



# DRAFT BUDGET STATEMENT 2019

**CORPORATE SERVICES SCRUTINY PANEL**

3rd December 2018

S.R.16/2018



States of Jersey  
States Assembly

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## Chairman's Foreword

In the Minister's introduction to the Budget Statement she writes that "Jersey has a strong financial base and economy from which to harness the opportunities presented by the uncertainties in the near term." In considering the Budget for 2019 the Corporate Services Scrutiny Panel has found that statement puzzling given the "hold it steady" contents of her first budget.

Whilst we acknowledge that the Council of Ministers has only been in office for six months, there is a growing concern from the public that the new Government has pressed the pause button and no decisions are being made.

Indeed the public is hearing a message from other Ministers that income tax rises are an inevitability. However this budget amasses considerable sums of public money and sets it aside for use on another day, rather than tackling pressing issues such as public sector pay that would make a difference to people's lives.

As a small island nation, the Minister points out that we are in a fortunate position. It is the view of the scrutiny panel that now is a time to play to our strengths and present a vision for the Island's future that uses our positive position to face any uncertainties with confidence.

On key matters that are raised in the proposed Common Strategic Policy such as the future of the economy, measures to boost productivity and harness inflation, we find the Budget to be silent.

Due to the open and public manner in which Scrutiny conducts its business in Jersey, it is seen by some as a link point between the public and the Government. Offering the oversight of a critical friend and the helpful guidance of a body that ultimately shares the same interest: making decisions that serve in the best interests of the people.

Throughout this review we have seen this dynamic work effectively with certain groups, such as the non-resident pensioners, who have made their issues of hardship clear and we have been glad to assist in encouraging the treasury to move their position to reach an accommodation that should remove any future hardship.

By listening to the public and understanding the issues of the day, we have chosen to propose an amendment simplifying the stamp duty rates, which we hope will encourage some positive change within the property market. It is a single issue, we would have liked to do more, however we have had to work within our own resource constraints.

It must be said that the new Corporate Services Panel is (with the exception of myself), new to the Assembly and therefore the roles. This talented team of people have hit the ground running and worked diligently to cover a challenging workload.



Our Scrutiny Officers have worked diligently and with great capability. This report is above all a team effort and I offer all who have contributed to it my sincerest thanks.

A handwritten signature in black ink, appearing to read 'Kristina Moore'.

**Senator Kristina Moore**  
**Chairman**

## Executive Summary

The Draft Budget Statement 2019 (the “Budget”) sets out the Government’s proposals for taxation changes, States capital projects, and growth expenditure for 2019, together with updated financial forecasts for 2018 to 2023.

Our report covers all parts of the Budget, with a particular focus on reform of the tax system, marginal relief for non-residents, stamp duty and the States’ Reserves.

In relation to reform of the tax system, we have noted the Minister’s proposal to change the system where, currently, wives require their husbands consent to discuss their tax affairs. We have recommended that the Minister should go further than this in order to move away from the current system as soon as possible.

We were pleased to note that the Minister has proposed reliefs from the 2018 tax year onwards for non-residents impacted by the removal of marginal relief.

We have looked in detail at Jersey’s stamp duty system and have lodged an amendment to the Budget to simplify the number of stamp duty bands. To build on the Minister’s welcome proposal to increase First Time Buyer relief to £500,000, our amendment would also reduce the stamp duty payable on property transactions between £600,000 and £1 million. We believe that this will help people looking to upsize from their first home, thereby freeing up more houses in the first-time buyer market.

The Budget forecasts large surpluses in the Consolidated Fund (the States’ “current account”) for 2018 and 2019, and proposes a transfer of £50 million to the Stabilisation Fund. We have found that the restrictions of the current Medium Term Financial Plan (the “MTFP”) (which was originally agreed in 2015) make it difficult to increase expenditure to respond to emerging needs. We have recommended that the Minister for Treasury and Resources bring an amendment to the MTFP to allow additional expenditure in 2019.

