Campaign for Better Transport

Rt Hon Rachel Reeves MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

26 July 2024

Dear Chancellor,

I would like to take this opportunity to welcome you, on behalf of Campaign for Better Transport, to your position as Chancellor

Your appointment is most welcome news, and we look forward to working with you and your officials to help support the provision and expansion of sustainable transport. We are the UK's largest sustainable transport charity. We develop evidence-based policy solutions and work closely with the Department for Transport, the Ministry of Housing, Communities and Local Government and others to advance sustainable transport across our nation.

I am writing to highlight an urgent issue with revenue raised from fuel duty and VAT on fuel, which we hope that you will consider.

As the UK transitions away from petrol and diesel vehicles towards zero emission vehicles (ZEVs) in the drive towards net zero, revenue from fuel duty will gradually decline, as ZEVs consume no fuel. RAC Foundation estimates that annual fuel duty income from cars will decline by £5 billion - the equivalent of the funding spent on England's motorways and major A-roads each year - between 2028 and 2033. Therefore, HM Treasury needs to consider how this revenue loss will be dealt with.

The House of Commons Transport Select Committee's 2022 report on road pricing highlighted this issue and called on the Government to set out its plans for reforming vehicle taxation. HM Treasury, under the previous administration, stated its intention to ensure vehicle taxation kept pace with the transition to net zero. It set out plans for introducing Vehicle Excise Duty for ZEVs. However, so far there are no plans for how the decline in fuel duty will be compensated.

In September 2022, Campaign for Better Transport published a report on the public's attitudes to vehicle taxation reform and forms of road pricing (or pay-as-you-drive, as we called it). The report showed there was a broad public support for the principle of pay-as-you-drive. It also showed the general public understand the need to maintain fiscal responsibility and to ensure ZEV drivers pay their fair share in tax – which should be the primary argument framing the need for reform.

Since the report was published, we have been convening and leading a quarterly Pay-as-you-drive Forum comprised of thirty-seven organisations, including transport industry and sector bodies, NGOs, think tanks and consultancies interested in vehicle taxation. While different members of the Forum all have slightly different perspectives and concerns, all believe it is important that ZEV drivers should fairly contribute towards vehicle taxation.

Based our experience and expertise in this area, and that of other Forum members, we strongly urge that any new scheme for taxing ZEVs should mirror fuel duty – the tax it aims to replace – as closely as possible, and that it should be as simple as possible. Therefore, we suggest that a simple charge levied on ZEVs on a per-mile basis, recorded by regular odometer readings, would be the easiest immediate solution. Having an adequate transition period would enable industry to prepare. Exempting existing ZEV drivers can help incentivise uptake before the implementation date.

Setting out the Government's plan to address the revenue gap in vehicle taxation soon after the General Election will mean that an adequate transition period can be implemented, taking into account different market segments' progress towards electrification.

We fully appreciate that such a change would be perceived as difficult and criticised by the opposition and by certain representative groups. However, our research demonstrated the general public supports such a move.

Furthermore, the thirty-seven Forum member organisations representing a broad range of the public and stakeholder groups would support a Treasury move on vehicle taxation. We offer our expertise and advice to your teams and advisers on how changes can be designed, communicated and implemented to ensure there is broad support.

Campaign for Better Transport, as well as other Forum members, stands ready to assist you with these measures. We look forward to hearing from you and hope that a HM Treasury representative will be able to meet with us.

Yours sincerely,

Silviya Barrett
Director of Policy and Campaigns
Campaign for Better Transport