THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

POLICY & RESOURCES COMMITTEE

TAXATION OF MOTORING

The States are asked to decide:-

Whether, after consideration of the policy letter entitled 'Taxation of Motoring' dated 23rd May, 2019 they are of the opinion:-

1. To agree, in principle, that a distance charging mechanism should be introduced as soon as possible and direct the Policy & Resources Committee to report back to the States with detailed proposals to introduce a distance charging mechanism.

2. To note that the Policy & Resources Committee intends to use its existing delegated authority to approve funding from the Budget Reserve to carry out further detailed research and a pilot exercise / trial to collect comprehensive data which could be used to calculate and model an appropriate charging structure for a distance charging mechanism, together with an assessment of the effect of any potential changes in behaviour.

3. To agree that an annual charge based on ownership of vehicles is not introduced.

4. A. To agree that the rates of excise duty on motor fuel should not be varied in the 2020 and 2021 Budget Reports.

   Or, only if Proposition 4A shall have been defeated,

   B. To direct the Policy & Resources Committee to include proposals in the 2020 and 2021 Budget Reports to increase the rate of excise duty on motor fuel in line with inflation (RPIX).

   Or, only if Proposition 4B shall have been defeated,

   C. To direct the Policy & Resources Committee to include proposals in the 2020 and 2021 Budget Reports to increase the rate of excise duty on motor fuel to a level necessary to maintain the real-value of the income raised by taking account both of inflation (RPIX) and any change in sales volume.

The above Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications in accordance with Rule 4(1) of the Rules of Procedure of the States of Deliberation and their Committees.

<u>THE STATES OF DELIBERATION</u>
<u>of the</u>
<u>ISLAND OF GUERNSEY</u>

POLICY & RESOURCES COMMITTEE

TAXATION OF MOTORING

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The Presiding Officer
States of Guernsey
Royal Court House
St Peter Port

23rd May, 2019

Dear Sir

1. Executive Summary

1.1 This policy letter is in response to a States resolution directing the consideration and review of the best way of raising revenues from motoring in future, taking into account the ongoing reduction in fuel volumes.

1.2 A Working Group was established with political representation from the Policy & Resources Committee and the Committee *for the* Environment & Infrastructure to carry out detailed research and assess options for raising revenue from motoring and its full report is appended to this policy letter.

1.3 The Policy & Resources Committee is recommending that, in principle, a distance charging mechanism is introduced as this will ensure that a financial contribution is made from all vehicles based on usage.

1.4 It is proposed that further detailed research and a pilot exercise / trial is undertaken to collect comprehensive data which could be used to calculate and model an appropriate charging structure for a distance charging mechanism, together with an assessment of the effect of any potential changes in behaviour.

1.5 The Policy & Resources Committee would then report back to the States with detailed proposals to introduce a distance charging mechanism, including any necessary transitional arrangements particularly in respect of those vehicles which do not use motor fuel. It is recognised that at some future point in time, the proportion of vehicles using motor fuel will decline to such an extent that it would be appropriate to apply a distance charging mechanism for all vehicle use and cease charging an excise duty on motor fuel.

1.6 Until such time as the distance charging mechanism is introduced, there is likely to be a continuation of the fall in motor fuel volumes and consequentially a reduction in duty income.

1.7 During this current States' term, the Policy & Resources Committee has recommended, within the annual Budget Report, increases in excise duty on motor fuel which are sufficient to maintain the real value of the income raised. The States are being asked to consider whether they wish to agree a direction in respect of the excise duty rates on motor fuel for the 2020 and 2021 Budgets (beyond this, it will, if necessary, be addressed in the next iteration of the Medium Term Financial Plan). The options are:

a) Not change the rate of excise duty on motor fuel;

b) Increase the rate of excise duty on motor fuel in line with inflation (RPIX); and

c) Increase the rate of excise duty on motor fuel to a level necessary to maintain the real-value of the income raised by taking account both of inflation (RPIX) and any change in sales volume.

2. Background

2.1. During the course of the June 2017 States' debate on the Medium Term Financial Plan (Billet d'État XII, 2017), the following amendment (number 3) was approved;

"a) To instruct the Policy & Resources Committee, in consultation with the Committee for the Environment & Infrastructure, to consider and review the best way of raising revenues from motoring in future, taking into account the ongoing reduction in fuel sales.

b) To agree that the focus of the review shall be on how to achieve the maximum sustainability of this source of States' revenue rather than on increasing the total amount of taxation levied on motoring in Guernsey.

c) To instruct the Policy & Resources Committee to report back with its conclusions in sufficient time for any proposals flowing from the review to be included in the budget for 2019."

2.2. During 2018, as the first stage of taking forward the direction of the amendment, a working group was formed consisting of politicians from the Policy & Resources Committee; the Committee *for the* Environment & Infrastructure and Deputy Roffey (the proposer of the amendment).

