STATES OF JERSEY

DRAFT BUDGET STATEMENT 2018 (P.90/2017): AMENDMENT (P.90/2017 Amd.) – AMENDMENT (P.90/2017 Amd.Amd.) – COMMENTS

Presented to the States on 27th November 2017
by the Council of Ministers

STATES GREFFE

COMMENTS

The Council of Ministers opposes this amendment to the amendment and encourages State Members to vote against it.

The impact of this amendment (P.90/2017 Amd.Amd.) is to remove the exemption from the Island-wide rate ("IWR") currently applying to the States. If this amendment were adopted (and the States also adopt the underlying amendment of the Connétable of St. Helier), the States would pay IWR to itself from 2018 onwards. This may appear to be merely an exercise in the creation of bureaucracy, with funds flowing in a circle from the States to the Parishes, before being returned to the States. However, because the amount that can be collected from IWR is prescribed by law, the real effect is to reduce the States' income by £0.9 million a year to the benefit of non-domestic ratepayers.

Background to IWR

In their amendment, the Comité des Connétables have outlined the history of discussions on the States paying rates on its properties. However, it is also important to recall the background to the introduction of the IWR. In 2006, responsibility for "native" welfare, residential care and associated administration costs was transferred from the Parishes to the States. This removed a significant element of financial risk from the Parishes, because the States would be responsible for meeting any additional costs of "native" welfare.

As part of this arrangement, the IWR was introduced in 2006 to help fund the additional costs incurred by the States. At the time, this cost was estimated at £9.4 million[1], so £9.4 million was raised through the IWR in 2006. By law, the amount that can be raised from the IWR in each subsequent year is fixed at the amount raised in the previous year, increased by the rate of inflation.[2]

Since 2006, the cost of native welfare, residential care, and then Income Support, has risen significantly; whereas, due to the capped increase provided for in the Rates (Jersey) Law 2005 ("the Rates Law"), just £12.7 million will be raised from IWR in 2017. The arrangement ensured that the contribution from ratepayers kept pace with inflation, whilst protecting ratepayers from the increasing costs arising from the ageing demographic.

As the total amount that can be raised from the IWR is capped by law, this amendment from the Comité des Connétables would see a reduction in the amount the States raises from IWR. This means that ratepayers' contribution would no longer keep up with inflation – fundamentally changing the arrangement agreed in 2006.

[1] As calculated under Article 52 of the Rates (Jersey) Law 2005 (see: https://www.jerseylaw.je/laws/enacted/Pages/L-33-2005.aspx#_Toc120954161)

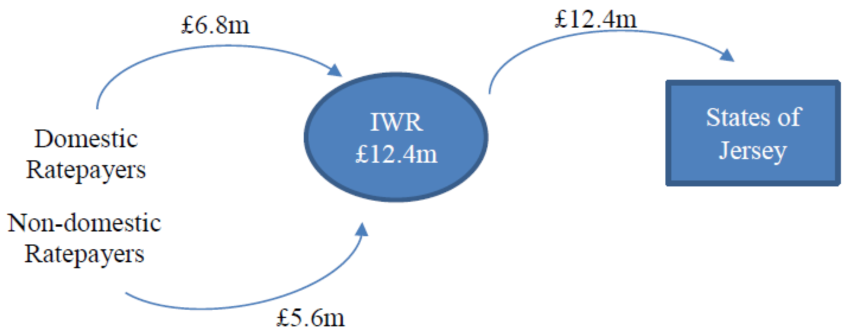
[2] Determined by reference to increases in the Jersey RPI.

Rates cut for non-domestic ratepayers

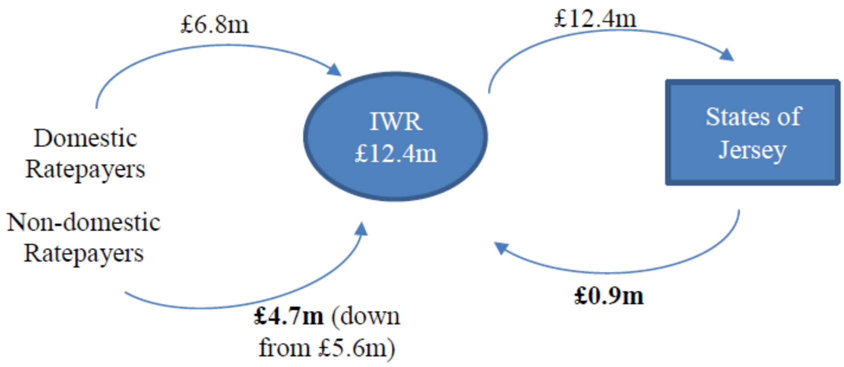
This amendment from the Comité des Connétables reduces the States' income from IWR by delivering a rates cut for non-domestic ratepayers. This is explained as follows –

