P.2024/91 Amdt 9

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

17th October, 2024

Proposition No. P.2024/91

Policy & Resources Committee

The States of Guernsey Annual Budget for 2025

AMENDMENT

Proposed by: Deputy H L de Sausmarez
Seconded by: Deputy S P Fairclough

To insert the following proposition:

> "To direct the Policy & Resources Committee to work jointly with the Committee for the Environment & Infrastructure to progress without delay the work to reduce the States' overreliance on fuel duty and bring back to the States proposals that address the fiscal unsustainability and social inequity of the current fuel duty policy, ahead of any broader work on transport taxes more generally that is to be included in the next Tax Review."

Rule 4(1) Information

a) The proposition contributes to the States' objectives and policy plans by making the part of the tax base that pertains to revenue from fuel duty more sustainable and less unfair, without unnecessary delay.

b) In preparing the proposition, consultation has been undertaken with the Committee for the Environment & Infrastructure and relevant officers and the proposition shared with the Policy & Resources Committee in advance of publication.

c) The proposition has been submitted to His Majesty's Procureur for advice on any legal or constitutional implications.

d) There are no immediate financial implications to the States of carrying the proposal into effect, although the direction should lead to proposals which will recommend a better-balanced, less inequitable tax base. This amendment is agnostic as to whether those proposals should be revenue neutral (at least until the Tax Review) or revenue positive, as that is a matter for the Policy & Resources Committee to decide.

Explanatory note

Since 2008, all motoring taxes in Guernsey (with the exception of first registration duty) have been consolidated into fuel duty. The logic underpinning this consolidation was understandable: as well as being easier to administer, it was considered to be economically fairer moving motor-related taxation to a purely polluter-pays principle. However logical and well intentioned, though, there have been significant negative effects that have become increasingly clear over time.

Since at least 2017, the States has acknowledged that this over-reliance on fuel duty is fiscally unsustainable. It is estimated in terms of vehicle innovation that there is a 30% improvement in engine efficiency every ten years, meaning a commensurate drop in the volume of fuel required to travel the same distance. Electric and hybrid vehicles are increasingly popular, now comprising more than a quarter of all new vehicle registrations each year locally. Also, fewer vehicles overall are being registered each year, while uptake of public and non-motorised forms of travel has increased markedly.

All these factors combine to mean that in order to maintain the same amount of revenue, fuel duty has typically had to increase above the rate of inflation year on year – in other words, it has had to run in order to stand still.

This has some profoundly inequitable effects. The growing number of people who have only battery electric vehicles (EVs) currently make no contribution to the Treasury in this respect at all, whilst people who have hybrid vehicles also pay far less than people who have petrol or diesel vehicles (ICEVs). It is true that EVs do not produce exhaust emissions and that emissions from hybrids are also typically much lower than from ICEVs, but they do still cause localised pollution and have other negative effects, so even on a polluter-pays basis it is reasonable to expect a proportionate contribution to the Treasury, whilst still being mindful of the need to support the energy transition and transition to a cleaner and more sustainable transport system.

There is also an important social impact to consider. New vehicles are typically much more efficient than equivalent older vehicles, meaning that people with older vehicles will typically need to pay more for fuel (and therefore more fuel duty) than people with newer vehicles for the same distance travelled. Bearing in mind that fuel duty has historically had to increase above the rate of inflation year on year, the cruel irony is that the people who are least able to afford a newer, more fuel-efficient car are the ones who have to pay disproportionately more because of the efficiency gains and savings made by those who can afford to buy a newer vehicle. This is a growing inequity, and it really does need to be resolved without delay.

While it is arguably reasonable that wider transport taxes (such as distance and parking charges) included in the original proposition cited in paragraph 5.71 of the Budget Report are considered as part of the broader Tax Review, the States has long acknowledged that the fiscal unsustainability and social inequity of the current fuel duty policy needs to be reviewed and there is no good reason not to progress it ahead of that bigger bit of work. It would not compromise the Tax Review, as proposals can easily be designed to be revenue neutral – i.e. to bring in the same amount of income as fuel duty does currently – so it does not need to add to the tax burden ahead of any bigger reforms.

The Committee for the Environment & Infrastructure has already done its best to faithfully fulfil the resolutions relating to transport taxes and, using its own resource and working very closely with relevant Treasury officers and incorporating initial political feedback from the Policy & Resources Committee, has carried out detailed analysis to understand the best way to address this particular problem. A policy letter exists in draft form, but has not been finalised simply because the Committee for the Environment & Infrastructure has needed confirmation on some fiscal objectives (such as whether the proposals should be revenue neutral or revenue positive) from the Policy & Resources Committee, plus any other input they feel appropriate to give.

For reassurance, however, the Committee for the Environment & Infrastructure has consistently prioritised resource to progress this work and would continue to do so. Should the Policy & Resources Committee have the encouragement of the Assembly to progress this joint work without delay, the officer resource from policy letter through to potential implementation of the recommendations, should they be supported, can be provided by the Committee for the Environment & Infrastructure.

In summary, this is work that – irrespective of whatever this or the next States decides in terms of the bigger picture on tax – needs to be done in order to address an increasingly fiscally unsustainable and socially inequitable problem. This work will not compromise the wider work on the Tax Review: it will just make one part of the tax base fairer and more fiscally sustainable sooner. By supporting this amendment, the Assembly will simply be avoiding unnecessary delay to a bit of work that the States has long acknowledged must be done, bearing in mind that of course the proposals put forward by the two committees will come before the States in a policy letter for the Assembly to consider in due course.