

# Alternative Transport Budget

Ahead of the 2017 Autumn budget, Campaign for Better Transport has compiled a set of alternative transport policy proposals to promote sustainable transport, improve air quality, and reduce carbon from the sector.

## Contents

1. Challenges facing the UK Government.....	2
2. TAX: Fuel Duty.....	3
3. TAX: Vehicle Excise Duty.....	4
4. ALTERNATIVE: Road User Charging.....	6
5. TAX: HGV Road User Charging.....	6
6. TAX: Company Cars.....	7
7. TAX: Air Passenger Duty.....	7
8. ALTERNATIVE: Frequent Flyer Levy.....	8
9. SPEND: RAILWAYS.....	8
9.1. Rail fares.....	9
9.2. Continued rail investment: the High Level Output Specification.....	9
9.3. Extending the Railways.....	10
10. SPEND: Better and cleaner bus services.....	11
10.1. Bus Service Operators Grant.....	11
10.2. Bus retrofit.....	11
10.3. Bus Bonus scheme for commuters.....	12
11. SPEND: Office for Low Emission Vehicles Grants.....	12
12. SPEND: Roads policy: invest in existing networks, new technology and smaller scale local transport...13	
13. SPEND: Regional Air Connectivity Fund.....	14
14. OTHER: Clean Air Fund, Clean Air Zones and Diesel Scrappage Schemes.....	15
Conclusions.....	16
References.....	16

## 1. Challenges facing the UK Government

There are a number of challenges posed by the current pattern of transport use and the state of transport services and infrastructure. These include pollution, congestion and, underlying these, dependence on car use for many of the journeys people make. This car dependence is a problem both for those with cars, who suffer higher costs with extended and more unreliable journey times than they otherwise would, and those without access to a car, who face exclusion from society and difficulty accessing jobs, education and services.

The Autumn Budget can make a difference to these problems. In this report we set out some proposals on transport taxation and spending which can together reduce car dependence, congestion and pollution, and increase opportunities for people currently excluded from society.

### 1.1. Air Quality

This is now a key issue given the strengthening evidence of the health impacts from nitrogen oxides (NOx) and particulates. After successful legal challenges from Client Earth, an air quality plan for nitrogen dioxides has now been produced alongside a commitment to ban the sale of new petrol and diesel cars by 2040, but the plan is widely viewed by health professionals and city leaders as not going far enough or fast enough to make a real difference.

The Government is right to see tackling transport emissions as key to improving air quality but there is much that can be done now, in this Autumn Budget, which will tackle this well before the 2040 deadline.

There are particular issues with diesel vehicles, as they produce more NOx than petrol cars and are responsible for particulates emissions, for which there are no safe limits. Table 1 below shows the scale of the problem with NOx in 2012 and, although the situation has improved slightly since then, the UK is still not meeting its legal obligations.

### 1.2. Carbon

The Government also has legally binding commitments to reduce carbon emissions to 80 per cent of 1990 levels by 2050. We are currently in the second carbon budget and on track to meet the reduction of 31 per cent by the end of this year but we are not making enough progress to meet the fourth or fifth budgets,<sup>2</sup> (ending in 2027 and 2032 respectively). As the Government's recent Clean Growth Strategy<sup>3</sup> has recognised, transport has a key part to play here, contributing around 24 per cent of the UK's total greenhouse gas emissions, and this is set to increase according to the Government's own modelling.<sup>4</sup>

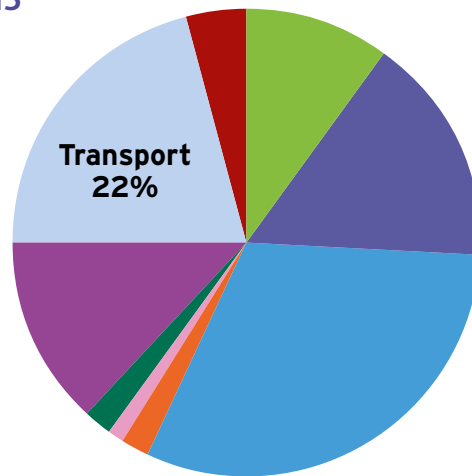
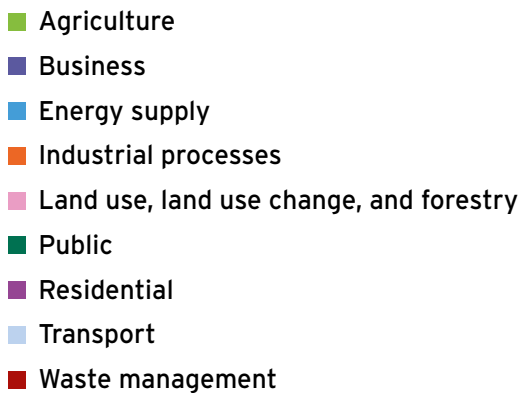
The Budget presents an opportunity to encourage a shift towards cleaner vehicles or modal shift to sustainable transport and help bring us closer to meeting our carbon targets and tackle urban air pollution.

