to other travellers to a workplace, does result in substantial extra traffic and congestion. The Business Rate system does not accommodate the difference between companies who have minimal transport requirements and those that have large areas of parking, generate substantial traffic congestion and costs for local communities and local authorities.

Any analysis of costs must include all the costs of road users including those listed above, and including all the discussions on highway management, transport, correspondence to local authorities grumbling about traffic situations etc. We believe it would be very useful to update the historic figures with a new analysis.

Even if such a new analysis shows that taxes are significantly greater than all expenditure (including any increases required to carry out proper maintenance as mentioned above), we do not believe that tax on specific goods should always be spent on such goods. Such a principle fails completely on tobacco and alcohol. Both these goods impart substantial costs on those not drinking or smoking and motor vehicles have not dissimilar negative effects on others. Overall policy issues on Transport Planning and the Economy should also take precedence over the "balance sheet approach".

2. *What is the impact of the current charging regime on individuals, businesses and the economy?*

We do not believe that the current charging regime available in many areas is sufficient to control congestion or to control the environmental impact that any individual road user (car or goods vehicle) imparts on the rest of the community. This distorts behaviour and results in a greater level of funding being spent on road capacity enhancement (particularly on Trunk Roads) and parking provision. It is also damaging to the long term future of the country and planet, as with a growing world population more land will be required to feed us not to move or park vehicles. Barker has already identified that 13% of our land is already developed and in urban areas 25% of land area can already be used for roads (Westminster)

The Eddington report points out the need for transport to pay its true costs and the Stern report points out that not dealing with the CO_2 problem will be more damaging than policies directed to reducing emissions.

While the main authors of this report are not economists the essence of a charge or tax is a transfer payment. If extra taxes have a negative effect on the economy there is no reason why other taxes, particular on "good things", could not be reduced to compensate. Alternatively the tax take could be spent on improvements to sustainable transport.

Any additional encouragement by road user taxes or charges to travel short rather than long distances to meet people's needs and by sustainable modes will reduce unnecessary consumption, reduce congestion and should therefore be of a net benefit to the economy.

While we accept that fully joined up planning, transport and economic strategies are essential, we believe that inadequate charging for road use results in long term damage to the economy. Furthermore without a charging system to reduce the peak demand the unreliability of the system combined with sometimes too good or imbalanced Trunk road system (encouraging business to adopt less than optimal practices, eg centralisation, and excess transport rather than reducing the miles that goods, or people, have to travel) has a negative impact on the economy.

3. *Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents, and CO_2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?*

We do not believe the taxes and charges levied on motorists capture the external costs as listed in the question. We believe, as Eddington does, that it would be desirable for them to do so, and we would also draw attention to the long term global warming problems addressed in the Stern report. Urgent attention should be paid to achieving an overall charging/taxing package which meets policy objectives. We fully recognise that this is extremely politically sensitive, but the longer it is left, the harder the message will be to get across to the public.

The recent increases in fuel costs have gone some way towards making road users think about their travel needs, but the clamour to downsize private vehicle types to more economical models points to a desire to continue with the same travel patterns, maintained by sacrifices in status and 'comfort', rather than any change of travel patterns. And these changes have not yet significantly affected those who do not directly fund their daily travel.

We are also aware of costs of collection of taxes and charges particularly for cordon based congestion charges. While the charges and collection costs might be worthwhile economically in many areas of the country—to save congestion problems, seen from a purely financial point of view the collection costs may make the introduction of measures less attractive to an authority.

There is woefully inadequate explanation of the need for reduced vehicle use and strong mixed messages are being given by the present government. This is demonstrated by the re-expanded Trunk road programme, the low level of green travel plan support, the continuing tax exemption for workplace parking and possible relaxation of maximum parking provision standards for new developments. The last few years of the last Conservative government and certainly the beginning of the present government identified clearly that a more consistent or integrated policy was required and road building in general would not solve congestion problems and could very well make them worse.

4. *Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social and environmental impact of transport, or some combination of these?*

We believe that the purposes of taxes and charges on motorists should be a combination of these three reasons, but firstly to minimise the negative social and environmental impact of transport, secondly to reduce traffic and congestion, and the third to cover the costs of the road network.

On the third of these reasons we would again point out that those organisations supporting road capacity increases, frequently say that the revenue is not ploughed back into the road users' requirements. Like the government we would resist this argument as certainly taxes on cigarettes and alcohol users are not ploughed back into those industries but ensuring there is a net surplus to the exchequer from the sector. While accepting that road transport is essential to the economy and that perhaps motoring is not as damaging as those other industries it is without doubt damaging to the environment and causes congestion on others, and therefore not a wholly desirable thing to encourage.

5. *Does the current system have different impacts on different categories of road user? If so, is this fair?*

We understand, and are aware of good evidence showing that freight traffic does more damage to the road structure than the revenue received from freight traffic, let alone making a contribution to the environmental damage. We understand that there is a TRL Report on this subject. While freight doesn't cover the full costs, businesses are encouraged to centralise excessively and transport goods more than they need to for the efficient serving of the public's needs—please see our comments in response to question 2 above. Utility services using the street as a conduit also don't pay adequately for the damage to the road structure investment or the congestion caused during works.

In addition the initial consequence of new road building and road widening, is that car travel is made at better. The initially improved road results in more people transferring to car from other more environmentally friendly modes which in turn results, particularly under the present bus and train system, in reduced public transport services. This helps to create a vicious downward spiral in public transport and can result, certainly in urban areas, in worse congestion for vehicles. This disproportionately disadvantages those who have not got cars available for use—this includes all people under the driving age, people with disabilities who cannot drive, the elderly and those on lower incomes.

The congestion effects of the extra traffic disproportionately affects the reliability, service level and indeed costs of the public transport alternative, unless public transport can be completely protected by segregation, priority systems and open ended subsidies. With lower numbers of people travelling by public transport the group is less well represented and becomes marginalised adding further to the downward spiral.

We should add that the process of providing for the motor car, and particularly for longer journeys on faster roads, has continued to disadvantage local communities and the less well off for at least the last half century. We do not consider this fair.

6. *What alternative methods of charging for road use are available, such as road pricing in town and city centres and on the national road network, lorry road-user charging schemes, switching charges between fixed charges (such as Vehicle Excise Duty) and variable charges (such as fuel duty)?*

As mentioned trip-end charging can be very effective, but this presently cannot realistically affect street parking outside controlled parking zones, parking at home addresses and parking for shoppers (eg at out of town centres) or commuters at business premises. The specific support for workplace parking charges by government could be improved as it is a very real alternative to road use/congestion charging.

TAG supports road pricing for town and city centres, on the national network and lorry road user charging.

We believe that the "economic returns" from road user charging or parking charges are very substantial when compared with other transport interventions (eg road building) but the financial appraisal compared with other taxes or charges can be very poor. Unless local authorities can have financial assistance proportionate to economic returns it is unlikely that many congestion charging schemes can be progressed. Furthermore advanced funding for alternative modes is crucial.

A common assessment method for transport schemes is required. It is interesting to note that the converse to an economic as opposed to financial assessment of road user charges or public transport proposals, is a financial assessment of road schemes. A study by the GLC showed that on a financial appraisal it was worthwhile digging up a widened road (Hendon Way) and converting it back to housing!

Generally we believe that use charges should be favoured over fixed charges but significant fixed charges still need to be maintained.

7. *Should foreign-registered vehicles pay for access to the UKs roads and if so, how? How closely enforced are the rules governing re-registration of foreign-registered vehicles which are brought permanently the UK and the consequent liability for VED?*

TAG members suffer first hand many of the problems of foreign registered vehicles parking in residential areas with no trace, abandoned foreign-plate vehicles where we have no system for removing them, damage from overweight vehicles, accidents, use of inappropriate routes by large vehicles due to satellite navigation system use, poorly maintained vehicles etc. While untaxed English registered vehicles are of particular interest to the police, foreign vehicles normally have no real interest. There is no EEC data base on foreign vehicles with which to pursue them effectively.

There may be a good case for foreign-registered vehicles to pay for access to the UKs roads and this would be especially true with a road user charging system. The Swiss system of charging at crossing points may be very relevant, while this should perhaps be linked to the period of stay. We are, after all, an island, so the points of entry and exit are limited and should be relatively easy to control, where, at least large, foreign vehicles are concerned.

We hope that this evidence will be useful to the Committee and we will be more than willing to appear to give oral evidence as, when and if required.

October 2008

Memorandum from the Road Haulage Association (RHA) (TAX 39)

1. Thank you for the opportunity to present our views on road taxes. We have restricted our submission to taxes as they affect companies providing road haulage services to British industry and commerce.

2. Key points:

- We should recognise the clear difference between cars and trucks in terms of economic function and response to tax signals.
- Trucks are machine tools in the supply chain and the duty rate charged on diesel they use is by far the highest in Europe. No other part of the supply chain is taxed so highly, nor would such a tax be acceptable.
- There should be no further fuel duty increases for trucks—the planned increases should be abandoned. Establishing a new "road freight fuel duty" would allow trucks to be treated separately from the UKs 32 million cars.
- Proposal to use duty level to balance petrol and diesel prices.
- Introduction of a Eurovignette daily charge on foreign trucks.
- Removal of trucks from congestion charging plans in Manchester and elsewhere.

Haulage Diesel Duty: Too High a Business Tax

3. Trucks provide an essential service to the UK economy and the duty charged by the Treasury on the diesel they use is therefore a general tax on British business. It affects the competitiveness of firms competing against rivals from abroad and it raises the cost of living for everyone.

4. This tax on business is already at much the highest level in the EU and is around double the average rate for Ireland and continental Europe. Our rate of 50.35 pence per litre is 23 pence more than the average for the rest of the EU, even after the fall in the value of the pound against the euro over the past year.

5. A tax at the level of UK truck diesel duty would be condemned from all sides if it were to be imposed on any other capital equipment in the supply chain. A comparable tax would be unacceptable on work stations on a car assembly line, printing machines or food processing plant.

6. We believe that the impact of this high tax has been highlighted to businesses over the past 18 months—ironically, as a consequence of the sharp increase in the price of diesel as a commodity, more than any action by government. Diesel price rises have pushed up road haulage costs by up to 20%, in some cases an even greater amount. Industry, from timber to frozen food producers, have felt the impact of this increase on their profitability and competitiveness. As they have looked more closely at transport costs, firms have noted again the high level of taxation they are paying in the truck element of the supply chain. Even when diesel

prices peaked, they only just exceeded the cost of the fuel duty. Figures from the Confederation of Forestry Industries indicate that around 20% of the price of timber delivered to mills is accounted for by truck diesel duty levied by the Treasury.

7. This high business tax on the supply chain makes the UK less competitive. A typical articulated lorry uses around £50,000-worth of diesel a year (exc. VAT); of that, £25,000 goes to the Treasury as duty, impacting on hauliers' costs and cash flow. The same truck abroad pays on average just £13,000 in duty—that is, £12,000 a year less. The difference is often greater. Belgium, for example, charges the EU minimum duty of 30.2 eurocents a litre compared with 63 eurocents a litre in the UK (even accounting for the decline in sterling over the past year; at the exchange rate of 15 months ago, the UK rate was 75 eurocents a litre). Multiplied across 100,000 articulated trucks, that amounts to a duty take per year of £1.3bn more than our competitors, which must be passed on to UK customers. We calculate the total for all trucks to be in excess of £2 billion a year.

