

STATES OF JERSEY



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

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

STATES GREFFE

COMMENTS

The Environment Scrutiny Panel invited Senator Le Main to a Public Hearing on 11th November 2009 to discuss his amendment to the budget statement on environmental taxes. The full transcript of the hearing is available on the Scrutiny website.

The Panel finds that, while no doubt well-intended, the Senator's amendment has a number of fundamental flaws which prevent members from supporting it. The first problem arises from the Senator's use of engine size as the basis for his alternative tax proposal. In choosing to target engine capacity, rather than exhaust emissions, the amendment ignores huge volumes of research and development undertaken by governments and manufacturers in support of EU legislation to reduce emissions, principally of CO₂. The Panel is firmly of the belief that exhaust emissions are the key issue for the environment, not engine size.

The Panel is also conscious that adopting the Senator's amendment would result in many anomalies. In the U.K., the Vehicle Certification Agency (VCA) website is the official source for car fuel consumption and exhaust emissions figures; its figures for CO₂ emissions are used as the basis for the U.K.'s Vehicle Excise Duty (VED). The database includes information on virtually all new and used cars first registered on or after 1st March 2001. It clearly demonstrates that there are many smaller-engined cars which actually produce more harmful emissions than larger alternatives, owing to different design and performance.

In recent years, manufacturers have been working very hard to improve emission controls and many of the latest generation vehicles with large engines emit much lower quantities of CO₂ than was the case even a year or two ago. The Senator's proposals would deny this progress and impose arbitrary and unfair distinctions between vehicles for which the Panel can see no justification. In the words of the Panel's Vice-Chairman, the Senator's amendment would encourage people to 'be a little bit stupid' when choosing a new car and ignore all the evidence about emissions and actual pollution, in favour of an arbitrary and largely irrelevant measure of engine capacity.

Owing to the simplified nature of his scheme and the large steps in tax rates proposed, the amount of tax to which owners would be liable on an annual basis varies considerably. These proposals would thus allow some relatively high-polluting older cars with small engines to escape the tax altogether, while newer vehicles with bigger engines but much better environmental credentials – perhaps bought expressly with this in mind by thoughtful owners – would fall foul of arbitrary local limits on engine size and attract significant tax penalties. Despite explaining to the Panel that he wants to rid the Island of 'big gas-guzzlers', the Senator also accepts that the tax would do nothing to stop those with sufficient money continuing to buy or run large vehicles.

The Senator's own background report demonstrates that by far the largest revenue receipts under his proposal would come from owners of family-sized cars with engines between 1,200–2,000cc, who would have to stump up nearly £3 million of the total £6 million anticipated return from this new tax; a further £1 million each would come from the owners of slightly bigger-engined cars (in the 2,000–3,000cc category) and commercial vehicles over 1,600cc, while only £0.8 million would be raised from the big 'gas-guzzling' cars over 3,000cc which he claims to be targeting. Thus 'middle Jersey' would bear the brunt of a poorly-targeted new tax, families with children probably suffering the most as they would be least likely to be able to 'downsize' to

the smallest cars this amendment would favour. The Senator also stated that older people would not be affected by his proposals, because in his words: 'a lot of the elderly ... are driving the very smallest cars they can afford'. The Panel is concerned that there is no hard evidence for this, and feels that many older people, as well as those on low incomes, would be adversely affected by the tax.

The limited environmental case for this amendment is further undermined by the fact that a fixed annual tax based on ownership (rather than use) does not provide any incentive for people to change their behaviour and adopt alternative means of transport, use their cars less, share car journeys, or drive more economically. All of these are amongst the worthwhile objectives of the draft Sustainable Transport Plan, recently put forward by the Transport and Technical Services Department; all would be better addressed by the original proposition put forward by the Minister for Treasury and Resources.

Moving on from the shortcomings of the tax structure in this proposal, the Panel would also highlight its concerns about the direction in which funding for environmental initiatives is apparently being driven. Senator Le Main has identified one particular beneficiary he would like to see from the additional revenue which he believes his tax would bring in, in the form of a new Hoppa bus service for St. Helier. The Panel notes that this is potentially a very worthwhile cause, but it is also clear that it has not been costed in any detail; in effect the Senator's proposal is to create a revenue stream first and then let the States decide what to do with it. He also made it clear in his meeting with the Panel that there are many other ways in which the money could be spent, and it was not for him to judge.

The Panel believes that this could set a dangerous precedent, particularly at a time when States finances are under considerable pressure, for new taxes to be imposed in a somewhat piece-meal fashion, without any clear idea as to what they were intended to fund. In a separate hearing, the Minister for Treasury and Resources shared his view of the difficulties that can be caused by hypothecation of taxes, which can create a 'cottage industry' of administration for a variety of different causes. However, the Panel is as much concerned by the implications of moving environmental initiatives outside the area of 'mainstream' funding, bringing the risk that worthwhile environmental projects may not receive support unless more new taxes are introduced to support them, or the 'take' from existing taxes is ratcheted up. Members are concerned that without a clearly established agenda for environmental initiatives, departments may be tempted to 'dip into' any funding that does become available to pay for other priorities, possibly to the detriment of strictly environmental concerns.

Summary

By comparison with the Minister's proposition, the Senator's amendment offers no significant environmental benefits and its rationale is confused and problematic. The absence of a coherent plan for collection of the tax is also noted; what seems certain is that the Senator's proposal will be more expensive to collect than the original proposal of the Minister for Treasury and Resources.

The Panel has not been able to consider all possible consequences of the amendment, but there might well be additional detrimental effects on the motor trade, as well as potential consequences for the value of privately-owned cars, which could cause more hardship to those without the means to change their existing vehicles.

While the promise of enhanced revenue returns from this amendment may be superficially attractive, they would only be achieved at the cost of substantial perceived inequity to large sections of the community. Failing to accept carbon emissions as the logical starting point for a tax that aims to benefit environmental causes might also suggest that Jersey was out of step, not just with its European neighbours, but also the rest of the world, as soon to be represented at the Copenhagen Summit. The Panel is therefore unable to support this amendment.