

## Investing for the future: using fuel duty revenue to support growth

### Summary

- Fuel prices are high and postponing the rise in fuel duty in this Budget is reasonable
- But moves to cut fuel prices significantly through tax cuts would be irresponsible and would mean either more cuts to public services or major tax increases elsewhere
- Cuts in fuel duty now would also postpone our ability to modernise our transport system and move from our current reliance on oil
- The money raised from fuel duty should be earmarked for modernising our transport system and enabling real choice of transport mode
- Those on lower incomes would benefit more from keeping bus fares down than from reductions in fuel duty – bus fares have risen by 24% since 1997 compared to a fall in the overall cost of motoring of 7%
- There are three measures the Government should commit to ensure that those on lower incomes who are more reliant on public transport do not lose out to higher income households:
  - support for the travel costs of those 16-18 year olds in full-time education
  - reversing the planned cut in direct support for bus services from 2012
  - helping those looking to get back into work with the costs of travel

### Political background

With the cost of petrol and diesel at an all-time high, the Government is under increasing pressure to reduce the cost of fuel. It is increasingly likely that George Osborne will cancel a proposed 1p increase in fuel duty scheduled for the first of April.

“I won’t take risks with economic stability, or wreck the public finances,” the Chancellor told the Conservative Spring Conference. “But I promise you I am doing everything I can to find a way to help.”

Labour’s Shadow Chancellor, Ed Balls, has proposed that VAT on fuel should be lowered from 20% to 17.5%. This has been estimated to amount to a 3p cut in pump prices. The Conservatives have also been considering introducing a fuel duty stabiliser.

### Cutting fuel prices through tax cuts is unaffordable

The April 1 fuel duty increase is estimated to raise £540 million. Reducing VAT by 2.5% would cost around £700 million. Taken together, this amounts to a potential loss to the public purse of £1.2 billion, at a time when every Government department is struggling to come to terms with the largest post-war cuts in public spending. And to bring the price of fuel down to December 2009 levels would potentially cost the taxpayer almost £6bn in the first year alone.<sup>1</sup>

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<sup>1</sup> See Green Alliance report <http://www.green-alliance.org.uk/uploadedFiles/fuel%20stabiliser%20brief%20-%20final.pdf>

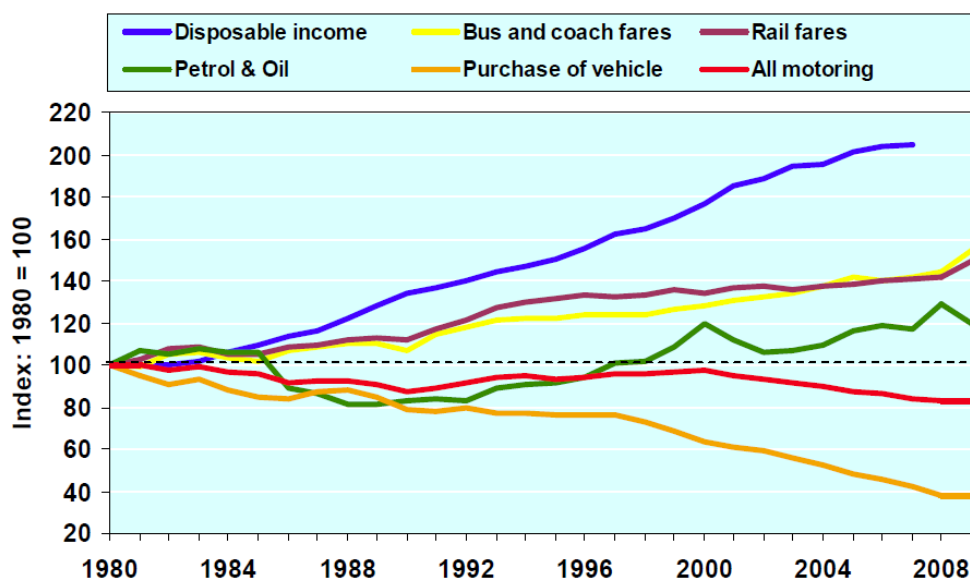
Neither would it be sensible to introduce a fuel duty stabiliser. Last summer, the Office of Budgetary Responsibility (OBR) produced a short report exploring the impact a stabiliser would have. It concluded that, contrary to expectations, overall tax take fell as the price of fuel rose, because increase fuel duty was offset by lower spending across the economy as a whole.