8. Increasingly, customers are driven to buy haulage from foreign trucks using low-tax fuel, in which case the UK Exchequer receives nothing whatever for the use of the road and the UK loses road haulage jobs and businesses. To make matters worse, these trucks do more road damage, are more likely to be running illegally and are three times more likely to be involved in a road accident than British trucks.

Impact on Cash Flow

9. The high level of duty hampers investment in the industry by increasing the amount of working capital haulage companies require, simply to fund the fuel element. Professional hauliers are already required to have significant reserves under O-licensing regulations (£6,200 for the first truck and £3,400 for each truck thereafter). The current duty level imposes a further hurdle of more than £4,000 per typical 40-tonne truck—£2,000 more than competitors from abroad.

10. Haulage businesses are early victims of the credit crisis and many have been hit hard, as customers delay payment of invoices, insurance companies withdraw or curtail credit insurance cover and banks restrict lending. The heavy burden of fuel duty is felt especially strongly as a result.

Foreign Competition

11. The industry has a firm belief that a significant shakeout in the industry is under way and is expected to peak during the early months of 2009. Those companies that remain will require to charge substantially more for the services they provide than customers have been used to paying and there is a clear warning that services may be less flexible. There are strong fears, however, that the vacuum created by the failure of British haulage businesses will be filled by trucks from abroad—from Ireland, Western Europe and, importantly, the new Eastern European countries, which have access to the UK domestic haulage market from May 2009.

12. Committee members are already aware of the fuel duty disparity between the UK and the rest of the EU. Your Freight Report (July 2008) described it as "patently unfair". But to recap, the duty difference remains at around 23 pence per litre. This structural weakness disadvantages the UK haulage industry, UK business competing with firms from abroad and which increases the cost of living for everyone living in this country. It gives 40-tonners fuelling abroad, and buying no diesel in the UK, a clear cost advantage of 10-15% of the earning capacity of the truck.

Flaws in the NERA Report

13. HM Treasury has made much of one paragraph in the Haulage Industry Task Group Report, December 2006, referring to the findings of a report from NERA Economic Consulting. The report stated that the UK had the highest operating costs in Europe—and to that extent we were content with the report.

14. However, we argue that NERA makes mistaken assumptions, the cumulative effect of which is significantly to understate the cost and cash-flow disadvantages faced by UK operators. Key points include the following:

15. The report compares a two-axled, 40-tonne articulated UK truck with those from other EU countries. This is a fundamental flaw. The UK professional haulage industry does not operate such trucks, by and large. This is as a result of UK government policy that was opposed to the use of two-axled units. (White Paper on the Future of Transport, July 1998, paras 3.160 to 3.162);

16. The three-axled vehicles that UK hauliers mostly use cost £5–£6,000 more to buy (market price) and therefore have a higher depreciation charge. The UK's three-axled units also use around 2-to-3% more fuel (some hauliers would argue 5%) pulling the same trailer and load, due to impact of the extra axle. Indeed, a rough calculation indicates that the additional fuel used as a result of the third axle not only reduces road wear but adds £50-to-£80 million a year to the UK Treasury in diesel duty.

17. *Tyre and maintenance costs are higher*. (The UK government had encouraged the use of these vehicles because they do less road damage and are less likely to overload the drive axle, long before the increase in weights to 44 tonnes. The two-axled units that are bought—around 20% of UK tractor unit sales—are run mostly by supermarkets and other own-account operators who know they will not be used at weights higher than around 36 tonnes.)

18. NERA produced the report for the Freight Transport Association, which represents primarily own-account operators and buyers of transport, without the knowledge or involvement of the RHA. As a consequence, NERA used operating cost tables from the FTA, which in our view under-state costs by around 6% for the same type of vehicle. The FTA figures fail to take adequate account adequately of overheads and other costs, we believe, which must be fully allocated within a business whose main activity is road haulage, as opposed to using truck operation as a cost centre within, for example, a manufacturing or retail company..

19. The duty levels in the NERA report does not, so far as we can see, take account of the rebates available in several EU member states, including our near neighbours Belgium and France. We have other criticisms in terms of labour costs and taxes and the level to which data from the continent is simplified.

20. *In conclusion*: the NERA report puts the UK in the top bracket for costs and the impact of being more expensive in a highly competitive market should not be under-estimated; however, the Treasury would be misguided in using the report to inform itself of the true relative position of the UK haulage. Our relative position is significantly worse than that stated by NERA and, to that extent, the report is unhelpful.

Specific Actions

21. In our pre-budget submission to the Treasury, we have urged a re-think of taxation policy in respect of fuel duty. The Treasury justifies its planned duty rate increases on two grounds: it needs the money; and it must send the right low-carbon price signals.

22. However, further duty rises cannot be justified on either ground as far as the supply chain is concerned. The tax level on this part of the supply chain is already far higher (around twice as much) as in the rest of the EU and quite high enough already; and the carbon signals are largely irrelevant.

23. Separating truck duty from motorists' duty would allow the government to let duty rates on 32 million vehicles drift upwards without the strong resistance of the haulage community that runs just 400,000 vehicles.

24. We believe that a reduction of 25 pence a litre in the duty paid by hauliers is justified and necessary. We named this reduction an "Essential User Rebate" when we first argued the case a decade ago; the argument remains valid today. We recognise, however, that there is little political support for a reduction on such a scale at present.

25. We urged the Treasury that:

— there be no further increase in the fuel duty business tax on trucks;

— a new "road freight fuel duty" be established, with general increases in fuel duty rebated to truck operators through, for example, the VAT mechanism; and

— the duty rate on diesel and petrol, currently at the same level of 50.35 pence per litre, be varied to maintain a consistent parity in pump prices. This is necessary because of the surge in diesel commodity prices ahead of petrol prices. Whereas 15 months ago diesel was equal in price or up to 3p/lit more than petrol, the gap has widened to 12 to 15 p/lit and, we are advised, is unlikely to narrow much in the medium term. The established principle of price parity would be mostly restored by a 5p increase in petrol duty and a 5p reduction in diesel duty. The net income to the Treasury would be unchanged, as volumes of petrol and diesel sold in the UK are pretty well equal; and the equity of change that meant the burden of high fuel costs was shared equally would be clear. Diesel cars are almost as popular as petrol—or at least, they were in 2007, accounting for 41% of new car registrations.

Vehicle Excise Duty for Trucks

26. VED for trucks has been held steady for trucks throughout this decade. This is appropriate and we would urge that rates be held, if not reduced. VED rates for trucks remain at or close to the highest in Europe. Abolition of VED is not an option for trucks, unlike cars, because the EU sets minimum VED rates for trucks and we know of no proposal for that requirement to be abolished.

Eurovignette Daily Charge

27. In April 2002, the Chancellor (now Prime Minister) stated that "hauliers from overseas should bear their fair share towards the cost of using our roads". We would say that is obviously true but it also important that Gordon Brown stated it to be true. We are urging the government to review its decision not to proceed with such a charge. New information is available and we believe the revenue surplus and benefit to cost would be much greater than stated in the Freight Data Feasibility Study.

28. We would add that the prime minister appears to have been mistaken when he told Mrs Ellman, in July, that "the capital costs of introducing the new proposals were so great that it would have cost us more to introduce the proposals than the amount of money it raised". The Freight Data Feasibility Study Final Report, para 6.1, published by the Department for Transport, shows a surplus of revenue over set-up and operating costs over five years of almost £60 million. We believe that the figure, were the study to be reviewed in the light of more up-to-date government figures, would be at least two times greater than that sum and perhaps three times more.

29. Our support for a Eurovignette daily charge costed over five years is influenced by the likely absence of any other charging system for trucks that would equalize taxes. We are aware that the Conservatives and Liberal Democrats are both promoting new LRUC schemes but we believe that, while these are possible, the cost, complexity and timescale for introduction are being under-estimated.

Congestion Charging and Road Pricing

30. We are opposed to truck being included in congestion charging in the Manchester proposed scheme and similar schemes. Our argument can be summed up as follows. In a scheme designed to persuade motorists to travel at a different time, to take an alternative mode of transport or to make no journey at all, it is illogical to include trucks. We refer to our starting point, of trucks as an engine of the economy, an essential link in the supply chain. Trucks are not going to and from work, they are at work; they are, in effect, buses for freight, delivering on demand. The congestion charge would therefore be a tax on the businesses they serve.

31. The charge would also impose an administrative cost burden and distraction on all operators and especially on those in the hire or reward sector. The "who pays" issue would become an additional and unnecessary bone of contention in the relationship with customers, especially as hauliers seek to carry goods for more than one customers.

32. As a broader observation on road pricing, we note that the government is starting technology proving trials and as yet these are at an early stage. There is little research on how different categories of motorist will respond to charging.

October 2008

Memorandum from Natural England (TAX 40)

Summary

1. Natural England supports the use of fiscal measures to ensure that the "polluter pays" principle is applied to road transport, to manage demand and encourage more sustainable travel patterns. In this way fiscal measures can help reduce the negative environmental impacts of road transport and the need for new road capacity. Evidence shows that some travel choices are susceptible to cost changes and that measures such as road tax, fuel duty and road user charging are effective mechanisms for influencing travel behaviour. The application of each of these raises issues relating to social equity and public acceptability that must be addressed.

2. We agree that the primary purpose of taxes and charges on motorists should be to achieve a number of objectives, and that the avoidance, minimisation and reduction of the negative environmental impacts of road transport should be one of these objectives.

3. We believe that road taxes and charges should try to capture the value of impacts from road transport on landscape and biodiversity as well as the external costs of congestion, local air and noise pollution, accidents, and CO_2 emissions. Quantifying and valuing these impacts is, however, a challenge. A current DfT study is researching transport impacts on landscape, but there is currently no accepted methodology for quantifying and valuing transport impacts on landscape and biodiversity.

EVIDENCE

4. Natural England has been charged with the responsibility to ensure that England's unique natural environment including its flora and fauna, land and seascapes, geology and soils are protected and improved. Natural England's purpose is to ensure that the natural environment is conserved, enhanced, and managed for the benefit of present and future generations, thereby contributing to sustainable development.

5. Our evidence relates to two of the inquiry questions:

— Do the taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents, and CO_2 emissions? Would it be desirable for them to do so and, if so, how could this be achieved?

— Should the primary purpose of taxes and charges on motorists be to raise revenue to cover the costs of the road network, to reduce traffic and congestion, to minimise the negative social and environmental impact of transport, or some combination of these?

6. Despite recent surges in fuel prices, the trend since the 1980s has been towards cheaper motoring costs (in real terms) whilst the costs of public transport use have risen significantly.[79] Cheaper motoring costs have enabled changes in logistics and freight, with freight transport heavily dependent on the road network and a sharp increase in light goods vehicle miles. Combined with other factors such as changes in economic growth and demographics, the net effect has been an increase in road traffic and average journey length. The application of the fuel duty escalator between 1993 and 2000 reduced fuel demand,[80] and anecdotal evidence from the past two quarters in 2008 suggests that rises in fuel costs are having a similar damping effect.

7. We believe there is sufficient evidence to show that as road travel becomes cheaper, road vehicle use increases, and *vice versa*. Fiscal measures such as fuel tax, vehicle excise duty and road user charging are therefore measures that can be used to influence traffic growth and travel choice. Some journeys will be more susceptible to cost changes than others and there are of course unintended distributional effects—such as cost increases that disproportionately affect lower income groups, and lack of alternative transport options in rural areas—relating to the implementation of these fiscal measures which Government policy must address.