2.3. That working group reached a consensus position to recommend to the Policy & Resources Committee that an alternative method for collecting income from motoring should be proposed in the 2019 Budget Report with the introduction of an annual fee per vehicle. It was suggested that this be introduced from 2020, with a starting position of collecting 20% of the total annual revenue from excise duty on motor fuel with a commensurate reduction in the rate of excise duty on motor fuel. As the volumes of motor fuel consumed decline over time, including as a result of the increased use of vehicles which do not use fossil fuels, the proportion of income from motoring collected through the annual fee would increase. The annual budget would also provide an opportunity to accelerate the phasing out of excise duty on motor fuel by proposing decreases in the duty rate offset by increases in the annual fee.

2.4. However, as set out in the 2019 Budget Report, the Policy & Resources Committee, by a majority, did not support the recommendation from the working group and was not prepared to propose the introduction of an annual fee for vehicles which use fossil fuels as it was considered to be akin to the reintroduction of the previous motor tax regime. However, Members did accept that the current system is not sustainable, particularly over the longer-term and recognised that an alternative method is required that will ensure that a contribution is received from all vehicle users irrespective of the fuel source.

2.5. During debate on the 2019 Budget Report, a commitment was given by the President that the Policy & Resources Committee would submit a policy letter, for consideration no later than September 2019, responding to the June 2017 resolution.

2.6. A second Working Group was again established comprising political representation from the Policy & Resources Committee (Deputies St Pier and Stephens) and the Committee *for the* Environment & Infrastructure (Deputies Brehaut and de Sausmarez) supported by staff from a number of service areas. The Working Group's report on the research it has undertaken and its conclusions is appended to this policy letter.

2.7. One of the twenty-two policies prioritised by the States to deliver the outcomes detailed in the Policy & Resource Plan – Future Guernsey is the development of an over-arching energy policy. The Committee *for the* Environment & Infrastructure is leading on this work, which includes considering the extent, if any, to which energy-related tax policies may enable the States to achieve their energy policy objectives.

3. Recent History – Excise Duty on Motor Fuel

3.1 Fuel duty forms part of the overall States General Revenue Income – whilst the 2019 budgeted revenue of £20.3million represents 4.4% of the total General Revenue Income of £460million, it is nearly 17% of the £120million that is not raised from Income Tax. It is not a hypothecated income stream, the revenue is not specifically allocated to funding expenditure associated with motoring – whether provision and maintenance of roads; policing of motoring; provision of public parking, etc.

3.2 In October 2006 (Billet d'État XVII), the States agreed to the abolition of motor tax with a corresponding increase in petrol duty and the introduction of a diesel duty[1]. These duties are collectively referred to as excise duty on motor fuel. At that time, the motor tax system was considered to be *"overly complex to administer, cumbersome for customers and does not adequately support the environmental and social policies of the States"* and the policy letter concluded *"….. that a system where taxation is raised from the use* [instead of the ownership] *of motor vehicles, i.e. through the consumption of fuel, is a fairer system and more likely to support the environmental and social strategies of the States."*

3.3 In the 2007 budget, motor tax income was £6.6million and excise duty on motor fuel was £3.7million. If this system had remained in place, the £20.3million 2019 budget for excise duty on motor fuel would be raised as follows: £7.3million from excise duty on petrol (approximately 39p per litre) and £14million from motor taxation. The following table shows the 2007 motor tax rates for a range of vehicles and their 2019 equivalent:

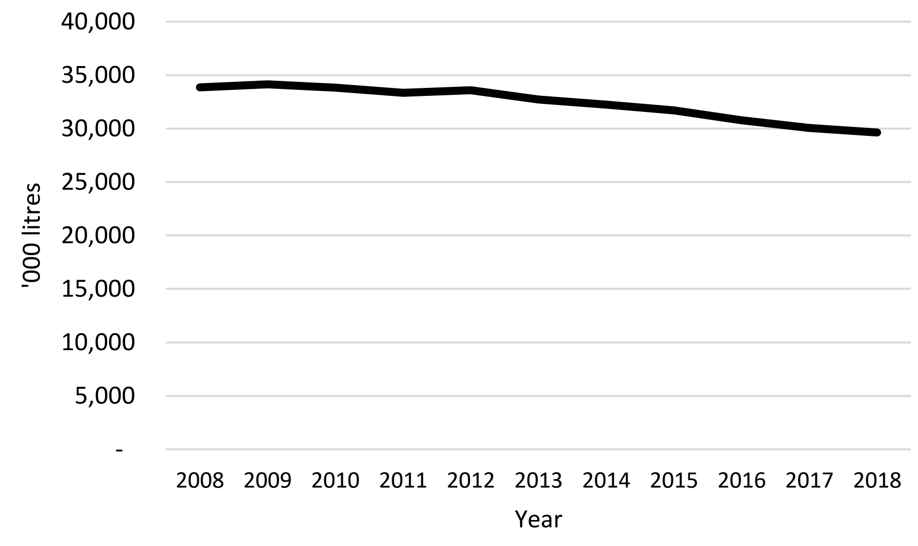
Vehicle	2007 annual tax - petrol	2007 annual tax - diesel	2019 equivalent - petrol	2019 equivalent - diesel
Fiat 500 1.4	£92	£135	£195	£286
VW Golf 1.6	£147	£216	£312	£458
Land Rover Discovery	£235	£343	£498	£728
Ford Transit Tipper	£216	£317	£458	£672
DAF LF220	£667	£977	£1,415	£2,072

