STATES OF JERSEY

PROPOSED BUDGET (GOVERNMENT PLAN) 2025-2028 (P.51/2024) – THIRTEENTH AMENDMENT

IMPÔT DUTIES – FUEL

Lodged au Greffe on 11th November 2024
by Deputy J. Renouf of St. Brelade
Earliest date for debate: 26th November 2024

STATES GREFFE

PROPOSED BUDGET (GOVERNMENT PLAN) 2025-2028 (P.51/2024) – THIRTEENTH AMENDMENT

1 **PAGE 2, PARAGRAPH (a) –**

After the words "Article 9(2)(a) of the Law" insert the words –

", except that total estimate for Impôt Duties from 2026 onwards should be increased by £781,000 to reflect the resumption of indexing fuel duty to the growth of RPI with an additional annual increase of 2 pence per litre above RPI, with the relevant figures in Appendix 2 – Summary Table 1 updated in line with the following table, and any related figures updated accordingly –

	2025 Estimate (£000)	2026 Estimate (£000)	2027 Estimate (£000)	2028 Estimate (£000)
Impôt Duties Fuel	25,137	26,074	27,033	28,063

"

2 **PAGE 2, PARAGRAPH (c) –**

After the words "Article 9(2)(b) of the Law" insert the words –

", except that proposed transfer of monies from the Consolidated Fund to the Climate Emergency Fund should be increased by £781,000 in 2026 to reflect the resumption of indexing fuel duty to the growth of RPI with an additional annual increase of 2 pence per litre above RPI with the relevant figures in Appendix 2 – Table 3 updated in line with the following table, and subsequent figures updated accordingly –

£'000		2025 Proposed	2026 Proposed	2027 Proposed	2028 Proposed
Transfer from	Transfer to				
Consolidated Fund	Climate Emergency Fund	4,299	5,035	5,765	6,488

"

3 **PAGE 4, PARAGRAPH (o) –**

After the words "to the accompanying Report" insert the words –

", except that in the section "Fuel duty" on page 32 after the words "frozen in 2025" there should be inserted the words ", however, Ministers commit to return to the policy of holding the rate of duty constant, in real terms, by indexing it to the growth of RPI from 2026 with an additional annual increase of 2 pence per litre above RPI in order to increase the allocation of fuel duty receipts into the Climate Emergency Fund", and after the words "allocating 9 pence per litre from fuel duty receipts" there should be inserted the words "in 2025, increasing to 11 pence per litre in 2026, 13 pence per litre in 2027, and 15 pence per litre in 2028"

DEPUTY J. RENOUF OF ST. BRELADE

Note: After this amendment, the proposition would read as follows –

THE STATES are asked to decide whether they are of opinion –

to receive the Government Plan 2025 – 2028 (entitled "Budget 2025-2028") specified in Article 9(1) of the Public Finances (Jersey) Law 2019 ("the Law") and specifically –

(a) to approve the estimate of total States income to be paid into the Consolidated Fund in 2025 as set out in Appendix 2 – Summary Table 1 to the Report, which is inclusive of the proposed taxation and impôts duties changes outlined in the Government Plan, in line with Article 9(2)(a) of the Law, except that total estimate for Impôt Duties from 2026 onwards should be increased by £781,000 to reflect the resumption of indexing fuel duty to the growth of RPI with an additional annual increase of 2 pence per litre above RPI, with the relevant figures in Appendix 2 – Summary Table 1 updated in line with the following table, and any related figures updated accordingly –

	2025 Estimate (£000)	2026 Estimate (£000)	2027 Estimate (£000)	2028 Estimate (£000)
Impôt Duties Fuel	25,137	26,074	27,033	28,063

"

(b) to approve the proposed Changes to Approval for financing/borrowing for 2025, as shown in Appendix 2 – Summary Table 2 to the Report, which may be obtained by the Minister for Treasury and Resources, as and when required, in line with Article 9 (2)(c) of the Law, of up to those revised approval amounts.

(c) to approve the transfers from one States fund to another for 2025 of up to and including the amounts set in Appendix 2 – Summary Table 3 in line with Article 9(2)(b) of the Law, except that proposed transfer of monies from the Consolidated Fund to the Climate Emergency Fund should be increased by £767,724 in 2026 to reflect the resumption of indexing fuel duty to the growth of RPI with an additional annual increase of 2 pence per litre above RPI with the relevant figures in Appendix 2 – Table 3 updated in line with the following table, and subsequent figures updated accordingly –

£'000		2025 Proposed	2026 Proposed	2027 Proposed	2028 Proposed

Transfer from	Transfer to				
Consolidated Fund	Climate Emergency Fund	4,299	5,035	5,765	6,488

”

(d) to approve a transfer from the Consolidated Fund to the Stabilisation Fund in 2025 of up to £25 million, subject to a decision of the Minister for Treasury and Resources based on the availability of funds in the Consolidated Fund as at 31st December 2024 in excess of the estimates provided in this plan, or from budgeted underspends identified before 31st December 2025.

