STATES OF JERSEY

PROPERTY RATES AND THE STATES

Presented to the States on 18th July 2014
by the Minister for Treasury and Resources

STATES GREFFE

States of Jersey

Property rates and the States

July 2014

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Foreword – Minister for Treasury and Resources

The Constable of St Helier has brought propositions to the States Assembly on a number of occasions to propose that the States should pay rates on all of the properties it owns and occupies. In my comment to his most recent proposition on this subject, in 2013, I committed to consider how such a change could be funded, and to report back to the Assembly before this term of office finishes. I am pleased to be able to publish this report sooner than planned, in order to assist States Members with this difficult issue.

The States does not pay rates on properties which it both owns and occupies, although it does pay rates on properties where it is either the landlord or the tenant. While the majority of parishes lose comparatively small sums of money as a result, some are significantly disadvantaged by the concentration of States properties in their parish. This is most prominently the case for St Helier and, to a lesser though still material extent, St Saviour.

The States has taken action in the past to address inequalities between the parishes. The assumption of responsibility for welfare by the States in 2005 removed a significant burden from those urban parishes which had been bearing a disproportionate cost of supporting Islanders in need up until that point.

At the same time, the States has made very significant investment into St Helier which most Islanders would recognise as improving its environment, including a number of urban renewal projects – road safety improvements and pavement widening projects at Charing Cross, Broad Street and Conway Street – in addition to the development of the Town Park and the relocation of the bus station which opened up a significant new urban space at the Weighbridge.

I recognise the importance of St Helier’s position as the Island’s commercial capital and the parish with the largest amount of residential accommodation. Policies which are designed jointly between the States and St Helier to make the capital a good place to work, as well as to live in, are essential to the well-being of the Island as a whole.

It is expected that the Constable and/or other St Helier representatives will continue to bring forward proposals for the States to pay rates, and they should not be criticised for doing this.

At the same time, representatives of other parishes, in particular rural parishes which have a smaller number of States properties, have not accepted that the case has been adequately made that the States should pay rates. This issue has been long-standing and contentious and it is accepted that there is no agreement.

The purpose of this report is to:

1. Allow States Members and parishioners to be better informed about the potential cost of the States paying rates

2. Meet the commitment to consider how to fund the cost of this move

3. Identify a potential way forward

4. Set out a timetable for resolving this matter

Treasury and Resources finds itself in the challenging position of needing to respond to the inevitable requests from St Helier for the recovery of their costs relating to States properties in the parish, while at the same time recognising that other parishes would receive little benefit from such a change, although their ratepayers would be affected by any compensating rates measures.

Personally, as a former St Helier Deputy, I can see the justice in the argument that urban centres should not be penalised from having a large number of States properties. At the same time, as a Senator with an Island-wide mandate, I accept that there are broader issues which affect the Island as a whole.

Potential cost

In order for States Members and parishioners to properly consider this issue, it is important that they understand the figures involved. A considerable amount of work has been done by the rates assessors, together with Treasury and Resources, to establish a reasonable estimate of the potential cost to the States of paying rates. At approximately £900,000 per annum this is lower than other figures which have previously been suggested, and should help to inform the debate on this subject.

This work also highlights the importance of this issue to St Helier and St Saviour.

The potential revenue to St Helier of the States paying rates of approximately £600,000 represents approximately 10% of its current rates revenues; for St Saviour the £150,000 of additional revenues would represent a similar proportion of its rates charged.

Potential means of funding the cost of the States paying rates

The first question that must be considered is whether it is right that the States should pay rates on all of the properties it owns and occupies.

If this principle is accepted, then the next issue will be how this should be funded. While Jersey's public finances are in a strong position, we know that the next States Assembly will face a number of challenges, not least around how to fund the healthcare system that Islanders will require in the near future. These considerations will be informed by the publication of a long-term revenue discussion paper in advance of the Budget debate in September 2014.

One option open to the States Assembly could be to decide that the cost of the States paying rates should be absorbed by existing revenues. Given the known and increasing demands on

States spending, identifying an area in which to scale back expenditure in order to fund the payment of rates seems challenging.

For that reason, Treasury and Resources has investigated a cost-neutral solution to the States paying rates. The attached paper identifies a potential funding option which would see the increased income of the parishes being, for the most part, funded by the ratepayers of those parishes. Should the States decide to pay rates, this could be a workable way forward.

This report has been prepared in order to inform the debate on this long-standing and contentious issue. It will need proper consideration and measured and appropriate response from all sides. No decisions have been taken, and it will be for States Members to decide what is in the Island's best interests, with regard for the particular circumstances of the urban parishes of St Helier and to a lesser, but still important extent, St Saviour. Any proposal will need to be carefully considered, consulted on and informed by the facts.

Next steps

Although not a part of the Property Tax Review, any consideration of the rates system should be informed by its principles. The consultation period on the principles of the review will run until 31 December 2014. I therefore recommend that in the first quarter of 2015, when the responses to the consultation have been carefully considered, the new Council of Ministers should consult all interested parties in an attempt to find an acceptable solution. This should be done well in advance of the issuing of the Medium Term Financial Plan for 2016-19 in order to protect the integrity of the budgeting process.

