STATES OF JERSEY

PROPOSED GOVERNMENT PLAN 2024-2027 (P.72/2023): TWENTY-FIFTH AMENDMENT ALCOHOL DUTY

Lodged au Greffe on 28th November 2023
by the Economic and International Affairs Scrutiny Panel

STATES GREFFE

PROPOSED GOVERNMENT PLAN 2024-2027 (P.72/2023): TWENTY-FIFTH AMENDMENT

1 PAGE 2, PARAGRAPH (a) –

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

", except that total estimate for 2024 Impôt Duties shall be decreased by £2,090,000 by freezing the Impôt Duties for Spirits, Wine, Cider and Beer, with the relevant figures in Appendix 2 – Summary Table 1 updated in line with the following table, and subsequent figures updated accordingly –

	2024 Estimate (£000)	2025 Estimate (£000)	2026 Estimate (£000)	2027 Estimate (£000)
Impôt Duties Spirits	7,325	7,841	7,997	8,192
Impôt Duties Wine	8,763	9,278	9,360	9,483
Impôt Duties Cider	991	1,038	1,036	1,038
Impôt Duties Beer	6,398	6,772	6,832	6,923

".

2 PAGE 2, PARAGRAPH (h) –

After the words "of the Report" insert the words –

", except that, to accommodate a drop in States income caused by freezing the Impôt Duties for Spirits, Wine, Cider and Beer –

(a) the Head of Expenditure for the Central Reserve shall be reduced by £1,045,000;

(b) the Head of Expenditure for the Cabinet Office shall be reduced by £721,000; and,

(c) the Head of Expenditure for the Economic Development, Tourism, Sport & Culture shall be reduced by £324,000".

3 PAGE 3, PARAGRAPH (l) –

After paragraph (k) insert the following new paragraph (l) –

"(l) to agree that, from 2025, the hospitality sector should be supported through a separate lower Alcohol Duty rate, or receive a rebate or similar measure to mitigate any future increases in Alcohol Duty, and to direct the Minister for Treasury and Resources to bring forward the necessary legislative and administrative changes for debate by the Assembly during 2024; and"

and redesignate the existing paragraph (l) as paragraph (m).

ECONOMIC AND INTERNATIONAL AFFAIRS SCRUTINY PANEL

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 2024 – 2027 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 2024 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 2024 Impôt Duties shall be decreased by £2,090,000 by freezing the Impôt Duties for Spirits, Wine, Cider and Beer, with the relevant figures in Appendix 2 – Summary Table 1 updated in line with the following table, and subsequent figures updated accordingly –

	2024 Estimate (£000)	2025 Estimate (£000)	2026 Estimate (£000)	2027 Estimate (£000)
Impôt Duties Spirits	7,325	7,841	7,997	8,192
Impôt Duties Wine	8,763	9,278	9,360	9,483
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Impôt Duties Beer	6,398	6,772	6,832	6,923

;

(b) to refer to their Act dated 30th September 2016 and to approve the application of existing resources for work on the development of 'user pays' charges in relation to all aspects of waste, including commercial and domestic liquid and solid waste;

(c) to approve the proposed Changes to Approval for financing/borrowing for 2024, 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 approvals;

(d) to approve the extension of the use of the existing Revolving Credit Facility to include the provision of funds that would otherwise be implemented through bank overdraft or bank overdraft facilities under Article 26 (1)(a) of the Law, should they be needed, subject to the limits outlined in that article;

(e) to approve the transfers from one States fund to another for 2024 of up to and including the amounts set in Appendix 2 – Summary Table 3 in line with Article 9(2)(b) of the Law;

(f) to approve a transfer from the Consolidated Fund to the Stabilisation Fund in 2024 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 31 December 2023 in excess of the estimates provided in this plan, or from budgeted underspends identified before 31 December 2024;

(g) to approve each major project that is to be started or continued in 2024 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;

(h) to approve the proposed amount to be appropriated from the Consolidated Fund for 2024, 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, except that, to accommodate a drop in States income caused by freezing the Impôt Duties for Spirits, Wine, Cider and Beer –

    (a) the Head of Expenditure for the Central Reserve shall be reduced by £1,045,000;

    (b) the Head of Expenditure for the Cabinet Office shall be reduced by £721,000; and,

