Paying for Driving:
Is Doing Nothing an Option?

A briefing on behalf of the Greener Transport Council

by

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Summary

'Road pricing' is one of the most talked about non-starter policies in the transport sector. Debate on changing how we pay for driving reaches back over half a century. The transition to electric vehicles may now suggest winds of change. Yet there are no signs that road pricing is on the political agenda.

We have examined what continuing with the policy of the last 14 years - doing nothing - might have in store. With a starting point of '*Government takes no steps to directly replace diminishing fuel duty tax income*', applying a simple yet powerful foresight technique known as the 'futures wheel' reveals a cascade of potential consequences. Together these highlight that if doing nothing was presented as an intentional policy it would be widely rejected as disastrous.

If more was understood about doing nothing, the prospect of doing something would grow in terms of relative appeal. With a new Labour Government holding an overwhelming majority in the House of Commons, we suggest that there has never been an easier time to make one of the most difficult decisions in transport policy.

Context

How we pay for travel by car and van has been long established, with an annual duty levied on the vehicle and a pay as you go approach at the pump. Fuel duty raised £25bn for the Exchequer in 2022/23[1] (further boosted by VAT applied on top of this at the pump). Vehicle Excise Duty raised a further £7.4 bn. However, the amount which we have paid in fuel duty has fallen, in real terms, by over 25% since 2011. The Institute for Fiscal Studies reports that freezing fuel duty in real terms since 2011 has meant £80bn of income to the Government foregone.[2]

The UK has also committed to a transition pathway where all new vehicles sold will be electric, or some other zero emission technology, by 2035 at the latest (with Labour's manifesto committing to restore the former phase-out date of 2030). Electric cars are currently more expensive to purchase but, for most, have much lower running costs. If you can charge off-street at your own house this can be as little as one-sixth of the cost, per mile, of driving a fossil-fuelled car. Home based charging currently only incurs VAT at 5%, as with other domestic energy uses (compared to 20% VAT levied on petrol and diesel sales).[3]

As the switch progresses to electric, two significant shifts happen. First, the cost of driving a vehicle falls for more and more people every year. Second, the income to the Exchequer diminishes. The OBR estimates that "rising take-up of electric vehicles is expected to cost £13 billion a year in forgone fuel duty by 2030"[4].

[1] https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/fuel-duties/
[2] https://ifs.org.uk/publications/policy-risks-fiscal-outlook
[3] https://www.zap-map.com/ev-stats/charging-price-index - our data represents typical off-peak home-based charging but on-street rapid charging can be comparable or more expensive than petrol. 14 pence per mile is the assumed cost for a fossil fuel vehicle with a domestic tariff of 7.9p/KWh or 2.4pence per mile for an EV with off-street charging.
[4] https://obr.uk/docs/dlm_uploads/Fiscal_risks_and_sustainability_report_July_2023.pdf (p.3)

Many reports have been written about why and how to change paying for driving.[5] The arguments are well rehearsed but remain in the backwaters of policy. Changing how we pay for driving is difficult. 2024 represented the 14th year of fuel duty freezes in the Budget. If we have not been able to change *how much* we pay for driving, how would the case for changing *how* we pay for driving be made?

Whilst the case for doing something might be clear to some, the current default position is to 'do nothing'. Doing nothing avoids a big discussion because, in some respects 'nothing changes'. However, doing nothing each year for the past 14 years has been, of course, a very deliberate choice. *It is doing something* (notably exerting a downwards pressure on the cost of motoring). The question is whether this stealth form of doing something has been and remains a good idea? If so, who wins and, importantly, who loses? How will this play out as more and more people switch to electric and the costs of driving fall, as well as the associated tax revenues? The Greener Transport Council ran an expert workshop in June 2024 exploring the first and second order effects of carrying on with fuel duty freezes for fossil fuels and the increasingly rapid uptake of electric vehicles.

Approach

On 5 June a team of seven people from Mott MacDonald and the University of Leeds facilitated a two-hour online workshop involving 22 participants. Together those taking part represent a considerable wealth and diversity of transport sector experience. Many of them have directly contributed to the long history of examining road pricing.