## Findings and Recommendations

- 1) **FINDING 1** – The Minister for Treasury and Resources has lodged an amendment to the tax law so that husbands will be presumed to have given consent to their wives to discuss their tax affairs. In her amendment, the Minister has described the current system as “antiquated.
- 2) **FINDING 2** – we consider that the Taxes Office needs to go further than the proposed amendment to the tax law, in order to move away as soon as possible from the system where husbands are legally responsible for their wives tax affairs. The system is also not fit for purpose in relation to same sex married couples and does not reflect the diverse and inclusive community that makes up Jersey in the twenty-first century.
- 3) **RECOMMENDATION 1** – The Minister for Treasury and Resources should prioritise the work to reform the tax system in relation to the treatment of married couples and should bring forward proposals to reform the system in the 2020 Budget.
- 4) **FINDING 3** – The Budget proposes targeted relief for non-residents adversely affected by the withdrawal of non-resident marginal relief. The Minister for Treasury and Resources has lodged an amendment to the Budget to make the relief effective from the 2018 tax year.
- 5) **FINDING 4** – Jersey has 10 stamp duty bands, which is more than most comparable jurisdictions.
- 6) **RECOMMENDATION 2** – The number of stamp duty bands should be reduced. We have lodged an amendment to the Budget which would reduce the number of stamp duty bands to 5.
- 7) **FINDING 5** – in order to improve supply in the lower end of the market, stamp duty could be reduced in the higher brackets in order to encourage people to upsize. In a situation where there is low supply in the housing market, the only solution is to encourage movement within the market.
- 8) **FINDING 6** – More needs to be done to help the slow turnover rate in the housing market between £600,000 and £1 million. This will in turn help to free up houses in the brackets below (particularly for First Time Buyers).
- 9) **RECOMMENDATION 3** – The stamp duty on residential property transactions between £600,000 and £1 million should be reduced. Our amendment to the Budget reduces the stamp duty for these bands by up to 1%.
- 10) **RECOMMENDATION 4** – In order to pay for reduced stamp duty between £600,000 and £1 million, we recommend that stamp duty on properties above £3 million be increased, as set out in our amendment to the Budget.
- 11) **RECOMMENDATION 5** – The Minister for Treasury and Resources should undertake more work to investigate the feasibility of introducing a buy-to-let rate of stamp duty and report to the Assembly in the next Budget.

- 12) **FINDING 7** – We were disappointed in the lack of engagement by the Treasury with a sugar tax and surprised by the lack of willingness to investigate alternative revenue streams designed to improve lifestyle choices as seen in other jurisdictions.
- 13) **FINDING 8** – It is highly unusual to amass large surpluses in the Consolidated Fund without either transferring to reserves or having a plan to spend the money.
- 14) **RECOMMENDATION 6** – In a period of uncertainty as a result of Brexit, there is a lack of political direction regarding the high balances in the Consolidated Fund. The Council of Ministers should clearly state now what the plan for these balances is, rather than wait for the Government Plan to be prepared further down the line.
- 15) **FINDING 9** – The structuring of the MTFP in the Public Finances Law is restrictive and has led to constraints on expenditure in the final year of the MTFP, even when there are surplus funds accumulated in the Consolidated Fund and the States' Reserves.
- 16) **FINDING 10** - It is the Panel's view that the Treasury Minister has the tools available to amend the MTFP to tackle the constraints on expenditure if the Council of Ministers is determined to do so.
- 17) **RECOMMENDATION 7** – The Minister for Treasury and Resources should bring forward a proposition as soon as possible to amend the MTFP in accordance with Article 9(2)(ca) of the Public Finances Law on the basis that there is an urgent need for expenditure in 2019 to fund emerging priorities in relation to the Common Strategic Policy and to resolve the public sector pay dispute.
- 18) **FINDING 11** – There is no allowance in the Budget for the savings generated by the new Target Operating Model.
- 19) **FINDING 12** – We have identified concerns regarding transfers out of the capital programme into contingency in relation to projects at Sandybrook Care Home and for homes for children with autism.
- 20) **FINDING 13** – It appears to us that the management of the capital project at Sandybrook Care Home has been unsatisfactory over the last 6 years, leading to a situation where much needed refurbishment and renovation has not been carried out.

