

## Pay-as-you-drive – the road to a better future

Executive Summary, October 2013 (click [here](#) for the full report)

### FAST FACTS

- Cars remain a huge, and growing, contributor to road transport carbon emissions.
- Little progress has been made in reducing congestion or increasing journeys to work by public or active transport
- Reform Scotland calls for the objective of motoring charges to be clarified as reducing emissions, reducing congestion and increasing fairness
- Think-tank calls for Fuel Duty and Vehicle Excise Duty to be scrapped and replaced with a Pay-as-you-drive system of road pricing, to achieve these three objectives

### OBJECTIVE

In 2009, Reform Scotland's *Power to Connect* report looked briefly at the issue of road pricing and the potential benefits it could offer. The purpose of ***Pay-as-you-drive: the road to a better future*** is to expand on our previous work, explaining how, using the powers Devo Plus would give the Scottish Parliament, a road pricing system could be introduced in Scotland to replace existing fuel and vehicle taxes.

The report considers how such a scheme could work in Scotland and why it would help to reduce carbon emissions, reduce congestion and provide a fairer and more effective method of paying for use of road space. The report also analyses what could be learnt from elsewhere, as well as how what is traditionally seen as an unpopular policy could gain public support.

## FINDINGS

- **Cars remain a huge contributor to road transport carbon emissions.**

While all other sectors saw a reduction in emissions between 1990 and 2008, the transport sector, which accounted for 22% of total Scottish emissions (not including international aviation and shipping) was 7% higher.

- Official Scottish figures estimating the volume of traffic on Scottish roads suggest that, while there has been little change on minor roads, there has been a **12% increase in traffic on Scotland's motorways between 2003 and 2011.**

- Little progress has been made in meeting either the Scottish Government's National Indicator to reduce the proportion of **driver journeys delayed due to traffic congestion** or the National Indicator aimed at increasing the proportion of journeys to work made by public or active transport.

- There is roughly a 15p difference in the cost of a litre of petrol between the cheapest areas and most expensive. That means **rural drivers filling up a 70 litre tank (such as in a Ford Mondeo) pay over £10 more at the pump.**

- Official figures also suggest that people living in more remote areas have **less access to public transport alternatives.**

- While there has been a 13% increase in the total number of vehicles licensed in Scotland between 2003 and 2011, and a slight increase in the estimated volume of traffic on Scotland's roads, **revenue raised from fuel duty and vehicle excise duty has stayed virtually static** in real terms and has fallen as a percentage of the total revenue raised in Scotland.



## POLICY RECOMMENDATIONS

### Clarify the objective of motoring charges

Reform Scotland believes that there should be three clear policy objectives of motoring charges: **to reduce emissions; to reduce congestion; to increase fairness.**

Of course, revenue generation is important, but our proposed Pay-as-you-drive (PAYD) scheme will continue to raise significant revenue. More fundamentally, though, if motoring charges are effective in meeting

their aims then revenue is supposed to reduce over time as people adjust their behaviour and fewer of them use cars, at least on busy roads and at peak times when charges will be highest.

We do not believe that the objective of current motoring taxes is clear. Changes to the Vehicle Excise Duty (VED) rates have directly addressed carbon emissions, and this is to be welcomed (although we feel that VED punishes infrequent drivers by charging them the same as frequent drivers, which PAYD will address).

However, the main motoring tax, fuel duty, is a blunt and unfair instrument which takes no account of where and when people are using the roads.



Green or sin taxes need to be set at an appropriate level to discourage certain behaviour, but recently petrol duty changes have not achieved this objective and have done little to reduce congestion on our roads. This has only increased the public perception that such taxes are really about providing a steady revenue stream for the

government rather than a genuine attempt to address congestion or vehicle emissions. This is exacerbated by the fact that as a percentage of the pump price, British drivers pay more tax on petrol and diesel than any other EU country<sup>1</sup>.

A Pay-as-you-drive (PAYD) system of road pricing, in which people pay depending on which roads they use and when they use them, is both a fairer and more efficient way of allocating scarce road space.

### **Feasibility study on a national and local Pay-as-you-drive (PAYD) road pricing scheme in Scotland**

Reform Scotland recommends that the Scottish Government carry out a feasibility study as a first step towards implementing a national and local Pay-as-you-drive (PAYD) road pricing scheme in Scotland. We would favour a scheme which charges motorists a variable rate for road usage depending on when and where they are driving. This would mean that people who live in more rural areas with less access to public transport, or have to travel during unsocial hours, would face lower costs than those using more congested roads at peak times.

Evidence from other countries shows the part that road pricing systems can play in reducing journey times and congestion

---

<sup>1</sup> 60% on petrol (joint highest with the Netherlands); 58% on diesel (next highest Italy and Sweden, 54%). Source: *Taxation of Road Fuels*, SN824, Antony Seely, Business & Transport Section, House of Commons Library

while improving reliability and having a positive impact on the environment. If a proportion of the revenues from the charging scheme went towards improvements in public transport, then this could be an additional benefit, particularly to those on low incomes who are more dependent on these modes of transport.