[1] Prior to 2008, there was no excise duty on diesel but the motor tax rates for diesel vehicles were higher than those for petrol vehicles.

3.4 The following table details the rates of excise duty on motor fuel; revenues raised[2]; annual volumes and percentage change in annual volumes from 2008 to 2018:

Year	Duty ppl	Revenue £'000	Petrol '000 litres	Diesel '000 litres	Total '000 litres	% change
2008	29.0	9,971	24,511	9,355	33,866	
2009	31.0	10,863	24,430	9,711	34,141	0.81
2010	37.0	12,813	23,820	10,004	33,824	(0.93)
2011	41.0	13,951	23,162	10,175	33,337	(1.44)
2012	45.0	15,258	22,629	10,973	33,602	0.79
2013	46.5	15,494	21,841	10,885	32,726	(2.61)
2014	48.8	16,069	21,627	10,627	32,254	(1.44)
2015	51.8	17,082	21,125	10,569	31,694	(1.74)
2016	58.5	18,740	20,317	10,453	30,770	(2.92)
2017	63.5	19,390	19,744	10,301	30,045	(2.36)
2018	67.0	20,287	19,268	10,367	29,635	(1.36)

3.5 As shown in the graph below, the volume of motor fuel used has declined from nearly 34million litres in 2008 to less than 30million litres in 2018, a cumulative decrease of 14.2% (average of 1.3% per annum):



3.6 This volume decline is having an adverse effect on income from excise duty meaning that percentage increases in duty rates are not resulting in similar percentage increases in income.

[2] This includes income from excise duty on marine petrol, this is not a material amount (less than £200,000 per annum)

3.7 Between 2008 and 2018, the excise duty rate on motor fuel has increased by 38p per litre (approximately 130%) which substantially exceeds inflation (approximately 30%) by 29p. The reasons for this increase include: as a fiscal measure (ie to raise additional income including as part of the package of measures following the introduction of 'Zero-Ten') (20.8p); to compensate for the reduction in the volume of fuel being used (7p); and in lieu of the introduction of paid parking to raise additional revenue to enable additional expenditure budget to be allocated to fund elements of the Integrated Transport Strategy (1.2p).

3.8 During this current States' term, the Policy & Resources Committee has recommended, within the annual Budget Report, increases in excise duty on motor fuel which are sufficient to maintain the real value of the income raised. This means that although the duty rate has increased by more than inflation, the average amount paid in duty per individual/household has not increased in real-terms due to a lower volume of fuel being consumed. It is recognised that this is an average and individual circumstances and experience will inevitably vary. The States have agreed these recommendations and the current (2019) rate of excise duty on motor fuel is 70.1p per litre which is budgeted to raise income of £20.3million.

3.9 The only other taxation on motoring levied in Guernsey is the first registration duty which applies to all new and second-hand vehicles being imported and registered in Guernsey for the first time. The duty is based on a motor vehicle's carbon dioxide emissions (if the motor vehicle does not have a carbon dioxide emissions figure then it is based on engine size) and ranges from £nil (for fully electric vehicles; petrol vehicles with a CO_2 figure below 100g/km and diesel vehicles with a CO_2 figure below 100g/km) up to £690. The annual income raised is approximately £1.2million per annum.

3.10 It is estimated[3] that there are approximately 53,650 motor vehicles registered in Guernsey (including 8,250 commercial vehicles) and some 7,700 motorcycles. Data is currently collected on new and used car registrations (summarised below for the past five years); this provides an indication of the rate of turnover of vehicles in the island and how quickly motorists may progress to more fuel efficient and/or electric vehicles:

	New	**Used**	**Total**
2018	2,175	1,276	3,451
2017	2,341	1,218	3,559
2016	2,477	1,294	3,771
2015	2,766	1,393	4,159
2014	2,642	1,413	4,055

[3] Since the abolition of motor tax, there is less incentive for deregistration of cars no longer in use. Therefore, these figures are not wholly accurate.

