

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES  
BY DEPUTY G.P. SOUTHERN OF ST. HELIER**

**ANSWER TO BE TABLED ON TUESDAY 17th APRIL 2007**

**Question**

- (a) Would the Minister inform members of the reasons for the £21 million “windfall” increase in tax revenues between provisional and revised budget figures for 2006 for each revenue stream? Will he further state whether this “windfall” is predicted to continue into the years 2007 – 2011 and, if so, explain why?
- (b) Would the Minister inform members why the revised inflation and pay assumptions show that both the Retail Price Index (RPI) and Public Sector Pay awards for 2008 and 2009 will decrease when the introduction of a 3 per cent Goods and Services Tax will have an impact on the spending of all Islanders? Would the Minister advise members whether the impact on the RPI of the introduction of GST will affect the March 2009 RPI figure and, if so, state whether this has been taken into account in the assumptions given that that figure is traditionally used in pay negotiations?
- (c) Would the Minister inform members whether the additional £1 million “funding from balances” indicated in his presentation (relating to the 2008 Business Plan) regarding 2007 spending pressures and the £2.5m “funding from departments” will be divided on a pro rata basis between departments and, if not, on what basis?
- (d) In the light of the “windfall” from tax revenues highlighted in (a), does a further £2.5 million cut in departmental budgets for the current year remain appropriate?
- (e) Would the Minister undertake to inform members in detail what each department’s reduction in spending, as a result of the £2.5 m cut will mean for the delivery of services in 2007, and further, would he place these service reductions in the context of the type and size of reductions that have already taken place, whether by efficiency savings or otherwise, in 2005 and 2006?

**Answer**

- (a) The reasons for the £21 million “windfall” income between provisional outturn and revised budget figures for 2006 are as follows:

Income Tax (£12 million) – There has been significant improvement in the tax revenues from International Business Companies and a small increase on the forecast for employee earnings. There is a reasonable expectation that the improvement will be maintained for International Business Companies.

Impôts (£3 million) – There was a general increase on forecasts but £2 million of the £3 million increase is due to an accounting adjustment, accruing for importations which previously would have been accounted for in the following year. The £2m is therefore a one-off.

Stamp Duty (£4 million) – This has exceeded forecasts but does include a number of significant transactions that might suggest the level of increase may not be repeated at quite the same level. House prices continue to increase which naturally increases the yield.

Other Income (£2 million) – This is made up of a number of small increases, including more income tax surcharges and penalties than forecast despite the introduction of the new Income Tax Instalment System (ITIS).

- (b) The “all items” RPI is likely, for one year, to be affected by the introduction of GST. However the purpose of the tax is to take money out of the economy, and that will have a deflationary effect. I could

not agree to the principle of putting these funds back into public sector pay awards or other public expenditure, partly because this would negate the purpose of introducing GST, but also because it would cancel the deflationary effect. I have considered this initial impact on RPI when making the inflation assumptions underpinning our forecasts. I am committed to establishing a clear message, ahead of the implementation of GST, to all other employers such that pay awards are not artificially inflated. This will be a part of the revised inflation strategy.

- (c) The additional £1 million funding from balances and the £2.5 million funding from departments will be allocated on a pro rata basis between departments in relation to their total staffing costs.
- (d) Throughout pay negotiations departments have been informed that they would need to absorb any pay increases in excess of the budgeted sums. The Council of Ministers has already agreed to propose the allocation of £1 million from balances to ameliorate the impact of the additional cost on departments. Given the significant pressures in 2007 on the costs of supplementation and benefits I believe it is wholly appropriate that we continue to be rigorous and prudent to ensure that we are not in danger of living beyond our means in the future, or adding unnecessarily to inflationary pressures.
- (e) How departments choose to allocate absorption of the additional £2.5 million between their activities is a matter for them. I cannot say whether a particular department will need to make service cuts, or do things differently, or delay certain activities, but in terms of context the £2.5 million bears comparison with the £20 million of efficiency savings already being delivered over the current five year period.