## Introduction

- 21) The [Draft Budget Statement 2019](#) (the “Budget”) was lodged by the Minister for Treasury and Resources on 9<sup>th</sup> October 2018, and is scheduled to be debated on 4<sup>th</sup> December 2018.
- 22) The Budget sets out the Minister’s proposals for taxation changes, States capital projects, growth expenditure for 2019 and updated financial forecasts for 2018 to 2023.
- 23) The Minister explained to us that, in her view, the Budget was a “very balanced, hold it steady, Budget”.<sup>1</sup> It is set against the context of a new Council of Ministers, uncertainty surrounding Brexit, expenditure levels set in 2015 as part of the existing MTFP and ongoing work on the new “Government Plan” to replace the MTFP from 2020 onwards.
- 24) Some of the key features of the Budget are:
  - Improved income forecasts of £30 million and £36 million for 2018 and 2019 respectively;
  - Forecasts of a balanced budget in 2019, but a deficit of up to £30 million in 2020;
  - Increases to income tax exemption thresholds in line with average earnings increases;
  - Alcohol duty increases in line with average earnings increases and tobacco duty increases in excess of inflation;
  - An increase in First Time Buyer relief, offset by increases to standard rates of stamp duty above £500,000;
  - Legislative changes in relation to economic substance of companies that are tax resident in Jersey and the introduction of a new body called Revenue Jersey to oversee the administration of Jersey’s tax laws; and
  - A transfer of £50m to the Stabilisation Fund.
- 25) In addition to inviting submissions from key stakeholders and members of the public, we approached John Shenton, Director of Grant Thornton Limited, to act as an expert witness. Mr Shenton is Head of Taxation Advisory Services in Grant Thornton’s Jersey office and was the founding member of the local branch of the Chartered Institute of Taxation. His submissions to the Panel are [published on our website](#).

## Personal tax proposals

- 26) The Budget proposes to follow a standing policy of increasing thresholds by the lower of average earnings and the Retail Price Index (“RPI”).
- 27) Following action taken in previous budgets, parity is maintained between the allowance available to married couples and to co-habiting couples.
- 28) In a submission to the Panel, Grant Thornton Director John Shenton notes,

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<sup>1</sup> [Public Hearing with the Minister for Treasury and Resources, 31<sup>st</sup> October 2018, p 3](#)

“The increase in the exemption limits are welcomed though it has to be understood by all that public services (especially in relation to health and education) will continue to increase at a greater rate than inflation. It is hoped that the savings promised will help in this regard but one believes that it can no longer be prudent to expect allowances to increase annually.”<sup>2</sup>

- 29) We asked the Minister and her officers about what steps were being taken to tackle outdated parts of the tax law, particularly in relation to the fact that husbands have to give their wives permission to discuss their tax affairs.
- 30) We were informed that an opt-out mechanism was being worked on such that husbands were presumed to have given consent to their wives to discuss their tax affairs unless they expressly opt out.<sup>3</sup>
- 31) We were pleased to note that in this regard, the Minister has lodged the necessary legal changes to put this into effect.<sup>4</sup>
- 32) A public consultation is to be launched soon on options to reform the tax system, which will lead to a longer term solution to this outdated part of the law.
- 33) In relation to the reform of the tax system, we were told that there were two options being considered: independent taxation or a form of household taxation.

#### **Deputy Comptroller of Taxes:**

“...everyone is committed to moving away from where we are but which way do we want to go to? Do you want to go to independent taxation where everyone is treated completely independently, just declares their own income and pays tax on that, or do you want to go to some sort of household form of taxation where then it would be a household forming a taxable unit and the people within that would be jointly and severally liable...”<sup>5</sup>

- 34) We were told that any new system will be implemented in 2020 or 2021, once the new Taxes Office computer system is operational next year.<sup>6</sup>
- 35) **FINDING – The Minister for Treasury and Resources has lodged an amendment to the tax law so that husbands will be presumed to have given consent to their wives to discuss their tax affairs. In her amendment, the Minister has described the current system as “antiquated”.**
- 36) **FINDING – we consider that the Taxes Office needs to go further than the proposed amendment to the tax law, in order to move away as soon as possible from the system where husbands are legally responsible for their wives tax affairs. The system is also not fit for purpose in relation to same sex married**

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<sup>2</sup> [John Shenton submission](#)

<sup>3</sup> [Quarterly Public Hearing with the Minister for Treasury and Resources, 16<sup>th</sup> October 2018, p 16](#)

<sup>4</sup> [Draft Finance \(2019 Budget\) \(Jersey\) Law \(P.130/2018\): Amendment](#)

<sup>5</sup> [Quarterly Public Hearing with the Minister for Treasury and Resources, 16<sup>th</sup> October 2018, p 16](#)

<sup>6</sup> [Quarterly Public Hearing with the Minister for Treasury and Resources, 16<sup>th</sup> October 2018, p 16](#)



**couples and does not reflect the diverse and inclusive community that makes up Jersey in the twenty-first century.**

- 37) **RECOMMENDATION – The Minister for Treasury and Resources should prioritise the work to reform the tax system in relation to the treatment of married couples and should bring forward proposals to reform the system in the 2020 Budget.**

