

STATES OF JERSEY



MINI-BUDGET (P.80/2022): COMMENTS

Presented to the States on 13th September 2022
by the Economic and International Affairs Scrutiny Panel

STATES GREFFE

COMMENTS

Background

P.80/2022 Mini-Budget 2022 (re-issue) was lodged on 2nd August 2022 by the Council of Ministers with an earliest debate date of 13th September 2022. The purpose of the Mini-Budget was to deliver on the Chief Minister's commitment to alleviate the impact of the cost-of-living crisis on Islanders.

A substantive review of the Mini-Budget and related propositions was launched by the Corporate Services Scrutiny Panel (CSSP). In addition, the Economic and International Affairs Scrutiny Panel conducted a complementary piece of work on the Government's assessment of the economic impact and the collaboration across Ministries to achieve a coherent position.

The Economic and International Affairs Panel was mindful that the CSSP Review's Terms of Reference (ToR) included the intention to:

Review the economic and environmental impact of the proposed package of support, including its potential to drive further inflation and impact policy.

For this reason, the Economic and International Affairs Panel concentrated its Terms of Reference (Appendix 1) specifically on the advice and input provided by the Minister for Economic Development Tourism Sport and Culture, Deputy Kirsten Morel, and the Chief Economic Advisor, Thomas Holvey, in the development of the Mini-Budget and what consideration had been given to the impact on businesses and the economy.

Given the specific terms of reference, the only witnesses called by the Panel were Deputy Morel and Mr Holvey. The Panel has also drawn on aspects of submissions provided by representative bodies to the CSSP, where relevant to its own review.

Summary

The stated focus of the Government was to act quickly in the face of the cost-of-living crisis and alleviate the impact on Islanders. In doing so it has looked to the short-term levers available to it.

The Panel acknowledges that this means that topics which this Panel is focused on – such as the current staffing crisis – were not viewed as central to the proposition by the Council of Ministers.

In the report accompanying the proposition the Council of Ministers outlined wider activities and work that it will undertake to support the specific fiscal measures that form the Mini-Budget. These measures form the main focus of the Panel's review.

The Panel's rationale in undertaking this work was to explore whether robust data and sound methodology had been applied to the development of the Mini-Budget, its economic impact and whether it included consideration of the business community.

The Mini-Budget was lodged by the Council of Ministers, however, it is not clear what level of Ministerial input there had been beyond that of the Treasury and Social Security Ministers and the Chief Minister – despite the direct impact that cost-of-living has on all aspect of Island life and, by extension, all Ministerial Departments.

On 24th August 2022, the Panel held a Public Hearing with the Minister for Economic Development, Tourism, Sport and Culture and the Chief Economic Advisor, to establish

their level of involvement in the development of the proposition before the States Assembly. The Panel was encouraged by Mr Holvey's evidence about his and his team's input to the development of the Mini-Budget, which is detailed later in this paper.

The Panel understood the new Government's impetus to move quickly but it is also the view of the Panel that the narrowed focus meant that opportunities to assist the business community were not explored fully and that the wider context of Government economic strategy was not considered. Further, the evidence provided by the Minister appears to be that the financial package in the Mini-Budget was not designed to tackle the causes or underlying issues of the Island's high cost of living on a longer-term basis but rather to deal with its immediate impact¹.

It was acknowledged by the Minister at the Public Hearing that because the Mini-Budget came out so quickly after the forming of the Government that there was little time for a 'concerted consultation process'².

However, some views had been gathered by the Corporate Services Scrutiny Panel in response to its call for evidence for its review. Among those submissions are some which point to a perceived lack of support in the Government's Mini-Budget, for businesses. The Jersey Hospitality Association highlighted that rising costs, recruitment and accommodation remain significant concerns for businesses of all sizes in the hospitality sector³. Both the JHA and an anonymised submission⁴ make the point that the Mini-Budget does not offer support to businesses or self-employed individuals and that the drop in Social Security contributions outlined in the proposition, while welcome, targets employees but there is no help for employers.

Again, while aware that the Council of Ministers might argue that business support was not the intention of the Mini-Budget, the Panel is keen to investigate further what help might be forthcoming in future to help Jersey's business community.

This paper has provided an early opportunity to flag areas of concern which the Panel very much hopes the Minister will go on to address during his term of office – if not within the forthcoming Government Plan.

A central theme that this Panel sought to establish during this short review, and one that it intends to return to over the course of its work, is an examination of the methodology, modelling and data which has been used to establish the Government's position and policies.

The Panel heard from the Minister that this Government, as its predecessors have done, is still trying to 'get on top of' the lack of Jersey-centric data⁵. The Panel looks forward to hearing more about the capability that the new Economics team are building under Mr Holvey's leadership⁶.