    (c) the Head of Expenditure for the Economic Development, Tourism, Sport & Culture shall be reduced by £324,000;

(i) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2024 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 6 to the Report;

(j) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2024 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;

(k) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2024 as set out in Appendix 2 – Summary Table 8 to the Report; and

(l) to agree that, from 2025, the hospitality sector should be supported through a separate lower Alcohol Duty rate, or receive a rebate or similar measure to mitigate any future increases in Alcohol Duty, and to direct the Minister for Treasury and Resources to bring forward the necessary legislative and administrative changes for debate by the Assembly during 2024; and

(m) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2024-2027, as set out at Appendix 3 to the Report.

REPORT

The Government Plan 2024-2027 (the Government Plan) proposes to increase alcohol duty by 8.9% and fuel duty by 10.9%. During the course of its review the Economic and International Affairs Scrutiny Panel (the Panel) has received submissions that indicate that this will have a detrimental impact upon the Island's economy, predominantly through placing unacceptable burden upon the hospitality sector.

This amendment therefore proposes to freeze alcohol duty in order to provide support to the hospitality sector, and Island's economy more generally. This amendment also proposes that the Minster for Treasury and Resources brings forward a means by which a separate alcohol duty rate or rebate could be provided to the hospitality sector in future.

Rationale

During its review of the Government Plan the Panel received submissions from the Jersey Hospitality Association, Randalls Jersey and Institute of Directors that highlighted potential impact of increases in duty on fuel and alcohol, identifying that these will impede the growth of, or deplete, the hospitality sector, or indeed lead to business failures.

Having discussed the topic with the Jersey Hospitality Association, the Panel understands that imposing duty at the point of import or production has a compounding effect as to the end price of the product, impacting upon the business and both local and visiting consumers.

The Institute of Directors also shared the following views:

> *"The Plan infers that duties on alcohol and fuel serve to address the health of islanders and address environmental issues. Whilst we recognise that these are understandable reasons, there has been little collaboration with industry to assess the impact on business. The impact on business of these duties will be to increase prices. This, in turn, will impact the quality of life of islanders which appeared to be the main driver of the Government Plan with the foreword stating, "it puts the needs of Islanders first and supports hard-working individuals and families""*

The Panel is aware that the Business Tendency Survey report for June 2023 outlines that the outlook for the hospitality sector remains relatively negative, particularly in input costs, profitability, business optimism and business activity:

Hotels, restaurants, and bars

	2018	2019				2020				2021				2022				2023	
Indicator	**Dec**	**Mar**	**Jun**	**Sept**	**Dec**	**Mar**	**Jun**	**Sept**	**Mar**	**Mar**	**Jun**	**Sept**	**Dec**	**Mar**	**Jun**	**Sept**	**Dec**	**Mar**	**Jun**
Business Activity	**-16**	**-27**	**-23**	**-4**	**-7**	**-42**	**-100**	**-44**	**-98**	**-72**	**-15**	**40**	**-14**	**11**	**28**	**19**	**-23**	**-4**	**-30**
New Business	-27	-20	-27	-10	-18	-45	-100	-50	-84	-51	-7	30	-22	16	33	4	-19	-4	-16
Capacity Utilisation	-25	-24	-28	-5	-12	-44	-87	-65	-80	-78	-40	14	-20	-29	3	7	-30	-35	-20
Input costs	-70	-83	-75	-68	-72	-47	20	-38	-13	-20	-84	-92	-88	-83	-100	-95	-89	-93	-98
Product prices	23	58	38	35	47	8	-36	-22	-36	-16	57	49	33	55	53	64	68	69	58
Profitability	-46	-39	-15	-31	-39	-62	-100	-85	-94	-83	-63	-29	-48	-11	-35	-31	-62	-56	-77
Employment	-15	-19	-12	-13	-14	-25	-85	-44	-43	-45	-27	-4	-33	-21	11	12	-17	-12	-5
Business optimism	-35	-8	-12	-16	-10	-78	-89	-80	-94	-16	-18	13	-27	-9	-3	-30	-39	-11	-48
Future business activity	-37	25	5	-41	-5	-49	-62	-71	-79	44	23	-22	-4	25	21	-8	-37	23	3
Future employment	-26	22	-15	-36	-10	-35	-42	-63	-38	37	7	-9*	-2	34	9	-12	-19	39	1