**Table 1: UK urban population exposed to air pollutant concentrations above the EU air quality objectives (2010-2012)**

	EU reference value	Exposure estimate (%)		
		2010	2011	2012
PM <sub>10</sub>	Day (50 µg/m <sup>3</sup> )	0.0	2.4	0.0
Ozone	8-hour (120 µg/m <sup>3</sup> )	0.0	0.0	0.0
NO <sub>2</sub>	Year (40 µg/m <sup>3</sup> )	26.0	23.2	18.9

Source: EEA (2014) Air pollution fact sheet 2014 – United Kingdom

Figure 2.1: UK greenhouse gas emissions 2015



### 1.3. Congestion

Contributing to our urban air quality issues, congestion is another big problem in UK cities; not just for private motor vehicles but also for buses and taxis. The UK has some of the most congested cities in Europe<sup>5</sup> and the Government has previously pledged funding to tackle the problem. However, this funding is focused on building new roads, which compound the problem further by generating more traffic. Part of the solution to this problem could be modal shift to public transport, walking and cycling and away from single occupancy private motor vehicles.<sup>6</sup> Technology can help make better use of existing infrastructure through improved data collection and analysis and 'mobility as a service' applications.

### 1.4. Social inclusion

As already noted, underlying these problems is car dependence, where using a car is the only option available for many journeys or where alternatives to the car are available but are vastly more expensive or inconvenient. This car dependence excludes many people and sometimes communities, and restricts labour markets and access to public services. The decline in local tendered bus services has added to this dependence and exclusion.<sup>7</sup>

The Autumn Budget can address these issues by:

- Taxing polluting vehicles more and using the proceeds to fund alternatives
- Shifting spending towards smaller, local projects and local transport services and towards maintenance and smarter use of existing roads, as well as making public transport affordable.

## 2. TAX: Fuel Duty

### What is this?

Fuel duty is an excise tax on the sale of fuel, which is imposed in most countries all over the world. It is also subject to VAT. Fuel duty is included in the price you pay for petrol or diesel at the point of purchase. Currently petrol and diesel pay the same rate (57.95 pence per litre) and other fuels, such as LPG or aviation fuel have different rates.<sup>8</sup> This rate has been frozen since 2011, following a 1 pence fuel duty cut, and the planned fuel duty escalator that would have added 1 pence on top of inflation was cancelled and has not been reinstated since.

Red diesel, diesel fuel that is not used for road transport, is subject to lower fuel duty (11.14 pence per litre). It is widely used by refrigerated lorries in their secondary engines, adding to urban pollution. The lower fuel duty reduces incentives for fleet owners to switch these units to lower pollution technology.<sup>9</sup>

Fuel duty is the main way in which the Government can make the cost of using a private motor vehicle keep track with inflation and in line with the cost of public transport. The cost of motoring has been falling relative to cost of living and certainly relative to the cost of public transport tickets over recent years (see the RAC Foundation's Transport Index: <http://www.racfoundation.org/data/cost-of-transport-index>).

Cheaper motoring costs encourage people to use their cars more, increasing congestion and air pollution as well as contributing to climate change.

The purpose of the escalator was to save carbon by keeping the day to day costs of motoring in line with, or slightly above, inflation. But with fuel duty frozen the costs of motoring are continuing to fall relative to public transport, and the introduction of more fuel-efficient cars, and an increased number of electric vehicles has and will reduce income to the Government.

#### What is our recommendation to the Government?

- The fuel duty escalator should be reinstated, at 1 pence above inflation as it was originally planned
- The duty on diesel should rise faster than the duty on petrol. This is to encourage people away from private diesel cars but does have possible consequences for buses and private hire vehicles which would need to be addressed
- Remove refrigeration units from the red diesel regime
- Consider moving to road user charging for the longer term (see below).

### 3. TAX: Vehicle Excise Duty

#### What is this?

Vehicle Excise Duty (VED) is a tax on car ownership that is paid each year, with a larger sum paid as a tax on initial purchase. In April 2017 the Government drastically reshaped VED, abolishing

carbon dioxide (CO<sub>2</sub>) emission bands for the yearly charge and essentially making it into a sales tax, with a flat rate for all vehicles after the first year. This reduces its effectiveness at discouraging the purchase of more polluting vehicles, as the higher cost is simply rolled into the purchase price for new vehicles and there are now no incentives in the second hand car market to buy low carbon and low emission vehicles. The previous zero rating for hybrid vehicles was also abolished and there is no distinction between petrol and diesel cars.

Another change to the VED system is that receipts from VED are now hypothecated into a roads fund which the Government has recently indicated will be made available to local councils and Highways England, largely to build new roads or for existing A roads and motorways.