8. Road user taxes and charges can be used to contribute to the delivery of certain environmentally beneficial policy goals such as modal shift to public transport by influencing travel behaviour and choice through pricing. This involves setting taxes and charges at levels that influence driver behaviour. If these taxes and charges are successful, there should be an ongoing reduction in revenues as behaviour changes.

9. Theory dictates that greater economic efficiency is achieved if drivers are faced with at least some of the external costs of their driving including the external social and environmental costs. The inclusion of the external costs is consistent with the "polluter pays" principle, and should give drivers an incentive to decrease driving, leading to lower environmental impacts. In practice it is difficult if not impossible to set taxes/charges at exactly the right level to achieve economic efficiency.[81]

10. Natural England therefore supports the use of road user taxes and charges, to ensure that both the "polluter pays" principle is applied and to reduce environmental impacts by changing travel behaviour. Evidence indicates that a "package" approach is required to delivering changes in transport patterns, using a variety of policy measures, regulation, fiscal instruments, technological and social marketing approaches. We support this conclusion. Hypothecation of the revenue could be used to help increase the responsiveness of drivers to the taxes and charges, for example subsidising good quality public transport.

11. As noted above there are some significant challenges in determining the full external environmental costs of driving. Some impacts—for example, the "cost" of deaths caused by poor air quality and traffic accidents—can be valued. The cost of CO_2 emissions from road transport can be valued using the shadow cost of carbon. The Government's transport appraisal methodology NATA also provides a way of calculating the cost of noise impacts in populated areas.

12. Valuing the external environmental impact of greenfield land lost to road building (approximately 9,000 hectares in the last 10 years)[82] is much harder to achieve. Equally, more research is needed to quantify and value lost tranquillity, impacts on landscape character and impacts on biodiversity from habitat loss and fragmentation, and light, air and noise pollution from road transport. DfT's current research into valuing transport impacts on landscape may begin to unpick some of these issues, as may Defra research on ecosystems services. But more research is needed before we can accurately quantify and monetise the external costs of transport on landscape and biodiversity. There also remains a question as to who should bear the external costs of land take for transport schemes—the end users, some of whom will be bus and coach operators and passengers as well as private and freight transport, or the tax payer.

13. An additional and significant challenge is that the external impact of driving a mile will vary across time and place. The CO_2 impacts may be the same but the chance of an accident, the impact of air pollution, congestion and so on will vary. Ideally, everybody would pay the exact external cost they produce and at the

[79] Transport Trends 2007, Department for Transport. Page 31.
[80] Reducing Carbon Emissions from Transport, Environmental Audit Committee, 9th Report of session 2005–06.
[81] In theory in the presence of external costs, taxes can be used to achieve economic efficiency if the tax rate per unit (say per mile) is set at the level of the marginal external cost (external cost of driving one more mile) at the efficient level of the activity.
[82] Transport Trends 2007, Department for Transport. Page 124.

same time other measures would be in place to offset any negative distributional consequences, for example on lower income rural residents. Although it is very difficult, if not impossible, to charge everybody their exact external cost it is possible to establish taxes and charges that approximate these costs, for example congestion charges in city centres.

14. There are some key principles that can be used to guide the development of road taxes and charges for environmental purposes. The first is that any tax or charge incentivises more sustainable travel choices, and at the very least decreases the level of environmental impact (for example by encouraging the use of more fuel efficient cars).

15. Another principle is that taxes and charges designed to deliver environmental benefits are more acceptable when they are not perceived as solely revenue raising mechanisms. Ideally, some level of hypothecation is essential in garnering support for taxes and charges that deliver specific environmental outcomes. Hypothecated revenue used in certain ways can increase the behaviour change response to the tax/charge. Market research indicates that the public acceptability of road user charging is influenced by the use of revenue proposed, with hypothecation for public transport increasing the level of public support.

16. Taxes/charges need to be targeted as much as possible to reflect the external costs for example to reflect the fact that to a certain extent the external costs vary depending on the distance travelled, the location and time of travel, the type of vehicle etc

17. Taxes and charges need to be packaged correctly so that they continue to reward choices that create environmental benefits and deter choices that create environmental disbenefits. For example, the higher purchase tax on less fuel efficient cars may encourage people to purchase a more efficient car but then ceases to incentivise lower levels of driving—some combination with fuel duty or road user charging is needed to support the purchase tax and ensure its benefits are not eroded.

18. A final principle is that it is important to take account of the distributional impacts of the taxes and charges.

October 2008

Memorandum from Federation of Petroleum Suppliers Ltd (FPS) (TAX 41)

Summary

The Federation of Petroleum Suppliers Ltd (FPS) submits views on variable excise duty for road fuel. The FPS strongly opposes any variation in excise duties that would result in another product line, such as a marked fuel for hauliers that attracted a lower duty rate than normal road diesel. There are four grounds on which we would oppose any such move:

- infrastructure costs and restrictions for fuel distributors that would cause distortion of the market;
- operational difficulties;
- the opportunities it would create for increased oils fraud; and
- the possibility that it would be a short-term measure.

The Federation of Petroleum Suppliers

The Federation of Petroleum Suppliers (FPS) is the trade association for the oil distribution industry in the UK and the Republic of Ireland. It represents the majority of distributors in the UK from the small family business, which forms the greater part, to the distribution arms of some of the major oil companies—a total of around 2,000 road tankers. Deliveries go to domestic customers, retail forecourts, agricultural, marine, industrial and commercial sites for power, heating and transport fuel. Deliveries to retail forecourts are mainly to independent filling stations, which are also represented by the FPS. These sites have relatively low volume throughput as they are mainly in rural locations.

Comments

1. *Introduction*

1.1 The effect of high excise duty on road diesel on the UK haulier and ways of making the system more equitable were considered by Government departments in 2002–05 as part of the exercise *Modernising the taxation of the haulage industry.* The FPS contributed to the exercise.

1.2 Variable charges, such as fuel duty, are listed for consideration under the current Inquiry. The option of a lower duty rate on fuel used by hauliers to offset a lorry road user charge was one of the options considered in the exercise *Modernising the taxation of the haulage industry.* Many of the comments FPS made on the effects of a separate duty rate for diesel for use by hauliers in response to the exercise are still relevant, should the Government reconsider such as option, and there are additional points that have arisen since. These are given in the following paragraphs.

2. *Infrastructure costs and restrictions*

2.1 Infrastructure costs to accommodate another product line would be prohibitive for distributors. The installed cost of additional above-ground depot storage tank facilities, including ancillary equipment such as bottom loading, bunding, overspill and auto shutdown equipment, gauging, thermal relief, IT etc, is likely to be in the region of £250,000 upwards. There would be no return on this investment for the distributor.

2.2 As well as planning restrictions, environmental and health and safety considerations would also need to be taken into account in applying for permission to install a new tank. Since the Buncefield explosion, more stringent requirements have been put in place for tank installations. These have increased both the time taken to get planning approval and for construction, in addition to the increased costs.

2.3 Large tanks are made to order by a limited number of specialist companies. It is highly unlikely that they could cope with ensuring sufficient new tankage was installed without a minimum of a two year lead-in time.

2.4 Many distributors do not have the space to install more tankage, even if they wished to do so. It is therefore highly unlikely that another grade of diesel at a different duty rate would be universally available: a survey of FPS members carried out in 2003 confirmed this.

2.5 Independent retail filling stations would be unable to afford any extra tanks, pumps etc. The costs of an HGV pump are in the region of £12,000, plus £5,000 for the line to connect the pump and additional IT costs.

2.6 The distribution infrastructure has already had to accommodate an additional product line—biodiesel. This has caused difficulties with product supply. For example, Esso no longer stocks domestic kerosene for home heating at its Birmingham depot, where the kerosene tank is now used to store biodiesel. Yet another product, such as a marked diesel for hauliers at a lower duty rate, would prove impossible to accommodate sufficiently widely to make it available throughout the UK. Distributors and independent retail sites would be forced to be selective in which products they stocked.

2.7 FPS is of the opinion that the problems outlined above would result in distortion of the market. There would be restricted availability of a separate grade of diesel, with tracts of the country where it would not be available to end users. Many smaller distributors already avoid dealing in road fuels because of the credit risk involved: since excise duty on road fuels became so high, the haulage industry has been a high credit risk. It is unlikely that distributors would wish to invest in or accommodate a haulage diesel for high risk customers, especially at the current uneconomic margins.

3. *Operational difficulties*

3.1 Many distributors and independent retailers could be forced to leave the road diesel market altogether if the volumes were reduced because some commercial vehicles were running on a different product: it would become uneconomic to offer only one type of diesel.

3.2 The number of fuel markers available to distinguish grades of road fuel is very limited and it might not prove possible to find a suitable one.

3.3 The chances of accidental cross-contamination would be greatly increased.

3.4 Oil distribution vehicles normally have four or five compartments, which can be loaded with different products on the one trip. However, an extra product would make it far less likely that routes could be planned to enable all the compartments to be filled for a trip. Therefore, more trips will be required to deliver the same total volume. This would be detrimental to the environment. Additionally, the distribution industry is facing difficulties in finding sufficient drivers under existing legislation. The application of the Working Time Directive to the transport industry in the form of the Road Transport Directive has put further pressure on the industry and it is acknowledged that it has increased the shortage of drivers. To make further journeys necessary because of the introduction of another product line would exacerbate the shortage and put higher costs on all oil products.

4. *Opportunities for fraud*

4.1 The opportunities for fraud would be extremely high. There would be difficulties for staff at retail filling stations in identifying which vehicles were eligible for a reduced duty road fuel.

4.2 Monitoring that all rebated fuel sales were made to appropriate recipients would be impossible. HGV filling facilities can be fairly remote from the point of sale as security of payment is guaranteed by presentation of appropriate means of payment before activating pumps. Even if an ineligible vehicle was identified as filling with the lower duty rate diesel, challenging the customer would put staff at risk at distributor, bunkering and retail filling stations.

4.3 The bunkering system could not deal with two grades of fuel without major changes. There is no linkage and therefore no cross-check between a card holder's vehicle and his drawings of fuel so that ineligible vehicles could easily be filled up with the cheaper haulage diesel: trucks could be used as mobile bowsers to collect the rebated fuel for aggregation and fraudulent resale.

4.4 There would be considerable opportunity for intimidation and collusion where a rebated fuel was offered for sale at retail filling stations. These locations, accessible to the public, have long opening hours and are minimally staffed.

4.5 It is unlikely that HMRC would be able to police legitimate usage of a new rebated fuel, even with many additional staff.

5. *Short-term measure*

5.1 A marked diesel system could prove to be short-lived if a distance-based charging scheme was subsequently introduced for all vehicles, as has been considered by Government in the past. The marked diesel system would then have to be withdrawn and replaced by a repayment scheme. This prospect would dissuade many companies from investing in a marked diesel scheme.

6. *Conclusion*

6.1 For the reasons given, FPS considers that any offsetting of fuel duty reductions should be by means of a repayment scheme, whereby hauliers declare fuel usage and are refunded some of the fuel duty. This would be a more practicable solution, would provide HMRC with a "closed" system, subject to audit and less open to fraudulent abuse and would not cause distortion of the market.

September 2008

Memorandum from the Retail Motor Industry Federation (RMIF) (TAX 42)

1. Introduction

The Retail Motor Industry Federation (RMIF) welcomes the opportunity to respond to the call for evidence for the forthcoming Taxes and Charges of Road Users'.

The RMIF represents businesses concerned with providing motor industry products and services and have 10,500 members throughout the UK. You will be aware that the annual turnover of the UK retail motor industry is in excess of £70 billion and employs 600,000 people in 30,000 businesses. Annually the industry raises £33 billion in tax revenue.

