

STATES OF JERSEY

Environment Scrutiny Panel

WEDNESDAY, 11th NOVEMBER 2009

Panel:

Deputy P.J. Rondel of St. John (Chairman)
Deputy D.J.A. Wimberley of St. Mary (Vice-Chairman)
Connétable J.M. Réfault of St. Peter
Deputy P.V.F. Le Claire of St. Helier

Witnesses:

Senator P.F.C. Ozouf (The Minister for Treasury and Resources)
Mr. M. MacGregor (Tax Policy Advisor)

In attendance:

Mr. M. Haden (Scrutiny Officer)
Mr. M. Orbell (Scrutiny Officer)

Deputy P.J. Rondel of St. John (Chairman):

Good afternoon, Minister. I believe you are aware of the purpose of the interview this afternoon, funding of the environmental initiatives. Firstly, I would like to go round the table so everybody can give their details so it is all on tape. I am the Chairman of the Environment Scrutiny Panel, Deputy Phil Rondel.

Deputy D.J.A. Wimberley of St. Mary:

I am the Vice-Chairman, Deputy Wimberley.

Mr. M. Haden:

Mike Haden, Scrutiny Officer.

Senator P.F.C. Ozouf (The Minister for Treasury and Resources):

Philip Ozouf, Minister for Treasury and Resources.

Mr. M. MacGregor:

Mark MacGregor, Tax Policy Advisor.

Mr. M. Orbell:

Malcolm Orbell, Scrutiny Officer.

Deputy P.V.F. Le Claire of St. Helier:

Paul Le Claire, Deputy.

Connétable J.M. Réfault of St. Peter:

John Réfault, Constable of St. Peter, member of the Environment Scrutiny Panel.

The Deputy of St. John:

I understand you are fully aware of this, Minister. Could you please give us a resume in the first instance of your funding initiative, please, environmental initiative?

Senator P.F.C. Ozouf:

Okay. First of all, I think it is the first time I have addressed the Economic Affairs Scrutiny Panel, so it is a pleasure to be here and I will do my best to answer all the questions you have.

The Deputy of St. John:

Environmental.

Senator P.F.C. Ozouf:

Sorry, Environmental Scrutiny Panel. It is important just to track back that my proposal to propose the vehicle registration duty and fuel tax was as a result of the States decision to spend £2 million on environmental matters. Now, I am happy that that spend is made. It is not really for me to say whether or not that spend is the best spend in those particular areas. I have looked at it and I am content with it, but it is for the Ministers themselves to justify whether the million pounds on energy efficiency grants, half a million pounds on bus and half a million pounds on recycling is exactly the right thing. But I am responding to the direct request to fund this. There is a very clear decision that if this funding was going to be agreed in the longer term, then there should be ... the Council position and my position has been there should be a commensurate income stream as a result of it. I will be absolutely straight with the panel that I fully accept that the measures that I am proposing in the budget, which I am happy to run through if you wish, are not pure environmental taxes. I fully accept that and the Council of Ministers had a frank discussion about that. We had a very strong view from the Assistant Minister for Environment on that and I am not going to say that they are environmental taxes in the pure sense of the word. The wording in the budget has been sufficiently crafted to send that signal. They are taxes designed to raise money for environmental initiatives and they are certainly environmentally originating. They are not the end of the road in terms of environmental taxes. I think there is a lot more that needs to be done on environmental taxes, and I think there is a lot more to do, research, to consult and to discuss going forward with the Minister for Planning and Environment and with the Scrutiny Panel and the States and the public about the real choices and options for environmental taxes, which I am absolutely as one with everybody on. Environmental taxes are there to change behaviour; they are not necessarily there to raise money. These are absolutely to raise money. Okay. So I just wanted to get that absolutely out to be blunt with you.

The Deputy of St. John:

I am very pleased you have done that because that is an area I was going to bring up, so I am pleased you have come up with that.

Senator P.F.C. Ozouf:

Now, funnily enough I have done 2 scrutiny interviews today, first of all with the Corporate Affairs Panel where I have been discussing with them the whole ... the other side of the increases in the budget, which are the tobacco/alcohol raising measures which are a direct link with the health spending. These measures are directly linked to fund the environmental initiatives, as I have just said. I gave very careful consideration as to whether or not there was any other way that £2 million could be raised, and I concluded that it was appropriate for there to be a link towards environmental polluting or detrimentally environmental aspects. That is why we have gone with the blend of vehicle emissions duty and fuel tax. I know the arguments that some people will hold that you should simply do it on fuel duty, and I know that there is a perfectly reasonable argument to take that you should just do it on the consumption of fuel. However, I do think that there is an issue that you do need to send a signal to people about at the point at which they are purchasing their vehicle, which you cannot just achieve if you bring a fuel duty in. That is why I preferred the blend of the 2 options. Also, I will be perfectly candid and say to you that I did not necessarily agree with or can support the continuation of the ... and this is sensitive, of the abolition of the V.R.D. (vehicle registration duty) which did deprive the Treasury at a stroke of £5 million worth of revenue, which was revenue that we otherwise could have directed to environmental spend. I would go so far as to say that if we had had that revenue then we would not be having to bring in a measure now in order to pay for the environmental spend because we would have had that money in the bank. Now, I cannot undo the debate about V.R.D. and I know that it was at the time a ... I do not wish to be in any way disrespectful to the debate at the time, but it was a confused debate and I am not sure it was one of those decisions that with the benefit of hindsight we would necessarily make or we would forward the same arguments to win the debate of the day. Nevertheless, it has been done and I know all of the difficulties with V.R.D. V.R.D. was a very difficult tax to implement. It had all sorts of unintended consequences. Lessons have been learnt and it should not be replaced as a like for like tax. Hence the proposal is to bring in V.E.D. (vehicle emissions duty) at a much, much lower level. The blend of the 4p on fuel duty and V.E.D. does raise the money for the environmental initiatives and that is where ... I am sure it is not perfect and I am sure improvements could be made and I welcome any suggestions for any improvements to be made, but I have to start somewhere in terms of raising the revenue. I know you have been speaking to Senator Le Main this morning or this afternoon. I am briefed on his further proposition. I do not know whether or not you ... I know that this is an open session and I know that his proposition has not been lodged yet, but we have given him - as we will remain neutral in the Treasury - assistance in preparing that and I am keenly awaiting his final conclusions and I welcome everybody's thoughts as to whether or not that is a better or supplementary way of achieving an environmental initiative tax-raising measure.

