

STATES OF JERSEY



BUDGET 2005: AMENDMENTS

**Lodged au Greffe on 16th November 2004
by Senator M.E. Vibert**

STATES GREFFE

BUDGET 2005: AMENDMENTS

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- (a) *To increase the estimate of revenue expenditure of the Employment and Social Security Committee from £82,727,100 to £83,248,100 by adding –*
- £521,000 to enable the provision of free television licences for those aged 75 and over living in domestic accommodation;

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- (b) *To increase the estimates of income from Indirect Taxation in order to fund the provision of free television licences for those aged 75 and over living in domestic accommodation, by adding the following amounts to the Impôts –*
- (i) £153,000 to Impôts on Spirits, so that the income rises from £4,361,000 to £4,514,000;
- (ii) £181,000 to Wines, so that the income rises from £5,170,000 to £5,351,000;
- (iii) £17,000 to Cider, so that the income rises from £493,000 to £510,000;
- (iv) £170,000 to Beer, so that the income rises from £4,851,000 to £5,021,000.

SENATOR M.E. VIBERT

Re-issue Note

This amendment has been re-issued as the original figures supplied to Senator M.E. Vibert in relation to impôts increases have been amended and rounded. As Budget amendments do not need to be lodged in the same way as other amendments the late revision will not affect the debate on this amendment.

REPORT

My amendments seek to increase the Impôts on alcohol – spirits, wines, beer and cider – by 3.5% and to use the just over half a million pounds this will raise to pay for free television licences for the over 75s.

Background

Free television licences for those aged 75 and over living in domestic accommodation have been provided not only in the U.K. for some years but also in Guernsey since 2001.

In Jersey extra money was provided for the elderly but this was directed to a system of health and dental care rather than free television licences.

Despite this the pressure to provide free television licences for the elderly has not gone away.

Many elderly people argued they were not consulted over the decision to, in effect, substitute health and dental care for free television licences.

Many elderly people either individually or through representative organisations have made clear that they still believe Jersey should match the U.K. and Guernsey by providing free television licences for the over 75s.

I believe it is important to respect the views of those to whom a benefit is directed rather than necessarily believe there may be a better way of directing such benefits.

It is also understandable that some elderly people in recent months have felt they were almost being singled out for increased charges because of the lack of co-ordination in our present system of government.

I believe it is time for the States to demonstrate that they not only have the welfare of the elderly as one of their highest priorities but also that they are prepared to listen to what the elderly say they want rather than substituting what they think might be better for them.

My amendments would provide free television licences for the over 75s, which have been consistently asked for by many in the age group ever since such free licences were introduced in the U.K.

The States often talk about comparing and benchmarking ourselves favourably against our closest neighbours, particularly Guernsey and the U.K. At present we do not compare favourably in the provision of free television licences and my amendments allow us to rectify this omission.

Costs

The Statistics Unit has produced figures (Appendix 1) which estimate that at the time of the 2001 census there were 4,155 private households in Jersey with at least one person aged 75 or over living in them.

With a colour television licence currently costing £121, the cost of providing 4,155 free television licences would be £502,755.

A 3.5% increase on the estimated income from impôts on alcohol as detailed on page 2 of the Budget 2005 would increase that estimated income by £521,000.

Implementation

I am proposing the Employment and Social Security Committee's budget for 2005 is increased by the £521,000 extra estimated income from increasing impôts duty on alcohol to enable that committee to provide free television licences scheme for the over 75s.

This is based on experience from the Guernsey scheme which was approved by Guernsey States in the 2000 and

put into effect from April 2001.

A memorandum of understanding was drawn up between the U.K. TV Licensing Unit and Guernsey's Social Security Administration.

How the scheme operates in Guernsey is that people over 75 send their old television licences into their Social Security Department. Their details are then passed to TV Licensing, Bristol, who sends Guernsey's Social Security a quarterly bill. Further new licences are then sent out automatically to these individuals.

In Guernsey one part-time clerk (20 hours per week) administers this free TV licensing scheme.

I can see no reason why Jersey should not be able to agree a similar memorandum of understanding with U.K. TV Licensing and operate a similar scheme.