### Non-Residents Relief

- 38) We received a number of [submissions](#) to our review from Jersey residents who have either moved or retired abroad and are adversely affected by the removal of marginal tax relief for non-residents.
- 39) As set out on page 23 of the Budget, non-residents relief was removed in the 2016 Budget. We heard from a number of people who had retired overseas, including former teachers and police officers, who highlighted that they had carefully planned their finances before leaving Jersey and that the changes had, in some cases, meant that their tax bill had doubled.
- 40) The Budget proposes targeted relief for non-residents from the tax year 2019 onwards, at a cost of £100,000 per year. This was broadly welcomed in the submissions we received, however most correspondents drew our attention to the hardship suffered in the last three tax years due to removal of the relief. In some cases, we heard that this had almost wiped out the savings of non-residents.
- 41) We note that since the Budget was lodged, the Minister has lodged an [amendment](#) to bring forward the implementation of the targeted reliefs to the 2018 tax year.<sup>7</sup> The Assistant Minister for Treasury and Resources informed the Assembly on 20<sup>th</sup> November that the Treasury would not be refunding tax paid by non-residents in previous years.<sup>8</sup>
- 42) **FINDING – The Budget proposes targeted relief for non-residents adversely affected by the withdrawal of non-resident marginal relief. The Minister for Treasury and Resources has lodged an amendment to the Budget to make the relief effective from the 2018 tax year.**

### Stamp Duty

- 43) The Budget introduces additional stamp duty relief for First Time Buyers by extending the bands so to include properties up to £500,000. At the same time, it eliminates stamp duty on mortgages on properties valued up to £600,000 with tapered relief up to £700,000.<sup>9</sup>

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<sup>7</sup> [Draft Budget Statement 2019: Fourth Amendment](#)

<sup>8</sup> [Hansard, 20<sup>th</sup> November 2018, p 30-31](#)

<sup>9</sup> Draft Budget Statement 2019 p 31

- 44) In order to fund the relief for First Time Buyers and mortgages the Budget details that stamp duty bands from £500,000 will be increased as set out below.<sup>10</sup>

**Figure 11 - Proposed increase to the standard rate of stamp duty/LTT on residential property**

Transaction value up to	Current rate	Proposed rate
£1 - £50k	0.5% up to £50k	0.5% up to £50k
£50,001 - £300k	1.5% on excess up to £300k	1.5% on excess up to £300k
£300,001 - £500k	2% on excess up to £500k	2% on excess up to £500k
£500,001 - £700k	<b>2.5%</b> on excess up to £700k	<b>3%</b> on excess up to £700k
£700,001 - £1m	<b>3%</b> on excess up to £1m	<b>3.5%</b> on excess up to £1m
£1,000,001 - £1.5m	<b>4%</b> on excess up to £1.5m	<b>4.5%</b> on excess up to £1.5m
£1,500,001 - £2m	<b>5%</b> on excess up to £2m	<b>5.5%</b> on excess up to £2m
£2,000,001 - £3m	<b>6%</b> on excess up to £3m	<b>6.5%</b> on excess up to £3m
£3,000,001 - £6m	<b>8%</b> on excess up to £6m	<b>8.5%</b> on excess up to £6m
£6,000,001+	<b>9%</b> on excess	<b>9.5%</b> on excess

- 45) As part of our review of the Budget, we gathered evidence from a number of property professionals on the stamp duty provisions proposed by the Budget.
- 46) We also looked at the structure of the stamp duty bands in Jersey and how they compared to other jurisdictions. We found that the U.K. had five stamp duty bands in comparison to Jersey's ten.<sup>11</sup> In addition, very few jurisdictions have more than 5 bands.
- 47) The general view from the submissions we received was that Jersey has too many stamp duty bands.
- 48) **FINDING – Jersey has 10 stamp duty bands, which is more than most comparable jurisdictions.**
- 49) **RECOMMENDATION – The number of stamp duty bands should be reduced. We have lodged an amendment to the Budget which would reduce the number of stamp duty bands to 5.**
- 50) In the public hearing with the Minister for Treasury and Resources on 16<sup>th</sup> October 2018 the Panel questioned the Minister on the graduated increases to the stamp duty rates on the middle bands in comparison to the U.K. The Deputy Comptroller of Taxes stated:

“I think one thing is to remember that one of the tax policy principles is around being internationally competitive, although you are right to highlight the U.K.