Diesel cars now make up almost 45 per cent of new car sales, compared to 18 per cent in 2001, and people have in part been incentivised to buy them through VED. Car manufacturers have failed to control NOx emissions, which includes the harmful gas nitrogen dioxide, from diesel cars and vans. Even modern diesel cars have been found to emit on average more than six times more NOx on the road than the laboratory test limits for the latest Euro 6 standard, according to the Government's own report.<sup>10</sup>

The Government has a moral and legal obligation to protect people from harmful levels of air pollution. It is only fair that VED should reflect the extra financial and health impact that diesel cars have on society. The Government should use all the levers it has to encourage a shift from diesel to cleaner alternatives. A change to the VED first year rate would avoid penalising drivers for past choices made in good faith and it would also send a vital signal to the market about the direction of travel towards a cleaner future.

A study by Policy Exchange proposed an additional £800 charge for all new diesel cars on their VED first year rate, which could generate

£500 million a year to fund measures to tackle air pollution.<sup>11</sup> This captures the damage cost of the extra nitrogen dioxide diesel cars emit compared to their petrol counterparts. This is a conservative figure however, and could be higher if the more recent findings of a Department for Transport (DfT) investigation into diesel car emissions were applied. Money raised should be used for the promised Clean Air Fund, to pay for measures to tackle air pollution, including a targeted scrappage scheme for lower income drivers and small businesses, as we explain in Table 2 below.

### What is our recommendation to the Government?

Whilst the changes from April are tougher at the very highly polluting end of the market, there is very little incentive to buy a low carbon vehicle over a medium carbon one; for example choosing a 131 to 150 grammes per kilometre vehicle will only

cost you £100 more than a 76 to 90 grammes per kilometre one, hardly relevant when the total on the road cost of a new car is considered. We propose a more continuous scale that reduces the initial cost for electric and hybrid vehicles.

Additionally we propose:

- Reinstate the previous banding for yearly charging based on CO<sub>2</sub> emissions
- Create an additional surcharge for diesel vehicles to discourage the purchase of diesel cars and to contribute to the promised Clean Air Fund
- Use the National Road Fund to fix the backlog of road repairs that are needed on local roads (see below under roads spending).

Table 2: Current vs proposed VED

Current (2017)		Proposed		Difference to 76-90 car 2020
CO <sub>2</sub> emissions (g/km)	Petrol (TC48) and diesel cars (TC49)	2018	2020	
0	£0	£0	£0	-£800
1-50	£10	£25	£250	-£550
51 - 75	£25	£310	£600	-£200
76 - 90	£100	£415	£800	£0
91 - 100	£120	£950	£1,425	£625
101 - 110	£140	£1,050	£1,575	£775
111 - 130	£160	£1,200	£1,800	£1,000
131 - 150	£200	£1,400	£2,100	£1,300
151 - 170	£500	£1,600	£2,400	£1,600
171 - 190	£800	£1,800	£2,700	£1,900
191 - 225	£1,200	£2,050	£3,075	£2,275
226 - 255	£1,700	£2,400	£3,600	£2,800
Over 255	£2,000	£3,000	£4,500	£3,700

## 4. ALTERNATIVE: Road User Charging

### What is this?

There is a fundamental problem with both fuel duty and VED; revenue from both these taxes is falling. The spread of electric vehicles will accelerate this decline and in the medium term different ways of taxing road vehicles will be needed.

Road user charges are direct charges levied for the use of roads. The UK already has some examples of specific road charging, such as the M6 Toll, the Dartford Crossing and other river crossings and also London's congestion charge. General road pricing could replace fuel duty and VED, and be a more equitable way to raise funds.

Oregon's OReGO<sup>12</sup> scheme was introduced in 2015 and has proved that wide scale road user charging is possible. Funds raised from drivers pay for road maintenance and improvements that benefit everyone. This year's Wolfson Prize winner set out ways in which road pricing might work in the UK.<sup>13</sup>

Charging drivers directly for each mile travelled has the potential to reduce unnecessary travel, and promote modal shift to more sustainable methods if the price was set at the correct level. This tax could also be adjusted to promote greener vehicles, such as electric cars or plug in hybrids, which would have further benefits for air quality.

### What is our recommendation to the Government?

- Review future tax revenues from road vehicles in the light of future technology trends and consider the case for and ways of implementing general road pricing in the future
- In future strategies to tackle air pollution, consider the potential contribution to cleaner air from introducing road pricing in place of fuel duty and VED
- Include road user charging ready technology in the specification for connected and autonomous vehicles.

## 5. TAX: HGV Road User Charging

### What is this?

Heavy Goods Vehicles (HGVs) cause a disproportionate amount of wear and tear on our road network – over 100,000 times more surface damage than a car.<sup>14</sup> They also frequently damage street furniture and kerbs as they move around local road networks that were never designed to carry large vehicles. Mile for mile on the same type of road they are three to four times more likely to be involved in fatalities than cars.

In 2014 the Government introduced the time-based HGV Road User Levy to contribute to covering these costs. The Government is now reviewing this scheme so that it rewards hauliers that plan their routes efficiently, and incentivises the efficient use of roads and improves air quality. The levy amounts vary according to the vehicle's weight, axle configuration and levy duration. The payments are collected at the same time as vehicle excise duty for UK registered vehicles or can be paid online for non-UK registered ones. The review offers an opportunity to introduce a distance-based lorry charging scheme which could measure accurately the economic, safety and environmental impacts of HGVs.