The Deputy of St. John:

Right, okay. Can we start off with V.E.D., please? Can you explain why under your proposals a new car emitting 250 grams of carbon per kilometre will attract £1,000 of V.E.D. while one producing nearly half as much will be exempt?

Senator P.F.C. Ozouf:

Can you just repeat the question so that I am clear? This is ...

The Deputy of St. John:

Can you explain why under your proposals a new car emitting 251 grams of carbon per kilometre will attract £1,000 of V.E.D. while one producing nearly half as much will be exempt?

Senator P.F.C. Ozouf:

I do not know whether I recognise those figures, do I? Chairman, I do beg your pardon, but those are not figures that I recognise from the schedule that I have.

The Deputy of St. John:

151.

The Deputy of St. Mary:

Well, the first column, 10.1, of your briefing has 251 to 300 grams CO2.

Senator P.F.C. Ozouf:

It is £1,000, yes.

The Deputy of St. Mary:

It is £1,000. What were you saying, Chairman, half?

The Deputy of St. John:

One half of that would be exempt.

The Deputy of St. Mary:

Yes, 125 ... well, 120 grams or less, just under half will be exempt.

Senator P.F.C. Ozouf:

I see, yes. Well, clearly, this is not ... the comparison, and I am not sure that 120 is as comprehensible as a 100 cc vehicle. I know that there is not a direct linear linkage between cc and emissions. I think the thought process is these are the standard categorisations of 120 grams is what we would commonly describe as the lowest polluting type of vehicle. So, there is a clear incentive that you are effectively rewarding or not penalising effectively the lowest form of vehicle. If you want to buy a vehicle, then you are going to be ... unless you are buying an electric vehicle, you are going to be having a CO2 emission. You are not penalising the lowest emitting vehicles, but on a proportionate scale you are penalising the higher polluting vehicles. So, if it is reverse logic it would be we are not looking at it from that end of the telescope, if I may say. We are not looking at it from the telescope and saying: "We are penalising you for every single carbon you are emitting." We

are actually trying to create an incentive to push people into considering purchasing lower CO2 emitting vehicles, if that makes sense.

The Deputy of St. John:

Right, okay. What is the rationale behind the scale of charges for V.E.D., i.e. is it based on environmental consideration, the value of the vehicle, an assessment of the public willingness to pay additional taxes, the desire to replace income lost from V.R.D.?

Senator P.F.C. Ozouf:

Well, first of all, in a full year at these rates of V.E.D. we will only raise £2 million as opposed to in excess of £5 million from V.R.D. So, I have already made the comment I made about V.R.D. This is not a replacement for V.R.D. but it is being introduced because I am being asked to pay for environmental initiatives and I do not have the V.R.D. income. It clearly is based upon the categorisation of different emitting vehicles on a sliding escalating scale, and it attempts to certainly put a purchase penalty on the most polluting of vehicles or CO2 polluting vehicles. I think that these categorisations have been used ... we have lifted them and we have drawn from other schedules that have been in place in other jurisdictions in terms of a broad categorisation. I do not think I answered all your questions but ...

The Deputy of St. John:

No. The question ... I will put the question again. What is the rationale behind the scale of charges for V.E.D.? Is it based on environmental consideration, the value of the vehicle, an assessment of the public willingness to pay additional taxes, and the desire to replace income from lost V.R.D.?

Senator P.F.C. Ozouf:

It is environmentally based because it is environmentally on emissions, and it is a step forward from the cc's, which are not necessarily reflective of CO2 emissions. So, it is clearly much more environmentally based. It is designed to make people think about purchases, but I think we are all realistic and we know that just because there is a tax of £1,000 on a 251 to 300, there are going to be some people who are not going to be discouraged from purchasing those sort of vehicles. Well, they are purchasing those vehicles and they are making the contribution to public funds in the knowledge that there is an off-setting benefit to the environment to pay for environmental initiatives. So, if it would be a pure environmental tax you would be attempting to change behaviour. This is attempting to do both, an awareness of the environmental impact and to raise money. We would not have set the schedule of charges if we did not think we were going to raise £2 million on a full year. I certainly think it will have some effect on people's purchases because clearly there is an incentive because there is a category that has a very, very low level of emissions, so clearly if you are paying a bill you are going to think about it.

The Deputy of St. Mary:

Just a point of detail, will this cover also transfers like second-hand market and so on or is it just new vehicles, new purchases?