Participants were presented at the start with the following statement: "*Government taking no steps to directly replace diminishing fuel duty tax income from driving is a cause for concern*". Nearly all agreed or strongly agreed with this statement, pointing to public sector revenue loss as the principal overall reason. When asked again at the end of the workshop for views on this statement, strength of agreement had increased. Comments included: "*more reasons to be concerned about not doing anything have surfaced!!*"; "*too many wider impacts to simply do nothing – debate is not just about revenue raising*"; and "*the mapping exercise showed it's even worse than I initially thought – knock-on effects across society, economy, health, environment*".

So what happened in between examining this statement at the start and end of the workshop? The main part of the workshop involved a foresight technique known as the 'Futures Wheel'[6]. This is a simple yet effective means of helping people to think together systematically. At the centre of the wheel the starting proposition was that "*Government takes no steps to directly replace diminishing fuel duty tax income*". Participants then worked in three parallel groups to create outward spokes to a surrounding set of envisaged first-order consequences of the starting proposition. In turn the wheel then extended further out with another layer of spokes to second-order consequences stemming from the first order consequences. Some third-order consequences then began to emerge within the time limit.

The exercise was disciplined to avoid creating 'intellectual spaghetti'; and while not exhaustive, produced a set of three wheels that were then reviewed and compared. We have subsequently synthesised the workshop results into a simplified single 'Futures Wheel of Doing Nothing on Road Pricing'. This is shown in Figure 1.

[5] Most recently see the Chartered Institution of Highways & Transportation's white paper "Charging for road use - What is the future of mobility pricing?" https://www.ciht.org.uk/mobilitypricing/

[6] https://www.researchgate.net/publication/349335014_THE_FUTURES_WHEEL

Findings

'Doing nothing', rather than being harmless, looks set to be a very bad version of doing something, creating policy outcomes that would be considered indefensible were they to be tabled formally. Making per mile driving costs cheaper will:

- encourage the purchase of larger vehicles (the average weight of a new fossil fuel car has risen by a quarter since 2016)[7];
- lead to more driving and congestion (a 10% reduction in driving costs increases miles by 1.5%)[8]; and
- undermine public transport, making service cuts inevitable (unless more Government funding is provided). In England, urban bus services outside London have, for example, fallen by 48% since 2008 and rural services by 52%.[9]

These all work together to create a set of conditions which make alternatives to the car less viable and which exacerbate safety, air quality, congestion and climate concerns.

The impacts are not universally negative for drivers in the short-run. They face cheaper per mile costs. For those who are least able to pay for driving, it therefore remains more comfortably in reach. Those who live in rural areas and need to drive further to access employment, goods and services will also benefit. However, this is a short-run seduction because it will worsen the conditions in which everyone is driving and reinforce dependence on motoring, in turn shaping land-use development accordingly.

In life, if something looks too good to be true, then it probably is. The equity implications are much wider than 'making driving cheaper'. How much people (and businesses) pay for driving is about to become very different and, we would argue, one of the most unfairly distributed tax burdens in the economy:

- *For those who continue to drive*: Those who can shift to electric will pay around one sixth of the cost per mile as a driver of a fossil fuel vehicle if they have off-street charging at home. As EV purchase prices fall this differential will essentially fall first to the wealthy who buy newer EVs, and will take many years to flow through to everyone.
- *For those who cannot drive*: Their public transport services will be eroded further.

There is a separate, but related, set of questions about the implications of the reductions in fuel duty which will follow from the switch to EVs. Already, allowing the income from fuel duty to diminish means that receipts from fuel duty have fallen from 2% of GDP in 2000 to 1% if GDP in 2023.[10] How any further reduction impacts the population depends on what Government decides to do. Options include:

- allowing the income from fuel duty to diminish and not replacing it;
- allowing the income from fuel duty to diminish and recouping it through other taxes;
- allowing the national income from fuel duty to diminish and looking to local authorities to recoup it through local charging schemes; and
- introducing a new national scheme to address how we pay for driving.