¹ [Transcript – Mini-Budget Review – Minister for Economic Development and Chief Economic Advisor – 24 August 2022 – p3](#)

² [Transcript – Mini-Budget Review – Minister for Economic Development and Chief Economic Advisor – 24 August 2022 – p11](#)

³ [Submission – Cost of Living Mini-Budget Review – Jersey Hospitality Association – 18 August 2022](#)

⁴ [Submission – Cost of Living Mini-Budget Review – Jersey Hospitality Association – 18 August 2022](#)

⁵ [Transcript – Mini-Budget Review – Minister for Economic Development and Chief Economic Advisor – 24 August 2022 – p10](#)

⁶ [Transcript – Mini-Budget Review – Minister for Economic Development and Chief Economic Advisor – 24 August 2022 – p10](#)

Methodology and modelling

During the course of the Public Hearing Mr Holvey provided an account of the modelling which had been done to understand the disposable income that would be expected in different households⁷.

“That work tried to ensure we understood what inflationary impacts were happening on each individual household within what they were spending by using the basket of goods and what pressures that they would like to see. But then also what the impacts would be on those types of households with different salaries, different types of income, whether that is income support or through salaried and waged areas, and ensure that we understood what the impact of these policies would be in terms of extra money into people’s pockets or reduction on a tax burden, which means that they keep some of that money themselves as well.”⁸

Mr Holvey said that the work had been delivered at pace and was done iteratively so that it was able to evolve alongside the changes to policy. He said that the data sources were drawn largely from Jersey Statistics and Fiscal Policy Panel assumptions.

As outlined in the Panel’s summary, a question mark remains on how and when this Government will source and use Jersey-centric data. Further, the Panel would, in due course, like to hear more about the use of emerging technologies in the development of modelling.

On a more general note, the Panel also intends to explore in more depth with the Minister how he aims to improve Jersey’s economic productivity and how he intends to measure that improvement, including any potential to produce targets for increased performance.

Minimum wage

The minimum wage and the instructions provided to the Employment Forum by the Minister for Social Security are among the wider activities outlined in the report to P.80/2022.

The Panel will be interested to see the outcome of the Forum’s recommendations to the Minister but also has some wider comments to make about future debate on the Minimum Wage and the move to the Living Wage which it hopes that the relevant Ministers will seek to investigate to ensure that – as well as providing equitable pay – all aspects of the impact on businesses are considered.

At the Public Hearing with the Panel, Deputy Morel told the Panel that, in his opinion, agriculture was the industry sector which would be most affected by the rise in the minimum wage or the move towards the implementation of the living wage. It also appeared from the responses provided by the Minister that he would support a broader discussion on the merits of a sector-specific approach to the minimum wage⁹.

The Panel is grateful for the detailed answers provided by the Minister in relation to agriculture and his desire to find ways to assist the industry in any transition to

⁷ [Transcript – Mini-Budget Review – Minister for Economic Development and Chief Economic Advisor – 24 August 2022 – p9](#)

⁸ [Transcript – Mini-Budget Review – Minister for Economic Development and Chief Economic Advisor – 24 August 2022 – p9](#)

⁹ [Transcript – Mini-Budget Review – Minister for Economic Development and Chief Economic Advisor – 24 August 2022 – p15](#)

implementing the living wage for all workers. It is an area that the Panel will continue to investigate with the Minister, particularly in relation to the Economic Framework for the Rural Environment¹⁰ which was published by the Department for the Economy in May 2022.

Over the course of this term of office, the Panel will be seeking further opportunities to explore the connections between minimum wage and living wage and the work undertaken by the Department for the Economy as part of its strategy development, to understand the impact on labour supply and competition in specific industries.

Rental levels

The report to the proposition states that:

“The Government will work with landlords and estate agent representatives to encourage them to agree to cancel, or reduce, rent increases in the short-term given the current cost of living issues.”¹¹

The inflationary impact of rising rents is acknowledged in the proposition.

The Panel’s interest in this area is two-fold. First, it notes that high and increasing rental costs will impact on people’s decision to live, work and remain in Jersey – and there will be a consequent impact on labour supply. Second, any increase will be reflected in commercial property as well as residential, which will increase costs for businesses generally.

What remains unclear to the Panel from its Public Hearing with the Minister for Economic Development is whether the ‘encouragement’ to cancel or reduce rental increases will have any real impact, beyond hoping that landlords will take heed.¹²

The Panel considers that the proposed measure is not aimed at reducing long term trends which would help to keep people living and working in Jersey and, equally, it does not acknowledge that for some landlords, passing on the increased costs of maintenance and higher interest rates may not be something that they can avoid.

