RAC
Public Affairs

RAC representation to the 2018 Autumn Budget statement

This response has been written by Nicholas Lyes, RAC Public Affairs Manager, on behalf of RAC Motoring Services

About the RAC

With more than eight million members, the RAC is the oldest and one of the UK's most progressive motoring organisations, providing services for both private and business motorists. As such, it is committed to making driving easier, safer, more affordable and more enjoyable for all road users.

The RAC, which employs more than 1,600 patrols, provides roadside assistance across the entire UK road network and as a result has significant insight into how the country's road networks are managed and maintained.

The RAC is separate from the RAC Foundation which is a transport policy and research organisation which explores the economic, mobility, safety and environmental issues relating to roads and their users.

The RAC website can be found at www.rac.co.uk.

In September 2018, the RAC published its latest Report on Motoring.

RAC Representation to Treasury

Policy Call	Motoring opinion	Analysis and Cost
Fuel duty - The Chancellor should not increase fuel duty for the remainder of the Parliament	The 2018 RAC Report on Motoring found that the cost of fuel was the 3rd highest overall motoring concern, with 29% of motorists citing it as a major concern. The Report also found that 61% of motorists are now spending more on fuel than at the same period last year.	In his 2018 Budget, the RAC urges the Chancellor to commit to an extension of the freeze in fuel duty for the remainder of Parliament. Reports earlier this year indicated that fuel duty may be increased; However we argue against such a move. RAC Fuel Watch data shows motorists are currently experiencing the highest fuel prices for 4 years[1]. Even within the last 12 months, it is costing owners of petrol vehicles an average of £7 more each time they fill up an average 55-litre family vehicle while for diesel owners this rises to £8 per tank. The Treasury will have benefited from the extra VAT revenues from higher costs. We estimate that in the last 12 months, drivers have contributed an extra £1.10 (petrol) and £1.31 (diesel) per tank when compared to the same period last year. Freezing fuel duty is beneficial to both the motorist and to economic growth. According to

[1] https://media.rac.co.uk/pressreleases/drivers-suffer-petrol-price-rises-for-eight-out-of-the-last-12-months-2675566

		the Treasury's own analysis of fuel duty levels, published in 2014, 'Modelling work suggests in the long-term reductions in fuel duty will result in an increase in GDP against the baseline of between 0.3 and 0.5 per cent.'[2] While we accept that the vote to leave the European Union has increased the costs of purchasing fuel due to the fall in the value of the pound, it can be argued that the freeze in fuel duty has helped to avoid pushing the UK into recession. Independent studies by the NIESR[3] and the CEBR have also confirmed the benefits of lower fuel duties can have on economic growth.[4] Additionally, increasing fuel duty is likely to have socio-economic impacts. Separate research by the RAC Foundation[5] found that in 2017, almost one million of the poorest car-owning households were spending about a fifth of their disposable income on buying and owning a vehicle, with fuel being the largest cost. The 2018 RAC Report on Motoring shows that car dependency has increased, with 27% of drivers saying they are more dependent on their vehicles, mainly due to the increased need to transport family members or because of longer commuting and also because the perception that public transport options are worsening. While some may argue that increasing fuel duty may reduce dependency, our research also found the 75% of drivers say that they would find it very difficult to adjust their lifestyles to being without a car. Additionally, car dependency has increased in line with average fuel prices, now at a four year high. Any increase is likely to have a detrimental impact on precisely those who need their cars and are least likely to be able to afford any duty rise. We are concerned that raising fuel duty could have a negative impact on revenues to the

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/303233/Analysis_of_the_dynamic_effects_of_fuel_duty_reductions.pdf