Our briefing is not extensive in its treatment of the 'right thing to do'. There are multiple options and combinations of options. In considering options to increase revenue, it should be borne in mind fuel duty is a progressive tax and replacing it with some other form of general taxation (also difficult politically) which is

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[7] https://www.autocar.co.uk/car-news/new-cars/average-weight-new-cars-rises-nearly-400kg-seven-years
[8] Wardman, M. (2023) Meta-analysis of price elasticities of travel demand in great Britain: update and extension, Transportation Research Part A, 158, 1-18
[9] https://friendsoftheearth.uk/climate/bus-services-outside-london-plummet-new-research
[10] https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/fuel-duties/

better for the economy and fairer would be challenging. However, with the switch to EVs underway, the shelf life of fuel duty to plug any gap is limited.

It is not clear what the implications of the above options are for transport investment. The argument is that fuel duty is not ring-fenced and therefore a readjustment of the tax system should not necessarily reduce spending in the sector. However, the workshop was clear that a combination of higher use of roads, heavier vehicles and lower tax take was a recipe for a further likely deterioration in the maintenance of the road network.

Our participants felt that this is critical time for reviewing how we pay for driving. No-one likes taxes, but the population is generally accepting of the need to pay some contribution according to how much they drive. Fuel duty increases have sparked controversy, but rarely so and often as part of wider protest movements. The implications of normalising paying very little 'per-mile' for how much we drive as we switch to electric are uncertain. It may make any future adjustments to paying for driving more and more difficult as people get accustomed to a 'cheap deal'. It may, though, erode claims which drivers sometimes make of having paid good money for the 'right to drive'. Leaving the issue to one side is surely the easiest choice for now. However, kicking the can down the road has consequences for the longer term. Plainly put, there will unavoidably be a need to do something about the consequences of doing nothing about how we pay for driving.

Conclusion

Our conclusion is clear. Doing nothing to change how we pay for driving is a bad idea. It will:

1. lead to significant unfairness on the path to electrifying the vehicle fleet;
2. result in a transport system which is more congested and less safe;
3. increase carbon emissions;
4. undermine public transport, reducing service provision; and
5. further tighten overall public sector spending including on transport.

And there will be other consequences besides since this briefing is only a simplified representation of the systemic issues we face. Our participants also highlighted the interplay between how we pay for motoring and how the movement of goods is evolving in a context of surging online shopping. As the (heavy) freight sector will take longer to move away from fossil fuels, choices made on fuel duty will need to pay greater attention to the impacts on freight and logistics. Meanwhile there is the behaviour to consider of other actors in the system such as motor fuel and energy providers.

If acting now to address this seems difficult, acting in 5 or 10 years will be even more so. Our assessment is that it would be better to act and to establish a transition plan for the next 5 and 10 years before the system becomes too unfair. If doing nothing is preferred, then it is important that the wider implications of this for future transport and climate strategy are transparently set out. Put simply, we need a joint plan for phasing out fossil fuel vehicles and phasing in electric vehicles as part of our mission to become a green energy superpower – and how we pay for driving is the centre piece of this.

With a new Labour Government holding an overwhelming majority in the House of Commons, we suggest that there has never been an easier time to make one of the most difficult decisions in transport policy.