To this end – and acknowledging the limits of this review – the Panel’s intention is to revisit the relationship between accommodation and the staffing crisis with the Minister when it examines the Outline Economic Strategy and associated sector-specific frameworks (both published and forthcoming) in more depth.

Postponement of GST registration for offshore retailers

The Panel examined Part e of the proposition with the Minister, which seeks to postpone GST registration of offshore retailers. The proposal is a fiscal measure but the Panel was interested to know what broader economic context there might be to this move and whether it would have any impact now, or in the longer term, for Island businesses.

The Chief Economic Advisor described the postponement as a continuation of the status quo¹³ and, in the view of the Minister, would, therefore, have no direct economic

¹⁰ [Economic Framework for the Rural Environment \(gov.je\)](#)

¹¹ [p.80-2022 \(re-issue\).pdf \(gov.je\)](#) (p10)

¹² [Transcript – Mini-Budget Review – Minister for Economic Development and Chief Economic Advisor – 24 August 2022 – p25](#)

¹³ [Transcript – Mini-Budget Review – Minister for Economic Development and Chief Economic Advisor – 24 August 2022 – p13](#)

impact.¹⁴ The Panel learned that there would be an estimated loss of revenue of £750,000.

As with other aspects of the Mini-Budget, however, the Panel heard that, partly as a result of the time-constraint in producing and lodging P.80/2022, no consultation had been carried out on the postponement with local or offshore retailers to gauge potential impact.

On this last point, and while appreciating the reluctance to survey businesses on a postponement of GST registration, which will maintain the current position, the Panel will, in due course, revisit this matter. It is encouraged by the Minister's view that local retailers need a 'level playing field'¹⁵ and will seek to establish how he intends to achieve that.

Conclusion

The purpose of this review was to investigate how much input the Minister for Economic International Affairs had in the development of the Mini-Budget and establishing how much consideration had been given to the economic impact the proposed measures would have.

The Mini-Budget is a short-term set of measures and has not been designed to address longer term issues such as staffing shortages or the impact on businesses. It will be for the States Assembly to decide whether it was sufficient to alleviate the cost-of-living crisis for Islanders, but for the purpose of this review, it is fair to conclude that the wider impact of the areas contained in the report to the proposition (such as minimum wage) which fell under its remit were not considered in depth by the Council of Ministers in developing the Mini-Budget.

Nevertheless, there are issues raised in the report and which were discussed during the Public Hearing which require coherent action from the Council of Ministers to produce longer term solutions than could have been delivered in a Mini-Budget devised at speed by the new Government.

The Panel is keen to find out how a number of the areas fit into the context of the Outline Economic Strategy for Jersey and will continue to pursue these topics with the Minister.

Potential areas to explore are:

- a more comprehensive examination of the proposed conversion of the minimum wage to the living wage and its impact across different industry sectors
- regulation of the rental sector
- examination of class 2 contributions and their impact on small businesses
- the strategy for subsidy and support for industry sectors being developed, particularly in relation to agriculture.

The Panel will, as outlined in its earlier summary, be keen to understand the methodology and modelling which underpin the Minister's decision-making and will also seek to understand departmental target-setting.

¹⁴ [Transcript – Mini-Budget Review – Minister for Economic Development and Chief Economic Advisor – 24 August 2022 – p13](#)

¹⁵ [Transcript – Mini-Budget Review – Minister for Economic Development and Chief Economic Advisor – 24 August 2022 – p13](#)

The Panel has welcomed the opportunity provided by the Mini-Budget to establish areas of interest and concern with the Minister for Economic Development.

Appendix 1

Terms of reference

The terms of reference for the review were:

1. Establish the consideration given by the Minister for Economic Development, Tourism, Sport and Culture to the economic impact of the measures outlined in P.80, including his view of and input into:
 - a. part e of the proposition, namely: postponing the commencement of the obligation for offshore retailers to register under the Goods and Services Tax (Jersey) Law 2007 from 1st January 2023 to 1st July 2023.
 - b. The understanding of the potential impact of an increase in minimum wage and, additionally, wider consideration of the implications of delaying an implementation of the living wage.
 - c. Whether the commitment to encourage landlords to cancel or reduce rent increases in the short term will have sufficient impact on the cost of accommodation and, therefore, the current staffing crisis.
2. Establish the view of the Chief Economic Advisor of the impact that the measures will have on the economy, with respect to the foregoing matters, in both the short and the long term and the methodology used to establish these views.
3. Gather information not outlined in the CSSP Terms of Reference in order to enhance the evidence gathered by Scrutiny and to provide data which may inform future, broader reviews by the Panel of the Island's economic strategy.