A distance-based charging scheme could encourage hauliers to improve efficiency by encouraging them to take shorter routes, and running fuller vehicles (the experience in other countries that have adopted distance-based lorry charging is that these charges have promoted more efficient operation.<sup>15</sup> There would also be an option to differentiate the charge by CO<sub>2</sub> or NO<sub>x</sub> emissions, and so encourage the use of low or zero emission trucks.<sup>16</sup>

### What is our recommendation to the Government?

- The scheme should be changed to a distance-based scheme with variations for different engine types to promote lower emission vehicles.

## 6. TAX: Company Cars

### What is this?

Company cars are a perk for some employees and as such HMRC taxes them as a benefit in kind. The charging regime is quite complex, but is basically a percentage of the total value of the car, graduated according to the car's CO<sub>2</sub> emissions.<sup>17</sup> More polluting cars pay more company car tax, but the rules brought in in April 2017 mean that even fully electric cars now pay some tax (where previously they were exempt). Hybrids are taxed the same as petrol cars. Diesels are subject to a three per cent surcharge.

This tax is quite significant for individuals so if tuned correctly it could act as a strong incentive to buy a smaller, greener, car. Many of these cars end up in the second hand market so encouraging greener purchasing will have longer term benefits as well. Increasing the diesel surcharge will dissuade people from purchasing new diesel vehicles and reinstating the tax free incentive for fully electric cars could radically increase their take up.

### What is our recommendation to the Government?

- Bands on company car tax should be narrowed
- The tax free status of ultra-low emission cars should be reinstated
- The diesel surcharge should be increased

- Continue to tighten progressively the emissions requirements at each level of percentage charge in a staged way so that recent company car purchasers are not immediately disadvantaged excessively.

## 7. TAX: Air Passenger Duty

### What is this?

Currently passengers in aircraft are charged Air Passenger Duty (APD) on flights leaving the UK. The rate depends on the distance travelled to the final destination and the class of travel. The revenue is collected by airlines, along with ticket sales and then passed onto HMRC. The current charges are set out in Table 3 below:

Aviation is responsible for a significant amount of UK greenhouse gases (six per cent in 2011 according to the Committee on Climate Change, counting only CO<sub>2</sub>, but not other climate change emissions, such as water vapour at high altitudes) and have risen 80 per cent between 1990 and 2014,<sup>18</sup> and are forecast to rise a further 45 per cent by 2035 as demand for air travel increases. The current APD regime provides weak incentives for reducing demand for passenger flights and most action around reducing emissions from aviation is focussed around technology and fuel issues.

Research by HM Revenue and Customs (HMRC) in 2012<sup>19</sup> showed that APD could be reformed to use differential rates to reduce congestion on

Table 3: APD rates from 1 April 2017

Destination bands and distance from London (miles)	Reduced rate: (for travel in the lowest class of travel available on the aircraft)	Standard rate: (for travel in any other class of travel)	Higher rate: (for travel in aircraft of 20 tonnes or more equipped to carry fewer than 19 passengers)
Band A (0 to 2,000 miles)	£13	£26	£78
Band B (over 2,000 miles)	£75	£150	£450

Source: HMRC website

Heathrow and Gatwick, or it could be converted to a charge which is flight related and not passenger related to improve the efficient use of existing slots.

**What is our recommendation to the Government?**

Government should further test the impact of differential rates of APD, as explored in the HMRC study, to see if they can in fact help with the aims of:

- Supporting economic growth in the regions
- Encouraging use of direct flights from regional airports as an alternative to promoting the use of hub airports in the South East
- Addressing congestion at airports in the South East through regional development but also rationalisation
- Raising funds to mitigate the impact of existing airports especially Heathrow.

There should however be an overall carbon reduction budget for aviation and adjustment of APD should be used to support carbon reductions from the aviation sector. In the longer term APD should be converted to a charge which is flight related not passenger related in order to improve efficient use of existing slots. However, there is a more radical alternative to APD – a Frequent Flyer Levy.

**8. ALTERNATIVE: Frequent Flyer Levy**

**What is this?**

A Frequent Flyer Levy is alternative to APD which represents a more progressive tax solution to reducing demand for passenger flights. The tax would be a levy on ticket prices that increases with the number of round trips a person takes during a tax year. If geared to manage demand growth to deliver the Committee on Climate Change’s recommendations on carbon budgets, the tax take for the exchequer would be around double the APD revenue over the period to 2050. Table 4 below gives an example.<sup>20</sup>

This proposal would eliminate the tax on one round trip flight per year, but then increase so people who fly frequently at present would be discouraged from doing so. This would reduce demand for passenger flights and so reduce carbon emissions from aviation. There would need to be special consideration made for people living in remote parts of the UK, such as the Shetlands or Scilly Isles where domestic flights are one of the few transport options available.

