



22 June 2011

Our ref: ICAEW Rep 53/11

[OBRfeedback@obr.gsi.gov.uk](mailto:OBRfeedback@obr.gsi.gov.uk)

Dear Sirs

**Discussion paper No. 1 *What should we include in the Fiscal sustainability report (FSR)?***

ICAEW welcomes the opportunity to comment on the consultation paper *What should we include in the Fiscal sustainability report (FSR)* published by Office for Budget Responsibility (OBR) in March 2011.

ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 136,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

**Introduction**

As a UK leader on issues related to public finance management and fiscal sustainability, ICAEW welcomes the work of the OBR in analysing the long-term sustainability of the UK's public finances.

The annual FSR will play a valuable role in informing a constructive debate on the long-term outlook for the UK's public finances by helping to identify policy challenges and choices in the short, medium to long-term for business, policymakers and wider civic society.

The following statement is a response piece to the discussion paper and we grant permission to the OBR to cite our submission publicly.

**FSR discussion paper No. 1, page 21 feedback**

Below please find ICAEW's response to the FSR discussion paper No. 1, page 21, question:  
**Which non-demographic influences on spending should we take account of?**

In our view, climate change and adaptation are non-demographic influences on long-term UK public spending.

Taking into account the recent rise in oil prices, increased energy consumption and climate change more broadly as a national and international policy challenge; ICAEW believes a transition to a non-oil economy is not a choice - it is inevitable. This requires policymakers to reassess how we look at revenue; particularly UK tax and expenditure in supporting this significant shift towards a low-carbon future.

## ICAEW assessment

Pollution imposes costs on society that have implications on public spending. Pollution impacts public health, transport, resources and responses to climate disasters (ie Cumbria floods).

For Government, the purpose of climate taxation to date has been to influence behavioural change in polluters, with an aim to raise the awareness of how climate behaviour impacts wider public expenditure.

## Environmental taxation in the UK:

- In 2008, the UK passed the Climate Change Act which legally obliged the country to an 80 per cent reduction in cut in greenhouse gas emissions by 2050. This will involve a significant degree of Government investment in infrastructure and spending if we are to meet the target.
- The UK is reasonably typical when it comes to 'green' taxes. We have a landfill tax (introduced in 1996) and the Aggregates levy, a tax on the commercial exploitation in the UK of rock, sand and gravel (introduced 2002). These, together with Air Passenger Duty introduced as revenue raising exercises and have since been reclassified as environmental taxes.
- Other environmental taxes include the climate change levy introduced in 2001 and the congestion charge for vehicle use in the central area of London, introduced in 2003. In effect the Carbon Reduction Commitment Energy Efficiency Scheme is also a tax as the Coalition Government has recently said that it will not recycle into the system but instead retain the revenues raised by selling permits.

## Public Challenges

According to the UK Green Fiscal Commission in 2009, a majority of taxpayers regard 'green' taxes as an illegitimate source of general Government revenue due to the following reasons:

- Taxes affect highly valued forms of consumption (eg flying).
- They are regarded as unfair because they are not related to ability to pay.
- Green taxes are intended to change behaviour and improve the environment; they should not be used to raise revenue but should be used towards environmental improvements.

## Challenges to border tax

- It is currently not possible to take every commodity and assess its carbon content of each and every import. Some approximations are required, but a small number of energy-intensive industries, such as steel and chemicals, actually represent the bulk of carbon imports and a future tax could focus on these imports.

## Additional Points of Consideration

- In UK Green Fiscal Commission's final report in 2009 argued that environmental taxes work. It is important to embed a 'pay as you burn, not pay as you earn' approach to environmental taxation. The Commission argues that taxes on items valued by society; like jobs, income and profits should be reduced and lost revenue replaced by taxes on pollution and environmental degradation with provisions for low-income and vulnerable households.  
(Details: [www.greenfiscalcommission.org.uk/index.php/site/about/final\\_report/](http://www.greenfiscalcommission.org.uk/index.php/site/about/final_report/))
- 'Green' taxes produce a 'double dividend' by increasing welfare *both* by reducing socially damaging activities *and* by reducing the need to raise tax revenues in other welfare-reducing ways
- The FT and Economist both argue we should tax consumption not production as we do now. For example, China produces goods for the UK and we attribute the emissions from production to them, therefore a border price of carbon would operationalise this mechanism.
- The Economist argues a carbon tax should start low and rise over time. It could also begin "upstream" by taxing coal, gas and oil, instead of finished goods.

- The FT suggests a floor price for carbon, combined with a new border tax, should be the new priority:

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

Fatima Hassan

Public Policy Manager

T +44 (0)207 920 8617

E [Fatima.Hassan@icaew.com](mailto:Fatima.Hassan@icaew.com)