[3] http://www.niesr.ac.uk/sites/default/files/publications/dp398.pdf

[4] http://fairfueluk.com/FairFuelUKCEBRreport.pdf

[5] https://www.racfoundation.org/research/economy/transport-poverty-2016-data

		Exchequer in the long term as extra costs reduce disposable income. This is based upon previous independent research and research from the Treasury itself while adding higher costs on drivers who are reliant on their vehicle and have little other practical alternatives but to use their vehicle.
INSURANCE PREMIUM TAX – The Chancellor should not increase IPT.	The 2018 RAC Report on Motoring found that the cost of insurance is the sixth biggest overall motoring concern and the second highest motoring cost concern. The report found that the cost of insurance premiums rose for 55% of drivers over the course of the last 12 months, compared to 32% who said their premiums had remained about the same price.	The RAC estimates that motorists are contributing higher IPT revenues to the Treasury when compared to 2016 (see table 1), in large part due to higher rates of IPT and a general increase in the costs of car insurance policies overall. Recent evidence from the ABI's tracker[6] suggests that car insurance premiums have stabilised with a small fall reported in Quarter 2 2018 when compared to Quarter 1 2018, though over the past 2 years, average fully comprehensive motor insurance premiums have risen by 11%[7]. The RAC opposed previous increases in IPT, and we would encourage the Chancellor not to increase IPT yet again. Should the Chancellor raise IPT further, the Treasury risks encouraging more drivers to break the law by not insuring their car. Evidence suggests that the numbers of compensation cases for drivers who are victims of uninsured drivers increased last year[8], indicating that insurance evasion is becoming more of a problem. We are concerned that any further rise will exacerbate the problem and this could impact on both premiums and IPT revenues.
DISCOUNTED IPT FOR TELEMATICS BASED POLICIES FOR YOUNG DRIVERS: The	Research from the RAC Opinion Panel suggests 62%	The RAC encourages the Chancellor to promote safer driving and assist younger drivers by offering an IPT exemption or discount on all telematics related policies for drivers aged between 17 and 24 years old.

[6] https://www.abi.org.uk/news/news-articles/2018/07/cost-of-motor-insurance-falls-for-second-successive-quarter/

[7] ABI quarterly tracker for Q2 2016 was £429 for an average annual comprehensive motor insurance policy (https://www.abi.org.uk/news/industry-data-updates/2016/04/abi-average-motor-insurance-premium-tracker-q1-2016-data/) and this rose to £475 in Q2 2018 (https://www.abi.org.uk/news/news-articles/2018/07/cost-of-motor-insurance-falls-for-second-successive-quarter/)

[8] https://www.bbc.co.uk/news/business-41071484

Chancellor should also consider offering IPT discounts or exemptions for telematics based insurance products for younger drivers to improve road safety	of young drivers[9] felt the cost of insurance was the biggest barrier to owning and running a car as opposed to 22% who felt it was buying a car and 12% who cited day-to-day running costs.	Whilst the RAC understands this may reduce revenue in the short term, its value in promoting safer driving amongst the most 'at risk' age category can play a significant role in reducing road traffic collisions and the associated costs. The DfT has estimated that reported road traffic accidents can cost over £15bn a year.[10]
LOCAL ROADS FUNDING: Long term local road maintenance fund	The 2018 Report on Motoring confirmed that the condition and maintenance of local roads is motorists' number one concern. 42% of drivers identified it as a major concern, and it has gone from the second highest concern in 2017 to the number one concern in 2018. Surveys for previous Report on Motoring have indicated that motorists regard the repair and maintenance of local roads as the No 1 transport spending priority for central Government. When asked about how motorists rate the condition of local roads compared to 12 months ago, 66% say conditions have worsened, against 24% who said conditions have remained about the same. There is a much larger proportion of drivers reporting a worsening of local road conditions in	The RAC urges the Treasury to consider introducing a long-term funding mechanism for local road maintenance, that mirrors the ring-fencing of VED to fund maintenance and development of the Strategic Road Network (SRN), alongside a long-term strategy for improving local roads published by the Department for Transport. The RAC's Pothole Index for Quarter 2 2018 reveals that RAC patrols attended the highest number of pothole related breakdowns for a second quarter since 2015[11], while we estimate that the cost to drivers in terms of repairing a vehicle damaged by potholes to be approximately £100m[12] a year. Independent research from the Asphalt Industry Alliance (AIA) also published data from local authorities on the maintenance backlog for local roads in March 2018[13] suggesting the current backlog is around £9.3 billion. The majority of journeys start and finish on local roads and therefore the Government's investment to improve the strategic road, rail infrastructure and infrastructure at ports and airports will fail to deliver their forecast benefits unless the deficiencies in the local roads infrastructure are addressed as a matter of urgency.

