

STATES OF JERSEY

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PARISH RATES: THE STATES' LIABILITY (P.68/2008) – AMENDMENTS

Lodged au Greffe on 17th June 2008
by the Connétable of St. Helier

STATES GREFFE

PARISH RATES: THE STATES' LIABILITY (P.68/2008) – AMENDMENTS

1

For the words “Parish Rates” substitute the words “Rates”.

2

For the words “public buildings” substitute the words “public land and buildings”.

3

Delete the words “, and to increase the contribution by Parishes to the Island-Wide Rate by a commensurate sum,”.

4

For the date “2010” substitute the date “2009”.

CONNÉTABLE OF ST. HELIER

REPORT

After considerable delay the Minister for Treasury and Resources has lodged a proposition that the States should pay rates. Among the hundreds of propositions put forward in the 10 years of my membership of the States P.68/2008 must rank as among the most half-hearted and doomed to failure.

The Working Party's recommendations are that the States should pay Parish and Island-Wide Rates on 'public use' land, and that the States should absorb the additional cost, except where such costs are part of a charge recoverable from service users. What the Minister is proposing is that the States should pay only Parish Rates, and that they should claw this money back in a greater 'contribution by the Parishes' to the Island-Wide Rate. Ratepayers in St. Helier and to a lesser extent in St. Saviour would benefit from such an arrangement, but everyone else would be worse off. States members are effectively being asked to ask the ratepayers of 10 or 11 parishes to pay more in order that the ratepayers of one or two parishes should pay less. The Minister has done the maths and knows the likely outcome of the debate – P.68 will be defeated and he can wash his hands of the messy subject of the States paying rates.

It was suggested to the Minister that he withdrew his proposition and had further discussions with the Working Party that he set up, but he has declined to do so. This stance is all the more surprising when one considers the defects in the wording of the proposition itself. In the first place the word 'land and buildings' should be used in place of 'buildings', a defect which the second of my amendments seeks to remedy. (The Law uses the term 'land' which is carefully defined. In general, in forms and notes about rates, the expression 'land and buildings' is used.) Furthermore, it is illogical to request the States to increase the contribution by Parishes to the Island-Wide Rate (IWR) as the Parishes do not contribute to the IWR – they collect it on behalf of the States. Indeed, the proposition displays a fundamental lack of understanding of the operation and interrelation of the Parish Rates and the IWR.

The Minister has ignored the Working Party's recommendation that the States pay both Parish rates and contribute to the IWR. If the principle is accepted that the States should pay rates – and the Minister appears to accept this in the first line of the final section of his Report ('Proposal' – page 6)– there is no reason why the States should be treated differently from any other owner or occupier of land. This is particularly true if it is believed that the States should operate on a level playing field with the private sector: under the Minister's proposal, the operator of a private school, for example, would have to pay Parish Rates and the IWR at the Non-domestic level but a school run by the States would not pay the IWR. An added difficulty of the Minister's approach is that the computer systems operated by the Parishes are designed to prevent an individual who is paying the Parish rate from defaulting in payment of the IWR.

The Minister implies on page 3 under 'Background' that the Working Party tasked to address this subject took a year and a half to produce its report (between October 2006 and April 2008), whereas its final draft was made available to the Assistant Minister in July 2007. Some minor adjustments were made and typos corrected but it was signed off in August that year. It is, therefore, disingenuous for the Minister to claim that 'final approval (was) received on 8th February 2008.'

The report attached to the proposition is one of the weakest I have read. The Working Party's proposals are listed concisely on page 4, with clear statements of the reasons why the States should pay rates. These are reproduced below –

4.1 Proposal 1– that the States, like other ratepayers, should be liable for both Parish Rates and Island Wide Rates on all their properties.

(a) The Working Party is of the opinion that this course of action is the correct one for the following reasons:

- **The States should pay rates on an equity basis.**

The States operates as a competitor with the private sector in the provision of certain services, for example office facilities, management services, grounds maintenance etc. By not including an equivalent to the rates charge met by a private sector organisation, the States' operations are artificially subsidised.