2. Summary Points

- Road transport is an essential part of the UK's movement of goods and people.
- No clear Government philosophy exists for the taxation for road users'.
- Taxes for road users should be equitable.
- Taxes for road users should not be a punitive form of revenue raising.
- The current system of road taxation is a blunt instrument.
- If road pricing is introduced it should be sophisticated and more than a revenue raiser.
- Road pricing cannot be implemented in isolation without improvement to public transport and rail network.

3. Philosophy of Road Taxation

The present system of raising tax revenue from road users is cumbersome and expensive to administer. The Government should be undertaking a radical review of road taxation and reform in order to distinguish such things as road charges, environmental taxation and general taxation.

A reformed taxation system would allow the development of socially responsible use of transport systems.

The Government does not currently define Road costs—only £7 billion of the £31.4 billion raised in motoring taxes is invested in roads annually.

Any environmental taxation must meet the criteria of 'good' taxation. It must meet defined objectives and avoid undesirable ends.

4. Present Impact of Taxation

The present punitive costs of road user taxation affect both businesses and private road users very hard. The dramatic rises in fuel costs in the past twelve months have hit all sectors particularly hard. With fuel consumption at 33 billion litres of road transport fuel annually the Government income has increased considerably. However, no corresponding respite has been given to the road users'.

The burden of the present taxation falls harder in rural areas where mileages tend to be higher for both business and private motorists. In rural areas incomes are correspondingly lower than urban areas, thereby making the costs as a proportion of income even higher.

5. Current Taxes

The following list shows what taxes are currently levied on road users:

- Vehicle Excise Duty—variable.
- Insurance Premium Tax—5%.
- MOT fees—variable.
- Fuel duty—50.35%.
- VAT on fuel—17.5%.
- VAT on protective clothing—17.5%.
- VAT on new vehicles—17.5%.
- VAT on fluids (oil, brake fluid, etc.)—17.5%.
- VAT on consumables (tyres, brake pads, etc)—17.5%.
- VAT on replacement parts—17.5%.
- VAT on labour—17.5%.
- VAT on training (including CBT)—17.5%.
- Import duty—variable.
- First Registration Fees—variable.
- DSA Driving/Motorcycle/CBT/Theory Test fees—variable.
- Road/bridge/crossing tolls—variable.

Source: HM Revenue & Customs and VOSA

6. Road Pricing

Any policy introducing road-pricing needs to be done sensitively, in a way that does not cause damage to economy and to allow free flow of goods and people.

If road pricing is to be a future instrument of road taxation then it must be more than the blunt instrument of taxation as shown by the London Congestion Charge. Using the mobile telephone as an analogy. Mobile telephone users opt for various tariffs that suit their needs. In the same way road pricing must offer different tariffs at differing times of the day. A road user at midnight should not pay the same tax as a road user at midday.

The RMIF would very much welcome an opportunity to give oral evidence before the Committee in due course.

October 2008

Memorandum from Professor Alan McKinnon and Ms Maja Piecyk, Heriot-Watt University (TAX 43)

1. Internalisation of the External Costs of Transport

The Committee's "Call for Submissions" asks if the "taxes and charges paid by motorists capture the external costs of congestion, local air and noise pollution, accidents and CO_2 emissions". The same question can also be asked of other road users. In the course of a Green Logistics research project,[83] we have tried to assess the extent to which the taxes paid by heavy goods vehicles (HGVs) cover their allocated infrastructure, environmental and congestion costs. Using data for 2006 and external cost valuations employed in the DEFRA-commissioned study of the external costs of food distribution,[84] we found that taxes on HGVs

83 www.greenlogistics.org
84 DEFRA (2007) "Reducing the External Costs of the Domestic Distribution of Food by the Food Industry". https://statistics.defra.gov.uk/esg/reports/costfoodtransport/Defra%20Final%20Report%2017%20May%202007.pdf

covered approximately two-thirds of their total infrastructure, environmental and congestion costs.[85] Congestion costs accounted for 40% of the total. If they were excluded, taxes on HGVs would more than cover the infrastructure and environmental costs (with a 12% surplus). The extent to which the external costs are covered by taxes varies with vehicle weight class. It is lowest for light rigid vehicles (between 3.5 and 7.5 tonnes) and highest for the heaviest category of rigids.

Internalisation calculations of this type are clearly sensitive to the assumptions made and the monetary values attached to imponderables such as the health effects of pollution, climate change and the value of time. Another study[86] which uses the 2003 sensitive lorry mile (SLM) valuations of externalities found that the degree of internalisation was substantially lower than we calculated. This highlights the need for a single agreed set of monetary values for transport externalities. The Department for Transport is currently revising its SLM valuations and these will probably become the new standards.

Internalisation studies can also produce different results for other reasons such as the treatment of VAT and adoption of either marginal or average cost values. In our study of the internalisation of HGV costs we included VAT on the grounds that it is passed down the supply chain and ultimately borne by the final consumer. Some other studies have excluded it arguing that only those taxes which have a direct bearing on the vehicle operators, and are thus be likely to influence their behaviour, should be included. Our study also compares tax with average values for external costs, whereas other studies have employed marginal cost figures. In the case of those external costs whose relationship with traffic volumes is non-linear, such as congestion and noise, the marginal costs can be much higher than the average costs. The use of marginal costs is appropriate in the case of the SLM assessments of Freight Facility Grant applications as these grants are designed to divert additional lorry from road to rail. It is less appropriate where, as in our study, the objective is to compare total taxes paid by HGVs with the total infrastructural and external costs allocated to this category of vehicle.

Another study that we have undertaken, again as part of our Green Logistics research project, has examined discrepancies in official estimates of CO_2 emissions from lorries in the UK.[87] Depending on the definition of trucking activity, the degree of reliance on survey, vehicle test-cycle and traffic count data and the geographical scope of the calculation, estimates can vary by as much as 30% for both a single year and a longer term trend. In recent years differing estimates of CO_2 emissions from HGVs have emerged from official sources, while the corresponding statistical series have undergone major revisions. For example, between January 2008 and March 2008 the estimated growth in CO_2 emissions from HGVs in the UK between 1990 and 2004–05 was revised downward from 30% to 10%. As a result of changes to government estimates of the fuel efficiency of HGVs reported in August 2008,[88] the percentage growth will have to revised down by a further 0.5%. As the methodology evolves and new data sources become available, it is inevitable that some revisions to key parameters, such as CO_2 emissions, will occur. They can, however, frustrate the policy-making process and erode the confidence of industry stakeholders in the validity of the figures.

The Committee should also note that the unreliability element in congestion cost estimates is quite crudely calculated. Much of the research on the effects of traffic congestion has been confined to its direct, "on-the-road" costs and relied heavily on estimates of average increases in journey time. The average number of seconds lost per vehicle-km due to congestion are multiplied by standard costs for driver and vehicle time. Previous studies,[89] including the one which determined the current set of SLM values, have added 25% to average congestion costs to allow for the variability in transit times. Recent estimates of unreliability costs have been based on the DfT's INCA software package, though we understand this has been calibrated with reference to a limited number of real-world applications. Earlier this year we produced a report[90] for the OECD which examines the effects of traffic congestion on the reliability of logistics operations in the UK. It highlights the complexity of this issue, particularly when consideration is given to the knock-on effects of congestion at business premises and the inter-relationship between congestion and other causes of unreliability in companies' supply chains. Our study did not attempt to put a monetary value on congested-related unreliability but it may help to inform future attempts by government economists to cost it more accurately.

[85] Piecyk, M and McKinnon, A C (2007) "*Internalising the External Costs of Road Freight Transport in the UK*" (download from green logistics website).
[86] Metropolitan Transport Research Unit (2008) "*Heavy Lorries—do they pay for the damage they cause*".
[87] McKinnon, A C and Piecyk, M I (2008) "*Measuring CO_2 Emissions from Road Freight Transport: A Review of UK Experience*" (download from Green Logistics website)
[88] Department for Transport (2008) "*Road Freight Statistics 2007*".
[89] Sansom *et al* (2001) "*Surface Transport Costs and Charges: Great Britain 1998*" DETR; SRA (2003) "*Sensitive Lorry Miles—Results of Analysis*".
[90] McKinnon, A C, Palmer, A, Edwards, J and Piecyk, M (2008) "*Reliability of Road Transport from the Perspective of Logistics Managers and Freight Operators*".
http://www.internationaltransportforum.org/jtrc/infrastructure/networks/documents.html

2. Alternative Methods of Charging

In previous written and oral evidence to the Committee, Professor McKinnon criticised the government's plans for a Lorry Road User Charging scheme which were abandoned in July 2005. This LRUC scheme was poorly aligned with the government's declared objectives at the time and would have been both unnecessarily complex and expensive had it gone ahead. The government therefore made the correct decision in not proceeding with it. It is very regrettable, however, that substantial public funds were squandered on this abortive LRUC scheme.

If the sole objective of a road user charging scheme for lorries is to "level the playing field" with foreign operators and correct the current fuel duty anomaly, a much simpler distance-based charging system could be developed involving the collection of mileage data from the tachographs of both British and foreign-registered vehicles. The system that our research centre proposed in evidence to the Committee in 2005 still merits further consideration.[91] It is worth noting that a recent review of the options for achieving tax parity between British and foreign-registered trucks, conducted by Pricewaterhouse Coopers for the Freight Transport Association, recommended a system similar to the one that we proposed in 2005. In this "Option 3", "HGV hauliers would receive a (fuel duty) rebate according to the distance travelled in the UK" with "miles per gallon (to be set by HMT) as a proxy for fuel use". This further strengthens the case for a reassessment of our proposal. The adoption of a vignette-based charging scheme, as currently being discussed, has the obvious disadvantage that it takes no account of the distances foreign-registered lorries travel in the UK, almost entirely on fuel purchased outside the country.

Our analysis of the internalisation of the external costs of HGVs, suggests that in 2006 foreign-registered lorries should have paid around £300 million in taxes for their use of UK road infrastructure and their contribution to congestion and environmental damage. The inclusion of these foreign vehicles reduces the overall degree of internalisation of infrastructure, congestion and environmental costs for all lorries (over 3.5 tonnes) operating on Britain's road to 64%. It is clearly a major anomaly that virtually none of the external costs imposed by foreign trucks are recovered in taxation. This not only puts British road hauliers at a competitive disadvantage; it also deprives the UK Exchequer of substantial revenue and breaches the accepted principles of rational road user charging.

October 2008

Memorandum from Department for Transport (DfT) (TAX 44)

Response to Written Questions

Question 1: *What is the Department's current strategy for the implementation of a national system of road user charging?*

Our focus is on developing effective solutions to congestion, which remains a serious long-term challenge to our economy and way of life.

The priority over the next decade is therefore on the things we can be doing to relieve pressure on the most overcrowded routes, to give road users greater choice over the journeys they take, and to recognise the importance of the reliability and predictability of journey times.

The Eddington report predicted that, left unchecked, congestion would cost the economy around an extra £22 billion every year by 2025.

It is frustrating for motorists, bad for the economy and damaging to the environment—and so we need to do everything we can to tackle it.

In certain circumstances that might involve road widening but we also need a smarter programme of investment—to use innovative approaches to get the best out of our existing road network. This should include investigating the potential of road pricing over the longer term.

Question 2: *What is the Department's estimate of the cost of implementing a national road pricing scheme? On what technologies are such estimates based?*

DfT has not made a recent estimate of the cost of implementing a national road pricing scheme.