[9] Research carried out on behalf of RAC Insurance by ICM Unlimited with 500 17 to 24-year-olds – 150 learner drivers and 350 qualified drivers

[10] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/556396/rrcgb2015-01.pdf

[11] http://www.mynewsdesk.com/uk/rac/pressreleases/rac-sees-second-quarter-pothole-breakdowns-hit-three-year-high-2584516

[12] http://www.bbc.co.uk/news/uk-england-25736223

[13] http://www.asphaltuk.org/wp-content/uploads/alarm-survey-2018-FINAL.pdf

	2018, when compared to 2017 (66% vs 51%).	The RAC believes that a long-term strategic approach, with a guaranteed funding stream, is essential for returning local roads to a state that is fit-for-purpose. We estimate that if the Treasury were to agree to ring-fence 2p from each litre of fuel from existing fuel duty revenues, this would raise an additional £9.4bn over the next ten years for local roads and would give local authorities a guaranteed revenue stream in addition to current sources of funding. This would allow local authorities to focus more on preventative maintenance (fixing roads properly, rather than patching up potholes), saving businesses and motorists money, boosting economic growth and therefore ultimately increase revenue to the Treasury.

Appendix

Estimated motoring related tax revenue to the Treasury (Table 1)

Tax	Description	Motorist's total contribution in 2016	Motorist's total contribution in 2018
Fuel duty	57.95p paid on every litre of fuel bought	**£27.6bn***	**£28.2bn**
VAT on fuel	20% on all automotive fuel sales	**£8.8bn****	**£9.4bn**
Vehicle Excise Duty	Paid every year according to a vehicle's CO_2 emissions	**£5.5bn***	**£6.2bn**
Insurance Premium Tax (Motorist contribution)	Forms part of the cost of motor insurance	**£1.2bn*****	**£2.16bn**
TOTAL (Estimate)	Total cost	**£43.1bn**	**£45.96bn**

2016 notes

* Budget 2016 estimates for FY 16/17 (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf)

** 20% based on Sept 15-Aug 16 for quantities release for consumption – August 2016 hydrocarbon oil duties bulletin (46,8bn litres released for consumption)
*** Figure for 2016 includes IPT increase to 9.5% and then to 10%. 2014 figures calculates IPT revenue based on 6% rate. Calculations based on Q1 2016 average premiums and DfT licenced vehicles.

2018 notes

**** Fuel duty and VED revenues - Budget forecast 2018/19
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661480/autumn_budget_2017_web.pdf

***** VAT estimations: 20% based on 2017/18 for quantities release for consumption – May 2018 hydrocarbon oil duties bulletin (52.5bn litres released for consumption)

****** Figure based upon ABI tracker average premium of £475 for Q2 2018 (https://www.abi.org.uk/news/news-articles/2018/07/cost-of-motor-insurance-falls-for-second-successive-quarter/) and includes new rate of 12% IPT against 38 million licenced vehicles. 12% of £475 = £57

Please address any comments or further contact to:

Nicholas Lyes, RAC Public Affairs Manager nlyes@rac.co.uk
David Bizley, RAC Chief Engineer dbizley@rac.co.uk
Pete Williams, RAC Head of External Affairs peter.williams@rac.co.uk

Date of submission: 28th September 2018