In the meantime, there is more work to be done by those on either side of the debate. For its part, St Helier will need to be better placed to explain and quantify the additional cost of having the States in the parish, while those who do not favour a change will have to explain their views more clearly.

On a positive note, the Constable of St Helier has indicated that in the event that the States Assembly agrees that the States should pay rates on all of its properties, the additional parish revenue could be targeted at further improvements to the urban environment of St Helier, to the benefit of all Islanders. Similar commitments could be sought from the Parish of St Saviour to, for example, target road traffic improvements such as the development of safe walking routes to schools or to deal with the consequences of higher traffic in parts of the parish due to the concentration of schools there.

In conclusion, I committed last year to review how the States could fund the cost of paying rates on all of its properties. This information has been provided to allow States Members to better understand the issue and I hope it will prove useful for any future debates on this topic.

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I am extremely grateful to the Chairman of the Rates Assessors and all of the rates assessors for their hard work. Jersey is fortunate that so many experienced and dedicated people are prepared to offer their services on a voluntary basis, to the benefit of us all.

Philip Ozouf

Senator Philip Ozouf
Minister for Treasury and Resources
18 July 2014

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Section 1: Introduction

In his response to Proposition P. 40/2013, lodged by the Constable of St Helier in 2013, the Minister for Treasury and Resources acknowledged that he agreed in principle that the States should pay rates on all of their properties, provided that a measure could be identified to compensate the States for the additional cost incurred.

As a result, Treasury and Resources has been considering the potential cost of removing the current exemption from the States from paying rates on all of its properties, as well as identifying cost-neutral solutions for recovering the additional cost.

Potential cost

Based on the work done to date, the States liability in 2013 to parish rates would have been approximately £890,000. Assuming that rates increase in line with the Retail Price Index (RPI), a prudent estimate of the liability by 2016 would be approximately £950,000.

Cost-neutral ways of funding the States paying rates

In terms of recovering the £890,000, such that the change is overall neutral to the States, the Minister had previously indicated that the additional cost should be recovered through the property tax system. Jersey taxes property in a number of ways, but only the rates system allows for comparatively minor additional revenues to be raised in a stable and predictable manner.

This report has therefore considered ways of meeting the cost of the States paying rates through the Island-wide rate (IWR) system. Three options have been identified:

1. Increasing the IWR for both domestic and non-domestic (commercial) ratepayers

2. Increasing the IWR for non-domestic (commercial) ratepayers only, or

3. Increasing the IWR for domestic ratepayers only

Option 2, increasing the IWR for non-domestic ratepayers only, appears to produce the result whereby the amount of additional IWR payable by the ratepayers of each parish most closely matches the additional amount of revenue accruing to the parishes through the additional parish rate payable by the States. The impact on the parishes and on their ratepayers of each of these options is set out in further detail in Appendix 1.

Examples of how these options could affect ratepayers are set out in Appendix 2.

Treasury and Resources
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Section 2: Potential cost to the States of paying rates

Working with rates assessors, a reasonable estimate of the potential States liability to both parish rates has now been produced of £890,000 based on 2013 data. Assuming that rates increase in line with the Retail Price Index (RPI), a prudent estimate of the liability by 2016 would be approximately £950,000.

Rates assessors are continuing with their work to determine the potential liability; however it is not expected that the final figure will vary significantly from the estimate outlined above. The earliest that parish rates assessors would be in a position to charge the States rates would be 2016.

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Section 3: How rates are calculated

Two types of rates are charged in respect of property in Jersey, namely the parish rate and the Island-wide rate (IWR).

Parish rates

Parish rates are charged by each individual parish and approved by ratepayers at the annual Rates Assembly. Parish rates are set by each parish at a level which allows them to meet their spending needs for the forthcoming year.

Parish rates therefore vary from parish to parish, as can be seen below:

Parish	2013 rate, in pence per quarter
St Ouen	1.30
Trinity	1.15
St Helier	1.13
St Martin	1.12
St Mary	1.10
St Peter	1.10
St John	1.00
St Saviour	1.00
St Brelade	0.90
St Clement	0.88
St Lawrence	0.81
Grouville	0.71

Parish rates are charged to both the owner (foncière) and the occupier of a property at the standard rate applicable in the relevant parish.

Island-wide rate

The IWR was introduced in 2005 to raise revenue for the States to partially compensate it for the additional cost of removing responsibility for welfare payments from the parishes.

Total income from IWR automatically increases annually in line with the rate of inflation applicable at March of the previous year. 55% of the total IWR income is raised from domestic ratepayers and 45% from commercial ratepayers. These figures are then divided by the number of quarters in each category to arrive at the rate per quarter for each category for the particular year.

Although the total proportion of rates payable by commercial (non-domestic) ratepayers is less than that payable by domestic payers, because there are significantly fewer commercial quarters in the Island the rate per quarter charged on them is much higher. In 2013, the commercial IWR was 1.21 pence per quarter, while the domestic rate was 0.69 pence per quarter. In 2013, rates were assessed on 434 million commercial quarters, compared with 929 million domestic quarters.