Hypothetically, if the Government were to decide to propose a national road pricing system, a number of important policy questions would have to be answered before its likely costs could be estimated.

The policy questions range from the geographic reach of the scheme to whether it would apply to all vehicles, to which technology type would be used.

[91] McKinnon, A C and McClelland, D (2004) "*Taxing Trucks: An Alternative Method of Road User Charging*" http://www.sml.hw.ac.uk/logistics/pdf/lorryroaduser2.pdf

What's more, the technologies that could in theory be used include cameras linked to Number Plate Recognition software, vehicles carrying electronic tags that are read by roadside beacons, or vehicles carrying equipment that can then be read remotely.

Given this wide range of possible variables and the purely exploratory nature of current work, DfT has not attempted to calculate the costs of any particular combination since 2004.

In 2004 the *Feasibility Study of Road Pricing in the UK* noted that it was difficult to cost a national road charging scheme accurately and that therefore the estimates of annual running costs ranged between £2 billion and £3 billion—rising to some £5 billion if optimism bias was added.

Question 3: *What is the Department's estimate of the impacts of a national road pricing scheme on traffic growth, levels of congestion, carbon emissions and other key environmental factors such as air quality?*

Previous DfT modelling work has consistently shown that a well structured and widespread road pricing scheme could cut congestion in half despite only causing a small fall in traffic.

This can happen because it takes only a small reduction in traffic for a congested road to return to free-flow conditions. Our modelling also shows that a well-designed road pricing scheme could lead to small CO_2 and air pollutants cuts.

For example, the 2004 Feasibility Study concluded that a national road pricing scheme has the potential to cut congestion by up to 50% despite only reducing traffic by about 4%. It also suggested that road transport CO_2 emissions could be cut by about 4%, and that two key air pollutants (NOx and PM10) could fall by about 7% in London and other large urban areas.

In 2006 the Eddington study looked at the potential of a national road pricing scheme and came to a very similar conclusion—that congestion could be cut in half despite only a relatively small (7%) fall in traffic and that under such a scheme CO_2 emissions would also fall by 7%.

Question 3 (Supplementary): *What is the Department's estimate of the net economic benefits of a national road pricing scheme?*

The 2006 Eddington report studied this question very thoroughly. It looked not only at the straightforward time savings from cutting congestion, but also at the wider economic benefits—such as the agglomeration effects; the labour market benefits; and the competition benefits; from effectively bringing workers, business and consumers closer together.

Eddington came to the conclusion there were benefits of £28 billion per year in 2025 to be had from adopting a national road pricing scheme and that it would raise GDP by around £14–15 billion in 2025; all in 2002 prices.

Question 4: *On lorry road user charging (LRUC), why were these proposals abandoned? and what alternatives, if any, are being considered?*

The reasons for the decision not to proceed with a stand-alone road user charging scheme for lorries were set out in a statement to the House of Commons by the Secretary of State on 5 July 2005.

Following successful joint working involving the Government and the haulage industry through the Haulage Industry Task Group, the 2006 Pre-Budget Report announced that the Government would undertake a feasibility study to explore the scope for a "vignette" scheme, amongst other options. This responded to industry suggestions that such a scheme could provide a means for ensuring that foreign hauliers contribute to the costs they impose while using the UK's roads, while also helping to establish a database of foreign vehicles that could be assist the UK authorities in enforcing our road safety laws.

However, the feasibility study concluded that the benefits arising from a vignette scheme would be very limited, and a vignette scheme would not make a significant contribution to the government's safety, congestion, environmental or economic objectives.

Furthermore, EU law means that the maximum charge that could be levied through a vignette scheme would be just €11 per day. Accordingly, it was concluded that a vignette scheme would not make a significant contribution to the government's safety, congestion, environmental or economic objectives as revenues generated would to a large extent be swallowed up in running costs.

Question 4 (Supplementary): *What is the Department's view of the proposals for a simplified LRUC scheme based on tachograph records, as proposed to the Department by Professor Alan MacKinnon?*

An LRUC based on tachograph records was considered as part of HMT's LRUC project in 2005.

The associated Regulatory Impact Assessment (RIA) details the costs and benefits of both "automated" and a more simple "manual" scheme and is available on the Treasury's website.

The RIA explains that setting up a manual distance-based scheme would involve significant set-up costs, impose a substantial administrative cost on hauliers and the Government. It would also be highly vulnerable to fraud, which would create a new opportunity for unscrupulous operators to compete unfairly with the vast majority of law-abiding operators.

Question 5: *Will the Department be amending the TIF rules in light of the recent Manchester TIF vote?*

No. We remain committed to supporting local schemes that combine public transport improvements with demand management through congestion charging, and the outcome of the Manchester referendum does not change this.

We have made a commitment to make up to £200 million available a year to support TIF packages that combine charging with investment in public transport.

But, if local areas decide that charging is not currently the right solution to their particular congestion problems, we remain committed to working with them and supporting them through existing funding programmes.

We are already making record levels of investment in public transport. The Department is spending more than £2 billion a year invested through the integrated transport block local authorities receive and Regional Funding Allocations—neither of which will be affected by the referendum result.

Question 6: *What powers and duties regarding road user taxes and charges are devolved to Scotland, Wales and Northern Ireland?*

The following legislative powers regarding road charges are devolved to Scotland, Wales and Northern Ireland:

- Local Government parking charges (excluding all fines, which is not devolved and collected by HM Government).
- Parking meters.
- Car park charges.
- Residence permit parking charges.
- Road toll charges.
- Congestion charges (limited to trunk road charges in Wales).

All questions about tax fall within the competency of HM Treasury.

February 2009

Supplementary memorandum from Department for Transport (DfT) (TAX 44A)

WRITTEN ANSWERS TO THE TRANSPORT SELECT COMMITTEE

Q: *The total amount spent by the DfT on the rail network*

This information is published in the DfT Annual Report. The entire document is visible at: http://www.dft.gov.uk/about/publications/apr/ar2008/

The following table contains the relevant information:

Figure 5f: **Railways expenditure 2002-03 to 2009-10**[1]

	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Estimated Outturn	2008-09[7] Plans	2009-10[7] Plans
Net direct support for passenger rail services	930	1,225[3]	878	813	847	684	449	(250)
Grants to PTE's	245	294	277	199	313	310	323	329
Direct grants to Network Rail	792[2]	1,448	2,058	1,984	3,103[6]	3,154	3,224	3,066
CTRL grants	1,362	1,295	312	385	102	154	88	90
Freight grants[4]	49	32	26	5	0	0	0	0
Other[5]	390	394	296	104	84	72	74	76
Total	3,768	4,688	3,847	3,490	4,449	4,374	4,158	3,311

1 Prior to 2004-05 expenditure relates to spending by the Strategic Rail Authority (SRA) and the Department for Transport. During 2005-06 the functions and spending of the Strategic Rail Authority (SRA) were progressively transferred to the Department for Transport in accordance with the Railways Act 2005. This tables represents the combined spending of the SRA and its predecessor bodies, the DfT Rail Directorate prior to the relevant parts of the Railways Act being commenced and the new DfT Rail Group. From 2006-07 onwards figures show planned spending by DfT.

2 Figure includes a grant payment of £300 million to Network Rail to facilitate the purchase of Railtrack.

3 Figure includes £700miillion paid directly to Train Operating Companies that was subsequently deemed to be in respect of capital investment undertaken by Network Rail.

4 Responsibility for the payment of Freight Grants transferred from SRA to Logistics Divions in DfT on 26 June 2005. The figure in this table shows spending by the SRA prior to that transfer.

5 Figures include payments in respect of rail industry pensions, external costs in connection with specifying and procuring rail franchises and in managing rail projects and payments to the British Transport Police, the Rail Passengers Council, the Rail Heritage Committee and British Rail (Residuary) Ltd.

6 From 2006-07 onwards responsibility for paying grants to Network Rail for the rail network in Scotland has been transferred to Scottish Ministers. Spending plans in this table from 2006-07 onwards are in respect of the English and Welsh elements of the railway.

7 Total expenditure and the mix between support for passenger rail services and direct grants to Network Rail may be subject to revision as part of the regulatory review into Network Rail's income which is currently being conducted by the Office of Rail Regulation.

Q: *A breakdown of total transport spend trends per capita and per region*

This information is published annually as part of the Public Expenditure Statistical Analyses. The entire document is visible at http://www.hm-treasury.gov.uk/pespub_pesa08.htm.

The following table summarises the transport spending data:

	2002-3 current expenditure	2002-3 capital expenditure	2003-4 current expenditure	2003-4 capital expenditure	2004-5 current expenditure	2004-5 capital expenditure	2005-6 current expenditure	2005-6 capital expenditure	2006-7 current expenditure	2006-7 capital expenditure	2007-8 current expenditure	2007-8 capital expenditure
North East	211	270	235	232	218	244	238	508	270	318	258	365
North West	747	844	865	690	908	789	872	772	1,009	869	1,036	979
Yorkshire and Humberside	422	489	458	437	445	436	474	451	615	587	595	668
East Midlands	395	426	445	359	430	415	470	379	486	509	483	498
West Midlands	513	588	593	495	643	570	623	559	639	765	667	865
Eastern	401	603	503	545	418	592	436	669	451	866	426	990
London	1,554	1,658	2,679	1,874	2,068	1,844	2,052	2,218	2,200	2,613	2,129	2,922
South East	587	1,365	733	1,198	745	1,218	769	1,151	804	1,486	773	1,527
South West	395	486	434	444	463	501	523	503	575	706	557	779
England	**5,225**	**6,730**	**6,944**	**6,273**	**6,338**	**6,609**	**6,456**	**7,209**	**7,050**	**8,718**	**6,924**	**9,593**
Scotland	909	503	960	632	850	696	926	843	1,418	1,261	1,455	1,380
Wales	476	306	423	299	482	326	480	364	462	444	459	442
Northern Ireland	199	110	239	93	216	115	225	128	227	166	268	292
UK capital identifiable expe	**6,809**	**7,649**	**8,566**	**7,296**	**7,886**	**7,746**	**8,087**	**8,544**	**9,157**	**10,589**	**9,106**	**11,707**
Outside the UK	4	203	18	188	14	146	18	127	15	100	38	44
Total capital identifiable ex	**6,813**	**7,851**	**8,584**	**7,484**	**7,900**	**7,892**	**8,105**	**8,671**	**9,172**	**10,689**	**9,144**	**11,752**
Non-identifiable spending	128	17	110	12	136	21	144	10	141	8	151	8
Total current Expenditure on Services	**6,942**	**7,868**	**8,693**	**7,496**	**8,036**	**7,913**	**8,249**	**8,681**	**9,313**	**10,697**	**9,295**	**11,759**

Q: *How does the Department calculate congestions and its costs?*

Forecasts of road congestion are produced by the Department for Transport's National Transport Model (NTM).

The NTM is a robust national model for forecasting transport trends and the impacts of policy in England. It has been widely peer reviewed by leading academic experts.

As with any forecasts, there is a range of uncertainty, especially when looking as far ahead as 2025. However, we know from comparing recent forecasts with observed traffic that the model is performing very well, with forecast and observed data in line with one another.

Congestion in the NTM is measured as the total lost time of road vehicles (as a result of congestion) against a free flow speed. These lost hours are then multiplied by the Department's WebTAG values of time for each of the vehicle/journey types in order to arrive at a cost of congestion.

These values of time come from a variety of sources. Leisure and commuting values come from surveys, whereas trips undertaken during the course of work (and freight values) come from average relevant wage rates.