(e) to approve a transfer from the Consolidated Fund to the Agricultural Loans Fund in 2025 of up to £2 million, subject to a decision of the Minister for Treasury and Resources based on availability of funds in the Consolidated Fund as at 31st December 2024 in excess of estimates provided in this plan, or from budgeted underspends identified before 31st December 2025;

(f) to approve each major project that is to be started or continued in 2025 and the total cost of each such project and any amendments to the proposed total cost of a major project under a previously approved Government Plan, in line with Article 9(2)(d), (e) and (f) of the Law and as set out in Appendix 2 – Summary Table 4 to the Report.

(g) to approve the proposed amount to be appropriated from the Consolidated Fund for 2025, for each head of expenditure, being gross expenditure less estimated income (if any), in line with Articles 9(2)(g), 10(1) and 10(2) of the Law, and set out in Appendix 2 – Summary Tables 5(i) and (ii) of the Report.

(h) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2025 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 6 to the Report.

(i) to approve the proposed amount to be appropriated from each States trading operation’s trading fund for 2025 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 7 to the Report.

(j) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2025 as set out in Appendix 2 – Summary Table 8 to the Report.

(k) to approve an updated and consolidated policy of the Strategic Reserve Fund as follows:

“The Strategic Reserve Fund, established in accordance with the provisions of Article 4 of the Public Finances (Jersey) Law 2005, is a permanent reserve only to be used:

i. in exceptional circumstances to insulate the Island's economy from severe structural decline such as the sudden collapse of a major Island industry or from major natural disaster.

ii. if necessary, for the purposes of providing funding (up to £100 million) for the Bank Depositors Compensation Scheme established under the Banking Business (Depositors Compensation) (Jersey) Regulations 2009, including to meet the States contribution to the Scheme and/or to meet any temporary cash flow funding requirements of the Scheme.

iii. to support the development of future healthcare facilities and the borrowing costs for such work, in line with a financing strategy agreed by the Assembly;

iv. as a holding fund for any or all monies raised through external financing until required, and for any monies related to the repayment of debt raised through external financing used to offset the repayment of debt, as and when required; and

v. in accordance with Article 24 of the Public Finances (Jersey) Law 2019, where the Minister for Treasury and Resources is satisfied that there exists an immediate threat to the health or safety of any of the inhabitants of Jersey, to the stability of the economy in Jersey or to the environment, for which no other suitable funding is available."

(l) to approve the transfer to the Strategic Reserve of the amounts due as a result of the move from prior-year basis taxation after 31st December 2025, as and when these payments are received (estimated at £280 million).

(m) in relation to the new Government Headquarters (office), to approve;

i. the exercising of the option to acquire the new Government Headquarters (estimated at £91 million), by the Public of the Island, in line with the pre-agreed terms; and

ii. the acquisition of the new Government Headquarters as an investment of the Social Security (Reserve) Fund (including authorising the meeting of expenses incurred in connection with the acquisition); and

iii. the subsequent leasing of the new Government Headquarters by the Public of the Island from the Social Security (Reserve) Fund, with commercial terms to be agreed between the Minister for Infrastructure (on behalf of the Public) and Minister for Social Security and the Minister for Treasury and Resources (both on behalf of the Fund); and

(n) in relation to the new Government Headquarters, to authorise H.M. Attorney General, the Greffier of the States, the Ministers for Infrastructure, Social Security and Treasury and Resources, and the Public of the Island, to enter into such arrangements, including financing, and pass any contracts as are necessary to put into effect paragraph (m).

(o) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2025-2028, as set out in the Appendix to the accompanying Report, except that in the section "Fuel duty" on page 32 after the words "frozen in 2025" there should be inserted the words ", however, Ministers commit to return to the policy of holding the rate of duty constant, in real terms, by indexing it to the growth of RPI from 2026 with an additional annual increase of 2 pence per litre above RPI in order to increase the allocation of fuel duty receipts into the Climate Emergency Fund", and after the words "allocating 9 pence per litre from fuel duty receipts" there should be inserted the words "in 2025, increasing to 11 pence per litre in 2026, 13 pence per litre in 2027, and 15 pence per litre in 2028".

Re-issue Note

This amendment has been re-issued to reflect the correct estimates for 2027 and 2028 to include the further 2 pence-per-litre increases.