Impôts increases

I am proposing the cost of providing free television licences for the over 75s comes out of increasing the impôts duty on alcohol by 3.5%.

I believe it would be wrong in the light of our recently agreed alcohol strategy to, in effect, lower the price of alcohol by not putting any impôts duty increase at all on alcohol as is proposed in the Budget.

The States on 20th of July this year approved 'An Alcohol Strategy For Jersey', P.110/2003 of the Health and Social Services Committee (Appendix A of P.110/2003 is attached at Appendix 2), which contained the following statements –

“The States of Jersey Substance Misuse Strategy recognises that alcohol causes more harm than other legal or illegal substances.”

and

“Alcohol behaves like other commodities – if price goes up, consumption goes down – thus alcohol is price sensitive.”

P.110/2003 originally proposed –

“to agree that, in an attempt to reduce per capita consumption of alcohol, impôts duties on alcohol should be increased annually over and above the level of inflation if deemed advisable following consultation between the Health and Social Services and Finance and Economics Committees”.

This was successfully amended by Deputy G.W.J. De Faye of St. Helier (Appendix 3 An Alcohol Strategy For Jersey (P.110/2003): amendment') who persuaded the States to substitute “may” for “should” in relation to annual increases over and above the level of inflation.

The amendment also added the Economic Development Committee to those who should be consulted and added a number of considerations that should be taken into account before increasing impôts duty on alcohol annually above the level of inflation.

The amended part of the proposition approved by the States on 20th July this year then read –

“To agree that, in an attempt to reduce per capita consumption of alcohol, impôts duties on alcohol may be increased annually over and above the level of inflation if deemed advisable following consultation between the Health and Social Services Committee, the Finance and Economics Committee and the Economic Development Committee, having regard to –

- (i) the economic interests of the Island, with particular reference to any local brewing or distilling

businesses;

- (ii) the impact on the Island's hospitality industry;
- (iii) the impact upon consumers of alcohol within the island as a whole; and
- (iv) concerns for public health."

I supported this amendment as did a majority of States Members. I supported an amendment that changed a presumption that impôts on alcohol "should" go up annually by more than the level of inflation to a "may" be increased annually over and above the level of inflation.

This is in my view very different from not putting up impôts on alcohol by even the level of inflation or, as is proposed in the Budget, no increase at all, which will effectively make alcohol cheaper in real terms.

It is particularly surprising the Finance and Economics Committee are proposing this because that Committee in their comments on 'An Alcohol Strategy For Jersey' P.110/2003 (Appendix 4) stated–

"The Finance and Economics Committee supports the principle of increasing duties on alcohol at above the rate of inflation and will consider these recommendations when considering future changes to impôts duties."

I am not proposing the impôts duty of alcohol should be increased over and above the level of inflation; I am not even proposing that the impôts duty on alcohol should be increased by the level of inflation. What I am proposing is that impôts duty on alcohol should be increased by about the underlying level of inflation, RPI(X), 3.5%.

The Statistics Unit has informed me a 3.5% increase in impôts duty on alcohol would have an effect on the annual change in the Retail Price Index of 0.04%.

Conclusion

In conclusion my proposals are for a modest increase in impôts on alcohol in line with the States approved Alcohol Strategy and that the extra revenue raised from this modest increase should be used to provide free television licences for the over 75s.

Financial/manpower implications

Financial implications are as stated in the amendment. Based on the Guernsey experience one part-time employee will be required for 20 hours a week to administer this benefit.