Even if we could afford to, we shouldn't embark on a futile attempt to hold prices down by cutting fuel duty. The cost of fuel is high at the moment because of temporary instability in the Middle East. That will not last forever, and prices will come down in the medium-term. But in the long-term, the price of oil can only go in one direction. There isn't enough oil to keep track with rising demand; extracting what little is left will only get harder and more expensive.

The increasing necessity to cut carbon emissions from transport (the sector where least progress has been made) means that we need to enable changes to the way that people travel, and attempts to have cheap fuel would merely delay the ability to make those changes.

Whilst the Government is keen to be seen to be addressing the concerns of drivers over the costs of fuel, they have decided that most rail fares will rise by 3% above the RPI rate of inflation from 2012 (up from the current RPI+1% formula) and they are cutting the direct support for bus services by 20%. This is on top of rises in bus fares of 24% and rail fares by 17% since 1997. The full costs of motoring fell by 7% over the same period.<sup>2</sup>

### Changes in the real cost of transport and in income: 1980 to 2009, United Kingdom<sup>3</sup>



Campaign for Better Transport recognises that the high price of fuel is putting a significant burden on some lower income households who have fewer transport options and rely on the car, particularly in rural areas. However, the impacts on the poorer households of higher fuel duty is less than for middle income

<sup>2</sup> See <http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110214/text/110214w0006.htm>

<sup>3</sup> Taken from p36 of Transport Trends 2009, DfT, 2010

households as many of those on low incomes do not own a car (as the IFS have shown).<sup>4</sup> Instead, they will be much more affected by rises in bus fares.<sup>5</sup>

Gordon Brown promised when Chancellor 1999 that any rises in fuel duty above the rate of inflation would “go straight to a ring-fenced fund” to modernise the transport system.<sup>6</sup> That never happened. Osborne should learn from Gordon Brown’s mistake and use fuel duty revenue to make sure alternatives are affordable and that our mix of transport is not so dependent on oil.

We set out on the following two pages three quick and affordable moves to help ensure access to transport for those who most need it.

### **Quick win: support 16-18 year olds with concessionary travel**

The cost of continuing in education remains a considerable barrier to many sixth-formers, especially with the cancellation of the Education Maintenance Allowance. Transport is one of the primary hurdles, with many students struggling to cover the cost of getting the bus or train to school or college.

In the last round of EMA, 32% of 16-18 year olds received some level of support. This amounts to 643,000 people, or 47% of 16-18 year olds in full-time education.<sup>7</sup> This costs taxpayers £560 million a year.<sup>8</sup> Without financial support, thousands of young people from the poorest backgrounds will be unable to continue their studies.

The Government could use some of the money from fuel duty to provide free or subsidised travel to 16-18 year olds who would have qualified for some level of EMA support. Helping young people in full-time education with their travel costs would reduce long-term welfare expenditure and, if linked to attendance and academic performance (as EMA was) increase recipients’ qualifications and long-term job prospects.

Providing the equivalent of £10 a week would cost £330 million a year.

### **Quick win: reverse cut in bus support**

Millions of people in the UK rely on public transport as their means of getting about. This is especially true for those on low incomes. Half of households in the bottom income bracket do not own a car, compared to a national average of 25% (and just 10% of top earners).