<sup>10</sup> Draft Budget Statement 2019 p 32

<sup>11</sup> <https://www.gov.uk/stamp-duty-land-tax/residential-property-rates> - Last accessed on 16<sup>th</sup> November 2018

I think particularly at that top end of the market we are looking at historically where have we seen our 1(1)(k) or 2(1)(e) population come from? It has historically been coming out of the U.K. and in some ways, although you are benchmarking into the U.K., I think in terms of those higher levels we also have to benchmark against other jurisdictions in which people leaving the U.K. are looking to move too and checking our overall package. So it is a balancing act between sort of getting that right overall package.”<sup>12</sup>

- 51) The evidence we received from property professionals suggests that remaining internationally competitive is not a particular concern when considering the stamp duty regime. For example;

**Skipton International Ltd**<sup>13</sup>

“I see any changes made should be to assist locally qualified purchasers to buy their own property, and for applicants that have been given qualifications through being essentially employed, and plan to stay in the Island for the long term, adding to the growth of the local economy, therefore no impact on us remaining competitive internationally”

- 52) We were encouraged to see the addition of further relief for First Time Buyers (up to £500,000) which was echoed in the submissions received from the industry. The Mortgage Shop commented whilst the provisions were welcome the impact which would be seen was marginal due to the shortage of properties at this price range.<sup>14</sup>

- 53) In the public hearing on 31<sup>st</sup> October 2018 the Minister for Treasury and Resources acknowledged the supply shortage of homes for First Time Buyers and told us that this would form part of the next Island Plan, which is due to be debated in 2020.<sup>15</sup>

- 54) The Law Society Conveyancing Sub Committee felt that the First Time Buyer provisions did not go far enough:

“Where we feel there is a discrepancy is in the upper first time buyer band of £500,000. Most 3 bed roomed houses will come in above that price and we therefore feel that the first time buyer upper relief limit should increase to £600,000 which then also brings it into line with the proposed loan stamp relief for properties below £600,000.”<sup>16</sup>

- 55) The Jersey House Price Index report for Third Quarter 2018<sup>17</sup> state that the mean average prices for the third quarter of 2018 are:

- 2 bedroom house £471,000
- 3 Bedroom house £589,000
- 4 Bedroom house £908,000

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<sup>12</sup> [Quarterly Public Hearing with the Minister for Treasury and Resources 16<sup>th</sup> October 2018, p 14](#)

<sup>13</sup> [Skipton International Ltd Submission](#)

<sup>14</sup> [The Mortgage Shop Submission](#)

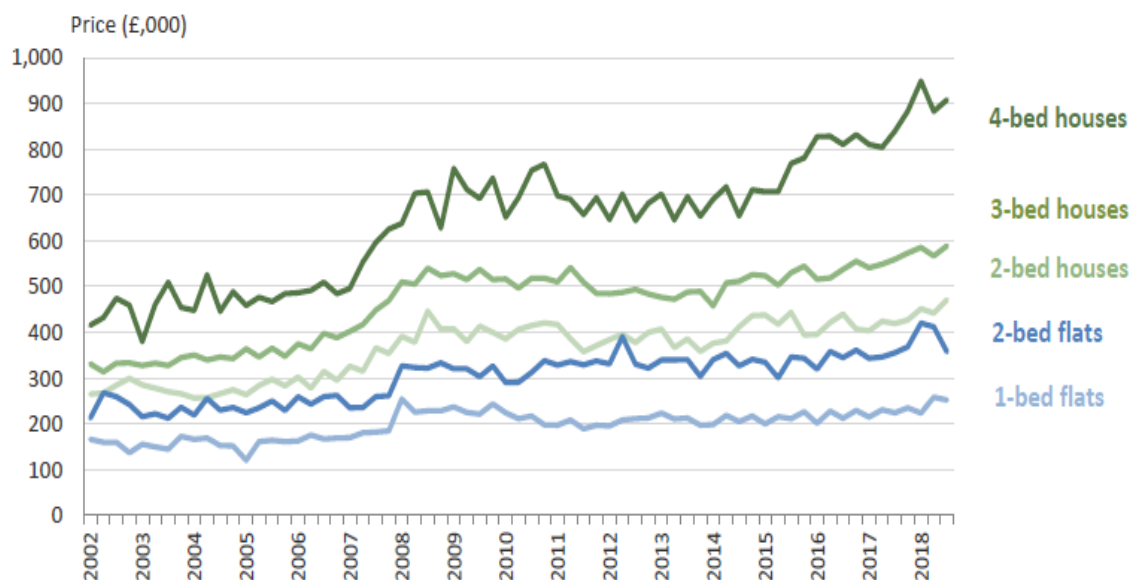
<sup>15</sup> [Public Hearing with the Minister for Treasury and Resources, 31<sup>st</sup> October 2018, p 8-9](#)

<sup>16</sup> [Law Society Conveyancing Sub Committee](#)

<sup>17</sup> [Jersey House Price Index report for Third Quarter 2018](#)

- 56) The below graph taken from the Jersey House Price Index report for Third Quarter 2018<sup>18</sup> shows the mean average house price trend for the main categories of residential property in Jersey.