**What is our recommendation to the Government?**

- To look in detail at the options and case for replacing APD with a frequent flyer levy.

**9. SPEND: Railways**

We’d like to see the Autumn Budget commit to long-term investment in upgrading and extending the rail network and to implement long promised reforms in rail fares.

**Table 4: Example percentage levy on current ticket prices (excluding APD) for single one-way journeys, to limit growth in demand to 60% by 2050.**

Flight Rank	1st	2nd	3rd	4th	5th	6th	7th	8th	9th
Percentage on ticket price	0%	9%	24%	46%	74%	109%	149%	193%	240%



## 9.1. Rail fares

### What is this?

UK rail fares are some of the most expensive in Europe. Sixty per cent of these fares are regulated by the Government, and current policy is to increase these each January by the value of the Retail Price Index (RPI) in the previous July. Regulated rail fares continue to rise at above the rate of inflation, hitting household budgets, making train travel less affordable and reducing access to employment markets. Fares have risen twice as much as wages since 2010,<sup>21</sup> and on the current RPI formula this January will see rises in regulated fares of 3.6 per cent, the highest rise in five years.

In 2013, the Office for National Statistics (ONS) announced that RPI did not meet international statistical standards and would no longer be regarded as a national statistic.<sup>22</sup> They regard the Consumer Price Index (CPI) as the official measure of inflation of consumer prices. CPI has consistently been significantly below RPI.<sup>23</sup>

In contrast to stated policy and the approach taken with road fuel prices, by continuing to use RPI, the Government is increasing regulated rail fares by more than the rate of consumer inflation at a time when real earnings are falling.<sup>24</sup> In general, we'd like to see rail fares regulation move to CPI rather than RPI – however, this year, given the high background level of inflation, we think fares should be frozen completely.

The Mayor of London has already committed to freezing all Transport for London (TfL) imposed fares until 2020, and the Government should follow suit. If the Government needs to find revenue to pay for this, aside from the tax measures already suggested above, it could review the Regional Air Services subsidies, amounting to some £70 million, which have large per capita subsidies for domestic air services.

There is also a need to restructure the rail fares system, to make it simpler and fairer. The current system penalises part-time workers and this, combined with housing costs, is starting to have impacts on labour markets and women returning to work, especially in and around London. We'd like the Government to move faster in implementing long promised flexible tickets for part-time workers.

Beyond this, there is a broader point of principle. Current fares regulation is based on transferring the burden of rail funding from taxpayers to fare payers, and in fact income from passengers more than covers day-to-day running costs of the railway. Yet this ignores the benefits that a high quality and affordable railway brings to non-users and to wider society in reducing road congestion and improving the environment. A fair and transparent fare structure should make it easier to use the train and more desirable than taking the car, and should take account of these wider benefits.

### What is our recommendation to the Government?

- This year the Government should freeze all regulated rail fares
- In future years rail fare rises should be linked to CPI instead of RPI
- Fares should be reformed, following previous Government commitments, starting with pilots for fairly priced flexible season tickets and simpler fares.

## 9.2. Continued rail investment: the High Level Output Specification

### What is this?

The High Level Output Specification (HLOS) sets out what the Secretary of State for Transport wants the railway to achieve during its five year control periods. The previous HLOS covering the current period (2014-19) promised 'the

biggest modernisation of our railways since the Victorian era. This investment will mean faster journeys, more seats, better access to stations, greater freight links and a truly world class rail network'.<sup>25</sup> However, failings of Network Rail to deliver projects on time and budget, together with a tight public spending environment, means that electrification projects have been dropped and for the next Control Period (2019-24) a move to a rolling programme based around maintenance has been adopted. The result is an HLOS for this Control Period which drops key commitments and offers little detail of priorities or the money available.

Rail can provide a clean, green, high speed transport mode that supports the economy and communities while reducing emissions and land take. It provides an easy alternative to car or air travel when priced appropriately which is an easy way to reduce carbon.<sup>26</sup> The HLOS provides an opportunity to set out options for investment in the rail network, particularly in the North of England. Transport for the North report that fewer than 10,000 people in the North of England can access four or more of the region's largest economic centres within an hour. Northern Powerhouse Rail would increase this to 1.3 million, transforming employment markets and the economy.<sup>27</sup>

### What is our recommendation to the Government?

Government needs to use the Budget Statement in concert with October's Statement of Funds Available (SoFA) for HLOS to:

- Revisit the decision that electrification of Cardiff and Swansea; Kettering to Nottingham and Sheffield; and Windermere and Oxenholme are no longer needed. Support the Railway Industry Association's 'electrification challenge' to bring down costs, and get an independent evidence based view on the benefits of electric trains for passengers and the environment.