This is even higher for people looking for work: nearly two-thirds of people claiming income support or jobseeker’s allowance (the main benefit for unemployed people seeking work) do not have access to a car and a licence to drive it.<sup>9</sup>

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<sup>4</sup> See IFS briefing note 8 (<http://www.ifs.org.uk/bns/bn8.pdf>). See <http://www.ifs.org.uk/publications/5503> on the real terms fall in fuel duty over much of the period since 2000.

<sup>5</sup> See Citizens Advice and Campaign for Better Transport report Transport, Social Equality and Welfare to Work [http://www.bettertransport.org.uk/system/files/Transport\\_social\\_equality\\_welfare\\_work.pdf](http://www.bettertransport.org.uk/system/files/Transport_social_equality_welfare_work.pdf)

<sup>6</sup> Pre-budget report speech, November 1999. See

[http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/prebud\\_pbr99\\_speech.htm](http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/prebud_pbr99_speech.htm)  
<http://www.parliament.uk/briefingpapers/commons/lib/research/briefings/snsg-05778.pdf>

<sup>8</sup> <http://www.education.gov.uk/aboutdfe/foi/disclosuresaboutchildrenyoungpeoplefamilies/a0065442/education-maintenance-allowance-ema>

<sup>9</sup> While the data used is from 2003, it is the first listed research report used to support the 21<sup>st</sup> Century Welfare White Paper. <http://www.dwp.gov.uk/consultations/2010/21st-century-welfare>

Buses are the most commonly used form of public transport. Yet the coalition government is cutting the Bus Service Operators' Grant by 20% from 2012, meaning fewer, more expensive buses. This has been compounded by local government spending cuts. Councils across England have made sizeable reductions in their support for lifeline bus services, with some withdrawing all support.

Reversing the cut to BSOG would cost £99 million a year; just one fifth of the potential revenue from the April fuel duty increase.

### **Quick win: invest in WorkWise programme to help people back to work**

With so few claimants having access to a car, it is unsurprising that people feel held back from work by poor transport choices. Research by the Social Exclusion Unit discovered that 38% of job seekers found transport a major obstacle to their finding work.<sup>10</sup> The National Centre for Social Research (NatCen) found that concerns about access to public transport is the strongest source of anxiety for those who are actively seeking work; higher even than previous work experience or the extent of their responsibility for housing costs.<sup>11</sup>

However, targeted support to assist job seekers in overcoming transport problems has demonstrably helped people find work and stay employed. Passenger Transport Executive (PTE) led WorkWise programmes are one example. WorkWise offers job seekers travel advice and personalised journey planning to help them get to interviews or new jobs.

WorkWise schemes combine journey-planning support with free or discounted tickets and passes to reach interviews and work, including during the first crucial weeks of a new job when money can be particularly tight until the first pay packet arrives. The average cost of supporting a person into a new job through WorkWise is around £250.

Research by the Passenger Transport Executive Group (PTEG) has estimated that extending WorkWise across the six PTE areas in England (Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear, West Midlands and West Yorkshire) would cost just £33 million.<sup>12</sup>

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Campaign for Better Transport's vision is a country where communities have affordable transport that improves quality of life and protects the environment. Achieving our vision requires substantial changes to UK transport policy which we aim to achieve by providing well-researched, practical solutions that gain support from both decision-makers and the public.

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<sup>10</sup> Making the Connections: Final Report on Transport and Social Exclusion, Social Exclusion Unit.  
[http://www.cabinetoffice.gov.uk/media/cabinetoffice/social\\_exclusion\\_task\\_force/assets/publications\\_1997\\_to\\_2006/making\\_transport\\_2003.pdf](http://www.cabinetoffice.gov.uk/media/cabinetoffice/social_exclusion_task_force/assets/publications_1997_to_2006/making_transport_2003.pdf)

<sup>11</sup> *Easing the transition into work*, page 97.

<sup>12</sup> Based on there being 350,000 people claiming Jobseekers Allowance in 2009 in those areas, of whom 38% found transport to be a major barrier to finding and maintaining work.