REPORT

Introduction

"*There exists a climate emergency likely to have profound effects in Jersey and in order to deal with this situation Jersey should aim to be carbon neutral by 2030…*" So went the opening line of P.27/2019, which was adopted by the Assembly by 40 votes to 1. In 2022, the Carbon Neutral Roadmap (CNR) effectively replaced the aim to be carbon neutral by 2030 with a target of 68% reduction in emissions (from a 1990 baseline) by 2030, with the aim of achieving net zero by 2050.

So how is it going so far? The truth is that progress in reducing emissions has not been great. Even the reduced 68% reduction in emissions by 2030 is now a virtually unattainable target, and hitting net-zero by 2050 is highly unlikely unless we take much more decisive action. Because of the long lead times involved, we need to incentivise investment decisions now to ensure that zero-carbon options are chosen, rather than locking in carbon-emitting choices long into the future.

Therefore, this amendment to the Government Plan seeks to reintroduce the fuel duty levy that is the principal source of revenue for the Climate Emergency Fund (CEF), both as a "nudge" to disincentivise the purchase and/or use of fossil fuel vehicles, AND to build up funds to help incentivise consumer uptake of zero carbon technologies. It acknowledges the cost-of-living crisis by postponing the reintroduction of the fuel duty levy until next year. It is worth remembering that the freeze in the fuel duty levy has cost the CEF almost £2.5m in lost revenue over the last 2 years (WQ.9/2024).

The proposed budget freezes fuel duty for next year and is silent about what happens to fuel duty the year after. There is an ambition to (finally) develop longer term funding for the CEF, but experience shows it is unlikely this ambition will be met. Even with other sources of revenue for the CEF, increases in fuel duty will be necessary to maintain a financial incentive to move away from carbon emitting technologies.

The lesson from the UK is that the longer fuel duty is frozen, the harder it becomes to reintroduce. The UK's initial temporary freeze in 2011 is still going strong (untouched by Labour's recent budget) after 13 years. During the term of this Assembly, fuel duty has been frozen throughout. It is important that we take this opportunity to signal that as an Assembly we have not given up on our net zero commitment and that we hand on to our successors a decent platform on which to build their net zero policies.

Review of Policy Framework

Jersey has committed (in the CNR) to achieving net zero by 2050. Interim targets of a 68% reduction in emissions (from a 1990 baseline) by 2030 and a 78% reduction by 2035 have also been set. There has been widespread political support for Jersey's carbon reduction aims, with overwhelming support in the Assembly for P.27/2019, the subsequent Carbon Neutral Strategy (CNS), agreed in February 2020, and 2022 CNR. The Citizens' Assembly on Climate Change from 2021 also recorded strong support for Jersey to decarbonise at pace. It is worth noting that the Paris Agreement was extended to cover Jersey in May 2022; this is a legally binding Treaty with the aim of keeping warming below 2 degrees.

The principal mechanism for accelerating Jersey's decarbonisation is the Climate Emergency Fund (CEF). This was set up in 2020 with an allocation of £5m from the Consolidated Fund. The intention was that the fund would receive any further income from charges agreed upon in the Government Plan. It is currently receiving income from RPI increase in fuel duty as well as a certain amount of income from VED. The 2020 Government Plan agreed a 4p per litre increase in fuel duty would go into the fund. The 2021 Government Plan agreed a further increase of 2p per litre, and in 2022 a further increase of 3p per litre took the total to 9p per litre going into the CEF. Since then, the fuel duty contribution to the CEF has been frozen at 9p per litre. As noted above, had fuel duty risen by an additional 2p a year in 2023 and 2024, the CEF would have approximately £2.44m more money available.

The CNR also committed the government to bring forward plans in 2023 for long term financing to fund the decarbonisation of the economy at the pace required to achieve the emissions trajectory established in the CNR. This has not happened. The 2025 budget merely notes (on page 86) that a net zero financing strategy is "under development". Given the delaying in developing long-term financing strategy thus far, it is important that this Assembly renews its commitment to net zero by recommencing contributions to the CEF before the next election.

<u>Cutting emissions: Progress so far</u>

Jersey has reduced emissions by 48% since the 1990 baseline. Although this is an impressive reduction, it is a misleading guide to where we are in our decarbonisation journey.

Figure 9 shows the proportion of emissions by category for 2022. Emissions for the transport sector are the largest source at 45% of total emissions.