Senator P.F.C. Ozouf:

There are the transfers into the Island, the 3 schedules under figure 10.1, those are then the entry charges for second-hand vehicles, one year, 2 year, 3 year, and over 3 years. They are on a sliding scale and you could, Deputy, argue that that is inappropriate because effectively the vehicle itself is emitting the same amount of CO2. The counter argument to that is that there are unintended consequences to the second-hand car market unless you put in measures such as this. Having said that, it is not designed to ... it is not designed on a value scale, so it is more coincidence than anything else that clearly if you buy ... I am not sure what a Porsche or a Rolls Royce category is, but I imagine it is in the higher value ones in terms of the CO2 emissions. I am not sure you have a low value Rolls Royce or Porsche or Lamborghini, but you have clearly got ... there is obviously a linkage between value and ... although there are some very good value, low CO2 ... there are some high value, low CO2 emitting cars, certainly Toyota Prius and things like that.

The Deputy of St. John:

Do you consider that environmental taxes should be more broadly based rather than directed primarily at the motorist?

Senator P.F.C. Ozouf:

I am very clear that there is a need for an ongoing debate about environmental taxes. I do understand that we need to look at other forms of CO2 and other environmentally damaging behaviour. But 85 per cent of households, according to the 2001 census, do have a car so to that extent ... and motorists and congestion are big issues of concern to Islanders, so to that extent it is broadly based because many Jersey people have cars. At some point people will be buying or replacing cars, so it is ... in that sense it is broadly based.

The Connétable of St. Peter:

I notice you are not proposing to look at actually ... certainly in this paper putting any sort of levy on to the fuel to create a user pays type element within the environmental initiatives. Do you still have that in mind or are you looking to bring in a tandem element?

Senator P.F.C. Ozouf:

Well, we are saying that to raise the £2 million we need both the V.E.D. to be introduced and agreed to be introduced from September of next year, but we also need the 4p on fuel duty to raise the full £2 million.

The Connétable of St. Peter:

So the V.E.D. on its own will not raise the £2 million?

Senator P.F.C. Ozouf:

Oh, no. No, no. My problem is that in a full year it will raise £2 million but the environmental spend is for January through December next year, where V.E.D. is going to commence in September. Now, I was persuaded to suggest that V.E.D. should be introduced in September because of the

economic condition and also to give people sufficient notice that this was coming in. I should say, by the way, that there is a requirement for all Members to declare any related or financial interest. I should just declare that I do own a garage. I have nothing to do with the garage, but I get a rental from it. So I just have to make that declaration. I have not got a direct pecuniary interest but I have a related one which people should just be aware about. I say that because I am aware that the car market as well as other consumer purchase markets in Jersey have clearly been affected by the economic downturn. Just as when we brought in V.R.D. last time, it coincided with some difficult economic times. I thought that it was not sensible to propose a tax at a time in which there was clearly difficulties within the car purchase market. All the economic evidence that I have indicates that the Island should be emerging from recession and that we will be, I hope, seeing the strong green shoots of economic recovery by the third and fourth quarter next year, hence the decision to defer the purchase and the implementation of this until September.

The Connétable of St. Peter:

Just really staying on that a little bit longer, certainly you are obviously aware of Senator Le Main's proposal of an annual tax. He is basing his on cc engine size rather than emission duties. You did not see any benefit in actually accommodating some of that within your own proposals?

Senator P.F.C. Ozouf:

I am more than willing to hear of other, better proposals. The Treasury and the Treasury Minister do not have a monopoly on good ideas and the right solutions, so I am more than willing to hear other solutions. I have given Senator Le Main's proposal careful consideration and I certainly think it is worthy of serious thought. It might be that if he lodges his proposal as he originally proposed it might be more suitable for it to be a CO2 annual charge, but I do not know of the ability for us to deliver on that. We do want a low cost tax-raising measure that is simple to administer and does not create a large bureaucracy. We do need, before I am willing to say that I could ... if the States wanted it to be brought in that we could deliver on it, we do need to engage with third parties to ensure that they could actually collect it. We do operate at the Treasury standard rules that we do not want taxes which are going to create an administrative cost which outweighs the tax collection, hence the whole argument of keeping G.S.T. (Goods and Services Tax) low and simple and all the rest of it, of which I realise that there are views on either side of that. I know that we can introduce V.E.D. because we have the experience of V.R.D. It can be done. It is very easy to put in place anti-avoidance procedures. It is virtually inconceivable that you could avoid it because you have to pay for it by registering a car. So, it is simple, it is certain, it has a low administrative cost. The annual charge clearly needs some further work, and I will certainly do further work between now and the budget day and it will be given an appropriately fair hearing and it will be up to Members to decide whether or not they want one or the other or perhaps a combination of the 2 or an amended version of either one. Either way, I am very clear that we need the cash because otherwise we are not going to have the environmental spend. That is my bottom line. How it is raised, we will

give as much support to everybody that wants to come forward with another proposal and we will listen to the interested and related lobby groups, et cetera.

The Deputy of St. John:

Before we go any further, I think, Malcolm, you had a ...?

Mr. M. Orbell:

Sorry, yes, excuse me, Minister. Just for clarification, I have actually been away briefly since we first received papers from Mr. MacGregor, but I notice on a couple of occasions now you have mentioned a 4p increase in fuel duty.

Senator P.F.C. Ozouf:

If Mark wants to ...

Mr. M. MacGregor:

Yes, it is 3 pence which will raise £1.5 million next year with half a million from V.E.D.

Senator P.F.C. Ozouf:

I do apologise. The other pence is the inflation increase?

Mr. M. MacGregor:

Yes.

Senator P.F.C. Ozouf:

Yes, I do beg your pardon.

The Deputy of St. John:

I wrote 4p down as well. **[Laughter]** Carry on, John.

The Connétable of St. Peter:

Can I just take us back a little bit to the Chairman's question a few moments ago where he was talking about looking at a wider base to look at environmental taxes. Your response then was that 82 per cent of people of Jersey from the last census were car owners. Have you thought of another way in which you could encapsulate, let us hope, 100 per cent of the population in contributing towards environmental initiatives?