Q: *Does the Department differentiate between urban and interurban congestion?*

The starting place for the NTM forecasts is a base year (2003) traffic database of observed traffic which is overlaid on the road network representation model. From this, the observed congestion patterns can be seen.

Thus, we know that around 90% of congestion (lost hours) occurs on urban roads and only about 10% on rural roads (which includes inter-urban roads). When these lost hours are monetised according to the values set out in WebTAG we see that the congestion cost patterns are very similar to the pattern of lost hours. That is, the costs of congestion are disproportionately concentrated in urban areas.

Q: *How does the Department assess the hidden costs associated with road transport*

There are many costs involved in transport, which collectively can be split into private and external costs. Private costs are those paid for by the user and the external costs are those caused by the user, but paid for by society. The total of these two categories of costs is the total social cost.

Private costs include cost of buying a car, insurance, vehicle excise duty, petrol and diesel, bus or train fares and road tolls. External costs include CO_2, noise, air quality pollutants, infrastructure and congestion.

There are a number of ways of looking at these costs, with the main three ways being the total cost, the average cost and the marginal cost.

Using congestion as an example, time gets lost as vehicles get slowed down from free-flow speeds due to the presence of other vehicles on the same road. The total cost of congestion is valued in the NTM as the value of total time lost by all vehicles. The average cost simply divides the total cost by the amount of traffic, or vehicle kilometres. The marginal cost measures the change in total costs caused by an additional vehicle entering the road.

From an economic efficiency point of view the transport user should face the marginal costs of their action, that is, they should pay the external costs they impose on others by making their trip as well as the usual private costs they already pay. This ensures that they are making their decision to travel or not on the full information and hence are taking into account the costs they will impose on others.

Various studies have looked into what these marginal costs are, with perhaps the most recent authoritative one being the ITS Leeds, 2001, Surface Transport Costs and Charges study that the Department commissioned.

In addition to providing estimates of the true costs of transport, the study was important in clarifying how to apportion costs and charges to the additional kilometre driven or carried (ie the marginal cost).

The Department continues to update estimates of the various components of surface transport costs and charges, using its suite of models to help. In fact, DfT's published appraisal guidance (WebTAG), compiles the information on the costs and benefits of adding an additional vehicle to the road; "Unit 3.9.5: Major Scheme Appraisal—Road Decongestion Benefits".

This was last updated in 2007 and contains the key marginal external cost values for cars; summarised in the table below. The local air quality costs include health costs.

As can be seen, congestion costs far outweigh the other costs of driving an additional kilometre in a car. However, the congestion costs vary significantly, from 0p/km on quiet rural roads to £1.95/km on the most congested roads in conurbations. The tax paid by motorists from driving an additional kilometre is 3.6p/km, which only offsets the non-congestion costs on congested roads.

CAR MARGINAL EXTERNAL COSTS (2002 PRICES)

Cost Type	*Weighted Average (p/km) in 2010*
Congestion	13.1
Infrastructure	0.1
Accident	1.5
Local Air Quality	0.4
Noise	0.1
Greenhouse gases	0.3
Indirect tax (fuel duty and VAT on fuel)	−3.6
Total	11.9

Q: *Overview of DfT research spend on road user charging over the past 12 years*

In the limited time available we have been able to identify projects totalling around £32 million—excluding VAT and including contracts already let but not spent.

The bulk of this investment—almost £31 million—has gone into improving our understanding of the technological and operational challenges around delivering an effective road user charging system.

Past work in this area has delivered increased understanding of:

— the interoperability of tag and beacon, ANPR and GNSS-based (satellite positioning) charging technologies on a range of roads;

— the key challenges in developing robust and reliable charging processes and procedures between vehicles and back offices;

— the key challenges in developing an enforcement system capable of providing a seamless output to road users; and

— how we can draw maximum benefit from the capabilities of the supply industry.

The Demonstrations project will substantially increase our knowledge of the practicalities of operating Time/Distance/Place road user charging.

The Department has also invested £1.42 million into social research projects.

Work in this area has focused on:

— International approaches to road user charging.

— The distributional effects of road user charging—and mitigation strategies.

— Understanding the limits and possibilities of behavioural change.

— Factors affecting attitudes to road user charging.

Q: *The Cost of a single fare on a London bus*

Fares policy for London buses and the Underground is a Mayoral matter. Fares revenue forms an important part of Transport for London's overall funding envelope which is required to manage its estate and priorities. It is for the Mayor and TfL to set the level of fares in that context.

Currently, a single bus fare in London costs £1 when using an Oyster Card, £2 when using cash.

February 2009

Further supplementary memorandum from Department for Transport (DfT) (TAX 44B)

Q1: *The DfT's reply of 26 February gives data for total rail expenditure by DfT in 2007–08 as £4,374 million. However, in Public Expenditure Statistical Analysis (PESA) 2008 table 5.2 total rail expenditure is £8,185 million. What lies behind this discrepancy?*

The PESA data includes spending by local authorities, London underground, devolved administrations and public corporations as well as by DfT.

Q2: *What are the trends for regional transport spending on a per capita basis?*

This information is published annually as part of the Public Expenditure Statistical Analyses. The entire document is visible at http://www.hm-treasury.gov.uk/pespub_pesa08.htm.

The following table summarises regional transport spending trends, expressed on a per capita basis:

Table 9.12

UK IDENTIFIABLE EXPENDITURE ON TRANSPORT BY FUNCTION, COUNTRY AND REGION, PER HEAD INDEXED, 2002–03 TO 2007–08

	2002–03	*2003–04*	*2004–05*	*2006–06*	*2006–07*	*2007–08*
North East	78	69	69	106	71	72
North West	96	86	95	87	84	86
Yorkshire and Humberside	75	67	67	66	72	72
East Midlands	80	71	75	71	70	65
West Midlands	85	77	87	80	80	83
Eastern	76	72	70	72	72	73
London	179	232	203	207	197	195
South East	100	90	93	85	85	81
South West	73	66	73	73	77	76
England	99	100	99	98	95	95
Scotland	115	118	117	126	161	162
Wales	110	92	105	103	94	89
Northern Ireland	75	73	74	74	69	93
UK identifiable expenditure	100	100	100	100	100	100

Q3: *Can the hidden costs associated with road transport be represented in the form of hard, tangible numbers on the costs of externalities?*

The Government commissioned a major piece of analytical work from the University of Leeds to calculate the costs of the externalities of surface transport. This lead to the publication in 2001 of "Surface Transport Costs and Charges: Great Britain 1998". The gap between the date of publication and the date from which the data was drawn illustrates the challenge of estimating all the externalities across such a complex area.

The following table summarises the assessments of external costs in of "Surface Transport Costs and Charges: Great Britain 1998", as rebased by DfT economists so as to present the data in 2008 prices and values. In brief, we have:

- rebased congestion costs in line with GDP per capita;
- left infrastructure costs unchanged other than for inflation;
- rebased accident and local air pollution costs in line with GDP per capita;
- rebased noise costs in line with GDP per household; and
- increased CO_2 costs by 2% per year.

This has been done according to the guidance set out in webtag: (http://www.dft.gov.uk/webtag/sitepages/common.htm).

COMPARISON OF 2008 ROAD SECTOR COSTS

Pence per vehicle KM, Great Britain, 1998 prices and values

Cost category	*Fully allocated cost*		*Marginal cost*	
	low	*high*	*low*	*high*
Cost of capital for infrastructure	1.001305483	1.720191	n/a	n/a
Infrastructure operating costs and depreciation	0.962793734	1.245213	0.539164	0.693211
Vehicle operating costs (PSV)	1.384748615	1.384749	1.384749	1.384749
Congestion	n/a	n/a	15.45507	17.76298
Mohring effect (PSV)	n/a	n/a	−0.25467	−0.25467
External accident costs	0.095499905	1.241499	1.305165	2.228331
Air pollution	0.541166126	2.705831	0.541166	2.705831
Noise	0.363025763	1.179834	0.030252	1.179834

Pence per vehicle KM, Great Britain, 1998 prices and values				
Cost category	*Fully allocated cost*		*Marginal cost*	
	low	*high*	*low*	*high*
Climate change	0.234728038	0.970209	0.234728	0.970209
VAT not paid	0.15	0.15	0.15	0.15
Sub-total of costs	**3.34**	**7.2**	**12.32**	**17.05**

* The "Mohring effect" indicates how frequency and demand can work in a virtuous circle. In brief, the more trains run in any one period the shorter the average waiting time, the more people will be inclined to use the trains and the greater the pressure for more trains.

* Road sector costs exclude costs attributable to pedestrians, bicycles and motorcycles

* Accident costs are reported net of insurance payments.

Q4: *Do the sums cited for research into road pricing include the Transport Innovation Fund (TIF) pump-priming costs or the research referred to by the Highways Agency in its oral evidence to the Committee on 28 January 2009?*

TIF was not included in the Department's 26 February response, because it is inaccurate to describe it as road pricing research.

TIF's aim has always been to enable cities first to develop the capability to properly understand the nature of their congestion problems and second to develop a package or measures to tackle congestion—packages that included but were not limited to road pricing—and that would allow their economies to continue to grow.

Similarly, the Highways Agency has not undertaken or planning any research into road pricing.

The work associated with single lane tolling referred to in the Highways Agency's representatives' responses to the Committee was not research, but applying Highways Agency standards and guidance to the issues of traffic movements across lanes and at junctions.

March 2009

Memorandum from HM Treasury (TAX 45)

Response to Written Questions

1. *What is the Treasury's estimate of current total net revenue from taxes and charges on road users?*

1a. *What is the estimated total gross revenue from taxes and charges on road users?*

1b. *What is the total estimated expenditure on road transport, including policing, administration, and health service costs, in as far as these are not covered by insurance?*

The main taxes on motoring are fuel duty and Vehicle Excise Duty (VED), which raised £24.9 billion and £5.4 billion respectively in 2007–08. There is also VAT on the purchase and operation of vehicles, but HMRC does not collect data on VAT in a way that allows for isolating road users and aspects of road use attracting VAT.

Revenue from Company Car Tax (the portion of Income Tax and National Insurance Contributions paid on the benefit in kind derived from the provision of company cars) was £2 billion in 2005–06 (the latest year with outturn data). And income tax and National Insurance Contributions on the assessed benefit of company fuel (Fuel Benefit Charge) was £0.5 billion in the same year.

"Charges" could encompass a number of different things, including road/bridge tolls, parking, fines, congestion charging schemes and so on, many of which are not administered by central government, and where the revenue does not accrue to the Exchequer.

The most recent publication of the HM Treasury Public Expenditure Statistical Analyses (PESA), April 2008, shows that estimated total Government investment in roads was £8.8 billion in 2007–08, of which £3.1 billion was on national roads and £5.7 billion on local roads. These totals include the costs of road building, maintenance and highways administration.

The Government does not collect data relating to health service costs in a way that allows for isolating all costs relating to road transport. Road transport may have a range of effects on the general health and wellbeing of road users which are not immediately obvious or easily attributable but which never the less may result in overall costs to the Health Service.

The cost of roads policing is dictated by the operational decisions of the individual Chief Constables of England and Wales. They will decide how much resource to allocate to the policing of roads in accordance with local demands. Central government does not require police forces to report this information nationally.

However, Government spending and spending priorities are not determined by the way in which the money is raised, and aimed for revenue levels are not determined by trying to identify the exact cost of an activity. That is to say the Government does not make an explicit link between revenue streams and costs. Revenues from motoring taxation go toward public spending, not only on infrastructure or transport related costs, but for example schools, hospitals, and national defence, all of which motorists can benefit from.