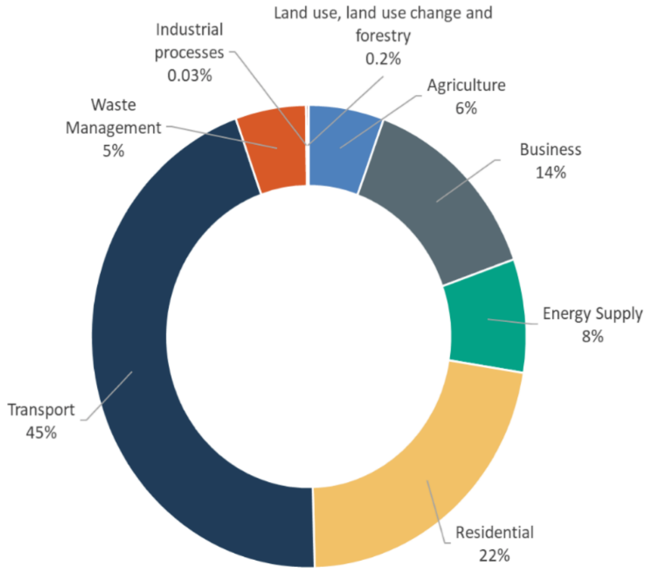

Figure 9 Jersey's Inventory in 2022 categorised by sector

(Source: Guide to the Jersey Greenhouse Gas Inventory (May 2024), p. 23)

By far the biggest contribution was made through the switch from oil fired electricity generation to importing electricity from France. This one-off gain has now been banked, and progress since then has been much slower. The onus to deliver further carbon reduction now falls on organisations and individuals who are expected to choose low or zero-carbon technologies for their future energy needs. The two biggest emissions sectors are transport and residential (home heating). If we are to succeed in our decarbonisation commitments, we need to do everything we can to discourage carbon emitting choices and encourage low or zero carbon choices.

Transport is comfortably the largest single contributor to Jersey's emissions. The 2022 [Guide to the Jersey Greenhouse Gas Inventory] (published in May 2024) showed that transport accounts for 45% of our total emissions. Whilst air travel is a significant (and growing) part of this total, it is vehicular transport that is the biggest contributor. Since 1990, emissions from vehicles have declined 24.8%, driven by increases in fuel efficiency. Anecdotal evidence suggests that adoption of EV's and other low or zero carbon technologies have accelerated a further modest recent decline in transport emissions. For example, the government's economics unit is now working on an assumption that revenues from fuel duty are declining at 2% a year, rather than its previous assumption of 0.8% a year.

Whilst it is good news that fossil fuel use in transport is declining, it is not happening at anywhere near the pace necessary. (For contrast, residential emissions are falling more rapidly - by 15% between 2021 and 2022 (Guide to the Jersey Greenhouse Gas Inventory (May 2024), p. 44) - driven by moves away from gas and oil heating.) We need to pick up the pace in terms of carbon reductions from the transport sector.

Cutting emissions: Next steps

If we are to shift the dial on road transport, we need a twin track approach - disincentivise fossil fuel use and incentivise zero/low carbon options. Increasing fuel duty achieves both. It is also important to signal a clear direction of travel. In the run up to the prospective ban on the registration of petrol/diesel vehicles in Jersey in 5 years' time, we need to shift incentives decisively in favour of EV's and other low carbon transport options. Part of this must be done by gradually increasing the price of carbon-based fuels, sending a clear message that non emitting transport options will deliver long term benefits. Put another way, if we are not prepared to disincentivise the use of fossil fuel, then we might as well give up on our carbon reduction targets now.

The table below shows the current anticipated income and expenditure for the CEF, based on the fuel duty freeze.

Climate Emergency Fund				
£'000	2025 Estimate	2026 Estimate	2027 Estimate	2028 Estimate
Opening Balance	**5,950**	**1,903**	**1,903**	**1,903**
Transfer from Consolidated Fund (from a portion of fuel duty and VED)	4,299	4,254	4,210	4,167
Expenditure (as detailed in the Carbon Neutral Roadmap)	(8,346)	(4,254)	(4,210)	(4,167)
Closing Balance	**1,903**	**1,903**	**1,903**	**1,903**
Closing Balance (excluding non-current assets)	**661**	**661**	**661**	**661**

Table 50: Climate Emergency Fund

(Source: Proposed Budget (Government Plan) 2025-2028, p. 88)

This amendment seeks to commit to reintroduce the 2 pence per litre a year fuel duty escalator from 2025 (i.e. to take effect in 2026), but which has been paused since 2023. The table below (supplied by officers) shows the estimated increases in fuel duty income that would result;