Senator P.F.C. Ozouf:

Well, 100 per cent of the population are certainly not going to be able to contribute because we have within the population clearly low income families and individuals and households that you would not expect to contribute because of their income or their personal circumstances. There clearly is a linkage between car ownership and household income. I think that is clear. Certainly, an investment in the bus service which is an improvement in the bus service has the double benefit because you are not ... low income families are maybe unlikely to own a car, so they are not going to be affected by this. If they do buy a car, they are certainly going to be buying a small car and they are also going to be using the bus service. So, in a sense, I would argue that

this was a progressive tax, not a regressive tax. Now, there is clearly a whole debate to be had about the future of environmentally based taxes and environmental taxes, of which I regard these proposals as a first step towards using the tax system to pursue environmental objectives. There is further work to be done on this which is going to be done in co-operation with the Planning and Environment Department. There is the work to do with the energy policy paper that needs to be done and there is a whole series of other ... and we are also going to be informed internationally by other developments. I was most interested to hear of the Green Fiscal Paper that was published recently in the U.K. which made our proposals here look like some fairly ...

The Deputy of St. John:

Tinkering at the edges?

Senator P.F.C. Ozouf:

Tinkering at the edges, that is right. Now, that debate is to be had. I am clear that this is purely an initiative to raise £2 million.

The Connétable of St. Peter:

So this is entirely it? You have a single-minded objective at the moment and that is to find that £2 million to cover the half million pounds for the buses and recycling and the other million on environmental initiatives and improvements?

Senator P.F.C. Ozouf:

Yes, but it is single-mindedly achieving that, but hopefully with eyes wide open to trying to pursue as much environmental objectives as we can given the timeframes and given the economic circumstances.

The Connétable of St. Peter:

Have you done any more work, just moving slightly further on, with regard to the importation of W.E.E.E. (waste electrical and electronic equipment) goods and the recycling costs of all those fridges and all those types of things?

Senator P.F.C. Ozouf:

I would love to brief you, Connétable, about all that but I am afraid that that is slightly beyond the scope of today. That is an issue which I expect the Transport and Technical Services Minister to be handling and there is a lot of work to be done on all of that. There is the W.E.E.E. objectives and there is this outstanding concern I have that we are not part of the ... some of the manufacturing companies are already contributing to E.U. (European Union) funds which people in Jersey do not benefit even though they are buying the same goods and the goods are the same price. There is a whole series of issues there and I have been known to have packaging for various different goods and plonking it on the counter after I have bought the thing and all sorts of things. I believe that we have a whole load of stuff to do in terms of retailer obligations to returning goods, contribution of payment upfront for the disposal costs, all that sort of thing. I think there is a whole bigger thing which I will not do justice.

The Connétable of St. Peter:

I look forward to that debate on another day.

Senator P.F.C. Ozouf:

Yes, but that is an issue with our good friends the Transport and Technical Services and Planning Department Ministers.

The Deputy of St. Mary:

You have spoken of ... in fact, you have called this an environmental initiative tax-raising measure. I like that. Could we go a step further and call these ... and sort of ban the words “environmental taxes” and call them “emissions taxes” or even “pollution taxes”? Because I just feel very uncomfortable putting those 2 words together. The goal is the environment.

Senator P.F.C. Ozouf:

Yes. The point is very well made and we had a debate with my Assistant Minister and Mark before we came over to see you about that. I do accept that that is ... I have kind of inherited that title from other consultations. I have taken the responsibility of consulting and proposing in this area of taxation from the Environment and Planning Minister. I do think taxes need to be an issue for the Treasury, not other Ministers, and that is why I am sitting here and it is not the Planning and Environment Minister that is proposing taxes. I do think that has to be the job of the Treasury. If you would like me to re-label and re-brand them polluting taxes or emission taxes, then I am fully in favour of that because I think that is more accurate and sends a much clearer signal to the public and it also ...

The Deputy of St. John:

If I could interject there, the answer is yes, we would. Thank you.

Senator P.F.C. Ozouf:

Right, okay. Well, we will certainly ... I am more than happy to take that. I think that is a very positive ... it is very helpful.

The Deputy of St. Mary:

Okay. So, that was the first question. The second question is sort of the deeper concern which I think you have actually answered because you mentioned the U.K. green fiscal paper and so on and the fact that environmental taxes will be part of the fiscal policy review. Is that what I am gathering from this paper, it will be in the pot for the fiscal policy review?

Senator P.F.C. Ozouf:

I think that it would be ... it is absolutely appropriate that when we take the opportunity of reviewing fiscal policies generally is that we do take on board the latest thinking and the latest research on fiscal green taxation policy. So, yes, you can rest assured that my fiscal review team will review the green fiscal policy paper that came out recently and some other things, and we will do what we can. I cannot promise everything, but I will certainly promise that we will consider it and that we will consider options of basing taxes on a more

environmental basis than previously was thought possible. I have been an environment and planning president. I do understand. I am supportive and I will take these things on board. I think we all have a responsibility in this area.

The Deputy of St. Mary:

Okay. So that is the levying side, the tax levying will be greener, if you like, or you will ...

Senator P.F.C. Ozouf:

To the extent that we possibly can, yes.

The Deputy of St. Mary:

Now, the other side is paying for environmental goods or environmental services, and it is just a question of principle whether the States should be limited in what it does for environmental objectives like clean air, the new incinerator chimney, for instance, or clean water from various sources, or uncontaminated soil and so on. All those things have a cost and I am just teasing out whether we are going to stick with this model of it has to be these environmental initiative tax-raising measures that pay for that or whether we see these environmental goods as wider and so important that they are actually mainstreamed.