2. *Treasury decisions on road user taxes and charges can have substantial impacts on transport and the achievement of the Government's transport objectives. What criteria govern the locus of decision-making on road user taxes and charges?*

2a. *How are these decisions taken?*

2b. *When such decisions are taken by HMT, what involvement does the DfT have in them and what is the process? Recent examples are changes to VED rates and fuel duty*

HM Treasury works closely with the DFT at official and Ministerial level in developing transport policies. DfT Ministers also routinely write to the Treasury prior to Budgets and Pre-Budget Reports to give their input and make policy suggestions—and all Government Ministers are welcome to make representations to the Treasury throughout the year. Decisions about tax policy are taken by the Chancellor, in the PBR and Budget process. In making decisions on tax rates, the Chancellor takes all relevant social, economic and environmental factors into account.

3. *What consultations take place between the Treasury and representatives of the road users regarding taxes and charges on road user?*

Officials and Ministers have regular contact with road user groups throughout the year. These groups put submissions to Ministers ahead of each PBR and Budget with their input and policy suggestions, and meet with a HM Treasury Minister before every PBR and Budget, as part of stakeholder consultation.

In addition, HM Treasury officials would normally speak to representatives from road user groups on the day of PBR and Budget to brief them on any measures that particularly affect them, and give them a chance to share first reactions.

4. *What is the Treasury's role in the possible development of a national road pricing scheme?*

The Treasury is committed to reducing road congestion, improving journey-time reliability and recognises the congestion benefits that better demand management could bring. Improved journey time reliability leads to an increase in productivity and an increase to the overall level of economic growth. HM Treasury continues to work closely with DfT to explore the potential for developing charging systems, and is supporting a DfT led demonstration project to help answer the crucial questions on feasibility, cost-effectiveness, privacy and the impact on real driver behaviour.

5. *What is the most recent evidence on the extent to which road users pay their marginal social costs, including externalities?*

The main externalities of road use are road wear and tear, accident costs, air pollution, climate change, noise and congestion. A 2001 study for the (then) DETR (environment, transport and regions) http://www.its.leeds.ac.uk/projects/STCC/downloads/SurfaceTransportCostsReport.pdf found the total external cost of an extra km driven to be about 11|–16 pence per km, of which congestion made up around three quarters of the total. But congestion externalities vary greatly according to time and location and the study estimated marginal external congestion costs at around 86p/km for central London peak time roads and 3p/km for non-major rural roads.

A more recent DfT paper for the Eddington review

(http://www.dft.gov.uk/about/strategy/transportstrategy/eddingtonstudy/researchannexes/research annexes volume3/transportdemand.pdf) also reports significant variation in marginal external congestion costs by location, with around 900 roads in and around major cities having costs in excess of 56p/km and 6,000 rural roads having costs less than 2p/km.

So while the carbon externality is closely related to fuel consumption, fuel duty cannot always accurately reflect other externalities (at the margin).

5a. *Is the Treasury seeking to set road user taxes and charges so that prices explicitly reflect the internal and external costs of road transport?*

In setting motoring tax (and all other tax) rates, the Chancellor takes all relevant social, economic and environmental factors into account. While it is true that some road taxes are now designed to incentivise lower carbon vehicles, motoring taxes are also revenue raising instruments.

6. *What is the Treasury's estimate of the reductions in carbon emissions as a result of the changes in fuel duty, VAT and VED announced in the Pre-Budget Report of November 2008?*

Fuel duty increases up to 2010–11 are expected to result in a carbon saving of around 0.5 $MtCO_2$ in 2010–11.

Increasing rebated oil rates in proportion to main fuel duty rates will help deliver small CO_2 and local air pollution benefits through less use of rebated oils which are more polluting.

Reforms to VED including the introduction of new bands from April 2009 and First-Year Rates from April 2010 is estimated to result in a cumulative saving of 1.0 $MtCO_2$ by 2020, including the impacts of staggering the reforms. This assessment only includes impacts in the new car market but the measure will also apply in the second hand market.

HMRC does not collect data on VAT in a way that allows for isolating road users and aspects of road use attracting VAT.

6a. *Does [the HMT estimate of reductions in CO_2 emissions as a result of changes in fuel duty, VAT and VED announced in PBR 08] take account of the carbon costs of new car construction and decommissioning?*

The estimated carbon savings do not explicitly account for the carbon costs of new car construction and decommissioning. Insofar as changes to fuel duty, VAT and VED affect purchasing, driving and/or scrapping decisions, this will have knock-on effects on construction and decommissioning emissions, although this is an indirect effect and we don't have comprehensive life cycle emissions data to make any such assessment.

The Society of Motor Manufacturers and Traders Ltd (SMMT) 9th Sustainability Report (http://lib.smmt.co.uk/articles/sharedfolder/Publications/9th%20SMMT%20suststainability%20report%20final2.pdf) estimates that 85% of life cycle CO_2 comes from the usage phase of a vehicle, 10% from production and 5% from disposal.

6b. *What is HMT's estimate of the impact of the new VED rates on the resale value of cars bought between 2001 and 2006?*

The maximum increase in VED that any existing car (including those bought between 2001 and 2006) will face under the PBR announcements in £5 in 2009 and £35 in 2010. Many will also see tax cuts of up to £30 in 2010.

The Treasury does not hold figures on the impact of tax changes on the resale value of used vehicles. While tax will affect resale values to some degree, these will also be affected by a number of other factors, such as brand, mileage, reliability and comfort. Of equal or greater concern to consumers than the absolute resale value of a car may be the difference in price between their present vehicle and new purchase.

Given that there are three times as many transactions involving used cars as new ones each year, it is important that the incentive in VED to purchase lower carbon vehicles applies in the used car market as well as the new car market.

7. *What is the Treasury's assessment of the impact on the UK haulage industry of the 2p increase in fuel duty announced in the PBR of November 2008?*

The overall aim of PBR 08 was to support the whole economy—including businesses—through difficult times for everybody. The VAT cut will help businesses, including hauliers' clients, by supporting consumer confidence and spending. Other measures from which hauliers may benefit include the deferral of the increase in the Small Companies Rate of Corporation Tax, the extension to three years of the carry-back period for business losses of up to £50,000, and enhanced HMRC support, which will allow businesses with cash-flow difficulties to spread their tax payments over a timetable they can afford.

The 2ppl increase in fuel duty announced at PBR is much smaller than the fall in fuel prices since summer peaks—eg ex-VAT diesel prices have fallen from peak of 113.17ppl (July monthly average) to 86.42 ppl now (26 Jan), a fall of more than 23%, and have fallen by more than 5 pence per litre since PBR alone.

8. *What would be the revenue implications for the Treasury from a large-scale switch to low-carbon vehicles (electric, hybrid etc), as recommended by Professor King?*

The purchase and use of ultra low carbon vehicles potentially may have significant impacts on the level of revenue the Exchequer accrues through the main motoring taxes, such as vehicle excise duty and fuel duty. But the Government recognises that it is important that the taxation framework continues to send a clear environmentally focused message to motorists, through for example the Budget 08 announcement widening the VED differentials between the least and most fuel efficient vehicles.

9. *What percentage of the costs of goods and services is transport costs?*

9a. *What would be the likely impact on RPI of, say, a 10% rise in fuel duty for freight vehicles?*

There are encouraging signs that inflationary pressures resulting from the oil price shock are now starting to ease. Transport costs for services producers have fallen from its peak in the first half of 2008 with all transport related categories now having fallen on a quarterly rate. For example, the latest Services Producer Price Index shows freight transport by road rose by 1.3% over the quarter in 2008 quarter 3, down from 3.2% in the previous quarter.

A 10% increase in fuel duty for freight vehicles would have a negligible impact on the Retail Price Index annual rate as it has a very small weight in the series.

10. *On average, what proportion of household income do different income groups spend on motoring?*

10a. *Does this differ between urban and rural areas?*

The ONS Family Spending report

(http://www.statistics.gov.uk/downloads/theme_social/Family_Spending_2007/FamilySpending2008_web.pdf) details household spending and income. Table A8 shows expenditure by income group and Table A38 shows expenditure by urban/rural areas.

The proportion of household income spent on the "purchase of vehicles" (includes new and used cars, vans and motorbikes) and "operation of personal transport" (includes fuel, maintenance and servicing), by income quintile, is as follows:

Quintile	*% of gross income*	*% of disposable income*
1 (poorest)	9%	9%
2	9%	10%
3	9%	11%
4	8%	10%
5 (richest)	7%	9%
All households	**8%**	**10%**

Average weekly spending on transport in urban areas is £58 (9% of gross income) and £73.80 (11% of gross income) in rural areas. As well as the purchase and operation categories above, these two figures also include "transport services" (public transport fares), which unfortunately are not reported separately so cannot be removed.

11. *What is HMT's estimate for the national cost of congestion? How has this estimate been compiled?*

The 2006 Eddington Transport Study, commissioned by DfT and HMT, gave a figure for the cost of congestion to business in England in 2003 of £7 billion in 2002 prices. The study also published figures showing that the cost to all road users is considerably larger than for business alone. In fact, in 2025 it estimated the cost for all road users being double that for business. If this factor is applied to the 2003 estimate it gives a total congestion estimate of about £14 billion in 2003.

These congestion cost estimates were produced using the Department for Transport's National Transport Model. This multi modal transport model was used to estimate the total lost time of road vehicles against a free flow speed as a result of congestion and then multiplied these lost hours by the Department's WebTag values of time for each of the vehicle/journey types.

The NTM is a national model that is underpinned by a wide range of data sources and has been extensively peer reviewed. The cost of congestion numbers are dependent upon: observed levels of traffic on different road types by time of day; observed relationships between traffic volumes, capacity and speeds; National Travel Survey data on journey purpose; and the values of travel time savings. The time saving values are based on DfT published WebTAG guidance which in-turn has been obtained from data sources such as the Labour Cost Survey, the New Earnings Survey and willingness to pay surveys.

12. *Is there any evidence, from the Eddington study or other research, to suggest that the use of roads has external benefits which could justify marginal costs, including charges, being kept lower than the marginal social costs?*

The social cost is the sum of private costs and external costs. All externalities should be included in this, whether these be positive or negative, to reflect overall cost.

[In addition, as outlined in the response to question 1, although taxes on motorists can help internalise externalities [or incentivise behaviours], they are also a revenue raising instrument.]

12a. *Does the Treasury believe that the current transport investment appraisal methods (NATA etc) fully reflect the external costs and benefits of road transport?*

One of the New Approach to Appraisal (NATA)'s main principles has been ensuring the picture provided by a promoter of a proposal is comprehensive, including all the impacts. We expect evidence on costs or benefits; whether assessed in money terms, quantitatively or qualitatively.

Recent evaluations of the appraisal approach used in transport—such as the HM Treasury/Department for Transport Eddington Study—have been positive about this approach. We have also recently concluded a public consultation on NATA and this was also supportive, though raised a number of issues.

However, after 10 years and following Eddington and Stern, we need to ensure the appraisal processes meet the challenge of the next decade. The Department for Transport announced a Refresh of NATA in May 2007, with a consultation ending in March 2008. In July, the responses were summarised and a set of "quick win" products were released. These are: taking account of carbon emissions; new methods to capture the value of more reliable journeys; new guidance on appraising cycling and walking schemes; an e-community to develop modelling techniques for smarter choices; updating forecasts of long-term trends.