	2023	2024	2025	2026	2027	2028
Fiscal Policy Panel planning assumptions						
Clearances (hectolitres)	406,416	398,466	394,570	390,713	386,895	383,115
Receipts (£'000)	25,974	25,387	26,042	26,198	26,383	26,647
Less:						
Cost of freeze in 2025 (applied across outlook)			905	905	905	905
Medium-term budget outlook (£'000)	25,974	25,387	25,137	25,293	25,478	25,742
Add:						
Additional 2 pence in 2026				781	781	781
Additional 2 pence in 2027					774	774
Additional 2 pence in 2028						766
Impôt Duties Fuel	25,974	25,387	25,137	26,074	27,033	28,063

The good news is that following the 2026 increase in duty, the "stick" of higher fossil fuel prices will be accompanied by the ability to deliver a bigger, tastier "carrot" by way of increased incentives to adopt zero carbon technologies. It will be up to the Council of Ministers to decide the best mix of policies on which to spend the increased revenue.

There are risks with this approach. Although a rise in fuel duty overwhelmingly affects the relatively well off the most, there are small numbers of less well-off people who depend on high vehicle mileage (for example, carers). Because the increase in fuel duty is postponed for a year, the government has the option to design policies that might mitigate the impact for particular low-income groups who might be disproportionately affected. For example, the social security system could be used to provide compensation to particular groups. Or the CEF could be used to provide subsidised access to Evie shared ownership vehicles. A 2p rise in fuel duty amounts to a less than 1.5% increase on current prices. For a 10,000 mile a year owner, this would cost between £10 and £20 a year (10,000 miles - 700 litres). Just a few journeys by bicycle or bus or sharing a car would wipe out the extra cost.

However, it is important that - over time - all groups are incentivised to move away from fossil fuels. If this amendment is passed, consumers will have benefitted from 3 years of a freeze in fuel duty. Continuing to freeze fuel duty beyond this point risks sending a signal to consumers that Jersey is not serious about its net zero ambitions, and therefore continuing to invest in fossil fuel technologies is the best option. As far as possible, policy should be aimed at making clear that in the medium to long term, low or zero carbon based alternatives make the most sense.

<u>"But it's just a waste of money"</u>

It is often said by net zero sceptics that there is no point in Jersey spending money to achieve net zero because our contribution to climate change is negligible. This is wrong on two counts.

First, everyone, everywhere must do their bit to achieve emissions reduction, or the mission will fail. The argument that Jersey doesn't matter could just as easily be applied to any community of 100,000 people, whether in China, the USA, or Europe. Every large jurisdiction is made up of thousands of smaller units, and each one could argue that there is "no point" in them taking action. If they all took that view, nothing would happen at all. It is the same argument that applies to voting: there's no point in voting because I only have one vote which can't possible make a difference. If everyone applied that logic, no one would vote. But we do, and lots of individual actions add up to a big collective change.

Given the recent election in the USA, we're likely to hear more of the argument that there's "no point" in Jersey taking action. In fact, the opposite is the case. At a time when others are falling away, it is even more important that those who know the science is right and who believe in the urgency of tackling climate change stand up to be counted.

It is worth remembering that from the planet's point of view, every tonne of carbon counts the same. A tonne of carbon emitted in Jersey is the same as a tonne of carbon from the USA or Canada. Therefore, one tonne less carbon from Jersey is the same as one tonne less carbon from anywhere else. Our contribution counts just as much as any other contribution.

But there's another reason why it is wrong to argue that there is "no point" in Jersey taking action. It misses the opportunity. Net zero offers multiple "wins" for Jersey.

- First, decarbonising transport will mean better air quality, better health, more active lives and less congestion.
- Second, using CEF funding to support improvements in the housing stock as part of a package of measure to electrify home heating is also an investment in lower bills, safer heating and more stable prices.
- Third, Jersey has a golden opportunity to become a leader in decarbonisation. This is a generational shift. It is going to happen, the only question for Jersey is whether we lag or lead. If anything, that opportunity grows with the backtracking we are likely to see in the USA.
- An island that confidently builds its future on a low carbon, environmentally friendly economy will be an economy that is sustainable for the long term, both in narrow environmental terms and in economic terms.

Conclusion

Reintroducing the fuel duty levy from next year is a modest, small step to "nudge" consumer and business behaviour in the direction of lower or zero carbon transport options. It will also provide revenue to fund further carbon reduction incentives. These measures could include incentives targeted at vulnerable groups most affected by the small increase in fuel duty, should this be a desired policy option.

Financial and staffing implications

As this change is proposed for 2026 there will be legislative drafting implications in 2025 but this drafting work should sit within departmental budgets.

Children's Rights Impact Assessment

A Children's Rights Impact Assessment (CRIA) has been prepared in relation to this proposition and is available to read on the States Assembly website.