Basis for establishing rateable value

Jersey rates are not calculated based on rental value. The link between rateable value and rent was removed in 2003, which is why Jersey rates assessments are expressed in "quarters" rather than another term. The objective of parish rates assessors at the time was to standardise rateable values across the Island, with the intention that properties with similar attributes but in different parishes should be assessed to the same amount of quarters. If a property's attributes change (for example, by adding parking spaces, additional bathrooms or the addition of an extension), then the rateable quarters will be increased.

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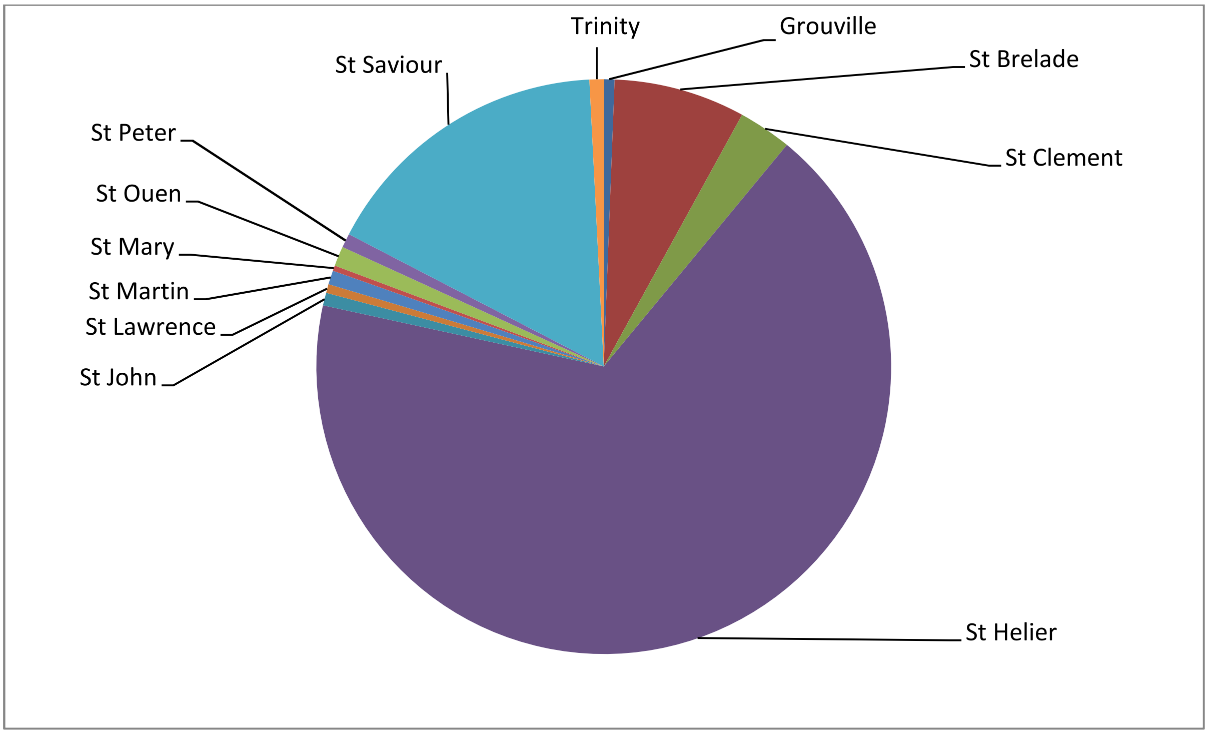
Section 4: Impact on the parishes' own financial positions

St Helier would benefit most from the States paying rates, with St Saviour and St Brelade much less so and the other parishes to a minor extent. Eight parishes would raise less than an additional £10,000 per annum.

Parish	Parish rate payable by the States at 2013 rates	Number of States properties per parish	Percentage of total States rates receivable per parish
St Helier	**£600,780**	125	67.5%
St Saviour	**£148,269**	41	16.6%
St Brelade	**£66,305**	44	7.4%
St Clement	**£26,520**	17	3.0%
St Ouen	**£9,527**	21	1.1%
St Martin	**£6,924**	26	0.8%
Trinity	**£6,894**	23	0.8%
St Peter	**£7,266**	14	0.8%
St John	**£5,949**	9	0.7%
Grouville	**£4,902**	11	0.6%
St Lawrence	**£4,841**	6	0.5%
St Mary	**£2,457**	7	0.3%
Total	**£890,633**	**344**	**100.0%**

Figure 1: Total States rates receivable per parish



Some increase in the cost of administering the IWR for the parishes would be expected, but it would be likely to be minor.

What would be more significant would be the increased administration from assessing the additional properties as rates are assessed and issued manually. This should be minor for most parishes but St Helier would be affected most as it has the largest concentration of States properties which would be charged rates for the first time.

Section 5: Island-wide rate payable by the parishes

Currently, the States collects the IWR from most owners and occupiers of property in Jersey, with the two main exceptions being the States and the parishes.

In the event that the States Assembly agreed that the States should pay rates on its properties, it would appear likely that there would be a parallel change so that the parishes then became subject to pay their share of the IWR.

The rates assessors will consider the net contribution to the IWR that would arise from this, but it is likely to be reasonably low. It has been estimated that St Helier's IWR liability would be approximately £20,000. As it has a much larger infrastructure than the other parishes, the other parishes' liability is likely to be much lower.