3.11 The following table compares the estimated cost of taxes, duties and fees charged in respect of motoring in 2019 in Guernsey, Jersey and the United Kingdom [to ensure a like for like comparison, they are based on the same average car of a Volkswagen Golf SE 3 door 1.4litre costing £16,000 doing 5,000miles per annum (7,800miles per annum in the UK) at 8miles per litre of fuel (12miles per litre of fuel in the UK) with CO_2 emissions of 120g/km]:

	Guernsey £	**Jersey £**	**United Kingdom £**
Annual:			
Fuel Duty	438	313	377
Vehicle Tax	-	-	140
Consumption tax on fuel and insurance	-	34	182
Parking and Roadworthiness check[4]	-	125	102
TOTAL ANNUAL COSTS	**438**	**472**	**801**
One off costs:			
First registration	150	268	220
Consumption tax on purchase	-	801	3,204
TOTAL ONE OFF COSTS	**150**	**1,069**	**3,424**

3.12 Over a five-year period, the average annual costs would be £468 in Guernsey; £686 in Jersey; and £1,486 in the United Kingdom.

3.13 This shows that whilst fuel duty in Guernsey is higher, this is offset by the absence of other annual costs; and the one-off tax costs incurred on purchase are a small fraction of those incurred in Jersey or the United Kingdom.

4. Issues with the current system

4.1 There are a number of reasons for the decline in the volume of motor fuel used:

i. Increased efficiency of internal combustion engines
The average vehicle produced now is approximately 30% more efficient than it was twelve years ago[5]

ii. Changed driving habits;
The Integrated Transport Strategy facilitates and promotes alternatives to use of the car including: increased use of public transport; cycling; and walking.

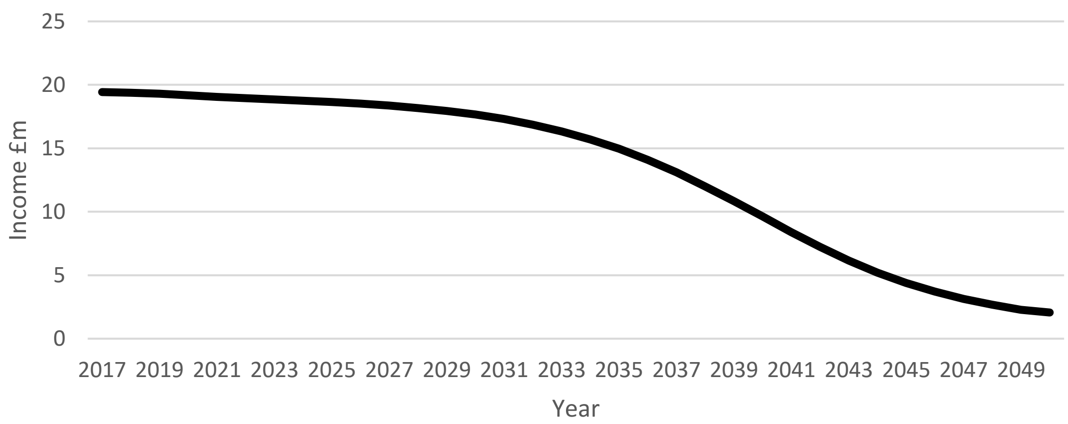
[4] In order to maintain drivers' ability to take their vehicles to the EU, the States (Billet d'État XXVII, 2018) agreed to the phased introduction of periodic technical inspections of motor vehicles. All vehicles will need to comply by 2023.
[5] PWC Hydrocarbon demand study reference page 28 and 29
https://www.gov.gg/CHttpHandler.ashx?id=108310&p=0

iii. Increasing use of vehicles which do not use motor fuel as energy source (which may be incentivised due to no duty being levied on the fuel they use).

4.2 The decline in motor fuel sales would, ceteris paribus, have resulted in a reduction in income from duty on motor fuel. However, in order to maintain the real value of revenues, real-terms' increases in the duty rate have been approved as part of the annual Budget. This is not considered to be sustainable, especially as the number of vehicles not using petrol or diesel is likely to increase. This is also considered to be socially inequitable as those people who can afford to purchase newer, more fuel efficient vehicles or electric vehicles would pay less duty for undertaking the same journeys compared to those who could not afford to upgrade their vehicles.

4.3 There is deliberate policy in the EU and UK to accelerate the move away from internal combustion engine vehicles which is likely to significantly gather pace in the coming years. Whilst not currently material in Guernsey (there are 309 electric and 419 hybrid vehicles currently registered), the move away from internal combustion engines is expected to accelerate in the coming years, resulting in a significant decline in revenues raised from duty on motor fuel.

4.4 The following graph shows the expected fuel duties under the current excise duty on motor fuel regime up to 2050:



4.5 It is anticipated that, under the current arrangements, revenues from duty on motor fuel will reduce by approaching 50% within twenty years and virtually disappear by 2050.

5. Working Group Report (Appendix I)

5.1 The Policy & Resources Committee thanks the Working Group for the comprehensive research it has carried out and for the report it has prepared setting out its findings and conclusions.

