STATES OF JERSEY

BUDGET STATEMENT 2010 (P.179/2009): COMMENTS

Presented to the States on 7th December 2009
by the Environment Scrutiny Panel

STATES GREFFE

COMMENTS

Background

The Panel's involvement with these environmental tax proposals stems from the Treasury and Resources Green Paper, 'States environmental initiatives – what should we do and how should we pay for it?' earlier this year. Members had a number of reservations about the proposals outlined in the consultation. Some of the issues were addressed during a constructive dialogue with the Minister for Treasury and Resources at a public hearing on 11th November; however the Panel still has a number of concerns.

Members were conscious that available evidence pointed towards the environmental tax proposals being primarily a revenue-raising exercise. The Minister confirmed at the hearing that his proposals were a direct response to the States' decision to spend £2 million on environmental matters.

Panel concerns

The Panel has already raised concerns about the possible problems associated with this approach to funding environmental initiatives in its comment on Senator Le Main's amendment. It sees a real danger of an 'ad hoc' approach to environmental funding developing, which could have serious consequences both for the environment and the taxpayer. The primary concerns are –

1. that competing demands for funding under an 'environmental' banner could rapidly become unmanageable if departments are allowed simply to bid for new funding for projects without having to meet any specific environmental criteria;

2. that if future policy were to determine that environmental initiatives should rely more heavily on environmental taxation for their funding, the demand for funding could drive taxes to unacceptable levels; alternatively a shortage of funds could tend to stifle worthwhile environmental initiatives before they get off the ground.

In respect of point 1, the Panel sees clear warning signs that these difficulties are just around the corner. As an example, it is noted that all of the initiatives put forward by Transport and Technical Services for 'environmental' funding this year were originally part of mainstream departmental planning; they appear to have dropped out of department budgets and been reinstated as environmental priorities to qualify for the new funding stream. Of these, some items (e.g. pedestrian safety improvements, real-time information bus signs) have only indirect direct links to the environment, through the revised Sustainable Transport initiative. This raises the question of what should be considered the 'core' business of the department, and what could reasonably be termed environmental.

Senator Le Main's amendment amply illustrates point 2. He suggests an annual tax that would raise substantially more than the £2 million proposed in the Minister's proposition, with a view to establishing a 'pot' of available funding which could be drawn on for a whole range of unspecified initiatives in addition to the 'Hoppa' bus service. None of these initiatives are costed, and the Panel notes that the Senator referred to the ability to increase the taxes at any time in future if more money was needed.

The Minister also indicated that higher taxes could be on the way, referring to the abolition of V.R.D. (vehicle registration duty) having deprived the Treasury of £5 million worth of revenue, which might have otherwise have been directed to environmental spending. The Panel has some issues with this figure. States accounts appear to indicate that in 5 years of operation, VRD raised an average of just under £3.3 million per annum, even allowing for a windfall in 2007 when an adjustment to the way figures were calculated raised the sum by £1 million to £5.8 million. Clearly, 2007 was a very good year for VRD, but the 2008 budget made allowance for a fall in revenue of just £4 million to account for the loss of VRD income; one might therefore ask whether the expectations for new taxes are rather excessive, especially in light of the global economic downturn.

Need for full debate on environmental funding

The Panel believes that there is confusion about the direction in which we are heading with funding for environmental matters. It was uncomfortable with headline questions in the Treasury's Green Paper which seemed to suggest that environmental initiatives may only be supported in future if additional, dedicated taxes were raised to pay for them. Panel members are concerned at the lack of clarity in this area. They strongly believe that environmental initiatives should not have to rely on dedicated environmental taxation for their funding. Given the apparent ease (see above) with which existing departmental work programmes can be shifted from one budget to another, the Panel notes that a much bigger proportion of the existing work of both Transport and Technical Services and the Planning and Environment Department could easily be described as 'environmental'. With this in mind it believes that there is an urgent need for informed debate to determine a transparent policy on environmental funding before we go any further down this road. Members consider that the Minister's forthcoming review of fiscal policy presents a significant opportunity to investigate the possible benefits of structured environmental tax reform, as opposed to the present situation where we appear to be operating increasingly on a 'pay as you go' basis.

Environment Tax, or Emission Tax?

In discussion with the Panel, the Minister agreed that his proposals did not represent pure environmental taxes, but were a step in that direction. An important element of environmental taxation is the aim of changing behaviour away from activities which harm the environment, towards more acceptable or beneficial outcomes. The Panel has concerns about a negative perception which could arise from directly linking taxation (not generally a welcome concept) with the environment, which needs the support of the public if it is to be preserved and indeed enhanced. Members were therefore pleased that the Minister agreed to re-label the proposals as emission or pollution taxes, rather than environmental taxes, to send a clearer signal to the public about the reason for the tax and the behaviour it seeks to change.

Specific Tax proposals – Fuel Duty versus Vehicle Emission Duty

The Panel believes that the proposed increase in fuel duty could be considered as a reasonable 'user pays' measure to provide compensation for potential environmental damage caused by vehicle emissions, but only for as long as the additional revenue raised is applied strictly to specific funding of environmental initiatives. The majority of responses to both the 2007 and 2009 environmental tax consultations showed that respondents were in favour of increased fuel duty, rather than new taxes, as the fairest way of raising revenue for environmental purposes. As an increase in prices might encourage motorists to use less fuel, it could also be considered to have a beneficial impact on behaviour, albeit perhaps a marginal one.