For the avoidance of doubt, this potential additional revenue from the parishes has been ignored when considering the options for recovering the cost to the States shown in this report.

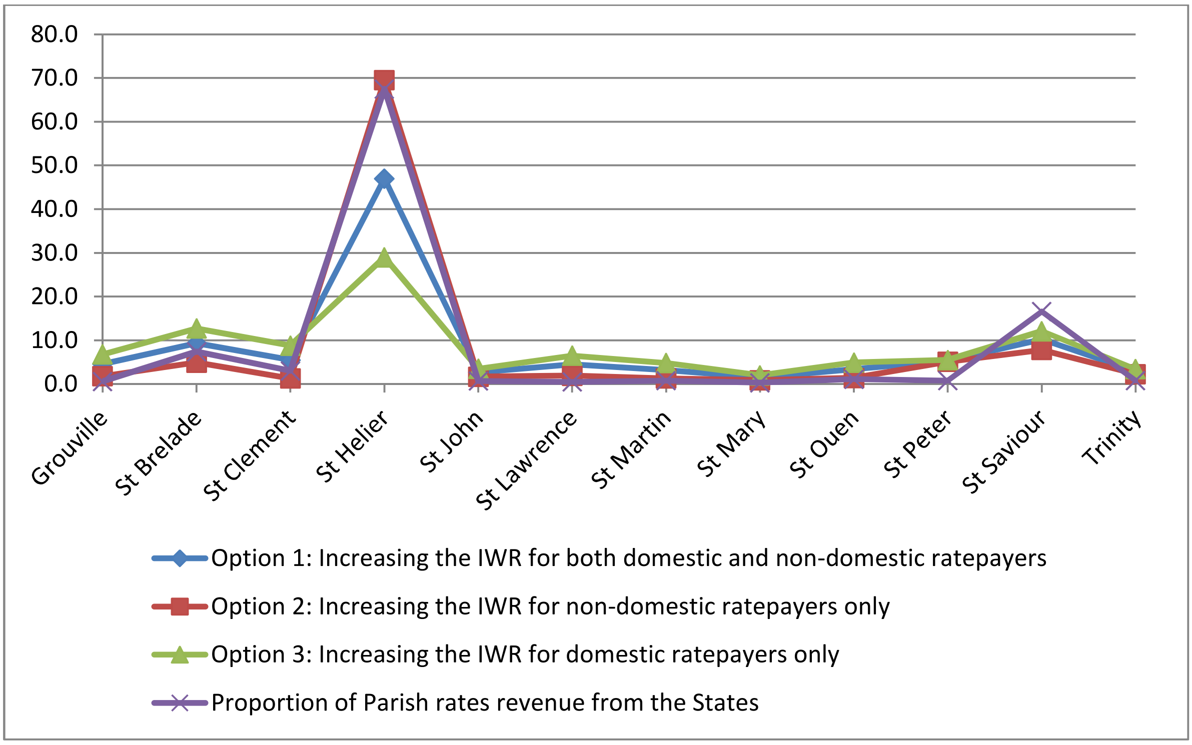
Section 6: Identifying a cost-neutral solution to the States paying rates

The three options for meeting the cost of the States paying rates through the IWR are as follows:

1. Increasing the IWR for both domestic and non-domestic (commercial) ratepayers
2. Increasing the IWR for non-domestic (commercial) ratepayers only, or
3. Increasing the IWR for domestic ratepayers only

The figure below shows the distributional impact of each of these options, and compares them to the additional rates income gained by each parish from the States paying rates on all of their properties.

Figure 2: Comparison of the relative impact of each of the options



This shows that in almost all cases, Option 2, increasing the non-domestic (commercial) rate only, produces the outcome whereby the additional rates payable by ratepayers of each parish most closely matches the additional income derived to that parish.

The distributional impact of each of the options outlined above is discussed in greater detail in Appendix 1.

Section 7: Practical issues

The process for notifying ratepayers, then assessing and collecting rates is a manual and labour-intensive process for the parishes. For a large holder of property like the States, checking each rates demand is a time-consuming and onerous process. It is estimated that Treasury and Resources currently spends three man months on dealing with its current obligations under the Rates Law. This will only increase if the States pays full rates unless changes are made to the way the parishes issue their notices. It is estimated that dealing with rates notices under a manual system would be a full-time equivalent job for one employee.

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Appendix 1: Potential impact of each of the options for meeting the cost of the States paying rates

The three options for meeting the cost of the States paying rates through the IWR identified in Section 6 are as follows:

1. Increasing the IWR for both domestic and non-domestic (commercial) ratepayers
2. Increasing the IWR for non-domestic (commercial) ratepayers only, or
3. Increasing the IWR for domestic ratepayers only

These are considered in greater detail below. The examples assume that the cost to the States of paying rates on all of its properties would be approximately £950,000 by 2016, assuming current rates rise in line with RPI in that time.