5.2 As set out in Appendix I to this policy letter, the Working Group's conclusions are:

(i) In order to enhance the financial sustainability of revenue from taxation of motoring, consideration would need to be given to a move from the current system of relying largely on variable income towards a mixed system potentially incorporating a fixed annual charge based on ownership and a variable charge based on usage;

(ii) If a fixed annual charge is introduced, it should apply to all vehicles, irrespective of which fuel they use, but with the potential for differential charging based on a range of factors;

(iii) As the use of internal combustion engines in vehicles is phased out, the basis of the variable element of the charge should move from being based on levying an excise duty on motor fuel to a distance charging mechanism with the potential for differential charging based on a range of factors;

(iv) Further detailed research and a pilot exercise / trial should be carried out to collect comprehensive data which could be used to calculate and model an appropriate charging structure for a distance charging mechanism, with the potential for differential charging based on a number of factors, together with an assessment of the effect of any potential changes in behaviour.

5.3 The Working Group has not offered a view on what proportion of revenue should be raised from each of the fixed and variable element but is of the view that the results of the detailed research and pilot exercise / trial should be used to develop a charging model which optimises revenue sustainability with policy alignment in other areas including the Island's approach to energy.

6. Policy & Resources Committee position

6.1 The Policy & Resources Committee does not support the introduction of a fixed annual charge as it believes that variable charging based on the user / polluter pays principle is the most equitable and appropriate mechanism for raising income from taxation of motoring.

6.2 However, it clearly recognises that continuation of the current policy of relying solely on excise duty on motor fuel is inequitable as no contribution is made from vehicles which do not use this fuel source and is likely to be unsustainable if the current projections for the transition away from internal combustion engine vehicles are realised.

6.3 The Committee is of the view that a distance charging mechanism should be introduced as soon as possible.

6.4 As recommended by the Working Group, further detailed research and a pilot exercise / trial should be carried out to collect comprehensive data which could be used to calculate and model an appropriate charging structure for a distance charging mechanism, together with an assessment of the effect of any potential changes in behaviour. It is recommended that this investigation work is funded from the Budget Reserve.

6.5 This investigation would include design of any necessary transitional arrangements particularly in respect of those vehicles which do not use motor fuel. It is recognised that at some future point in time, the proportion of vehicles using motor fuel will decline to such an extent that it would be appropriate to apply a distance charging mechanism for all vehicle use and cease charging an excise duty on motor fuel.

6.6 Until such time as the distance charging mechanism is introduced, an increase in the number of non-internal combustion engines will result in a fall in motor fuel volumes and consequentially a reduction in duty income. The duty income will also fall if the distances driven decrease or engines become more efficient.

6.7 It is suggested that the next Medium Term Financial Plan (which will cover the period from 2022 to 2025) includes a policy for setting excise duty on motor fuel rates, until such time as a distance charging mechanism is introduced.

6.8 In respect of the 2020 and 2021 Budget Reports, the alternative options are:

A. Duty rates are frozen at current levels (ie remain at 70.1p per litre). Assuming inflation of 3% per annum and a reduction in volumes of 2% per annum, this would result in a real-terms' reduction in revenues of approximately £1million in 2020 and £2million in 2021;

B. Duty rates increase in line with inflation (RPIX) which, assuming inflation at 3%, would mean duty rates of 72.2p in 2020 and 74.4p in 2021. Assuming a reduction in volumes of 2% per annum, this would result in a real-terms' reduction in revenues of approximately £400,000 in 2020 and £800,000 in 2021; and

C. Continuation of the existing approach of increases in the rate of excise duty on motor fuel of a magnitude necessary to maintain the real-value of the income raised. This would, assuming inflation of 3% per annum and a reduction in volumes of 2% per annum, result in duty rates of 73.6p in 2020 and 77.4p in 2021.

6.9 Proposition 4 gives the States the opportunity to set a policy in respect of excise duty rates on motor fuel for the 2020 and 2021 Budgets. If each of the options in Proposition 4 is rejected then the Policy & Resources Committee will continue to formulate a recommendation for excise duty rates on motor fuel in each Budget Report, taking into account a number of factors including: the overall States financial position; fuel volumes; and the retail price of motor fuel.

7. Consultation

7.1 The Policy & Resources Committee has consulted the Committee *for the* Environment & Infrastructure regarding this policy letter and its response is attached as Appendix II.

8. Compliance with Rule 4

8.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.

8.2 In accordance with Rule 4(1), the Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications. She has advised that there is no reason in law why the Propositions should not to be put into effect.

8.3 In accordance with Rule 4(3), the Propositions request the States to delegate authority to the Policy & Resources Committee to approve funding from the Budget Reserve to carry out further detailed research and a pilot exercise to collect comprehensive data which could be used to calculate and model an appropriate charging structure for a distance charging mechanism, together with an assessment of the effect of any potential changes in behaviour.

8.4 In accordance with Rule 4(4) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that the propositions above have the unanimous support of the Committee.