We believe that any scheme should be part of a completely new approach to paying for use of our roads. As such, road charges must be a replacement for the existing methods of paying for roads through Fuel Duty and Vehicle Excise Duty and not an additional means of raising revenue.

While the Scottish Government would be ultimately responsible for the scheme and would probably price motorways and national trunk roads, we would advocate local authorities setting local road prices in their area.

We accept that road pricing schemes can have large start-up costs. However technology, and the Galileo satellite system in particular, has developed considerably in the time since the Department of Transport published its feasibility study in 2004, and it is believed that such set-up costs would be considerably lower now than was the estimate then. The Scottish Government would need to investigate how much it would cost to implement such a scheme in Scotland. However, despite the set-up cost, such a change would lead to the

introduction of a fairer and more effective way of allocating road space and provide national and local government with a useful means of addressing the problem of congestion on our roads which would mean faster journey times and greater reliability, contributing to economic growth and helping meet the country's climate change objectives.



### Making the case for Pay-as-you-drive (PAYD)

Reform Scotland recommends that the Scottish Government should make the case for introducing a system of road pricing in Scotland and swing public support in its favour as a result. Moreover, since this is a practical solution based on fairness, we believe the opposition parties should be willing to help.

This is required because there has, in the past, been significant public opposition to schemes of road pricing. In part, this is because past efforts, such as the Edinburgh congestion charge proposal, was effectively a tax rise because it would not have been

accompanied by a commensurate reduction or abolition of any other motoring charge. Opinion polls, such as the one highlighted in this report, tend to illustrate that while people do not support road pricing, it is more popular than the existing motoring taxation regime. Furthermore, other schemes (such as London's congestion charge) have found favour once they are up and running.

We believe that a policy to introduce Pay-as-you-drive (PAYD) road pricing could gain public support if the policy was properly explained. This explanation would need to highlight the following key points:

**1. Vehicle Excise Duty and Fuel Duty would be abolished** and replaced by a fair system of motoring charging called Pay-as-you-drive (PAYD). This need not have a significant effect on the government's tax take because:

- Current motoring taxes are aimed, albeit unsuccessfully, at reducing car use so by definition revenue would constantly reduce if successful
- The government would be in charge of the figure at which roads were priced, and accountable to the electorate for it

**2. PAYD can reduce carbon emissions** from road transport and help Scotland meet its climate change obligations because:

- People will consider using public transport, car-shares or may even cycle or walk (which will also be good for public health)
- People will consider shopping more locally, which will reduce food miles (and will also benefit the high street and the local economy)
- Congestion, which is a contributor to increased emissions, will reduce through behaviour change
- 



**3. PAYD can reduce congestion** and journey times, which will:

- Benefit businesses and the economy due to the quicker movement of people and goods
- Reduce frustration on our roads and make for more pleasant journeys

**4. PAYD can be fairer**, because:

- All drivers will pay a fair price for the roads they choose to use, and the times they choose to use them
- Infrequent drivers will pay less than frequent drivers, in contrast to VED which charges drivers the same

amount irrespective of how much they drive

- Rural and remote drivers (who may have less access to public transport), and those who have to travel at unsocial times, will pay less because they cause less congestion. This is in contrast to the situation under Fuel Duty, which involves rural and remote drivers paying the same level of tax as urban drivers despite urban drivers contributing more in terms of congestion and emissions and yet having greater access to public transport alternatives.



We recognise that a Pay-as-You-Drive policy wouldn't change everyone's driving habits, and some may continue to behave as they do at present, but it would be with a greater awareness of the costs.

PAYD has the potential to be a useful policy tool for government, allowing drivers to be charged fairly for the choices they make, and also to be charged appropriately for their impact on the road network and the wider environment.

## Devolve greater tax raising powers to the Scottish Parliament

As we set out in our 2011 report *Devolution Plus*, Reform Scotland believes that greater tax powers should be devolved from Westminster to Holyrood so that the Scottish Government is broadly responsible for raising the money that it spends.

Our proposal would pass most taxes, with the specific exceptions of VAT and National Insurance, to the Scottish Parliament. This would, therefore, include devolving Vehicle Excise Duty and Fuel Duty. Under our Pay-as-you-drive (PAYD) scheme, these would immediately be abolished upon their devolution.

The introduction of road pricing is a good example of how greater fiscal powers could be used to introduce a completely different approach to a particular policy area, since they would be used to implement a new and better way of paying for the use of our roads. While congestion charging schemes could be introduced using the Scottish Parliament's current powers, this would be in addition to current UK taxes and would therefore be inappropriate and rightly unpopular. Reform Scotland wants to see a fairer and more effective way of paying for road use introduced, not an additional tax. Therefore, devolving the relevant taxation powers must be a pre-requisite for the introduction of a Pay-as-you-drive (PAYD) road pricing system in Scotland.