Option 1: Increasing the IWR for both domestic and non-domestic (commercial) ratepayers

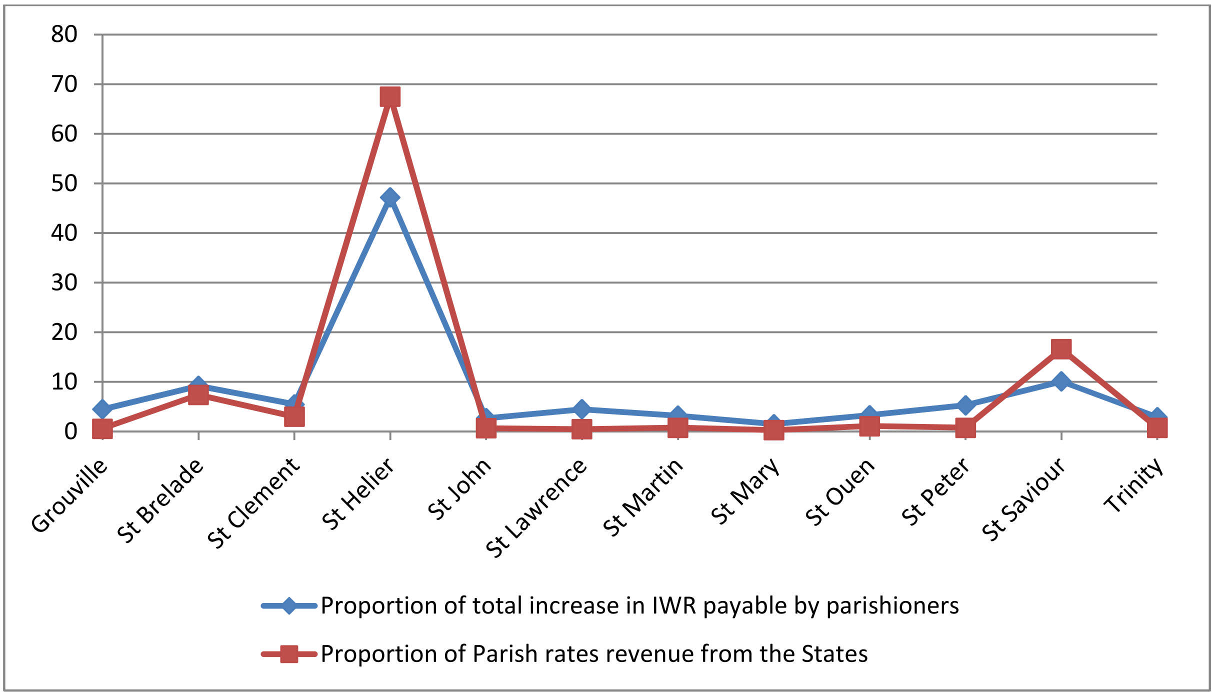
The IWR would rise by 0.057 pence per quarter for domestic and 0.1 pence per quarter for non-domestic ratepayers. This represents an increase of 8% over the 2012 IWR.

This would be paid for by the ratepayers of each parish as follows:

Parish	**Percentage of total increase in IWR payable by ratepayers of each parish**	**Percentage of total States rates receivable per parish**
St Helier	47.2%	67.5%
St Saviour	10.1%	16.6%
St Brelade	9.2%	7.4%
St Clement	5.5%	3.0%
St Peter	5.3%	0.8%
Grouville	4.5%	0.6%
St Lawrence	4.5%	0.5%
St Ouen	3.3%	1.1%
St Martin	3.2%	0.8%
Trinity	2.9%	0.8%
St John	2.7%	0.7%
St Mary	1.5%	0.3%
Total	**100.0**%	**100.0**%

How the additional rates payable by the ratepayers of each parish compares to the additional revenue earned by each parish through the States paying rates can be illustrated in the figure below.

Figure 3: Comparison of the proportion of additional revenue received by each parish from the States paying rates with the additional IWR charged to the ratepayers of each parish, under Option 1



The additional IWR would be paid by domestic and non-domestic ratepayers as follows:

Parish	Percentage of total increase in IWR payable by domestic ratepayers of each parish	Percentage of total increase in IWR payable by non-domestic ratepayers of each parish
St Helier	16.0	31.3
St Saviour	6.6	3.5
St Brelade	7.0	2.2
St Clement	4.9	0.6
St Peter	3.0	2.3
Grouville	3.7	0.8
St Lawrence	3.6	0.9
St Ouen	2.7	0.6
St Martin	2.6	0.6
Trinity	1.9	1.0
St John	1.9	0.8
St Mary	1.1	0.4
Total	**55.0%**	**45.0%**