Figure 12 – Mean prices (£,000) for the individual property types, Q1 2002 to Q3 2018



- 57) When reviewing the increases to the stamp duty rates we wanted to understand what effect these increases, if any, the changes would have on the market. Both Broadlands<sup>19</sup> and Cherry Godfrey<sup>20</sup> commented that the increase to stamp duty over £500,000 could have the outcome of putting off people from upsizing and remaining in their current property for longer thereby frustrating the supply of properties to the lower end of the market further.
- 58) **FINDING – in order to improve supply in the lower end of the market, stamp duty could be reduced in the higher brackets in order to encourage people to upsize. In a situation where there is low supply in the housing market, the only solution is to encourage movement within the market.**
- 59) From evidence received from both the Minister for Treasury and Resources<sup>21</sup> and in written submissions one of the key issues facing the market is the lack of supply of homes at the lower end of the spectrum. Cherry Godfrey expressed concern that the increase to the bands between £600,000 and £1 million, which has a slower turnover than the market to £600,000, could slow that sector of the market further and would further encourage families to extend.<sup>22</sup>
- 60) **FINDING – More needs to be done to help the slow turnover rate in the housing market between £600,000 and £1 million. This will in turn help to free up houses in the brackets below (particularly for First Time Buyers).**

<sup>18</sup> [Jersey House Price Index report for Third Quarter 2018](#)

<sup>19</sup> [Broadlands Submission](#)

<sup>20</sup> [Cherry Godfrey Submission](#)

<sup>21</sup> [Public Hearing with the Minister for Treasury and Resources, 31st October 2018, p 7](#)

<sup>22</sup> [Cherry Godfrey Submission](#)

- 61) **RECOMMENDATION – The stamp duty on residential property transactions between £600,000 and £1 million should be reduced. Our amendment to the Budget reduces the stamp duty for these bands by up to 1%.**
- 62) **RECOMMENDATION – In order to pay for reduced stamp duty between £600,000 and £1 million, we recommend that stamp duty on properties above £3 million be increased, as set out in our amendment to the Budget.**
- 63) John Shenton commented that changes made in the Draft Budget “seem to be very simplistic”<sup>23</sup> and that more work was not done in exploring other options like additional stamp duty on buy to let properties, second properties and non-resident investors.
- 64) When we put the possibility of introducing a separate buy to let stamp duty rate to the Minister for Treasury and Resources in the public hearing on 31<sup>st</sup> October 2018, We received the following responses:

**Director of Financial Planning and Performance** <sup>24</sup>

“You need to be careful that extra costs do not get passed on to the people that they are letting to, of course. So we would need quite a bit of work behind that.”

**Deputy Comptroller of Taxes** <sup>25</sup>

“The only other thing to stress is from a tax administration point of view. The U.K., one of the things they have been looking at is around the fact of what happens if the person buys it while they are non-resident, and then becomes resident within a reasonable period of time after that. Do they then end up with a refund? That is not saying the U.K. are thinking of moving away from that, but they are just continually working through the administration challenges that come with that. There are just some interesting aspects of that measure as well.”

- 65) **RECOMMENDATION – The Minister for Treasury and Resources should undertake more work to investigate the feasibility of introducing a buy-to-let rate of stamp duty and report to the Assembly in the next Budget.**

## Business taxation

- 66) The Budget does not propose any substantial changes to business taxation. However, alongside the Budget, the Minister has lodged legal changes in relation to economic substance.
- 67) The Economic Affairs Scrutiny Panel is reviewing the economic substance legislation in more detail, but the submissions received to our budget review are fairly positive about the proposals.

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<sup>23</sup> [John Shenton submission](#)

<sup>24</sup> [Public Hearing with the Minister for Treasury and Resources, 31<sup>st</sup> October 2018, p 9](#)

<sup>25</sup> [Public Hearing with the Minister for Treasury and Resources, 31<sup>st</sup> October 2018, p 10](#)

- 68) We received evidence from stakeholders in relation to two measures that were absent from the budget: the Retail Tax and the GST de minimis level.
- 69) Both the Jersey Retail Association and the Chamber of Commerce expressed disappointment that the Budget maintained the Retail tax at a rate of 20%.

