

STATES OF JERSEY

Corporate Services Panel – GST Hearing

THURSDAY, 3rd AUGUST 2006

Panel

Deputy P.J.D. Ryan (Chairman)
Connétable D.J. Murphy of Grouville
Connétable J.L.S. Gallichan of Trinity
M. Haden (Scrutiny Officer)

Witnesses

Mr. R. Shead (Jersey Chamber of Commerce)
Mr. A. Goodyear (Jersey Chamber of Commerce)
Advocate P. Mourant (Lloyds TSB Foundation)
Mr. D. Beaugeard (Lloyds TSB Foundation)
Mr. S. Mourant (Jersey Mencap)
Ms. S. Moore (Jersey Mencap)
Mr. N. Truscott (St. John's Ambulance)
Dr. G. Purcell-Jones (Jersey Hospice)

Deputy P.J.D. Ryan:

Thank you very much for your time this morning. Good morning to you from Corporate Services Scrutiny Panel, we are reviewing the various GST proposals. Our terms of reference are pretty wide so we can talk about anything we like to virtually do with GST, but I do need to just go through the formal part first of all, and you have a copy of a statement in front of you that I am going to just make to you. The panel's proceedings are covered by parliamentary privilege through Article 34 of the States of Jersey Law 2005 although at present this privilege only extends to Members of the States. As a result you are protected from being sued or prosecuted for anything said during this hearing although this privilege clearly should not be abused. The proceedings are being recorded and transcriptions will be made available on the Scrutiny website. Having said that if there are matters of detail or inaccuracies in what you have said that come on in the transcripts then please feel free to correct them and we will see that that happens. Sometime things are lost in the transcription in some way. The first thing I want to ask you is whether -- we have got individual charities, have we got ...?

Dr. G. Purcell-Jones (Jersey Hospice):

Jersey Hospice Care.

Mr. S. Mourant (Jersey Mencap):

Jersey Mencap.

Mr. N. Truscott (St. John's Ambulance):

St. John's Ambulance.

Deputy P.J.D. Ryan:

All charities of some standing and size. We asked the previous people that were called to the hearing, TSB Foundation, as to whether they felt that charities had fully understood what was currently proposed with the treatment of charities for GST. Perhaps you do now, but do you feel that, you know, it has been a little bit late in coming? Let me ask that question. Do you first of all, Dr. Purcell-Jones?

Dr. G. Purcell-Jones:

There has been a very late groundswell is the way it has been described to me in that there was an assumption among charities that GST would not apply to us based on, I suppose, the fact that many of us assumed that we would be following the UK model where VAT exemptions have been applied to charity, and also in the initial draft there was an indication in the policy document that was released that some consideration would be given to charities. It was not specific and it is only on a late course, and there does seem to have been a communication failure somewhere which was evident in the previous submission was that communicating with charities does appear to be difficult to get the message through to everybody. We certainly found out about this late and certainly our submission has been rather hurried and because the consultation process is maybe e-commerce and internet can be blamed. It has been put up there and everybody assumes that you have read it.

Deputy P.J.D. Ryan:

Have you had the chance to take full professional advice, accounting advice?

Dr. G. Purcell-Jones:

Yes, we have. Our treasurer is a partner in a large accountancy firm and has given us advice. But even he is not sure of the implications because of the wording and the drafting of the law itself. It is not clear to us, so we have presented in our submission what I would call a worst case scenario which could be even worse depending on what the outcome of the deliberations are.

Deputy P.J.D. Ryan:

I think you are making 2 points. One is false sense of security being implied in the original documentation.

Dr. G. Purcell-Jones:

Correct.

Deputy P.J.D. Ryan:

And second point is a lack of clarity as to who represents Jersey charities and the voluntary sector in general terms a co-ordinating body?

Dr. G. Purcell-Jones:

There has been a lack of co-ordination, I would say.