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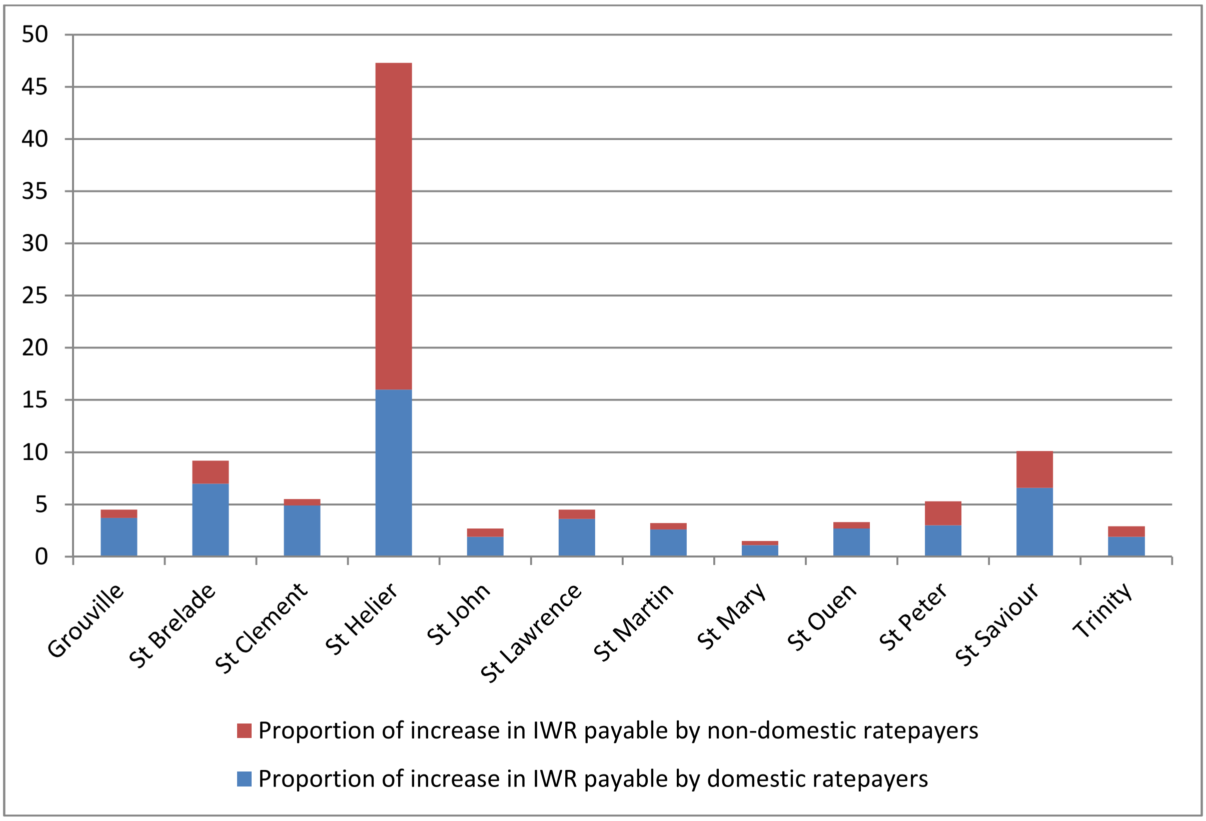
The IWR Regulations provide that 55% of IWR revenue should be raised from domestic ratepayers, with the remaining 45% from non-domestic ratepayers. In almost every parish, domestic ratepayers would bear more of the increase than non-domestic ratepayers, with the exception of St Helier. However, there are more domestic ratepayers than there are non-domestic ratepayers, so the burden would be spread more widely among domestic ratepayers.

Figure 4: Distribution of additional IWR between domestic and non-domestic ratepayers, by parish, under Option 1



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Option 2: Increasing the IWR for non-domestic (commercial) ratepayers only

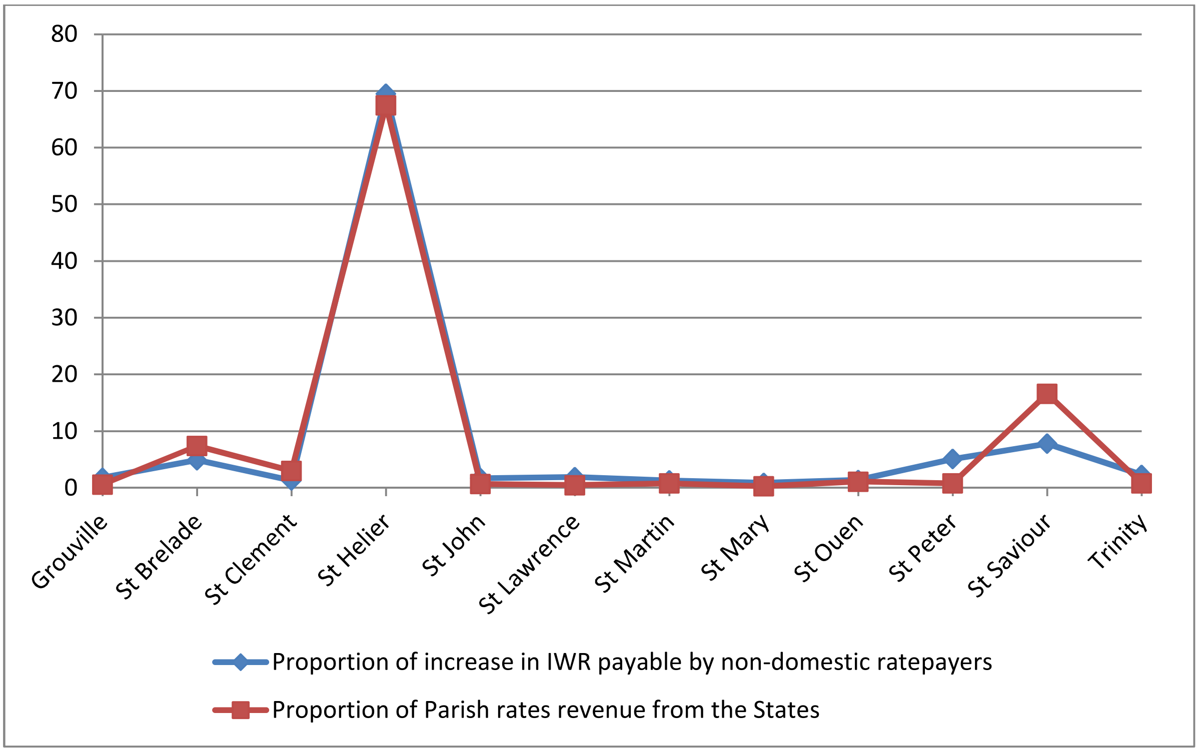
The increase would be 0.222 pence per quarter, an increase of 18% on 2012.