February 2009

Question 5 to the Department for Transport

What powers and duties regarding road user taxes and charges are devolved to Scotland, Wales and Northern Ireland?

I am also responding to the tax aspect of this question to the Department for Transport as it relates to HM Treasury areas of responsibility.

The following legislative powers regarding road charges are devolved to Scotland, Wales and Northern Ireland:

- Local Government parking charges (excluding all fines, which is not devolved and collected by HM Government).
- Parking meters.
- Car park charges.

- Residence permit parking charges.
- Road toll charges.
- Congestion charges.

Wales does not have primary legislative powers (unlike Scotland and Northern Ireland) to introduce anything new beyond existing legislation for road charges, anything that needs primary legislation to implement has to go through DfT.

None of the Devolved Administrations have central government motoring tax powers, as this is not devolved. This includes fuel duty and vehicle excise duty.

February 2009

Supplementary memorandum from The Royal Dutch Touring Club (ANWB) (TAX 46)

Car-related Taxes in the Netherlands (2008–09)

(Dutch names in italics)

1. Fuel Tax *(Accijns)* Varies according to fuel type

	2008	*2009*
Petrol (unleaded)	€0.68	€0.70
Diesel	€0.40	€0.41
LPG	€0.06	€0.07

2. Vehicle Tax/Circulation Tax *(Motorrijtuigenbelasting or MRB)* per trimester

Varies according to:

- Weight of the car.
- Fuel type.
- Provincial taxes (different in each of the 12 Dutch provinces).

	2008	*2009*
Private car (petrol) 1,000kg	€93	€96
Private car (hybrid) 1,100kg	€57	€30
Private car (diesel) 1,300kg	€291	€308
Private car (LPG) 1,300kg	€215	€226

NB 1. Above mentioned taxes include provincial tax of the province of South Holland, which has the highest provincial tax in The Netherlands.

NB2. Circulation tax as well as provincial tax will be abolished from 2012 onwards. Until then, the amount due increases annually, to compensate for the decrease of BPM (see under 4.)

3. VAT (BTW): 19%

4. Car Sales Tax (BPM)

2007: 45.2%

2008: 42.3%

2009: 40%

From 2010 onwards, BPM percentage will decrease by 5% annually.

From 2013 onwards, BPM percentage will further decrease by 12.5% annually.

BPM will be fully abolished as from 2018.

5. Toll on motorways

Dutch motorists have to pay toll on a limited number of tunnels and bridges:

- — Westerscheldetunnel (until 2033).
- — Kiltunnel (near Dordrecht).
- — Nieuwerbrug bridge.

February 2009

Supplementary memorandum from Federation of German Industries (BDI) (TAX 47)

Regarding the more general questions of taxes and charges on road users in Germany:

- — Fuel tax (Minerallsteuer) is different for leaded and unleaded petrol (Benzin) and Diesel:

  unleaded: 669,80 Euro/ 1.000 litre

  leaded: 721,00 Euro/ 1.000 litre

  Diesel: 485,70 Euro/ 1.000 litre
- — Vehicle tax (Kraftfahrzeugsteuer) for HGV is calculated on the basis of maximum permissible weight (in 200 kg steps) and varies with emission levels (Euro-Standards). However there are caps, so that the maximum taxes are:

  556 Euro (for S2 and better)

  914 Euro (for S1)

  1,425 Euro (for G1)

  1,681 Euro (for non classified vehicles)
- — Vehicle tax for private cars is currently calculated on the basis of engine size and varies with emission levels (Euro-Standards). See below for rates. There is a legislative proposal to change the calculation basis to CO_2-emissions. However at the moment this would only apply to newly registered cars. The legislation will probably become effective by 1 July 2009, however it has just been halted by the Bundesrat (Länder-level) over a question of revenue distribution.
- — VAT (Mehrwertsteuer) is 19%.
- — There is no car sales tax.
- — There is a general insurance tax (Versicherungssteuer) at 19%, but this is not specific to road transport or road traffic in general.
- — The truck toll (Lkw-Maut) applies to HGV (12t and above) on all motorways (and three smaller segments of the federal road network).

Rates of Vehicle tax for private cars:

- — The vehicle tax rates for private cars are differentiated by emissions classes and engine type (petrol/ diesel):

  Euro-3 and better

  6,75 Euro/ 100 ccm engine size (petrol)

  15,44 Euro/ 100 ccm (diesel)

  Euro-2

  7,36 Euro/ 100 ccm

  16,05 Euro/ 100 ccm

  Euro-1

  15,13 Euro/ 100 ccm

  27,35 Euro/ 100 ccm

  Euro-0 (formerly: no ozone driving ban)

  21,07 Euro/ 100 ccm

  33,29 Euro/ 100 ccm

  Euro-0 (others)

  25,36 Euro/ 100 ccm (petrol)

  37,58 Euro/ 100 ccm (diesel)

In the new vehicle tax legislation there is an exempted CO_2-emissions allowance of 120 g CO_2/ km (2011), which will gradually be reduced to 110 g/ km (2012/ 2013) and 95 g/ km (2014). Additional emissions are taxed with 2 Euro per g/ km. However the "socket rate" for every vehicle is 2 Euro/ 100 ccm engine size (petrol) and 9,50 Euro/ 100 ccm engine size (diesel). This applies to all newly registered vehicles. The existing vehicle fleet will gradually be included into the CO_2-based taxation. However, this is still subject to approval.

February 2009

Memorandum from the National Joint Utilities Group Ltd (TAX 48)

As you will be aware, during the oral evidence session, Kulveer Ranger (Director of Transport Policy, Mayoral Team, Greater London Authority) and Michele Dix (Managing Director, Planning, Transport for London) expressed the view that a large amount of the congestion in London was being caused by utility street works. In particular they suggested that utilities were responsible for removing up to 10% of road space. We note your committee asked to see details of how this figure was arrived at and how it has affected congestion levels. We too would be interested to see these details. More generally we thought the Committee might find it of use to hear industry's perspective.

Essential street works can sometimes cause unfortunate but unavoidable disruption. However, as independent research[92] has proven that utility street works are only responsible for about 5% of all congestion, we view with scepticism Ms Dix's comments that congestion has increased in the large part because of utility companies "taking road space away" from road users. In fact the scale of disruption utilities are often blamed for is striking in its contrast to figures provided by Professor Phil Goodwin's study "Utilities' Street Works and the Cost of Traffic Congestion" which shows that the "great majority of works cause delays of less than 20 seconds per vehicle".

Our members, who include all the major utilities in London, have been phasing in a number of voluntary measures over the last two years to reduce the unfortunate disruption that can sometimes occur as a result of our essential works. This includes the widespread use of minimum-dig techniques wherever practical and cost-effective, and advance-planning pilots to co-ordinate planned works where possible. For example, the London Advanced Planning Scheme includes EDF Energy, National Grid, Thames Water and Southern Gas Networks. The scheme has resulted in effective co-ordination of a number of gas, water and electricity planned works, and the major planned works are entered in TfL's London Works system so that the information is readily available for TfL and authorities to use to better co-ordinate works (as is their responsibility under the Traffic Management Act 2004). We would welcome a commitment from Transport for London and London Boroughs to join with utilities by sharing their own planned road works and entering this data so that these too could be co-ordinated. This would certainly bring greater reductions in congestion, given that authority road works account for 50% of works in the street.

In April 2007 NJUG launched its Vision for Street Works,[93] which demonstrates our commitment to supporting the implementation of the Traffic Management Act 2004 as well as existing street works legislation and codes of practice. This was followed in 2008 by the launch of the inaugural NJUG Awards to recognise the voluntary efforts being made by utilities and contractors to combat disruption and improve efficiency of works. There were six categories, one aligned with each of our Vision for Street Works statements. All submissions are currently being turned into NJUG case studies, available for public download from our website, to help raise awareness and share good practice within the industry.[94]

As you will be aware, under the Traffic Management Act 2004, one of the leading regulations, now implemented, to combat disruption deals with the introduction of street works permit schemes. NJUG has to date established successful dialogues with Local Authorities considering permit proposals, such as Kent County Council, which we believe will result in workable schemes. Mr Ranger mentioned that a similar scheme was being developed in London as part of Boris Johnson's "holey war on holey streets". While NJUG has sought to work with TfL and London Boroughs over this proposed permit scheme, they have been unwilling to consult with utilities beyond their statutory duties. Whereas with Kent we have been able to provide technical and practical expertise, TfL/London Boroughs have not taken up our repeated offers to assist with developing their scheme.

Recently, discussions have begun with the Mayor's team on trialling the permit scheme on a voluntary basis, as part of a practical assessment. This is something NJUG and its members has welcomed, as it is essential to ensure the scheme is both workable and effective at fulfilling its primary objective, combating congestion. Unfortunately, TfL has indicated that it wishes to only trial the computer software and is not in a position to instigate a full-scale trial for some months. We are urging them to reconsider so that all aspects of the scheme can be fully tested.

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92 "Utilities' Street Works and the Cost of Traffic Congestion" Professor Phil Goodwin, February 2005. http://www.transport.uwe.ac.uk/research/projects/NJUG-congestion.asp

93 http://www.njug.org.uk/category/3/pageid/8/

94 A number of case studies have already been released and can be found at www.njug.org.uk

NJUG are committed to assisting Government in its efforts to reduce congestion and to making sure that any permit schemes brought in are both workable and efficient. This is despite the fact that recent research conducted by the Regulatory Policy Institute raised serious questions over the justification for permits. The research also questioned the robustness of the original cost/benefit analysis conducted by central Government which failed to justify the need for permit schemes (over and above existing regulation), and prove how they would reduce congestion.[95]

It must be stressed that utilities only carry out street works when entirely essential. Such instances fall into four key categories: safety, security of supply, to connect or upgrade customers' supplies, or to divert apparatus to facilitate major transport or urban regeneration projects. Mr Ranger argued that disruption would be reduced if utilities were "fined at a significant level". This should be considered cautiously as such action may potentially fuel the wrong behaviour by discouraging utilities and contractors from using the most effective methods of operating, opting instead for a short term quick fix to avoid penalties. Utilities conduct their works as efficiently as possible so that the teams involved can move on to their next job as swiftly as possible. After all, any increase in fees, whether through fines or permits, will ultimately be passed on to the consumer, a view that is supported by research recently published by Exor.[96]

Finally, I would like to draw your attention to recent research conducted by ComRes[97] on the public's opinion of street works. The survey shows that those polled agree that ensuring the security of essential supplies provided by utilities is a higher priority than attempting to reduce congestion. However, while the majority of people are willing to accept the necessary disruption, 45% of those interviewed rate utility companies as "poor" in explaining the steps they are taking to maintain their networks. As a result NJUG is actively reviewing ways in which utilities can improve communication with the public.

I hope this has been useful in providing a broader picture of the issue.

March 2009

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[95] "Review of the Regulatory Impact Assessments accompanying the introduction of the Traffic Management Permit Scheme (England) Regulations 2007" Tim Keyworth, Regulatory Policy Institute, June 2008. http://www.njug.org.uk/publication/94

[96] Exor's survey demonstrates that 91% of respondents (252 individuals from Highway Authorities and Utilities in England and Wales) believe that additional costs incurred by Permit Schemes will have to be recouped through increases in consumer bills, and 80% believe that street works permitting is simply a stealth tax for revenue generation: http://www.exorcorp.com/page.aspx?pageId=364

[97] The survey can be found at: http://www.njug.org.uk/uploads/0901_ComRes_survey_key_headlines.pdf

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