8.5 In accordance with Rule 4(5), the Propositions relate to the duties of the Committee to advise the States and to develop policies relating to fiscal policy and the financial resources of the States.

Yours faithfully

G A St Pier
President

L S Trott
Vice-President

A H Brouard
J P Le Tocq
T J Stephens

APPENDIX I

REPORT OF THE WORKING GROUP – TAXATION OF MOTORING

1.1 During the course of the June 2017 States' debate on the Medium Term Financial Plan, the following amendment (number 3) was approved which included:

> *"a) To instruct the Policy & Resources Committee, in consultation with the Committee for the Environment & Infrastructure, to consider and review the best way of raising revenues from motoring in future, taking into account the ongoing reduction in fuel sales.*
>
> *b) To agree that the focus of the review shall be on how to achieve the maximum sustainability of this source of States' revenue rather than on increasing the total amount of taxation levied on motoring in Guernsey."*

1.2 During debate on the 2019 Budget Report, a commitment was given by the President, Policy & Resources Committee that his Committee would submit a Policy Letter, for consideration no later than September 2019, responding to the June 2017 resolution.

1.3 A Working Group was established comprising political representation from the Policy & Resources Committee (Deputies St Pier and Stephens) and the Committee *for the* Environment & Infrastructure (Deputies Brehaut and de Sausmarez) supported by staff from a number of service areas.

1.4 At its first meeting, the Working Group agreed that its desired outcome was to recommend to the Policy & Resources Committee *"a mechanism that is as sustainable as possible for raising £20.3million (the 2019 budget) from motoring taxation."* In this respect, in line with States' direction, the prime consideration was financial sustainability of this source of States' revenue but the Working Group agreed it would also be cognisant of environmental sustainability issues.

1.5 In most countries, fuel taxes generate the majority of revenue from motoring. In 2011, such taxes accounted for approximately 65% of the income raised from EU motor vehicles (amounting to over €170billion[1]) with approximately 15% (€40billion) being raised from annual tax on ownership and 10% from infrastructure charges.

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[1] Internalising External Transport Costs: https://ec.europa.eu/transport/sites/transport/files/themes/sustainable/studies/doc/2012-11-inventory-measures-internalising-external-costs.pdf

1.6 There are limited options by which income can be raised through the taxation of motoring; these can be broadly broken down into:

1. Fixed Costs (ie do not change irrespective of usage):
   a. Taxes on vehicle acquisition (one-off)
   b. Taxes on vehicle ownership or circulation (annual)

2. Variable Costs (ie are dependent on usage):
   a. Taxes on Fuel (e.g. excise duty)
   b. Charges based on distance, time, zone or use of infrastructure

In addition, there are other mechanisms for raising revenue such as taxation on vehicle insurance or parking charges.

1.7 In all options apart from 2a there is the potential to charge differential rates to promote or discourage ownership and use of certain types of vehicle. This could be based on factors such as engine size/power or CO_2 emissions in order to recognise environmental issues. The use of gross vehicle weight, for example, would reflect relative infrastructure damage.

1.8 There is limited reliable and current data available on the profile of vehicles using Guernsey's roads (including their age and type); the turnover and evolution of these vehicles; the amount of fuel they use individually; and the number and distance of journeys undertaken. Where there is data available, it does have limitations – for example, whilst there is very accurate information about how much fuel is imported to Guernsey, it is not possible to differentiate between fuel used by domestic vehicles and fuel used by commercial vehicles.

1.9 The Working Party has examined in detail each of the options for raising income on an ongoing basis through the taxation of motoring and its assessment of the options of: annual tax on ownership; initial charge on acquisition of vehicle; duty on fuel; and charge on distance travelled. The following table summarises its findings (the shading illustrates the relative strength of an option compared to the others:– red shading does not mean that option should be discounted but that it may be more challenging to introduce/operate or may be less well aligned to particular objectives):

	Fuel Duty	Initial Charge on Acquisition of Motor Vehicles	Annual Charge on Ownership for all Motor Vehicles	Distance Charging on all Journeys by Motor Vehicles
Policy alignment - sustainability of revenue	Fuel consumption volumes are in decline: maintaining current revenue would require annual real-terms' increases	Existing first registration duty raises approximately £1.2million per annum which is only 6% of the total income currently raised from fuel duty. Compensating for a 2% reduction in fuel volumes would necessitate a 30% increase in this duty. Any substantial increase in this duty is likely to result in volatile income.	A fall in the number of vehicles would necessitate a real-terms increase in charges in order to maintain revenues. Would not be affected by changes in individual vehicle usage or fuel efficiency.	Accommodates changes in number and type of vehicles and fuel efficiency but would not mitigate for any fall in vehicle use.
Policy alignment – environmental impact	Fuel duty, to some extent, supports the policy objectives of the Integrated Transport Strategy and the Future Guernsey commitment to reduce climate change contribution by providing a weak disincentive to motor vehicle use and incentivising the use of more fuel efficient and less polluting vehicles.	A fall in the purchase of new vehicles (which tend to be less polluting than those they are replacing) could result in slower rates of pollution reduction. However, this would be outweighed by the savings in carbon emissions associated with the production of new vehicles.	The fixed-cost nature of the charge would not encourage the use of other forms of transport with greater environmental and health benefits.	This would support the policy objectives of the Integrated Transport Strategy and the Future Guernsey commitment to reduce climate change contribution by providing a direct disincentive to private motor vehicle use.