Senator P.F.C. Ozouf:

Well, there are 2 questions there. Should you be imposing polluter pays charges to a greater extent than we do currently? The second question is should environmental spend be mainstreamed. Because I think they are 2 separate issues. The question I had this morning from the Corporate Affairs Panel was there was a member of the public that wrote in that said: "You put up duty on alcohol and I think it was dubbed as 3p on a pint of beer to pay for T.V. (television) licences for the over-75s. That was the clear policy linkage. Where is the money? Was it hypothecated?" Now, the Treasury has always been traditionally opposed to direct hypothecation because it creates an administrative cottage industry because you end up taking sort of ... you know, we will take 3p from every beer sold and we will credit it to account and then we will pay for that, and we will pay the T.V. licences. What I said to the panel this morning is the duty on alcohol was raised. The policy was brought in to pay for T.V. licences. We are currently spending £254,000 on T.V. licences for over-75s, which is broadly the tax-raising measure that was raised, and it is continuing. So, if the public wants confidence that the money that we raised is going to the measure that is proposed, then we are doing it. That is now mainstream funding but it is not hypothecated. Now, that may be a slightly different question than what you asked, but do I believe that we should be funding appropriate environmental measures as mainstream funding and there should not be ... and I know you put, Deputy, an amendment that was successful to the budget, to the Business Plan, that did not put the conditionality in. Now, I am sure you understand that as Treasury Minister I am always after making sure the money comes in for any spend that is made, but I accept the point that we need to make environmental spend ... my first point was ... sorry.

The Deputy of St. Mary:

Polluter pays, polluter charges and environmental spend mainstream.

Senator P.F.C. Ozouf:

Yes. Now, this is controversial. I am mindful of the fact that the media is listening to this conversation, that comments that I make are going to be reported widely.

The Deputy of St. John:

Just woken up. [Laughter]

Senator P.F.C. Ozouf:

If we were truly polluter pays, then we would have been more bold in the way that we designed policies in the waste strategy. You would have, without any question, a black bag charge as opposed to not rewarding black bag waste and creating no incentive for recycling. My position on this has always been absolutely clear. We should reward good environmental behaviour and you should penalise bad environmental behaviour. It is going to be very difficult for our friends in the parishes to encourage their parishioners to recycle when there is absolutely no financial benefit to do so. However, the reason why we did not introduce a black bag tax or electronically tagged bins ... which I in my own time trawled over Germany and Switzerland to see how they did it, and yes, it is possible, and yes, it takes an investment in technology, but you can give people a charge for a bag or you tag their bin or you give them a smaller size bin and they pay 50 francs for that and 100 francs for that in Switzerland, which is very effective. But we could not because of the Bellozanne covenant in St. Helier. Let us be absolutely honest about it, that is the reason why we did not progress it. If we did not have that, we would have had an environmental charge and the environment would be better off. We would have made an adjustment in other taxes in order to pay it. Hugely controversial. There would be all hell breaking loose among different people, but if you care about the environment and you think that polluters should pay, that is what you should do. Now, in the comprehensive spending review ...

The Deputy of St. John:

On that particular point, can I stop you on that point?

Senator P.F.C. Ozouf:

Yes.

The Deputy of St. John:

After 2012 when we have our new Energy from Waste plant and the covenant falls away, is that an intention that you may have?

Senator P.F.C. Ozouf:

Again, there is a long historic convention that Ministers do not release in the public domain legal advice and you will not expect me to reveal legal advice that has been received in relation to the covenant. This is a legal matter between the States of Jersey and the Parish of St. Helier. Suffice to say that it is not quite as simple as simply moving the incinerator from ... and it was not

the reason why the incinerator was moved from Bellozanne to La Collette to do away with the covenant. St. Helier residents, according to the covenant, do have an ability to deliver their waste upon some interpretation of that covenant to the gates of Bellozanne irrespective of whether or not there is an incinerator there. So, does that not ... my strong view is that that should be something that should be looked into, and I think that we should engage with the parish of St. Helier on that issue and that we should consult the public in time as to whether or not they would prefer to pay for ... clearly, it is neutral because we are paying for the costs of the incinerator and clearly you can create an incentive and a penalty, but at the moment it just seems to me not sustainable in the longer term that you simply provide free disposal of black bag waste.

The Deputy of St. Mary:

The prompt now is comprehensive spending review, which were the words on your lips before the Chairman went off on the Bellozanne route. Have you got anything that you wanted to say about that? Because you were just about to go there.

Senator P.F.C. Ozouf:

Well, I am announcing the details of the comprehensive spending review in the budget statement on 8th December. There is a report in the budget document on it. I will be giving much more detail about that. It is being discussed at the Council of Ministers tomorrow. I think there are no sacred cows in relation to that comprehensive spending review, and the issue of how to pay for and what is the appropriate incentive and penalty for waste should certainly be an issue in the comprehensive spending review, as will be your Chairman's other important topic of dealing with liquid waste, of which there is also an unfair incentive or a dysfunctional incentive. There is absolutely no incentive for people not to use more ... or to produce more waste water without ... in the current system of liquid waste disposal.

The Deputy of St. Mary:

Yes. My last question, I suppose, is another big one. In what you are doing here, you are raising £2 million because you need £2 million. That is the long and the short of it. Looking ahead, environmental spend is very often spend now, save later. In the model we have now, which you have just described, we need £2 million, let us get £2 million. It is not going to cover things like a universal insulation programme which could be funded by some kind of future mechanism where you borrow and then you get the money back. I am just saying is that part of the thinking going forward? Because we have discussed this with people at Planning and so on. There is this problem with getting money from ... that funding saving in the future, that is difficult because you need the money now to invest, especially in the downturn, and then you reap the benefits.