- **The States should recognise the full cost of occupying property for comparative purposes.**

The lack of a rates charge skews comparisons with private sector service providers and public sector bodies in the UK when benchmarking on performance indicators.

- **The States should recognise the full cost of occupying property to improve strategic decision making.**

By not recording the full cost of occupying property, the States are hampered when making decisions on property usage.

- **The States should pay Parish rates to meet the cost of Parish service provision.**

Parishes incur costs associated with the occupation of buildings that are normally recovered through rates. In particular, the Parish of St. Helier faces an opportunity cost of foregone rates when the States takes possession of a building that was in the private sector (e.g. Morier House), without any reduction in the Parish cost base.

- **The States should pay their share of the Island Wide Rate.**

The States, by not contributing to the IWR, requires a higher level of contribution from the parishioners of all Parishes than would otherwise be the case. A commensurate States contribution would provide scope for a reduction in the rates demanded from all parishioners.

The Minister's response to this is contained under the heading 'Counter position' – in itself a curious phrase in this context when we recall that this Working Party was set up by the Minister himself and staffed by the Treasury and Resources Department – in two short paragraphs, the arguments in which can be summarised as follows –

According to the Minister, the State paying rates –

- 1 'achieves no net efficiency gain to the wider public sector'
- 2 'has a marginal increase in overall administration costs'
- 3 '(will impact) on service provision'.

The first point can be rebutted by referring to the recommendations of the Working Party: States' service delivery is artificially subsidised, cannot be properly benchmarked with local private sector or UK public sector service delivery, and States decision-making on property usage is hampered by the fact that the full costs of its property holdings are not taken into account. Increased efficiency will be one result of the States paying rates because it will enable the States property portfolio to be managed more effectively and with more realistic assessment of revenue budgets.

The second point is debateable – surely the information systems in States departments can manage to remit an annual rates payment? Or did the Minister mean 'negligible' rather than 'marginal'?

The third point raises the all too familiar spectre which confronts anyone who suggests that departmental revenue budgets should be trimmed. For several years now, and in spite of dire predictions of service cuts, States departments have shown themselves able to make efficiency savings, and there is no reason to think that further savings cannot be made. In any case, if there are – and I believe the Working Party has shown this to be the case – good reasons for States departments to fulfil their obligations by paying rates, it is no more acceptable for the States to object, than it would be for a private business to do so.

Perhaps aware of the paucity of these arguments, the Minister proceeds to spend three paragraphs playing the centuries-old political trick of trying to drive a wedge between the Parish of St. Helier and the rest of the Island: if the States were to pay rates, the Minister argues that St. Helier would benefit in relation to other parishes which would be inequitable. The Minister appears to forget that for decades the ratepayers of St. Helier bore an unequal proportion of the burden of welfare payments, with the equalisation of the payment for non-native welfare only occurring in May 2006. Addressing 'the position of St. Helier' was one of the objectives of P.40/2004: 'Relationship between the Parishes and the Executive' and the Working Party chaired by the then Deputy of Trinity, accepted that it was unfair that St. Helier ratepayers funded a range of public amenities including toilets

parks, gardens, street-cleaning and litter-bin emptying within the Parish, the majority of which are funded out of general taxation where they are provided elsewhere in the Island. It is the predicament of St. Helier ratepayers now that is inequitable, not the prospect of their being the main beneficiaries of the States paying rates.

The Minister concludes his 'Counter position' with two further arguments which he appears to believe reduce the States' obligation to pay rates –

1. Direct investment in St. Helier by the States (e.g. reclamation schemes) increases the rates paid to that parish.
2. Public sector activity in St. Helier leads to increased trade for small businesses and hence 'a higher level of rates take'.