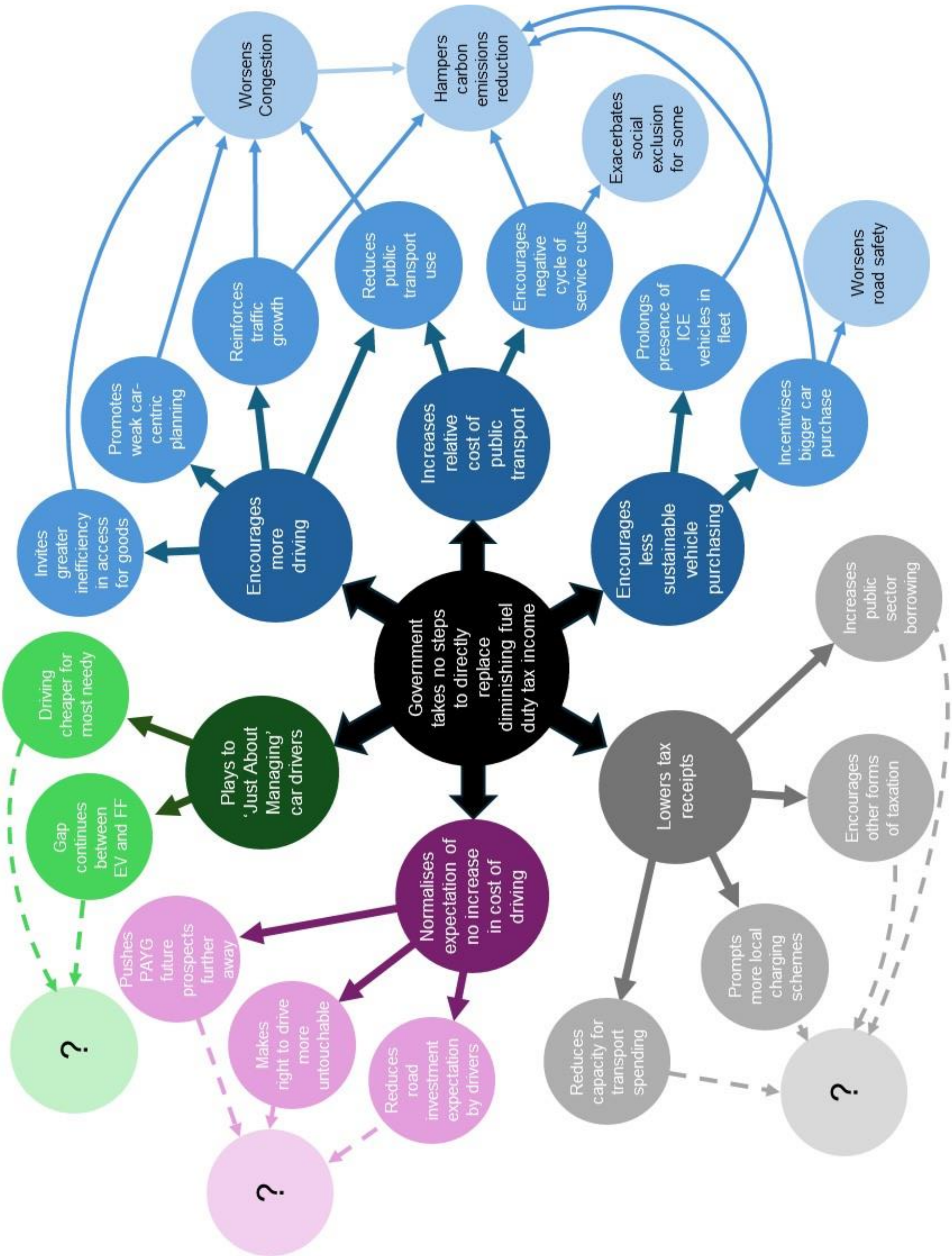

Figure 1. The Futures Wheel of Doing Nothing on Road Pricing

Workshop attendees

Jillian Anable, University of Leeds
Jo Bacon, Atkins
Kerry Bangle, WSP
Silviya Barrett, Campaign for Better Transport
Lizzie Copp, Ipsos UK
Adrian Davis, Edinburgh Napier University
Iain Docherty, Stirling University
Matt Finch, Transport & Environment
Steve Gooding, RAC Foundation
Søren Have, Concito
Andrew Hough, Transport for the North
Tom Jarvis, Transport for the North
Karen Lucas, Manchester University
Kate Mackay, Mott MacDonald
Bryan Matthews, Disabled Persons Transport Advisory Committee
Daniela Paddeu, University of the West of England
Rebecca Pickavance, West Yorkshire Combined Authority
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Phil Smart, Rail Freight Group
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About the Greener Transport Council

Greener Transport Council is an independent group of leading academics and other experts focused on accelerating the decarbonisation of transport and the transition to net zero in a fair and just way. The Council's primary purpose is to help ensure that emissions reductions are delivered at the scale and pace required to achieve the net zero targets. Members serve in a voluntary and personal capacity (https://greener-vision.com/council/)

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