However, the Minister plans to use the increased fuel duty only as a stop-gap until next September, at which point it is intended –

- to continue raising additional revenue from increased fuel duties, but divert this back into general reserves;

- to introduce Vehicle Emissions Duty (VED) to replace the revenue 'lost' to environmental causes from diverting the increased fuel duty back into reserves.

This approach appears to expose motorists to an unacceptable duplication of taxes. Unless the interim fuel duty increase is reversed at the point when VED is introduced, taxpayers will rightly see its continuation as an additional stealth tax, particularly as there will no longer be any guarantee as to what the additional funds would be spent on.

The Minister explained that his proposals are partly intended to encourage those thinking of buying a new car to consider the environmental impact of their choice of vehicle. The Panel agrees that such a mechanism is justifiable on environmental grounds, and will return to this point in more detail below.

The proposals in more detail

The proposed VED bands do not follow the U.K. model for Vehicle Excise Duty, (which has a larger number of bands, with a narrower spread between each, albeit not all charged at different rates at present). The Jersey proposals are of course very different to the U.K., being intended (in this original proposition at least) as a one-off tax on first purchase or importation. In the U.K. the duty is levied on an annual basis, although it should be noted that when the equivalent Jersey annual road tax was dropped many years ago, fuel duty was increased to compensate for the loss of revenue; so this is effectively still being paid by motorists.

Comparison – Jersey proposals with U.K. Vehicle Excise Duty

	Jersey £	**U.K. £**
Up to 100g./km.	0	0
101 – 120g.	0	35
121 – 150g.	40	120 – 125
151 – 165g.	120	150
166 – 185g.	180	175
186 – 225g.	300	215
226 – 250g.	600	405
251 – 300g.	1,000	405
More than 300g.	1,250	405

It will be seen that the Jersey proposals favour a wider range of cars with low emissions before a tax is applied, but rapidly overtake the U.K. once mid-range vehicles and above are considered, rising to a level 3 times as high as the U.K. for cars with the highest emissions. The differences may be explained by the fact that this is meant as a one-off payment. However, the Panel still finds the scale of charges hard to justify on environmental grounds.

Examples (based on a theoretical annual mileage of 6,000) –

- **A** – a car producing 120g./km. would emit 1.15 tonnes of CO_2 and be exempt
  Carbon cost – FREE
- **B** – a car producing 150g./km. would emit 1.44 tonnes of CO_2 and be taxed £40
  Carbon cost – £27 per tonne
- **C** – a car producing 225g./km. would emit 2.16 tonnes of CO_2 and be taxed £300
  Carbon cost – £138 per tonne
- **D** – a car producing 250g./km. would emit 2.4 tonnes of CO_2 and be taxed £600
  Carbon cost – £250 per tonne
- **E** – a car producing 300g./km. would emit 2.88 tonnes of CO_2 and be taxed £1,000
  Carbon cost – £347 per tonne.

While there is clearly a good argument for an incentive to encourage people to select a vehicle with lower emissions, the proposed charges seem somewhat disproportionate. The carbon emission figures demonstrate clearly that even the smallest and most environmentally friendly cars have a significant carbon footprint; to exempt them from paying any tax at all therefore seems illogical. (The same can be said of hybrid, battery-powered and other alternative-fuelled vehicles, which still have significant manufacturing and disposal impacts.) While accepting that we need to persuade people into making greener choices, it must be recognised that any car is bad for the environment. If the aim is to reduce the harm, it is suggested that a more logical approach would be to increase the number of steps in the scale and include all new cars (no category of vehicles to be exempt). A modified scale with more bands, placed closer together between the lower end and the mid-range (as in the U.K. model) with smaller increments of tax between each band would enable the tax to be applied more equitably; it can be seen from the above that a relatively small difference in emissions between cars C and D (+25g./km., or 0.24 tonnes of CO_2 per year) would attract £300 of additional tax. Realistically, that difference in CO_2 may be no more than ‘car A’ might produce through sitting in rush-hour traffic every day. More consideration of proportionality with the actual carbon cost would also seem appropriate, although relatively higher levels of tax for those who choose to purchase the most polluting vehicles might still be justified.

The Panel notes that there is no specific consideration in this proposition of the case of larger commercial vehicles. It feels that there may be an argument on environmental grounds for reviewing the tax contribution made by operators of heavy goods and other large commercial vehicles, perhaps based on specific emission tests.

Summary

As it stands, the proposed tax would be rather better at raising cash than saving the planet: the Panel would prefer to see a tax that did both. Panel members are concerned that the steadily growing tax burden will place an increasing number of families in a position where they are unable to meet everyday living costs. However, if the House agrees that more taxes must be raised to pay for environmental measures, the Panel believes that –

- an informed debate is needed on the principles to be followed regarding funding for environmental initiatives, to determine whether hypothecated taxes, mainstream funding or a combination of both is the best way forward (this may reasonably be expected to follow the Minister's review of fiscal policy);

- urgent steps are needed to establish a clear agenda and priorities for environmental spending;

- a mechanism is needed to ensure that in future, all departmental spending on projects which draw from an environmental budget complies with the priorities defined in the above agenda;

- an increase in fuel duty as an interim measure is an appropriate source of environmental funding; the increase should be reversed if VED is introduced, unless it is agreed that sums raised will continue to be applied only to environmental initiatives;

- consideration should be given to amending the VED scales as discussed above, prior to introduction, to include all cars and take more account of actual carbon cost;

- the potential for wider environmental tax reform should be thoroughly investigated as part of the Minister's forthcoming review of fiscal policy.