“AN ALCOHOL STRATEGY FOR JERSEY” P.110/2003: APPENDIX A

Alcohol Taxation

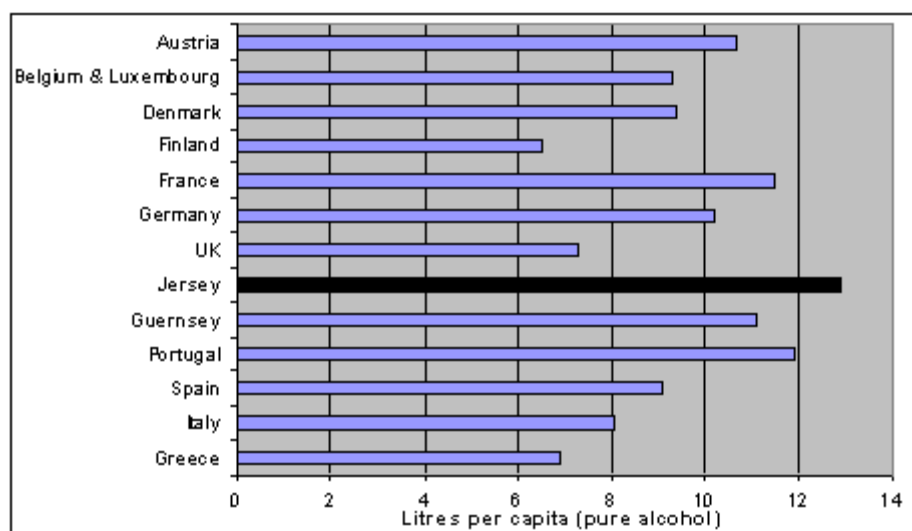
The States of Jersey Substance Misuse Strategy recognises that alcohol causes more harm than other legal or illegal substances. Consequently, the strategies endorsed by the States in 1999 to tackle crime and community safety and substance misuse declared the intention to reduce the level of harm caused by alcohol misuse throughout Jersey.

Research undertaken by Imperial College indicates that the overall level of consumption of alcohol in Jersey is significantly higher than in a number of European countries. Whilst recognising that precise per capita measures of alcohol consumption are fraught with difficulties it is widely accepted that in Jersey, as is the case in many small island communities, alcohol plays a significant part in island life. The overall consumption of alcohol in Jersey appears to have fallen by 20% over the last ten years. This is accountable, in part, to changes in excise duty and public health initiatives to moderate consumption. However, in comparison with other European countries (non-adjusted data) consumption remains comparatively high (see figure 1).

Figure 1. Per capita estimates of litres of pure alcohol consumed, Jersey (adjusted)^[1] and other European countries (non-adjusted), 1998

Source: Imperial College (2001)^[2]

A large number of studies into the effects of price changes on consumption have now been carried out in a wide range of countries including Australia, Belgium, Canada, Denmark, Germany, Finland, France, Ireland, Italy, Kenya, Netherlands, Norway, Portugal, Spain, Sweden, UK and the USA.



The available research evidence leads to three major conclusions:

- ❑ Alcohol behaves like other commodities – if price goes up, consumption goes down – thus alcohol is price sensitive.
- ❑ Price elasticities – the responsiveness of alcohol to price changes – are not the same for all times and places, nor for all beverages. Research measures consumer response to price changes by computing the price elasticity. This is defined as the percentage change in demand that results from a 1% change in

price. For example, a price elasticity of 0.5 would imply that a 10% rise in price would result in a 5% fall in consumption. The UK Treasury estimates price elasticities for the main drinks to be:

beer: – 1. 0, spirits: –0. 9, wine: – 1. 1.

- ❑ Heavy and even alcohol-dependent drinkers are influenced at least as much, if not more than lighter drinkers, by price changes.

The level of alcohol taxation has historically been influenced by social, cultural and historic as well as economic factors. This has led to the situation today where the level of duty on different alcoholic drinks varies tremendously. In order to illustrate this, Table 1 illustrates the current level of duty (applicable in Jersey) per litre of alcohol for a range of drinks.

Table 1 – Current level of duty, in Jersey, per litre of alcohol for a range drinks

DRINK	Current level of duty per litre of pure alcohol	Jersey Duty
Spirits – Litre of Whisky @ 40% a.b.v.	£19.23	£7.69
75cl Bottle of Wine @ 12% a.b.v.	£10.24	£0.92
33cl Bottle of Alcopops @ 5% a.b.v.	£9.36	£0.15
Pint of Cider/Beer @ 4.5% a.b.v.	£8.40	£0.22

The alcohol strategy has two primary objectives with regard to alcohol taxation. Firstly, recognising the correlation between price and consumption, it advocates price increases on all alcoholic beverages over and above local inflation. Secondly, it endeavours to harmonise the relative levels of duty levied on different alcoholic beverages.