### **Jersey Chamber of Commerce**

“Members were disappointed that no further review of an uncompetitive 20% Retail Tax was undertaken. We understand until Treasury can review the value or damage that such a tax has had over several years, they are unwilling to alter this tax. This appears to be a wholly unsatisfactory and risky strategy for the Retail Sector to endure and adds to supply concerns that may occur through Brexit. Retailers have been and are willing to move to a 10% tax, comparative to Financial Services and competitive to investment, whilst maintaining a healthy contribution from the sector.”<sup>26</sup>

### **Jersey Retail Association**

“Corporation tax is currently set at 19% in the UK and is set to reduce to 17% by 2020. Against these figures, a 20% tax for retail businesses in Jersey is uncompetitive and will discourage further retailers from coming to Jersey. This will keep the empty shops empty, cause further losses in tax on rentals, GST, and personal tax from the shrinking workforce.

The 20% retail tax is also a significant barrier to retail investment among stores currently trading in the Island...

...The introduction of this tax is likely to result in increased food prices, which will affect the least well-off Islanders the most. It is estimated that costs will be passed onto the consumer at a rate of 1-2%<sup>27</sup>. This price increase will only increase the sales going to off-island internet providers such as Amazon Pantry, who contribute nothing to the Jersey economy.

In conclusion, the JRA calls for:

- The retail tax to be amended to 10% in line with the finance industry.
  - A full review of the impact that levying a 10% tax on retailers will have on the future of the industry in Jersey.”<sup>28</sup>
- 70) The Retail Association also pointed to the tied vote on the tax in the States Assembly in April 2018, where one additional vote would have led to a reduction of the tax to 10%.<sup>29</sup>
- 71) Noting an amendment to the Budget lodged by the Connétable of St Helier which proposes to reduce the retail tax to 10%, John Shenton suggested to us that from a tax perspective, the retail tax would make little difference to retailers:

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<sup>26</sup> [Jersey Chamber of Commerce submission](#)

<sup>27</sup> The Jersey Retail Association clarified that this figure was taken from the estimate of the impact on prices included in the economic and distributional analysis of the retail tax in the [2018 Budget](#), p143.

<sup>28</sup> [Jersey Retail Association submission](#)

<sup>29</sup> [Jersey Retail Association submission](#)

“I see little merit in the proposal of the Connétable of St Helier in relation to the retail tax. If the businesses are locally owned then the ultimate beneficial owner will benefit from any tax paid. If the beneficial owners are off-island then they are simply utilising Jersey’s resources and taking funds off island with no tax payable or input into the local economy. Most businesses are fully standard rated for GST so they suffer no adverse indirect tax consequences either. It is expected that most large businesses operating in Jersey will enjoy some relief for the tax paid in Jersey and therefore the imposition of the retail tax is not ultimately detrimental to the larger retailer. The argument that CT [Corporation Tax] in the UK is reducing could cause additional overall tax to be payable but the difference is relatively negligible.

There are many aspects to retail in Jersey being in decline but one does not believe that the retail tax will have a material affect except allowing more profits to leave the island tax free. It should be remembered that pre-priced supermarket items include UK VAT which is generally not deducted in Jersey. It should be noted that it is only certain food items that are zero rated not all – VAT (at 20%) is still charged on most weekly essentials (toilet roll, washing powder, chocolate, wine, most soft drinks etc.) and therefore one would suggest that a true price comparison is undertaken (net of VAT) before any changes are made to the retail tax. If one had a comment it would be why the limit was set so high (£500,000) and has not been extended to more retailers.”<sup>30</sup>

- 72) The Chamber of Commerce also drew attention to the absence of proposals to reduce the GST deminimis level on imported goods:

“with no action on the issue of GST on imported goods below the current deminimis level this was seen as a missed opportunity to raise taxation in a fair manner in that expected of local retailers...