- Move to a clear Rail Enhancements and Capital Investment Strategy, as has been adopted in Scotland – the development fund announced in the SOFA is a good start here, but more is needed to provide long-term certainty for the rail industry<sup>28</sup>
- Ensure improvements in maintenance and renewal delivery are incentivised by allowing savings to be retained by Network Rail rather than requiring efficiency savings to be returned to HMRC
- Adopt a clear strategy on use of different train fuel technologies while accepting that new bi-mode, hydrogen and battery trains are being developed by the rail industry. Much clearer guidance is needed from Government on when and where such technologies are to be used, and the minimum efficiency and environmental improvements that they need to reach before they are considered preferable to electrification
- Commit to trans-Pennine electrification as a key part of the Northern Powerhouse rail project, which is itself integral to the regional economic rebalancing which underpins the Government's Industrial Strategy Green Paper.<sup>29</sup>

### 9.3. Extending the Railways

#### What is this?

There is unprecedented demand for rail travel but the network has scarcely been able to respond. It remains very time consuming and expensive to add any new stations or lines to the network even where there is clear demand and benefit from doing so. Our rail network looks like the one Dr Beeching foresaw in the mid-1960s. His cuts resulted in the loss of half of stations and a third of route miles.

Since then, there have been major changes:

- Size and shape of our towns and cities
- Patterns of travel employment
- Demand for housing and development land.

These have dramatically changed the role of rail. Rail passenger numbers and revenue, and freight movements on the railways have increased dramatically, in some cases doubling in the last 20 years.<sup>30</sup>

The rail network has not changed enough to acknowledge this. There are now over 200 proposals for new and reopened stations and lines.<sup>31</sup>

Why doesn't it happen at the moment?

- There is little money to bring about new schemes
- Network Rail's process for assessing new stations and lines is long-winded, hugely expensive and relies primarily on local authorities to take the lead when they often lack the in-house skills or funding to carry out the necessary studies
- Network Rail's process often fails to take into account wider benefits of rail access.

There are major benefits to connecting up entire communities to the rail network. It improves local access to jobs and services and promotes transport choice, whilst reducing congestion and emissions.

### What is our recommendation to the Government?

- Establish a Network Development Fund to develop and implement new and reopened lines and stations, within the enhancement fund announced for the next rail Control Period SoFA<sup>32</sup>
- Support schemes with a strategic transport benefit, such as major housing and other development proposals, by reforming land use planning and Network Rail's Governance for Railway Investment Projects processes.

## 10. SPEND: Better and cleaner bus services

### 10.1. Bus Service Operators Grant

#### What is this?

The Bus Service Operators Grant is a fuel duty rebate to bus operators. It is available to all sizes of operator, and helps ensure that some vital, but not commercially viable routes continue to exist. As the bus fleet becomes increasingly fuel efficient, or moves towards alternative fuels, the grant becomes less relevant but some mechanism to fund less commercially viable bus routes is still needed. Over 2,000 bus routes have been withdrawn or reduced since 2010 and bus services offer a key lifeline to people.

#### What is our recommendation to the Government?

- We support the Urban Transport Group proposed Connectivity Fund<sup>33</sup> which would be based on outcomes, rewarding operators that serve places people need to go. The DfT has indexes which measure connectivity and accessibility to local services, so an objective measure should be possible. This would be funded by top-slicing budgets from different departments that benefit from and require bus connectivity and currently spend a lot of money on inefficient and poor quality bespoke transport services
- This connectivity fund could also be used to pump prime new services for access to employment and also new housing.

### 10.2. Bus Retrofit

#### What is this?

Diesel buses are a problem for air quality in city and metropolitan regions and many buses are not up to Euro VI standards. This poses a problem for bus operators as the cost of conversion is £10 to £20k per bus.<sup>34</sup>

Operators therefore would need some capital support to make conversions and possibly a change of rules so that converted buses can be disposed of before five years (as is current rules) so they can be more easily replaced with electric or newer vehicles.

Improving air quality in urban areas is not just about taking diesel cars off the road. Buses are also a major source of air pollution and a retrofit scheme could go a long way to tackling this.<sup>35</sup> Whilst the Government has invested some money in promoting diesel free buses, the existing measures focus on purchase of new electric or low carbon vehicles<sup>36</sup> and not converting the majority of the existing fleet.

#### What is our recommendation to the Government?

- The Government should create a well-resourced fund to promote the conversion of existing buses to Euro VI standards
- The existing rules that prevent converted buses being disposed of within five years should be removed.

### 10.3. Bus Bonus scheme for commuters

#### What is this?

Currently any public transport tickets given by employers to employees are fully taxable as a benefit in kind, though season ticket loans are tax free. Reducing costs and complexity in bus journeys to work could help get people without cars back into work and could also help tackle congestion and pollution around employment areas.

Other countries have tax-free employer-provided public transport or bus travel, including in the USA, Canada and Ireland. There are issues with having any scheme in the UK, for example many low-paid workers aren't paying enough tax to make use of a scheme like this. However, there may be specific options for apprentices / youth training or as an initial month's transport support

before workers receive their first pay cheque. Some of these are explored by KPMG research for Greener Journeys scheme.<sup>37</sup>

There are already some local schemes<sup>38</sup> and some areas have more general young people's travel concessions, notably the 'my ticket' in the Liverpool City Region which has seen 142 per cent increase in youth travel by bus over three years. This has specific options for young people in education, training or apprenticeships.