This approach:

- ❑ Tackles alcohol on a whole population basis (it is not the intention to penalise specific sub-groups within the community).
- ❑ Helps to close the gap between the (historically high) duty on spirits and other alcoholic beverages.
- ❑ Recognises the fact that alcohol is a price-sensitive commodity, although price elasticity needs to be acknowledged.
- ❑ Involves punitive increases on stronger alcohol beers, lagers and ciders, drinks which tend to be associated with alcohol-related crime, disorder and anti-social behaviour.

Impact of Proposals

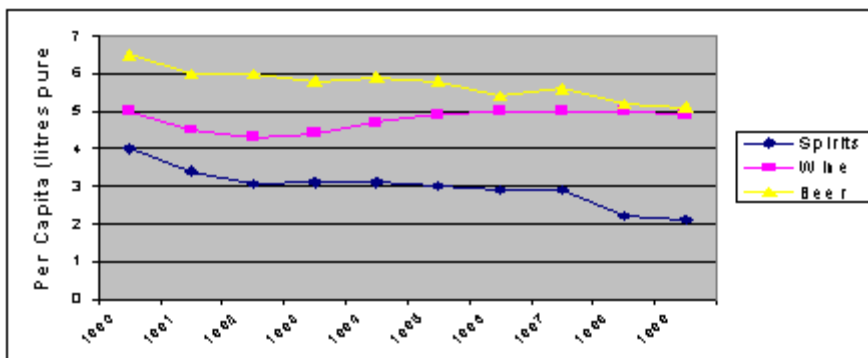
A number of potential impacts to the proposed increases may be forthcoming:

- ❑ **Tourism.** The Tourism industry may perceive such increases as unhelpful. Nevertheless, this approach embraces the need to improve the health and well-being of the residents of Jersey. Furthermore, tourists reach a decision on their holiday destination having consideration for a host of sophisticated factors, and not merely the availability of cheap alcohol, although the availability of a duty-free shop within the Airport complex somewhat dilutes this potential concern.
- ❑ **Inflation.** The impact of such increases on the Jersey Retail Price index is minimal.
- ❑ **Cross-price effects.** It has been suggested that some consumers may switch from one drink to a cheaper alternative. By gradually harmonising the level of duty on alcoholic beverages, as proposed, whilst still

increasing the duty on spirits annually, this effect should be minimised. In addition, drinking preferences are based on numerous factors including peer group influence, personal taste, habit, affordability, setting, etc. Figure 2 shows the existing local per capita consumption pattern for spirits, wine and beer.

- ❑ **Low income households.** It has been argued that taxation is not socially equitable as the poorer proportionately bear more of the burden. Evidence from New Zealand, UK and USA does not support this contention. Taxation is levied per unit of alcohol consumed. Those who drink the most alcohol pay the most tax. It is suggested that the vast majority of drinkers only drink relatively small amounts of alcohol and consequently taxation represents only a small proportion of their income.
- ❑ **Problem drinkers.** Some people believe that increasing the price of alcoholic beverages does not affect the heavy or alcohol-dependant drinker. Heavy and even alcohol-dependent drinkers are influenced at least as much, if not more than light drinkers, by price changes. Approximately 70% of all clients who are referred to the Alcohol and Drug Service for alcohol problems cite financial difficulties as a key factor in addressing their problems. Furthermore, the alcohol strategy advocates an approach that addresses all drinkers and seeks to reduce overall levels of consumption.

Figure 2. **Per Capita litres pure alcohol consumption of drinks was 12.9 litres in 1999 (adjusted to accommodate for seasonal tourist and worker flows)**



Source: Imperial College (2001)

AN ALCOHOL STRATEGY FOR JERSEY (P.110/2003): AMENDMENT

Lodged au Greffe on 6th July 2004
by Deputy G.W.J. de Faye of St. Helier

AN ALCOHOL STRATEGY FOR JERSEY (P.110/2003): AMENDMENT

In paragraph (b) for the word, “should” substitute the word “may”, and after the words “Finance and Economics Committee” add the words “and the Economic Development Committee, having regard to –

- (i) the economic interests of the island, with particular reference to any local brewing or distilling businesses;
- (ii) the impact on the Island’s hospitality industry;
- (iii) the impact upon consumers of alcohol within the Island as a whole; and
- (iv) concerns for public health;”.