1. Under the Rates Law, ratepayers must pay a total of £12.4 million IWR to the States in 2017[3] –

2. Under the Rates Law, IWR payers are split into 2 categories: (a) domestic ratepayers[4]; and (b) non-domestic ratepayers. As well as fixing the total amount that can be raised from IWR; the Rates Law also fixes how this total is split between domestic and non-domestic ratepayers. Domestic ratepayers must pay 55% (£6.8 million) and non-domestic ratepayers must pay 45% (£5.6 million) –

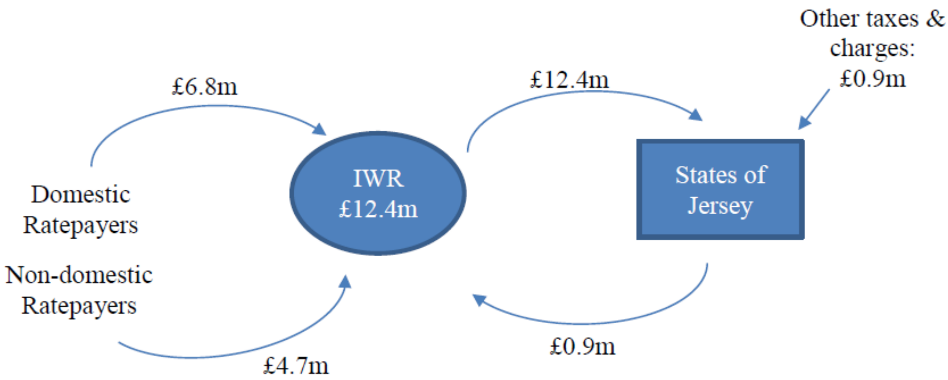


3. If the States became an IWR payer, it would be required to pay a proportion of the £5.7 million due from non-domestic ratepayers. It is estimated that the States would pay £0.9 million of the amount due from non-domestic ratepayers, resulting in a corresponding £0.9 million reduction in the amount paid by other non-domestic ratepayers –



[3] See: http://www.statesassembly.gov.je/assemblyreports/2017/r.69-2017.pdf
[4] Domestic purposes means wholly or mainly used for the purposes of a private dwelling.

4. This means that the States is effectively collecting £0.9 million less through the IWR, and hence will need to fund that reduction in revenue through other taxes and charges to leave it in a neutral position –



As the Comité des Connétables' report highlights, the IWR payable by non-domestic ratepayers will automatically reduce from 1.23p per quarter to 1.03p per quarter, a reduction in their IWR liability of 16% as a consequence of the process highlighted above. At a time of considerable financial pressures and the need to broadly balance budgets, a proposal to reduce the tax/revenues of the States to the benefit of non-domestic ratepayers is counter-intuitive and cannot be supported by the Council of Ministers.

Comments on financial and manpower implications

The Council of Ministers' proposals agreed within the MTFP 2016 – 2019 and the MTFP Addition for 2017 – 2019 for the States' payment of parish rates were conditional on an equivalent funding-stream being agreed. The impact of the States' payment of rates was therefore intended to be neutral to the overall financial position of the States.

The proposal from the Comité des Connétables proposes additional expenditure estimated to be £916,000 from 2018 for the States' payment of IWR. In respect of the source of funding for this increased cost to the States, the Comité have not separately approached the Treasury for advice; instead, they have followed the proposed funding route of the Amendment of the Connétable of St. Helier (P.90/2017 Amd.).

The advice to the Comité would have been the same as that provided to the Connétable –

- that the Council of Ministers has had to reprioritise the Central Growth Allocation for 2018 to compensate the Department for Infrastructure ("DfI") in respect of the deferral of non-domestic liquid waste charges to 2019
- that the first option for the Comité is to follow the same course and to propose that a further £1,894,000 be prioritised to DfI from the Central Growth Allocation for 2018 to reinstate the funding for the States' payment of rates in 2018
- that this needed to be found by reducing the proposed allocations to other departments, predominantly Health and Social Services, as the overall allocation for 2018 could not exceed £10.424 million.

The Treasury advice would also have provided the 2 further options of requesting the Council of Ministers and the Minister for Treasury and Resources to allocate the required sum from Contingency in 2018, or from available underspends in 2017 to be carried forward to 2018. However, the advice would also have been caveated by identifying that there were a number of competing pressures against available underspends and contingencies, not least the £5 million in 2018 and £5 million in 2019 required by Health and Social Services as a result of the removal of the planned transfers from the Health Insurance Fund.

In relation to this proposal, there is not equivalent funding to be reinstated in 2019. Consistent with the position of the Council of Ministers, neither the MTFP 2016 – 2019, nor the MTFP Addition for 2017 – 2019, provided for the cost of the States' payment of IWR. The additional expenditure of £916,000 would have to be found from reducing the existing proposals for Central Growth in 2019 to other departments, predominantly Health and Social Services.

If this Amendment is adopted, it is estimated that without an equivalent funding mechanism, there would be a recurring deficit of £1,894,000 from 2018 relative to the neutral financial position intended in this MTFP.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

These comments were submitted to the States Greffe later than the noon deadline on Thursday 23rd November, specified in Standing Order 37A, as final internal review processes had not been completed in the time available from the lodging of all the amendments to the 2018 Budget.