#### What is our recommendation to the Government?

- The Government should look at options to reduce the cost of bus commuting and give employers incentives to promote this through the tax system.

### 11. SPEND: Office for Low Emission Vehicles Grants

#### What is this?

This fund has a two-fold purpose; to encourage the take-up of electric vehicles for environmental benefits and to stimulate the electric vehicle industry. It focuses currently on e-cars, e-vans and motor bikes, and excludes e-bikes and e-cargo bikes. It is currently limited so may not be able to cope with any increase in demand for electric vehicles.

Greener vehicles are good for carbon reduction, air quality and noise pollution but do little for congestion. Funding from the Office for Low Emission Vehicles could be better joined up with clean air funding for bus retrofit and should be expanded to include e-bikes and e-cargo bikes. The latter are increasingly popular with small businesses so supporting them has economic as well as environmental benefits. The funding needs to be continued and expanded to give the industry and individual buyers confidence in future investment and supply.

### What is our recommendation to the Government?

- Expand scope of grants to include e-bikes, in particular e-cargo bikes, as a means of promoting low carbon options for shorter journeys
- Continue and expand the grants to ensure there is funding available for growth in the electric vehicle market generally.

## 12. SPEND: Roads policy: invest in existing networks, new technology and smaller scale local transport

### What is this?

In the wake of the EU referendum, and the economic difficulties this is generating, there has been a lot of discussion about spending on infrastructure to support the economy and create jobs. However, as often when infrastructure is discussed by economists, politicians and commentators, the focus is on big projects – a new runway, big road projects, high speed rail etc. At local level too, the emphasis from many councils, business groups and Local Enterprise Partnerships tends to be on major road projects as it is often thought (usually without any evidence) that such projects will help support local economies and development.

By contrast, this briefing argues that the emphasis for any new infrastructure spending should be on fixing what we have, especially local roads, and on smaller individual projects or packages of schemes to upgrade local transport and improve local transport services. Despite the understandable focus on highly visible big projects, the evidence from the UK and elsewhere shows that local transport investment generates better and more timely results for the economy, employment and communities than spending on a few isolated large projects.<sup>39</sup> Recent research from the DfT on

the Local Sustainable Transport Fund<sup>40</sup> also shows the value for money of 'fix it first' programmes. This chimes strongly with the public, whose primary experience of transport is of poorly maintained local roads and declining bus services. While there is a strong case for investment in some large projects (for example, new rail infrastructure to tackle congestion on the existing rail network) we argue that local and smaller scale transport projects should get greater priority in spending and attention than is currently the case.

These smaller targeted investments will deliver much quicker results that are more meaningful to local people.

Following this approach, we propose that the next Road Investment Strategy (RIS 2) for the English Strategic Road Network should be based on these key principles:

- Fix it First: maintenance of the existing network, improving safety and delivering a green retrofit
- An integrated strategy, linked to the planning and development of the rest of the transport network
- Environmental leadership, with strong environmental targets and high quality environmental management systems.<sup>41</sup>

In addition, the Government needs to actively use new transport technologies to manage existing roads and transport better and to give people new travel options through mobility as a service offers and use of data. Opening up data and investment in innovation, combined with good regulation of emerging technologies, can give people and freight users more choice in travel, improve journeys and make best use of existing networks.<sup>42</sup>

The new National Roads Fund, drawn from Vehicle Excise Duty receipts, should be reviewed. The spreading of this to major roads beyond the Strategic Road Network is welcome but without funding for local roads the Government risks

creating an increasing gulf between local and the bigger roads. London is also completely excluded from the Roads Fund and other cities will see limited benefit from it.

### What is our recommendation to the Government?

Investment should give priority to management and maintenance of existing roads and to improving local transport, through the following initiatives:<sup>43</sup>

- **Local road maintenance**  
A new Road Repair and Renewals Fund to tackle the road and pavement maintenance backlog, with ring-fenced funding and incentives for investment and apprenticeships as in London. In addition make funding available from the new National Roads Fund to local roads, and also to cities through an urban transport grant.
- **Transport measures to support local economies**  
Increasing the Access Fund would help more local authorities deliver packages of transport schemes to support their local economies. Raising both capital and revenue funding would make the fund more flexible and easier to use.
- **Cycling, walking, and public realm schemes**  
New dedicated funding to support the Cycling and Walking Investment Strategy and further funding for existing programmes such as the Cycle City Ambition Fund and the Cycle-Rail fund. We also suggest the Government support regeneration of high streets and town centres through a public realm investment fund to improve public experience.
- **Green and community buses**  
Increase investment in the quality and extent of bus services with further rounds of the Better Bus Area Fund, the Green Bus Fund and the Community Minibus Fund. The Government should coordinate these with the other bus funding proposals above, potentially through a long-term Bus and Coach Investment Strategy.