During the course of its consideration, the Panel requested confirmation of the impact of increased duty on the Island's economy, with the Minister for Sustainable Economic Development (the Minister) indicating that he had been engaging with the hospitality sector and taken discussion forward to the Minister for Treasury and Resources, with options remaining under consideration by the Council of Ministers.[1]

The Panel is cognisant of the Public Health arguments for these duties, and understands it to be Government of Jersey policy to increase them. However, further review is needed, noting the Jersey Hospitality Association views that any increase in alcohol duty will likely increase off license and duty-free sales pushing people to drink within unregulated environments, a point also raised by Randalls Jersey.

In the course of its review the Minister informed the Panel that;

'Beer in the UK incurs 50p of alcohol duty on a standard pint (at 4.2% alcohol by volume), as well as 20% VAT on the selling price. The same pint in Jersey incurs 40p of duty and 5% GST on the selling price (if the beer has been imported from larger producers). Locally-produced beer benefits from a 50% reduction in the duty rate – so pays just 20p in alcohol duty on a standard pint.' [2]

Yet the Jersey Hospitality Association has highlighted that Jersey differs from the UK in charging higher rates of duty for, and within, different categories of alcohol (including beer) depending on alcoholic percentage, and that beer is not the main alcoholic beverage sought or served in many hospitality establishments in Jersey. The Jersey Hospitality Association informed the Panel in its submission of 17th November 2023 that:

'In the past 10 years, duty rises in Jersey have increased by 51.4%, compared to 12% in the UK, making Jersey 37% more expensive than the UK. When choosing where to take a holiday, visitors will compare the cost of coming here with other destinations and if we are set to reach a £10 pint, then it is difficult to see a future for many businesses here.' [3]

The Panel understands that during the recent Autumn statement the UK Chancellor has announced that UK alcohol duty will be frozen until 1 August 2024, which will potentially further increase this gap.

Following consideration, the Panel believes that a freeze to the duty imposed on alcohol is required to provide direct and immediate support to the Island's economy at a time of economic uncertainty. In the short term, this will provide monetary relief, or at least lack of increased costs on these products, for the hospitality sector as well as other industries including retail and the wider public.

Upon questioning, the Panel has been informed that separation of Impôt Duties for the hospitality sector, or a rebate system, would likely be administratively burdensome for both the Government of Jersey and businesses. The Panel acknowledges that attempting separation at this time would prove challenging and has concluded the Minster for Treasury and Resources should be requested to bring forward proposals for a separate alcohol duty rate or rebate for the hospitality sector in the future. The Panel understands that the Minister may then consider alternative means of taxation of the hospitality sector.

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[1] Letter - MEDTSC to EIA re Government Plan follow up - 22 November 2023

[2] Letter - MEDTSC to EIA re Government Plan follow up - 22 November 2023

[3] Submission – EIA Proposed Government Plan 2024 – 2027 Review – Jersey Hospitality Association – 21 November 2023

Conclusion
The Panel is concerned at the low business optimism in the hospitality sector and believes that direct support through lower duties is required at this time. The Panel further believes that a separate level of alcohol duty, or a rebate or similar measure to give this effect, should be implemented in future years.

Financial and staffing implications

The Panel has been informed that removing the proposed alcohol duty increases will lower predicted revenue by £2,090,000. The Panel has considered various ways to meet requirement to maintain a balanced Consolidated Fund. The Panel proposes that half of the requirement is met through the Central Reserves. Mindful that reducing the reserve will risk being unable to meet unforeseen expenditure, including inflation, the Panel proposes that the remaining funding requirement is achieved through proportional reduction in the heads of expenditure of the Cabinet office and Economic Development, Tourism, Sport & Culture. The Panel understands that this will have financial and staffing implications within departmental budgets following the reduction of their heads of expenditure. The Panel anticipates that the Council of Ministers will bring forward necessary arrangements, which may be in line with the existing Value for Money programme.

The Panel understands that there will be financial and staffing implications in producing the proposals to explore, bring forward and implement a means by which a separate alcohol duty rate, rebate or similar measure could be provided to the hospitality industry in future. However it has not been possible to ascertain figures at this time.