Senator P.F.C. Ozouf:

Yes. It is not only in environmental benefits that you need to invest to save.

The Deputy of St. Mary:

Training.

Senator P.F.C. Ozouf:

It is in all sorts of things. It is in training, it is in manpower levels, it is in technology, it is re-engineering of processes. You sometimes do need to make an investment upfront in order to harvest a saving later, or to get the saving later. The early wins, which was quite clear from the U.K. science adviser, Sir David King, who was very clear in his Opera House presentation that he gave to members of the public and States Members and he was briefed by the ... he gave a briefing to the Council of Ministers. It is very clear. The early gains for the environment save money, whether they are in our own decisions in our own houses about reducing energy consumption ... if you can reduce your energy consumption you save money. So the Treasury is delighted if you can have a double benefit for the environment and for the public purse. If there is an investment that is required upfront, then that is a good thing. I am looking in the Property Holdings Department to making serious and substantial savings on energy. I will not mention any names but I try and spend half a day every 2 weeks visiting a different department and just learning about them. I went to go and see a certain department in one department in and around St. Helier and they are operating out of a large Victorian building and the policy seems, as the heating does not work too well, they open the window if it is too hot in order to take the temperature down because the heating system is old. There is no insulation. It is just not fit for purpose and we are not helping ourselves in relation to this. That is why we are pushing quite hard on property, on rationalising the property estate, because we can make meaningful, better use of resources, energy resources, land resources, and money.

The Deputy of St. Mary:

Can I press you on this, though? Because the problem that I see is that you have to invest, you have to get a pot and the way things are we are strapped for cash. But this is the problem, that at some point, okay, you can divest yourself of inefficient buildings but there comes a point - in fact, we could do it now - of investing in order to save. This is a problem that we have been told about. I just wonder whether it is on your radar and whether we are going to see some real measures, for instance, in insulation. There is a cost upfront and you gain the benefits and then somehow funding it in that way from the benefits.

Senator P.F.C. Ozouf:

My long-term financial objectives for the States is to put in place measures in the event that a structural deficit does occur. In the short term, we do have significant resources available to us to deal with the downturn from the Stabilisation Fund, et cetera. Any change programme that you put in place which is designed to save money does require investment upfront. At the heart of the comprehensive spending review is going to be finding and releasing some money in order to effectuate that change programme. You will forgive me if there is going to be significant strings attached to any frontloading of expenditure because we have been here before where we have been promised savings in the longer term when we make the investment

upfront and it does not happen. So, we are going to be very strict about that, but certainly my objective in the comprehensive spending review is to set very clear 3-year cash limits. If you set 3-year cash limits and you give departments certainty where they are going, you can then incentivise departments to deliver savings but you have to have a pot in order to deliver the savings in the longer term. So if we can ... I will not be extreme about it, but if you can invest £2 million in 2011 in order to get a £3 million annual saving in 2012 recurring, if it has a payback of 3 years, then the Treasury is going to be happy.

The Deputy of St. Mary:

If it has a payback of 6 years, the Treasury will not be happy?

Senator P.F.C. Ozouf:

Well, it depends what it is.

The Deputy of St. Mary:

I am just being ...

Senator P.F.C. Ozouf:

It depends what it is, does it not?

The Deputy of St. Mary:

If it is insulating it will be a long payback. That is what worries me. Even the 3 years, it sounds like a tool for more sort of direction and ...

The Deputy of St. John:

Can we move on from that?

Senator P.F.C. Ozouf:

I fully intend to do a lot of debate about this going forward, but the principle is agreed.

Deputy P.V.F. Le Claire:

Can I ask some tangent questions, really? What has been the total tax take so far with G.S.T. since it has come in per year? Do we have an annual sort of figure? Is it £5 million or ...?

Senator P.F.C. Ozouf:

G.S.T. is estimated to hit the target of £50 million in 2009.

Deputy P.V.F. Le Claire:

Each year?

Senator P.F.C. Ozouf:

No, that is the 2009 target. It was brought in on the basis that we did not quite know, but the estimates were between £45 million and £50 million, and it is coming in ... the latest figures that I have ... I get updated on ... I was criticised in the States the other day because apparently I should not have had the income tax forecasts ahead of everybody else. Well, I do not know how I can

put a budget together unless I do get them, but I did have them and it is just shy of £50 million, so it is on track.

Deputy P.V.F. Le Claire:

What I am trying to understand is how much do we raise a year in G.S.T.?

Senator P.F.C. Ozouf:

£50 million.

Deputy P.V.F. Le Claire:

We raise £50 million?

Senator P.F.C. Ozouf:

£50 million.

Deputy P.V.F. Le Claire:

Okay, because the promise was in the beginning when we introduced G.S.T. that it would achieve a lot of things. V.R.D. was in and around those things. There was some discussion at the time. The premise ... I appreciate we are in a different global situation and that is fundamental, but we had a promise that G.S.T. would not be increased because it would be set at a level that would realistically enable us to get to that point, where what we are seeing now is actually fundamental spending. I will try to dig into this if I can. It is short-falling at least by £2 million just for these sectors where we see half a million pounds on the buses; what is that for, first of all?

Senator P.F.C. Ozouf:

Right, okay. I can say this with some degree of certainty because I was part of the whole original fiscal strategy team. It is not true to say that V.R.D. was going to be abolished at the point that G.S.T. was introduced. What was the case was that my predecessor gave a commitment that V.R.D. would be replaced to a more environmentally and a better designed tax. So, we were not expecting in the longer term forecasts for the whole of the £5 million to be lost. £5 million is an awful lot of money. That is a very substantial amount of revenue. So, to lose it did have a consequence for us and has certainly made the deficit worse than we would have expected. The flip side was the economy did slightly better in the couple of years, so that was obviously of benefit.