Mr. S. Mourant:

I would agree entirely. We only heard by word of mouth really and certainly have not had time to put a proper financial case together. We know perhaps what figures it will affect Jersey Mencap but in the meantime our accountant has decided all this is getting too much, where he was honorary before he has now resigned the post. The question put to him on GST is the final straw. I certainly had not heard anything until Sue had heard about it. In fact, David did ring me up when I was away so as soon as I got a word all this --

Deputy P.J.D. Ryan:

I am coming to St. John Ambulance in a second, but you are one of the larger charities as is the Hospice, the comment was made previously that in general terms the finances of charities are what one could politely term as fragile.

Mr. S. Mourant:

I would agree. We are finding it more and more difficult. We are losing at the moment about £46,000 a year. We have been lucky. We have built up a -- there was a good sum of money which we have been utilising to buy houses, et cetera, but at the current rate we are down because there is less donations coming in, roundabout £46,000 a year, and we cannot continue that much longer. We run this self-advocacy service which is completely independent of any States body and that is costing us £56,000 a year. So we are finding it very difficult and it is going to get more and more, and one of the big problems we have got, and you will hear that from Les Amis when they come, because we are the parent body of Les Amis, I can tell you, is the supply of housing for people with learning disabilities once they come into adulthood. Mencap itself took out £1 million mortgage to buy 2 houses, 3 years ago, because the need was so great. Government just do not want to help. We are putting extreme pressure on them at the moment, as the Constable of Trinity will know the States own 2 semi-detached houses just behind the States farm which has been empty for 18 months. We have been trying to get those let to us and there is big discussions going on but they still will not leave those go. We are absolutely desperate for a house at the moment for 6 people to go in. The minute you find any to let, as soon as the owner finds out it is for people with learning disabilities they do not want to know, and that is the sad thing with society at the moment. We know within the next 5 years we have got close to 70 people going to have to be housed. There is an exercise going on at the moment now with Terry Le Sueur, he wants to know the true picture. But they have failed people with special needs in the latter years of not supplying at least a house a year. Les Amis do do the work of looking after them, great, with the support of TSB, but

the urgent need to look at the whole situation going forward. We are looking now, we had a meeting with our bank manager to see if there is any way that we can borrow another £600,000, self-funding on rent rebate to get a house at the moment to help out; to see if they would give us a special deal, we are halfway there, we have just got to know a bit more. So the true effect on GST on what we do, I cannot give you a real picture. I know the respite home which we run, you have had a copy of our submission, you can see that, which we get a grant of £130,000 a year, which incidentally was reduced by one and half per cent a couple of years ago by Health and Social Services which we thought was deplorable. We have had to pick up and pay the difference. This year it is going to cost us close to another £15,000 extra to fund the difference. The shop is the same thing. It is used extensively, whether people will still come and buy if we have got to charge 3 per cent. I am not clear in my own mind whether we have to put 3 per cent on what we import and 3 per cent on what we sell again. Nothing is really clear to anybody in this. All I would say, I would agree everything that the 2 gentlemen from TSB have said. They have been good supporters of Mencap in the past and the money they have supplied, if that would not have come forward there is a lot of help, especially in the health side of the Island, that would not be in place now. I just get worried that even from Mencap's point of view we find we cannot continue doing some of the things we are doing. Who is going to pick it up? Because there is going to be a limit when we are going to have to draw the line.

Deputy P.J.D. Ryan:

Again, so you have not had a chance to or your accountant resigned so you have not taken, sort of, specialist technical ...

Mr. S. Mourant:

No, we have not taken specialist views on it because we just have not had time.

Deputy P.J.D. Ryan:

In your view are many of the smaller charities any way in that kind of position where they have access to free accounting advice?

Mr. S. Mourant:

It is customary that accountancy is done on an honorary basis but I have spoken to another accountant and he does not want to hear of it because the constitution says it is audit, and because it is audit their insurance company will not cover it or put up the fees. There is too much danger of them getting sued if any little thing is wrong.