The first point is a common misunderstanding about the operation of the rates system. The argument that St. Helier parishioners are set to benefit from a rates windfall as the bulk of the Island's development is to be concentrated in that parish is fundamentally flawed, as anyone who has attended a Parish 'rates' Assembly will know. The effect of increased rates income is to lower the amount per quarter, or 'penny rate' that is required to meet the Parish's expenditure. Increased development in St. Helier means increased rates income, but if that exceeds the cost of the extra services required there is no windfall to the Parish but a lower Parish rate will be set.

It is worth noting that despite the equalisation of native welfare payments achieved in 2006 by the creation of the IWR, St. Helier ratepayers of today still pay the fourth highest rates in the Island. What is more, had the States paid rates on 'public use' land (including buildings) last year, the position of St. Helier on the 'league table' of rate payments would probably only have been altered by one place.

Over the past decade the States of Jersey has been keen to endorse and implement policies which concentrate development, traffic, noise, et cetera, in St. Helier– how can they propose to deny this parish the rates income that is needed to maintain high levels of service and to lower the rates paid by St. Helier ratepayers in relation to those paid in other parishes?

The second point makes no sense at all: there is no link between increased trade for small businesses and the amount of rates paid. Or does the Minister mean that increased economic activity will lead to the creation of more businesses? If that is the case, the second argument is the same as the first and is similarly flawed.

The last section of the Report returns to the supposed inability of States departments to pay rates. Although work on the 2009 Business Plan is well advanced, Ministers have known for some considerable length of time that it was feasible their departments would become liable to pay rates and should have planned accordingly. They had a clear steer from the Machinery of Government Review (P.40) in 2004 and a report by the Finance and Economics Committee the following year; at that stage more time was bought by the claim that the issue of the States paying rates could not possibly be debated until the 'economic effects of the Fiscal Strategy are clearer and the IWR debated, accepted and implemented.' One year later, in 2006, the States adopted my amendment to the Strategic Plan requesting **firm recommendations** on this matter be brought forward later that year. Subsequently the Minister for Treasury and Resources set up a working group and committed to bringing forward **firm recommendations** one year later, in 2007. The Working Party's proposals were actually completed in the summer of 2007, and the Council of Ministers should have included the matter in their work on the 2008 Business Plan, even if there appears to have been no hurry on the part of the Minister to bring forward his **firm recommendations** as agreed in the Strategic Plan.

There is no excuse for delaying implementation of this long overdue measure until 2010, indeed I understand that the original proposition from the Minister gave 2009 as a target date. However, according to the minutes of the Council of Ministers' meeting of 8th May 2008, "it was reported that the Bailiff had invited the Minister for Treasury and Resources to reflect on whether the changes proposed could be delivered in 2009. Having considered the matter, the Minister for Treasury and Resources had decided to lodge 'au Greffe' a revised report and proposition inviting the States to determine whether the recommendations of the working party should be adopted with effect from 2010." (As an aside, it should be pointed out that P.68/2008 does not contain the recommendations of the working party.)

If one accepts the findings of the Working Party – as the Minister says that he does, albeit 'broadly ... on an equity basis,' on page 6 of his report– there is no good reason for delaying implementation of the Working Party's recommendations. The Minister cites 'already pressured States spending limits' as a good reason for further delay, but I suspect that if the States do decide that they simply cannot afford to pay the rates which the Working Party set up by the States has advised are due, owners of businesses in Jersey (some of which provide services in competition with the States) will protest at unfair competition, while individuals struggling to make

ends meet in the current economic climate will declare that they cannot afford to pay rates either!

The effect of these amendments, if approved, is that –

1. the States will have to pay both Parish and Island-Wide Rates;
2. the States will be unable to simply claw back via the Parishes a commensurate amount to offset Parish Rates, but States departments will have instead to make efficiency savings, increase fees where services are provided, and, where necessary, seek increased revenue budgets;
3. the States will have to pay their rates bills next year, in common with the rest of the Island's businesses and householders.

There are no manpower implications in the amendments.