Deputy P.V.F. Le Claire:

So, what I am trying to say is, you know, is there some short, sharp answers, really, here because I know you want to get going and I am not going to labour the point, I want to make that quite clear. We are in a different global situation than we were then.

Senator P.F.C. Ozouf:

We certainly are.

Deputy P.V.F. Le Claire:

I am not denying that and I am not trying to say that ... I am trying to get to a position that I think we need to be aware. Just some quick questions just so I can get to that point I would like to make and ask you if you think it has any validity. These spends, half a million pounds on the buses, what is that for? What do we know that is for? What is that going to do? Is that going to improve the buses? Is that going to maintain the buses?

Senator P.F.C. Ozouf:

Well, it certainly ... you need to ask the Transport and Technical Services Minister for that because I have not got all the detail, with respect, on that. But it is certainly ...

Deputy P.V.F. Le Claire:

I understood that it was something to do with the contract, it was not properly done or something, there was not enough money within the subsidy or something.

Senator P.F.C. Ozouf:

No, it is very clear ...

Deputy P.V.F. Le Claire:

It is not going to improve any services, is it?

Senator P.F.C. Ozouf:

Well, it is certainly going to make sure that services are maintained.

Deputy P.V.F. Le Claire:

So, maintaining the bus service but not ...

Senator P.F.C. Ozouf:

But there are improvements. There are improvements, but there is a ... it is investment in the bus service. You need to ask the T.T.S. Minister what those issues are.

Deputy P.V.F. Le Claire:

Because you are quite frank and I appreciate it very much. You are quite frank about why you are doing this. You are raising revenue at a time that we obviously need revenue. We have Zero/Ten ...

Senator P.F.C. Ozouf:

This is nothing to do with Zero/Ten.

Deputy P.V.F. Le Claire:

Revenue issues are ... this is not anything to do with the environment, though, is it? It is about raising £2 million.

Senator P.F.C. Ozouf:

No, it is. The £2 million is money that is being linked and introduced for environmental spend.

Deputy P.V.F. Le Claire:

But without a hypothecated environmental mainstream funding, which we do not have, we do not have an avenue of funding that says this money is going ... because you have just said we do not have hypothecation. What I would like to know is ...

Senator P.F.C. Ozouf:

If it quacks and it waddles, it is a duck. Just as the beer levy was introduced to pay for T.V. licences and continues to be raised to fund T.V. licences, and just because there is not an account of which the 3p on a pint of beer goes in and pays for the T.V. licences, it is credited to the consolidated fund and out of the consolidated fund paid. So, the reason why we do not like hypothecation ...

Deputy P.V.F. Le Claire:

I understand. What is the sustainability of that if the beer stops being drunk?

Senator P.F.C. Ozouf:

Then the commitment is that the T.V. licence continues to be paid and we then have to review whether or not we put forward another proposal to do it. But the reason why you introduce it is clearly for the spend.

Deputy P.V.F. Le Claire:

Yes. We have today a report in the *Jersey Evening Post*, Joly Dixon from the Fiscal Policy Panel, former E.U. Director, said that ... warns us of the nature of the future deficit; £45 million to £68 million predicted is not linked to the recession but will remain even when the economy improves. Now, I am very impressed that by the third or fourth quarter you are quite categorically saying that we should see the strong green shoots of recovery, but according to this learned person here, even if we do see the strong green shoots of recovery, the environment is going to need a sustainable form of funding to guarantee its being addressed, because otherwise it is going to fall by the wayside and we have to deal with that deficit out of an unhypothecated money pit. That is my point I am trying to make and I am wondering whether or not you can see where I am coming from. I think I am wondering, and I am wondering if you think, we cannot continue to sell the public on increases to taxes unless we give them evidenced longevity in improvements to the environment because otherwise we are just selling them short on the promises we make. That is how I feel as an individual. I feel I am quite happy to pay environmental taxes if my environment improves, but I am not happy to pay environmental taxes just to take care of what is already going on because I am not satisfied with what is going on.

Senator P.F.C. Ozouf:

Right. Well, there are quite a few sort of off-agenda items there, but I will try and answer them. First of all, I do not think you were there for the presentations for the F.P.P. (Fiscal Policy Panel) yesterday so you did not perhaps have the benefit ... and I probably should send the slides over, but have you read the F.P.P. report?

Deputy P.V.F. Le Claire:

I have looked at some of it, yes.

Senator P.F.C. Ozouf:

Right, okay, because it clearly has a lot more granular detail than just the *J.E.P.* report, which is not inaccurate. There is a structural deficit which occurs because spending has continued to rise with inflation but growth has been reduced and is expected to reduce. So, if you carry on spending and you expected your growth line to follow or to meet it, if your growth line is less and you have a decline, then clearly there is a gap that emerges because your spending has risen and your economy has not risen as a result. That is why there is a structural deficit. It is nowhere like anything like the structural deficits that other countries are facing. The Isle of Man is facing a structural deficit of £100 million to £150 million. The G.D.P. (gross domestic product) borrowing figure for the U.K. if you translate it to Jersey would be in the region of a deficit of not £40 million but £400 million if you take ... I think it is 14 per cent of G.D.P. spend. Our numbers are miniscule compared to other places and I do not want to put any sense of panic into Islanders. Yes, they are big figures, but they are manageable and they are manageable by good debate and good decision-making and proper allocation and aligning of spending with resources. I am confident that we can deal with this.