Deputy P.J.D. Ryan:

Can I move to St. John Ambulance for a second? Do you have anything to add? Do you have any particular different position to the other 2 charities we have been talking to?

Mr. N. Truscott:

We are clearly not in the same scale in terms of finance, however the issues that have been raised we would support. We came on board with it quite late, but we did some research in the UK of course and, presumably wrongly, assumed that we fit in with where they are in the UK.

Deputy P.J.D. Ryan:

Are you familiar with the UK system, which is charities -- it is not so much the charities that are zero-rated or exempted or what have you but the product lines or the particular medical supplies themselves as a blanket are exempted or zero-rated?

Mr. N. Truscott:

That is what we researched and that is what we assumed would happen.

Deputy P.J.D. Ryan:

So am I to assume collectively that you 3 charities would support zero-ratings and exemptions for what is being proposed in the way of medical supplies and all of those kinds of things under the current system because then they would be zero-rated to you as an input so you would not be suffering GST on any kind of medical supplies or medical services of any variety? Am I to believe that you would support, and that is the UK position, am I to believe that you would support that? Are you clear on what I am talking about here?

Dr. G. Purcell-Jones:

There is a caveat that I would like to add. You have said in one sentence zero-rating and exemption, and they are different. In my mind it is impossible to make a decision -- if everything in our submission comes true we would say that exemption would be appropriate because the worse scenario would be if donations, legacies and all cash transfers were charged GST and also there was what effectively was double taxation with transfers from one charity to another which effectively gives a 6 per cent rate for transfers which would be a disaster, then exemption would be the appropriate thing. But for the smaller charities there is a big issue in that it is administration costs and charities are desperately trying to keep - - we try to work with the UK Charity Commission guideline in terms of the amount of administration costs and we minimise them as much as we can and we stay as efficient as we can. I mean this would add a burden because would have to employ people to administer this aspect but the smaller charities would find that very difficult.

Mr. S. Mourant:

We only employ the self-advocacy officers and 2 more on a part-time basis.

Dr. G. Purcell-Jones:

And free accountancy time is becoming very, very hard to find.

Deputy P.J.D. Ryan:

So the administrative burden of operating GST, even if it was almost to be a neutral thing where you were able to claim back and then zero-rate out and all of those kinds of things, the administrative burden is a big one for charities is what you are saying?

Dr. G. Purcell-Jones:

Yes, but it also depends on whether the costs are transferred on to the client. If you are charging the client for a service and you could pass that cost on but if you cannot then there is a big difference between whether you are zero-rated or whether you are exempt because certainly Jersey Hospice Care would have to absorb the costs, so exemption would be more appropriate. Also because of the scale but that would not necessarily apply necessarily --

Mr. S. Mourant:

In our case with Les Amis when the majority of the people are funded by the States anyway this is ridiculous situation if you are charging them 3 per cent or double the GST at 6 per cent then it is got to come back from the States anyway. The low income support scheme is going to go through the roof - well, it is going that anyway.

The Connétable of Trinity:

That was what some people said this morning before you came in. They thought there should be GST on everything, right across the board and that the low income support was -- the idea of that being set up was to cover the shortfall and, you know, it would come that way to help on the lower scale. But, of course, your rent rebate you are getting on your houses is going into that low income support so you will not be getting that next year.

Mr. S. Mourant:

No, but it is going in the income support.

The Connétable of Trinity:

Yes, but you might not get the amount you are getting now.

Mr. S. Mourant:

Then there is going to be serious trouble.

The Connétable of Trinity:

It is a new basket of goods come.

The Connétable of Grouville:

Can I just come back to St. John's Ambulance? You seem to hint here that in the UK part of your training would have to comply with tax; why would that be?

Mr. N. Truscott:

Because we are a training provider.

The Connétable of Grouville:

So you are selling a service?

Mr. N. Truscott:

Yes.

The Connétable of Grouville:

I see. Fine.