DEPUTY G.W.J. DE FAYE OF ST. HELIER

REPORT

The attempt by the Health and Social Services Committee to reduce the per capita consumption of alcohol within the Island by simply raising the price of alcoholic drinks is not a strategy that will have any significant impact on the minority of the local population that suffer either directly or indirectly from the well documented problems associated with alcoholism. It is a blanket approach that fails completely to target those with the greatest problem.

Instead, a determination to steadily price alcohol out of the consumer market will unfairly penalise the thousand of local drinkers who take a responsible approach to drinking. As the Health and Social Services Committee's own report succinctly states: For the majority of people who drink alcohol, it is a pleasant adjunct to a wide range of recreational activities. The examples are extensive, ranging from the working man buying a pint at the pub after a day's work to a couple or family group enjoying a bottle of wine with a restaurant meal, an outdoor picnic or a domestic dinner. There are simply no serious grounds for introducing a health based policy that will hit these alcohol consumer groups financially.

Furthermore, as the cost of purchasing standard alcohol consumables in the Island escalates, especially in respect to prices in neighbouring jurisdictions such as France and the United Kingdom, there is an inevitable impact on the local hospitality industry. Whilst it may not be considered acceptable in public health terms, many tourists consider that good value wining and dining constitutes an important, if not critical, feature of any holiday break. For many years, the price of a pint or a bottle of wine was significantly below the equivalent U.K. price. Currently, local prices can be compared with those in U.K. capital cities, where the U.K. prices are at their highest levels. This type of comparison is already proving extremely damaging to the Island's hospitality and leisure industries. Indeed, if any indicator of the problem of trans-border pricing differentials is required, one merely has to consider the substantial numbers of local consumers who travel to France with the express intention of purchasing alcohol at lower prices.

The Health and Social Services Committee claims that its so called strategy: Tackles alcohol on a whole population basis (it is not the intention to penalise specific sub-groups within the community). However, it is obvious that two very significant sub-groups – the Tourism and Hospitality industries – are both significantly compromised, together with the vast majority of Jersey's responsible social drinkers.

Finally, a policy that continues to raise the duties levied on alcohol over and above the level of inflation, on an annual basis, largely on public health grounds, fails to recognise the value of revenues generated from that consumer product. It is the very substantial revenues raised by taxing alcohol and, similarly, tobacco that underwrite the cost of building hospitals and providing healthcare in general. To pursue relentless price hikes courts the application of the economic law of diminishing returns, such that the more expensive a bottles of wine becomes, the less inclined consumers are to buy wine, which leads to wine sales falling off and tax revenues reducing. There is reasonable anecdotal evidence that the Island is at or near this point already with respect to the price of alcohol.

The amendment recognises that there should be a concern for public health issues in the fixing of duties on alcohol but emphasises that the primary consideration should be the economic interests of the Island and the consumer interests of the population as a whole.

There are no financial or manpower implications anticipated to arise from this amendment.

AN ALCOHOL STRATEGY FOR JERSEY (P.110/2003): COMMENTS

Presented to the States on 9th September 2003
by the Finance and Economics Committee

COMMENTS

The Finance and Economics Committee supports the principle of moving towards harmonising duties imposed on alcoholic drinks and of increasing duties on alcohol at above the rate of inflation and will consider these recommendations when considering future changes to impôts duties.

It is expected that the Health and Social Services Committee will present to the States a revised Substance Misuse Strategy in order to confirm funding for the Alcohol Strategy beyond 2004. Should that strategy not be approved by the States, the Health and Social Services Committee would need to fund the Alcohol Strategy from its existing cash limit or request growth funding from a bid to a subsequent Fundamental Spending Review.

[1] *Figures for Jersey are adjusted to account for seasonal flows of tourists and workers, as well as spirits exports. European data are not adjusted.*

[2] *Figure for Guernsey is for 1997.*