

STATES OF JERSEY



BUDGET STATEMENT 2010 (P.179/2009): SECOND AMENDMENT (P.179/2009 Amd.(2)) – COMMENTS

**Presented to the States on 1st December 2009
by the Minister for Treasury and Resources**

STATES GREFFE

COMMENTS

The Minister for Treasury and Resources strongly opposes this amendment on the following grounds –

- The States agreed additional funding in respect of Health and Social Services and environmental spend in the Annual Business Plan 2010. The Minister considered the various options to provide equivalent additional revenues, which are limited at this time, and has made the proposals to increases in alcohol and tobacco duties in order to fund this essential expenditure.
 - The additional funding for Health and Social Services Department amounted to £0.475 million for Adult Respite Care and £1.1 million for the Nurse Staffing Review, a total of £1.6 million in 2010.
 - Funding was also agreed in the Annual Business Plan 2010 for £2 million of environmental initiatives and the additional 3p per litre increase in fuel duty for 2010 provides £1.5 million of that funding – the balance is to be funded from the proposed VED.
 - The financial forecasts assume that an increase in Impôts duties broadly in line with inflation will be made each year equivalent to £1.15 million in 2010.
- The removal of all Impôts duty increases on alcohol, tobacco and fuel will have the effect of reducing States revenues and increasing the deficit by £4.25 million from £60.2 million to £64.45 million in 2010. This is against the clear advice of the Fiscal Policy Panel not to agree measures to increase the deficit at this stage, which would increase the challenge of balanced budgets in future years.
- The budget proposals for increases in Impôts duties on alcohol and tobacco are consistent with the objectives of the States Alcohol and Tobacco Strategies.
- The budget proposals are supported by the Health and Economic Development Ministers and also by the Council of Ministers.
- The comments of the Minister for Health and Social Services are expressed in a separate comment which highlights the arguments for duty increases on Health grounds.

Background

The principles behind the Impôts duty budget proposals are clearly explained in Chapter 6 of the Draft Budget Statement 2010. The principles are that the agreed States Alcohol and Tobacco Strategies encourage duty increases above the rate of inflation to reduce consumption. In 2010 there has been additional expenditure approved which require equivalent revenues to be raised.

The Minister has considered the limited number of options available at this time, consulted as required with the Ministers for Health and Social Services and Economic Development and also with the Council of Ministers, who all support the proposals.

The increases in alcohol duty are forecast to provide the following additional revenues in 2010 –

- £1.5 million from a 3p per litre increase in Impôts duty on fuel to provide a contribution, along with £0.5 million from the proposed VED, to fund the £2 million environmental spend agreed in 2010 Business Plan;
- £1.6 million from the additional increases in alcohol and tobacco duties, above inflation, are proposed to raise additional revenues equivalent to the £1.6 million for essential Health expenditure;
- £1.15 million as required in the financial forecasts based on assumptions of an RPI level increase.

The Deputy's amendment appears to suggest that increasing the forecast deficit of £60 million by a further £4.25 million in 2010 and future years is acceptable. Clearly this is not the case and is in fact irresponsible, as no alternative means of funding are suggested.

The States is able to draw on the Stabilisation Fund for reduced revenues as a result of the downturn but not as a result of varying its decision against agreed States policies. The impact would be a reduction in the Consolidated Fund balance of £4.25 million in 2010 and future years.

The Deputy contends that the duty increases are excessive, and focuses on the percentage increases in duty. However, the percentage increases in retail price are much smaller and the increases in retail price per unit are relatively small, for example, 2 pence on a pint of beer.

Comparison of Increase in Duty -v- Retail Price

| | Propose Duty Increase | | Illustrative Increase on Average Retail Price | |
|--------------------------|-----------------------|-----|---|------|
| | £.p | % | £.p | % |
| Litre of Whisky | 0.58 | 6.2 | 0.58 | 3.30 |
| Bottle of Table Wine | 0.07 | 6.2 | 0.07 | 1.80 |
| Pint of Beer | 0.02 | 6.2 | 0.02 | 0.70 |
| 20 King size cigarettes | 0.30 | 9.7 | 0.30 | 5.50 |
| Litre of unleaded petrol | 0.04 | 9.8 | 0.04 | 5.10 |

This comment does not focus on the implications of this amendment on Health grounds as these are succinctly covered by the Minister for Health and Social Services' own comment.

There are some apparent inaccuracies in the Deputy's report that should be clarified –

- Firstly, the Deputy quotes figures for increases in tobacco duty for 2004 as 12.1% when they were actually 21.3%. As a result they are not comparable, as the Deputy suggests, with those currently being proposed, nor should the

impact on importation or consumption levels therefore be assumed to be the same.

- Secondly, the Deputy uses misleading figures in relation to fuel prices. He suggests on page 6 that “Middle Jersey” will be asked to accept a 10% increase in fuel charges. In fact, no-one will have to accept a 10% increase in fuel charges. The Deputy confuses the increase in duty with the increase in retail price. The facts are that fuel duty is proposed to increase by 9.8%, consequently if the full increase of approximately 4 pence per litre is passed on to consumers the retail price of fuel should only increase by just over 5%.
- Finally, the Deputy suggests on page 5 that there is confusion in the figures and comparisons provided in the Budget Statement – this point was made to the Minister for Treasury and Resources who clarified the position, on 17th November, to the Deputy, well in advance of this Amendment being lodged.
- The Minister’s reply is provided as information for all States members –
 - *“To help inform the States Assembly a comparison of typical tax and duty levels for a range of excise goods in Jersey, UK, Guernsey and France have been included in budget books since the 2003 Budget.*
 - *The 2010 draft budget statement has continued with this practice and, as in previous years, it is made clear that all comparisons include both duty and tax where applicable.*
 - *The figures are calculated from prices that are based on a narrow range of sources, but are for equivalent products. There will be considerable price variations in each jurisdiction, especially for wine and beer.*
 - *For ease of reference all comparisons have been made in Sterling and converted from Euros where necessary.”.*

Financial impact

The Amendment proposes reducing States revenues for 2010 by £4.25 million. The amendment does not identify alternative measures to raise the lost revenues and therefore increases the proposed deficit from £60.2 to £64.45 million.

The budget proposals for increases in Impôts duty are in line with the principles agreed in the States Strategic Plan that additional expenditure should not be agreed without equivalent savings or matching income. A proportion of the increases in Impôts duty are intended to raise equivalent revenues to the additional expenditure of £3.1 million approved in the Annual Business Plan for adult respite care, nursing manpower strategy and environmental initiatives for recycling, energy efficiency and transport initiatives.

The scale of the projected deficits in 2010 (£60 million) and future years (£40 to £50 million) is such that it would be unwise to make that position worse in the short-term by reducing States revenues.