Mr. N. Truscott:

This is the point here, to use the anatomical analogy, St. John has got 2 arms. We have got the operational arm where we are providing a backup in terms of provision of first aid cover at events, we have a memorandum of understanding with our colleagues in the States' ambulance service as a support to them in the times of major disaster, and that is adequately covered. So the provisional GST to support that in terms of purchasing of medical equipment, ambulances, and what have you, I think it would be remiss of me if I did not come here and say, "Could we be exempt from that, period?" However, that is only one arm. The other arm is where we provide a training service. We deliver training in order to teach people first aid and for that we charge.

The Connétable of Grouville:

You could not call that donations?

Mr. N. Truscott:

You could do because again here it is fair for me to say there is a surplus out of that which goes into the pot to help push out those ambulances and put bandages in bags and so on and so forth.

The Connétable of Grouville:

It just seems to me a bit -- you are leaving yourself rather open to the taxman saying, "Ah, I spot a little bit here, let us have a lot" and I would be inclined to structure yourself on the basis of being a complete charity as such as opposed to semi-autonomous training situation. It seems to me - if I just finish off because I might have to go, I have a funeral to go to later on - that the pressure I am getting is that the charities are all terribly disappointed in the fact that they have not been automatically exempted because of the work they do.

Deputy P.J.D. Ryan:

Well, that is where we are at the moment and it is early days yet, still.

Ms. S. Moore (Jersey Mencap):

I think for Les Amis and for Mencap there is more than the medical side of things, just zero-rating certain goods, a lot of it is just normal living. You know, it is the food, it is the social life of people with learning disabilities that we are involved in, so just exempting certain goods would not help that much.

Deputy P.J.D. Ryan:

Because your costs are food and normal everyday -- telephones and all of the other things?

Ms. S. Moore:

Yes.

Dr. G. Purcell-Jones:

Can I raise another point which is an important one in terms of exemption? That is that there is currently a threshold of £300,000, this will not help the small charities who will not necessarily be paying outward tax but they certainly will not be able to claim back input tax on any expenses that they incur, which may cause major problems.

Deputy P.J.D. Ryan:

But you can voluntarily register below £300,000.

Dr. G. Purcell-Jones:

But it is possible that they would have to volunteer, that would have to be taken into consideration.

Deputy P.J.D. Ryan:

Anybody below the £300,000 threshold can voluntarily register if they feel it is to their advantage to do that. That means they would then have to charge out on their outputs but they would be able to reclaim their inputs. I think that from your perspective -- I mean each charity, what we are finding, is a different set of aspects to be honest.

Dr. G. Purcell-Jones:

Can I raise another point that was just raised in the conversation with St. John is that there was a question of whether you could call something a donation, but in fact as far as I see the free services under section 3 regulation 2 will be charged. So you can call it what you like but that is where we need clarification what is a free service, because that can apply to all charities, all services, not just medical nursing, anything that you do for free could be charged. That is effectively trying to put a value on

something that is very difficult to put a price on.

Mr. S. Mourant:

The request question is government needs to ask itself; why are there so many charities? Why are there so many charities; because government has not supplied the needs of the people of the Island. So people have started up on their own, well, we have got to try and supply what government is not supplying. If charities go to the wall it is going to cost the government far more tremendous amount of money compared to what they are paying at the moment.

The Connétable of Trinity:

The problem is if they go to the wall the people who give their time freely will then be -- they will be employing people to do that job because the people --

Mr. S. Mourant:

Yes. You cannot carry on a charity and employing people unless you have got the funds coming in to do it.

Deputy P.J.D. Ryan:

I think we -- because some of our members have to go to some funerals and things, so I am going to call a halt to the proceedings now and thank you very much for your time this morning. I think you will likely be hearing from us as a scrutiny panel not in the form of another public hearing but possibly in the form of a private forum and workshop that would involve charities and funding providers, and also other government agencies in order to discuss this more fully. I thank you for the time this morning, it has been very enlightening.