	Fuel Duty	Initial Charge on Acquisition of Motor Vehicles	Annual Charge on Ownership for all Motor Vehicles	Distance Charging on all Journeys by Motor Vehicles
'User-pays' principle	Generally reflects the 'user-pays' principle for vehicles using petrol or diesel but no income is received from users of electric or other alternative fuel vehicles.	Would not meet this principle as no variation based on vehicle usage.	Would not meet this principle as no variation based on vehicle usage. It may also be perceived as unfair and, for some users, disproportionately increase costs.	All private and commercial motor vehicle users would pay relative to the distance travelled.
'Polluter-pays' principle	Generally reflects the amount of pollution generated and accurately reflects the carbon emissions generated.	A charge on acquisition would discourage the purchase of newer vehicles which are generally less-polluting. However, the charging structure could be differentiated by CO_2 emissions.	Potential for charges to be differentiated by CO_2 emissions banding.	Potential for charges to be differentiated linked to CO_2 emissions.
Cost and ease of administration	Very easy to administer and collect. Whilst all vehicle users effectively pay the tax when they refuel, the States collects the duty from a small number of distributors	Very easy to administer and collect as the duty could be collected when the vehicle is registered which is a legal requirement for new vehicles on acquisition.	Relatively easy to administer through technological innovation such as digital self-administration.	The costs of either an analogue or digital mechanism would need to be reflected in the charges made. Whilst tracking distance travelled would not be difficult, a central system would need to be introduced to record mileage driven and charge motorists.

	Fuel Duty	Initial Charge on Acquisition of Motor Vehicles	Annual Charge on Ownership for all Motor Vehicles	Distance Charging on all Journeys by Motor Vehicles
User effort	No additional user effort is required as duty is collected as part of refuelling.	No additional user effort is required as it will form part of the cost of acquiring the vehicle.	Some additional user effort is required but technological innovation should minimise this.	This depends on the distance monitoring method(s) introduced. A digital system is likely to be the default option which would involve the installation, use and maintenance of an on-board device. An analogue system (as an alternative for those who do not wish to use the digital system) would likely require a high degree of customer effort whereas a technological solution would require minimal customer effort. User experience would need to be considered as an integral part of the design process.

	Fuel Duty	Initial Charge on Acquisition of Motor Vehicles	Annual Charge on Ownership for all Motor Vehicles	Distance Charging on all Journeys by Motor Vehicles
Effect on user behaviour	Directly encourages users to switch to vehicles which are either more fuel-efficient or use alternative fuels. However, replacing a vehicle generally requires significant capital outlay which is more difficult for those on lower incomes. Theoretically, users are encouraged to consider alternatives to the use of the car, although in practice, change in use is fairly inelastic to changes in fuel prices.	High-risk that a substantial increase in the cost of acquiring a new vehicle would discourage or delay the purchase of new vehicles. This charge may also incentivise vehicle use as owners would consider this a 'sunk-cost' and would be actively incentivised to increase use in order to maximise the value of their investment.	An annual fixed cost charge could incentivise vehicle use as the charge would be considered a 'sunk-cost' and there would be a lower marginal cost of each journey.	Directly encourages users to consider whether each individual journey is necessary or could be undertaken in another manner – eg. by public transport, cycling or walking.
Potential for evasion	As the duty is automatically included in the fuel price, it is not easy for motorists to avoid paying.	As the charge will form part of the cost of purchase, it is not easy for motorists to avoid paying.	Would require a means of demonstrating and checking compliance in the same way as currently exists for insurance.	The reliance on a technological solution has the potential to be vulnerable to mechanical issues or user-manipulation.

	Fuel Duty	Initial Charge on Acquisition of Motor Vehicles	Annual Charge on Ownership for all Motor Vehicles	Distance Charging on all Journeys by Motor Vehicles
Other		This would also give an opportunity to introduce a ‘high-value surcharge’ with vehicles with a list price over a certain threshold being charged a supplementary first registration duty. This would align with the approach detailed in the Medium Term Financial Plan to *“raise additional revenues as far as possible from individuals and entities most able to bear the burden.”*	This would also give an opportunity to introduce a ‘high-value surcharge’ with vehicles with a list price over a certain threshold being charged a supplementary annual charge for a certain period of time. This would align with the approach detailed in the Medium Term Financial Plan to *“raise additional revenues as far as possible from individuals and entities most able to bear the burden.”*	

1.10 In order to achieve sustainability of revenue, there needs to be a significant move away from the continued use of fuel duty as the prime source of income from motoring. The Working Group considers that it is equitable and reasonable for all motorists to be taxed, irrespective of the manner in which their vehicle is fuelled. However, it accepts there could be differential rates applied to encourage behavioural changes in support of government policy in specific areas but recognises the inevitable risk associated with using taxation to drive behaviour change is that it will conflict with sustainability from a revenue perspective as it will encourage consumers to either substitute taxed energy consumption for non-taxed energy consumption or to reduce their energy consumption overall.