Deputy P.V.F. Le Claire:

But you have just said that the annual take for G.S.T. at the current rate is £50 million, which falls short of the anticipated deficit even if we come out of the recession. I am saying I am concerned that new measures are coming in alongside G.S.T. to take care of the day-to-day expenditure that we should have been taking care of anyway. We are not seeing any real improvement to the environment, we are just seeing us taking care of the things we were taking care of before.

Senator P.F.C. Ozouf:

The thing is, let us not be under any illusion. Jersey residents pay, compared to U.K., France, Isle of Man residents, 3 per cent G.S.T. and in the U.K. you pay 17.5 per cent G.S.T. In the U.K. you pay National Insurance at probably double, including companies, what you do compared to here, and you pay tax much less. Now, with a smaller spend you get a ... with lower taxes, okay, we have a much stronger economy per person which yields a greater tax contribution notwithstanding lower tax per person than you would in the lower economically valued place, but nevertheless we are a low tax and lower spend jurisdiction. So, we need to be frank with people about that and we need an honest debate about tax and spending. I understand and stand by my commitment of G.S.T. for keeping it at 3 per cent for the period of time that it does. The world has changed and we as politicians need an honest and frank debate about where the choices are and where the trade-off is between tax and spending. I accept that environmental spending is important, that there is a requirement to improve the environment and to reduce the impact on environment by our behaviours. The £2 million is from the Treasury perspective ongoing expenditure which will happen year on year together with the other £5 million that we put in the Environment Department or whatever

the proportion of Senator Cohen's budget is. All of these things are going to have to be put in the big mixing pot as we consider how we spend in the comprehensive spending review and how we tax as a result of the fiscal strategy review. So, it is nothing ruled in, nothing ruled out, but we all have an environmental conscience and we all realise how important environmental initiatives and environmental good behaviour and incentives are.

Deputy P.V.F. Le Claire:

Do you not think ... and the last question, then, this is what I would like to see, being quite keen on the environment. I am sure other people join my sentiment. Do you not think that although it is a cottage industry that it is time now to introduce some clearly defined and clearly understood set of mechanisms that when people pay for those things they will clearly see a benefit to the environment, an improvement to the environment and an improvement to the opportunity to assist the environment, rather than just paying for everything else that is going on anyway?

Senator P.F.C. Ozouf:

What would you say is an example of that?

Deputy P.V.F. Le Claire:

Well, let us take, for example, the laying of mains drains, which is necessary, the maintenance of schools, the maintenance of the biggest expense which is the wages and everything else, all of those things have to be paid for on an annual basis. You know much more about this than I do. Those are just given expenses that we should be paying for out of our taxes in general. But when we see additional new things coming along such as this - and I am pleased that you are changing the title of it - when we see these new things coming along - and no fault to you whatsoever because you have laid it straight on the table, this is purely to raise £2 million - do you not think that people would be actually happier to pay if there was a direct result? For example, another 5 pence on a parking card, another 10 pence on a parking card, because they knew that 10 pence was actually going to improve the environment rather than just going into the big pot?

Senator P.F.C. Ozouf:

I do not want to repeat what I have already said because I hope I have been clear. There is a clear link between these ... Deputy Wimberley is going to have to remind me of what I explained them as. Tax-raising measures to fund environmental initiatives, is that right?

The Deputy of St. Mary:

Environmental initiative tax-raising measures.

Senator P.F.C. Ozouf:

Okay, right. They are what they say on the tin and they are there and being introduced to improve the environment. So just as the 3p on a pint of beer ...

Deputy P.V.F. Le Claire:

But they are not improving the environment, are they?

Senator P.F.C. Ozouf:

Of course they are. Where is the £2 million on environmental spend going? We are putting £1 million into insulation grants for low income families.

The Deputy of St. Mary:

An additional million.

Senator P.F.C. Ozouf:

An additional million, and certainly I am going to be doing some work with the other energy companies that have not also come on board in contributing as well. I will have some things to say in the budget speech about them. So, there is a linkage, with the greatest respect, Deputy. There is a linkage, and if you are paying £1,000 for a 300 gram car, you are paying to a greater extent than a 100 gram car for paying for that low income family to have insulation grants.

Deputy P.V.F. Le Claire:

What if that low income family does not have a home and they rent, and they rent a house that is not going to be ...

Senator P.F.C. Ozouf:

Well, then they are going to benefit from my tax measure that gives an exemption of a certain amount of money for landlords to encourage them to insulate tenancy homes. That is not something that has any widespread knowledge, but it is buried in the detail of the budget that I have brought in a measure ...

Deputy P.V.F. Le Claire:

I just think ... I will leave it to rest there. I just think that I am trying to put across the point. I understand where you are at. I appreciate you are being honest about where you are at, and I know that we are not there because it is your fault. What I am saying is that there would be a greater take-up of money out of the pocket towards improving the environment if we were certainly sure it was going directly into improving the environment, and I am not sure.

Senator P.F.C. Ozouf:

I do not know what more I could do to convince you, but it is there.

Deputy P.V.F. Le Claire:

Well, okay.

The Deputy of St. John:

Minister, you have been very open with us this afternoon and I know you have another meeting at 5.00 p.m. I will not keep you any longer, but on behalf of the panel I would like to thank you and your officer for being very open with us this afternoon.

Senator P.F.C. Ozouf:

Pleasure.

The Deputy of St. John:

It has been a very useful hour spent. Thank you.

Senator P.F.C. Ozouf:

I look forward to hearing your conclusions. Thank you very much.

The Deputy of St. John:

Thank you. The meeting is closed at 4.34 p.m.