- **Highways England Road Investment Strategies**  
Use the three principles above to guide the next Road Investment Strategy, and also roll forward and expand the five designated funds which allow for specific action to be taken on the existing roads network to invest in retrofitting and additional improvements.

- **Rail freight grants**  
These grants recognise the benefits of getting freight off the roads and onto the railways. Expanding them would reduce congestion on the roads<sup>44</sup> and also tackle pollution.

We have already suggested above a new upgrades fund for the railways which incorporates the New Stations Fund and would provide development funding for new and reopened railway lines and stations.

## 13. SPEND: Regional Air Connectivity Fund

### What is this?

The Regional Air Connectivity Fund exists to support small regional airports in the UK by subsidising flights to a variety of destinations inside and outside the UK until the routes can be established as commercially viable. This provides a direct subsidy to passengers using these routes. Aside from the environmental impacts of this, the fund hasn't been successful at its stated aims of creating new routes and there has been a high failure rate among the routes supported.<sup>45</sup> Many of these routes are internal UK flights that would be better served by a robust rail network.<sup>46</sup>

### What is our recommendation to the Government?

The Government should withdraw this support for regional airports and use the funding for better value transport services such as freezing rail fares and providing more bus services in rural areas.

## 14. OTHER: Clean Air Fund, Clean Air Zones and Diesel Scrappage Schemes

### What is this?

Air pollution is a serious public health issue across the country. Illegal and harmful levels of air pollution impair people's quality of life and cause acute and chronic health conditions, which adds to the burden on the NHS and the wider economy through lost productivity.

The Government has promised a Clean Air Fund in this Budget to pay for the measures needed to clean up our air, especially in cities. We've set out above the case for increasing taxation on diesels to put money into this fund. We want to see this fund pay for a series of measures, including some of those listed above under Roads policy. The Government's Clean Growth Strategy sets out an ambition for walking and cycling to become the default mode for shorter journeys, and the Clean Air Fund could contribute to making this a reality, as well as greening the bus and taxi fleets and incentivising the rollout and adoption of zero emission freight vehicles and distribution.

In addition, the Clean Air Fund should contribute to making a success of Clean Air Zones. These Zones, specifically those involving charging diesel vehicles, have consistently been identified by government experts as the most effective way to achieve legal limits of air pollution in the shortest time possible. This was reinforced in the technical report underpinning the Government's recent air quality plan.

Clean Air Zones, if properly designed and implemented, would discourage the most polluting vehicles from entering the most polluted parts of our towns and cities. They should be implemented as a package of measures to reduce the number of vehicles on the road, thus helping with congestion, and move people and businesses on to cleaner forms of transport, including

ultra-low and zero emission vehicles, public transport, walking and cycling. While Clean Air Zones will be implemented locally, a centralised system of support could be used to help reduce overall costs by using economies of scale in the development and implementation of the zones, for example, in producing the feasibility studies and purchasing monitoring equipment.

The Fund could also support a targeted diesel scrappage scheme. This is a popular idea in some quarters but a wide ranging scheme would be extremely expensive, would be unlikely to target enough vehicles to make it worthwhile and risks targeting the wrong ones. A well targeted scheme could be used to help people and businesses, especially in Clean Air Zones, move towards cleaner forms of transport, including ultra-low and zero emissions vehicles. However, the scheme should help to take cars off the road, rather than simply replace old cars with new ones. It should offer free public transport season tickets, electric bicycles and subsidised car club membership, perhaps through a 'mobility voucher' type system. It could be part funded by motor manufacturers, some of which have already announced their own schemes. These should be coordinated to ensure that they complement Government strategy and needs.

### What is our recommendation to the Government?

- The Budget should establish a Clean Air Fund with significant resources to pay for the measures needed to cut air pollution to levels that don't harm human health
- Charging Clean Air Zones should be mandated in all towns and cities identified as requiring this measure by a robust analysis of air quality data. This should be based on a national framework and these local authorities should be given sufficient resources and support from central government to implement and operate them

- These targeted measures need to be supported by national policies, which would include the replacement of perverse diesel fiscal incentives with incentives to encourage the take up of cleaner forms of transport, e.g. investment in public transport, rail freight and infrastructure for walking and cycling, as well as fiscal support for cleaner vehicles
- Funding should be allocated strategically to support the Government's air quality plan, minimising or removing the need for local authorities to spend time and resources in bidding for grants under a competitive bidding system, and should pay for the overhead costs, feasibility studies and monitoring equipment
- The Clean Air Fund should also contribute to a diesel scrappage scheme targeted at the areas with air quality problems. Those driving older diesel vehicles should be offered mobility vouchers to give them a range of options to replace these vehicles, including public transport season tickets, support for electric bikes and subsidised membership of car clubs. A scrappage scheme could be introduced in advance of the implementation of Clean Air Zones around the UK to support and accelerate compliance.

## Conclusions

The Budget offers a chance to address the problems underlying the UK's transport system: congestion, pollution and social exclusion from over-dependence on road and air transport. We've set out here some proposals for taxation and spending which can take the country in the right direction.

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