1.11 The Working Group recognises that the current vulnerability of the level of income raised is partly due to changes in motoring habits and fuel efficiency and that this could be reduced by a proportion of the revenue being raised by a fixed charge. This would ensure that all motorists contributed, irrespective of the type of vehicle they owned. The Working Group does not recommend reintroduction of the system of motor taxation which ended in 2008 but recognises that a more efficient and focussed system which would enable differential rates to be set, for example based on vehicle weight, engine size/power or CO_2 emissions, could be developed to enhance the sustainability of revenues and support the States' environmental and energy policies.

1.12 In respect of the variable element, the Working Group suggests that, in light of the deliberate policy in the EU and UK to accelerate the move away from internal combustion engine vehicles which is likely to significantly gather pace in the coming years, a mechanism is sought which enables a variable charge to be levied on all motorists and not just those who use petrol or diesel. The option of introducing distance charging through a technological solution appears attractive and it is suggested that further detailed research is carried out. A distance charging mechanism would also offer the opportunity to apply differential rates, for example based on vehicle weight, engine size/power or CO_2 emissions.

1.13 Whilst distance charging has traditionally relied on a system of toll booths, advances in vehicle tracking technology have created the opportunity to accurately charge drivers on the basis of per mile travelled by using in-car technology. Whilst the concept has not yet had widespread implementation, there are a number of jurisdictions making use of distance charging or considering its introduction. Some countries, including Germany, Switzerland and Austria, have already had success implementing distance-based fees on heavy goods vehicles. There have been multiple passenger vehicle trials carried out in the United States of America, including in Oregon where the latest scheme, MyOreGo[2], has been suggested for expansion to all road users.

[2] Oregon Distance Charging Pilot - http://www.myorego.org/

1.14 Therefore, the Working Group's conclusions are:

(i) In order to enhance the financial sustainability of revenue from taxation of motoring, consideration would need to be given to a move from the current system of relying largely on variable income towards a mixed system potentially incorporating a fixed annual charge based on ownership and a variable charge based on usage;

(ii) If a fixed annual charge is introduced, it should apply to all vehicles, irrespective of which fuel they use, but with the potential for differential charging based on a range of factors;

(iii) As the use of internal combustion engines in vehicles is phased out, the basis of the variable element of the charge should move from being based on levying an excise duty on motor fuel to a distance charging mechanism with the potential for differential charging based on a range of factors;

(iv) Further detailed research and a pilot exercise/trial should be carried out to collect comprehensive data which could be used to calculate and model an appropriate charging structure for a distance charging mechanism, with the potential for differential charging based on a number of factors, together with an assessment of the effect of any potential changes in behaviour.

1.15 The Working Group does not offer a view on what proportion of revenue should be raised from each of the fixed and variable element but is of the view that the results of the detailed research and pilot exercise/trial should be used to develop a charging model which optimises revenue sustainability with policy alignment in other areas including the Island's approach to energy.

APPENDIX II

CONSULTATION RESPONSE FROM
THE COMMITTEE *for the* ENVIRONMENT & INFRASTRUCTURE

Committee *for the*
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President, Policy & Resources Committee
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15th May 2019

Dear Deputy St Pier

POLICY LETTER: TAXATION OF MOTORING

The Committee *for the* Environment & Infrastructure (the Committee) is grateful for the opportunity to comment on the Policy & Resources Committee's Policy Letter and acknowledges the progress that has been made in moving forward with this matter.

The Committee is broadly supportive of the proposed replacement of fuel duty with the introduction of a distance charging mechanism and would support a swift timeline being adopted with suitable resource allocated to enable a pilot study to be completed in 2020.

The Committee supports continuation of the current practice of increasing the rate of excise duty on motor fuel as required to maintain current revenues in real terms i.e. RPI plus increases to counter reductions in volume.

The introduction of a distance charging mechanism would provide an opportunity for the charging structure to be balanced in line with environmental aspirations and targets. Therefore, the Committee is firmly of the view that any such system should include a requirement for consultation with the Committee prior to charges being set or revised.

The Committee *for the* Environment & Infrastructure thanks the Policy & Resources Committee for its approach and engagement on this matter and confirms that it wishes this consultation response to be appended to the Policy Letter.

Yours sincerely

Deputy B Brehaut
President
Committee *for the* Environment & Infrastructure