Parish	**Percentage of total increase in IWR payable by non-domestic ratepayers of each parish**	**Percentage of total States rates receivable per parish**
St Helier	69.5	67.5
St Saviour	7.8	16.6
St Peter	5.1	0.8
St Brelade	4.9	7.4
Trinity	2.3	0.8
St Lawrence	1.9	0.5
Grouville	1.8	0.6
St John	1.7	0.7
St Ouen	1.4	1.1
St Clement	1.3	3.0
St Martin	1.3	0.8
St Mary	0.9	0.3
Total	**100.0**%	**100.0**%

Not surprisingly, as the majority of Island businesses are located in St Helier, the majority of the increase would be paid by St Helier ratepayers. St Helier officials estimate that approximately 40% of non-domestic rates in St Helier is paid by offices, with the rest paid by other types of business including retailers, hotels, entertainment venues and hospitality businesses. This suggests that approximately £264,000 of the additional £950,000 in IWR required would be raised from offices based in St Helier.

Of that 40%, at least half is payable in respect of offices classed as "small", with a rateable value of 20,000 quarters or less.

Figure 5: Comparison of the proportion of additional revenue received by each parish from the States paying rates with the additional IWR charged to the non-domestic ratepayers of each parish, under Option 2



Increasing the non-domestic element of the IWR only would mean that the additional IWR payable by businesses in each parish would be closer to the additional revenue received by each parish than under any other option reviewed.

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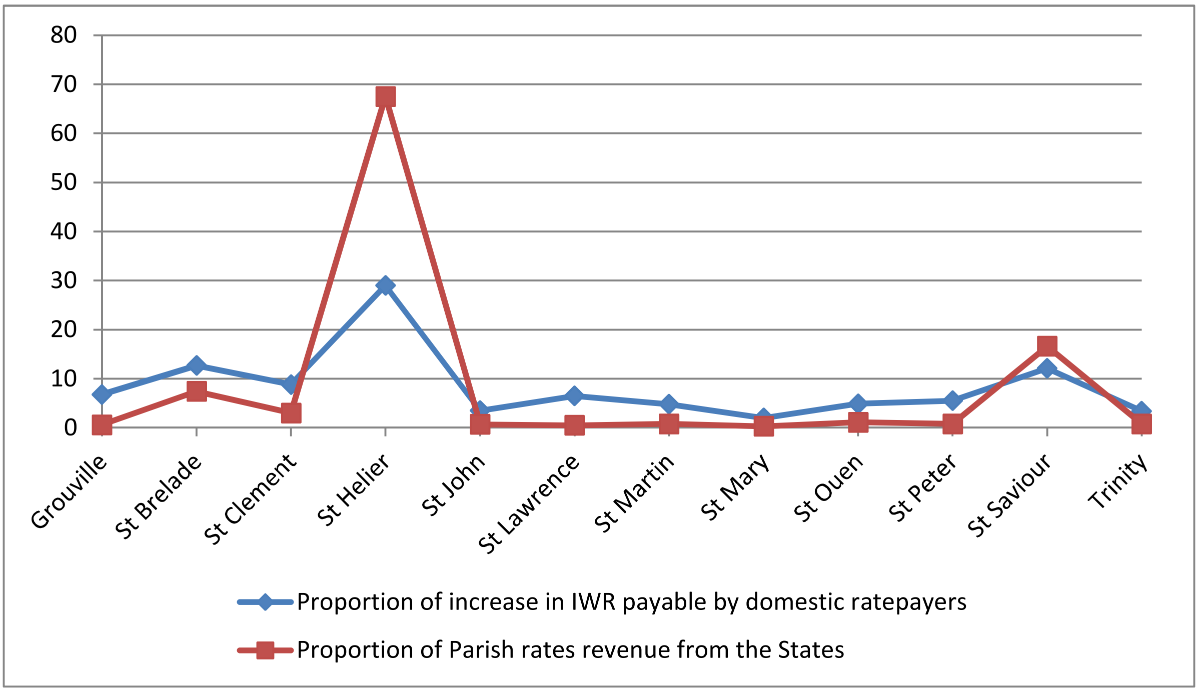
Option 3: Increasing the IWR for domestic ratepayers only

The increase would be 0.103 pence per quarter, an increase of 15% on 2012.