The financial implications are set out in the Working Party's report, attached as an appendix to P.68, and are approximately £1.65 million per annum based on 2006 assessments, but the exact sums will, of course, be affected by the number of quarters assessed by the Island's Rates Assessors. Other factors include the level of Parish rates set by Parish Assemblies and the split between Domestic and Non-domestic IWR to be set by Regulations as recommended by the Supervisory Committee. Of particular relevance is section 4.2 of the Working Party's report –

4.2 *Proposal 2– that the additional cost to the States in meeting their rates liability should be contained within existing States budgets, except where such costs form part of a service whose costs are recovered in the form of charges to end users.*

- (a) In the United Kingdom, local and national government buildings are liable for National Non-Domestic Rates, subject to mandatory or discretionary relief, and the resulting costs are born by those organisations as part of their annual budgetary requirement.
- (b) The Working Party considered that, as an overriding principle, total public sector revenue take (taxation and rates) should not increase and that the States should seek to absorb the additional costs within its approved future funding envelope.
- (c) The Working Party was of the view that the States contribution should not be offset by a commensurate increase in the contribution to the IWR, which would have a 'neutral' impact on States finances.
- (d) Where those costs form the basis for the recharge of a service whose charge is limited to cost recovery (e.g. car parking, planning fees, etc.), such costs should be passed onto the end user to maintain a 'level playing field' position when comparing States services to comparable services provided by the private sector.
- (e) The proposal will have a distributional effect between ratepayers and taxpayers but it should not increase aggregate public sector expenditure (i.e. the combined expenditure of the States and all Parishes) above that required to provide the current level of services.
- (f) The Working Party did, however, acknowledge that each Parish has the autonomy to determine whether the States contribution was reflected in full as a reduction in rates charged to parishioners or employed to provide additional services. Ultimately, this would be for the relevant Parish Assembly to decide.
- (g) The net total additional cost to the States will be in the order of £1.65 million per annum at a 2006 cost base. This sum reflects the adjustment required to contributions by all ratepayers (including the States) to achieve the existing total rates yield.
- (h) The vast majority of the States contribution to Parish rates (around £568,000) will be received by the Parish of St. Helier, with a further £120,000 received by St. Saviour. No other Parish would receive more than £38,000.
- (i) On the 2006 rates base data, the estimated impact across Parishes of the States paying Parish rates is as

follows –

Table 1
Estimated Indicative States Contribution to Parish Rates by Parish

Parish	Parish Rates (£)
Grouville	4,070
St. Brelade	37,720
St. Clement	14,470
St. Helier	567,725
St. John	2,765
St. Lawrence	4,195
St. Martin	6,435
St. Mary	2,540
St Ouen	7,200
St Peter	29,785
St Saviour	119,975
Trinity	7,730
Estimated States Contribution to Parish Rates	804,610

Note:

This table shows what the position would have been in 2006 if the States had paid Parish Rates on all its properties (excluding any contribution in respect of IWR).

This illustration should not be regarded as a prediction of the specific benefits to Ratepayers or Parishes if the States were to pay Rates.

- (j) Parishioners would also benefit by not having to contribute a total of £845,390 to the IWR fund.
- (k) Thus, as noted above, the amount payable by the States in respect of Parish Rates is estimated to be £805,000. The States would also have to pay an estimated £845,000 for its IWR contribution, resulting in a total cost of £1,650,000 based upon the 2006 rates base data.
- (l) The above estimate assumes that the overall Parish revenue requirement and contribution to the IWR fund will remain constant, as there is no increase in their operating costs, and the States contribution results in a pro-rata reduction to all ratepayers (including the States).
- (m) Further detailed work is required to analyse the split between ministerial departments, however, departments that have 'property hungry' services, such as Health, Education and Transport and Technical Services, will bear the vast majority of the costs, either directly or through a recharge from Property Holdings.
- (n) The Working Party recognises the competing financial pressures within the States. The cost of implementing these proposals is not included in the current States forward financial forecast, but the Working Party considers that this should not, in itself, be a reason to delay implementation.