Parish	**Percentage of total increase in IWR payable by domestic ratepayers of each parish**	**Percentage of total States rates receivable per parish**
St Helier	29.0	67.5
St Brelade	12.7	7.4
St Saviour	12.1	16.6
St Clement	8.8	3.0
Grouville	6.8	0.6
St Lawrence	6.5	0.5
St Peter	5.5	0.8
St Ouen	4.9	1.1
St John	3.5	0.7
St Martin	4.8	0.8
Trinity	3.4	0.8
St Mary	2.0	0.3
Total	**100.0%**	**100.0%**

Figure 6: Comparison of the proportion of additional revenue received by each parish from the States paying rates with the additional IWR charged to the domestic ratepayers of each parish, under Option 3



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Appendix 2: Potential impact of each of the options for meeting the cost of the States paying rates on ratepayers

With assistance from the rates assessors, the following table has been prepared for the purposes of illustrating the impact of the changes on different types of property. The rates payable are illustrative only.

Type of property	Current total rates payable	IWR increase: Option 1[1]	IWR increase: Option 2[2]	IWR increase: Option 3[3]
One-bedroomed flat, no garage; St Clement	£157	£6	£0	£10
Three bedroomed semi-detached house with garage and small garden; St Lawrence	£300	£11	£0	£20
Four bedroomed detached house with parking and large garden; St Martin	£434	£14	£0	£25
Small corner shop; St Mary	£628	£27	£60	£0
Medium sized high street retailer; St Helier	£19,656	£840	£1,865	£0
Supermarket; St Saviour	£17,680	£800	£1,776	£0
Small office; St Helier	£201	£12	£27	£0
Large office; St Helier	£28,080	£1,200	£2,664	£0

[1] Increase domestic rate by 0.057ppq and non-domestic rate by 0.1ppq to raise £950,000
[2] Increase non-domestic rate by 0.222ppq to raise £950,000
[3] Increase domestic rate by 0.103ppq to raise £950,000

There are many more domestic properties in Jersey than there are non-domestic properties. As a result, the total rates payable by individual owners and occupiers of domestic properties are lower than the rates payable on individual commercial premises. Any increase to the non-domestic IWR would therefore impact more on owners and occupiers of these premises.

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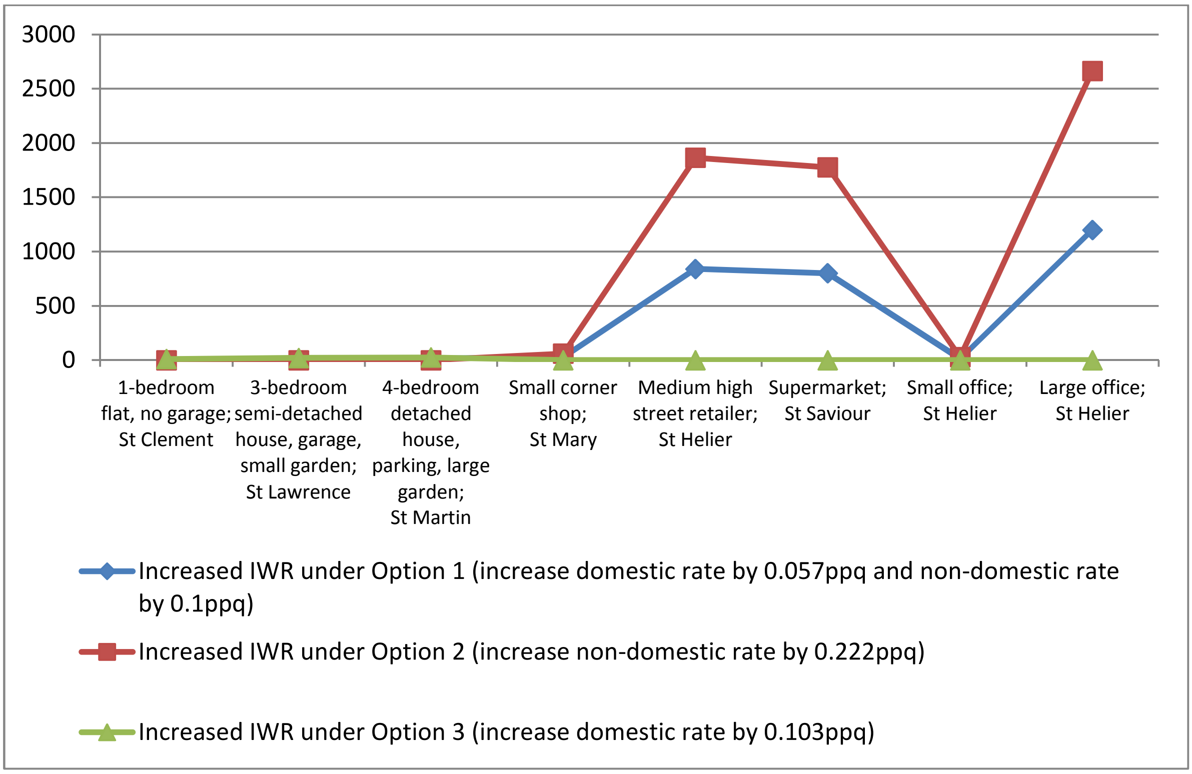
Figure 7: Comparison of the impact of the different options on different types of ratepayer



The impact of each of the options on domestic properties and small businesses can be more clearly illustrated in the example below.

Figure 8: Comparison of the impact of the different options on domestic properties and small businesses only