...Before making a decision, they need to understand what the real financial implications are as at the moment the only stats they can give are the cost of administering a reduced threshold of £100 would only result in the £900,000 they will receive. However, they cannot apparently quantify what the impact would be of removing it altogether. I also think that there is too much discussion around the cost to the man on the street of removing the deminimis, which is negligible in a lot of cases – the primary reason that most people use the internet is range of goods and convenience and removing the deminimis isn’t going to change that behaviour significantly.”<sup>31</sup>

## Impôts and Duties

- 73) The Budget proposes increases in alcohol duties of 3.5%, in line with average earnings increases.<sup>32</sup>

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<sup>30</sup> [John Shenton supplementary submission](#)

<sup>31</sup> [Jersey Chamber of Commerce submission](#)

<sup>32</sup> Draft Budget Statement 2019, p 41

- 74) Tobacco duties are increased by 9.5% (which is 5% above inflation), with bigger increases on hand rolling tobacco (as part of a policy to close the gap in duty with cigarettes).
- 75) In response to a question about the links between duty rises and the corresponding health benefits, the Assistant Minister for Treasury and Resources told us that he did not consider that the evidence supported rises in alcohol duty and that he voted against any increases in duty:

**Assistant Minister for Treasury and Resources:**

“I did not want any increases in alcohol tax at all. I do not think there is any real evidence that the higher prices have greatly reduced alcohol intake. What we also see is that people will drink, they will find a way to drink, and it affects the people right at the lower stratus of society because they will go out and still find that money and perhaps the families beneath them suffer for that purpose. I do not think we should be looking to keep putting alcohol up. It is already more expensive to drink in Jersey than it is in central London, and that is not good. You get a lot of tourists come over and one of the main points they make is how expensive Jersey is to come to. In the end, although I voted against it, it was agreed that we would impose some tax on alcohol. It is below the cost of living. R.P.I. (retail price index) was 4.5, we have gone for 3.5 on the alcohol.”<sup>33</sup>

- 76) The Assistant Minister also pointed to the high pre-tax cost of alcohol in Jersey, in comparison with the UK:

**Assistant Minister for Treasury and Resources:**

“...There is another part to that though, why it runs too high. Because the price of a pint of beer in Jersey is 50p higher than in the U.K. now, on average. However, our tax is slightly lower than the U.K., so there is a discussion to be had with the brewers and people who provide that, which I am going to have because again the hospitality sector is being hit by this...”

- 77) We asked whether, with continued rises in tobacco duties, there will come a point when it is prohibitively expensive to smoke. The Minister told us:

“So we looked at all sorts of initiatives on this front and I am not convinced that this huge increase will make the difference to those who really desperately want to smoke, in the same way as those who desperately want to drink will find a way to do it.”

The Assistant Minister added:

“There is a danger also with tobacco that if you do put it up too much, I know we have discussed this, you do move in towards a black market in cigarettes, which you have seen in England. Particularly some of those cigarettes in England are not really the sort of cigarettes you want to be smoking. They are not properly made. So it is a

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<sup>33</sup> [Public Hearing with the Minister for Treasury and Resources, 31<sup>st</sup> October 2018, p 10](#)



danger. If you get too far down the line you move into territory we would not really want to be moving into, I do not think.”<sup>34</sup>

- 78) We received little evidence from stakeholders on the proposed changes to duties, although the Chamber of Commerce highlighted the inflationary potential of the rises and questioned the level of consultation that had been undertaken:

“Some members felt the increase in Impôts levels, unlike UK, was significantly inflationary leading to upward costs. It is uncertain who was consulted with on these rises.”<sup>35</sup>

- 79) In light of moves in other jurisdictions to implement a sugar tax on fizzy drinks, we were interested to find out what consideration had been given to introducing a similar tax in Jersey.

- 80) The Minister told us that, while a tax had been discussed, the government was waiting to see how the UK implemented its own tax before similar legislation was considered in Jersey.

- 81) We also asked whether any future tax could be widened to include other sugary foods, in light of the associated health implications. The Comptroller of Taxes told us:

**Comptroller of Taxes:**

“That again is where the U.K., with all the resources available to it, only limited it to sugary drinks because it was easy to do. I think once you go on to other sugar containing products then it becomes potentially an administrative nightmare. You would certainly want to see what the larger jurisdictions are doing before you embarked on that, I would suggest.”<sup>36</sup>

- 82) **FINDING – We were disappointed in the lack of engagement by the Treasury with a sugar tax and surprised by the lack of willingness to investigate alternative revenue streams designed to improve lifestyle choices as seen in other jurisdictions.**

## Reserves

- 83) The Budget includes an updated forecast for the Consolidated Fund (the equivalent of the States’ current account). This shows a much higher forecasted balance than previously expected.<sup>37</sup>

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<sup>34</sup> [Public Hearing with the Minister for Treasury and Resources, 31<sup>st</sup> October 2018, p 12](#)

<sup>35</sup> [Jersey Chamber of Commerce submission](#)

<sup>36</sup> [Public Hearing with the Minister for Treasury and Resources, 31<sup>st</sup> October 2018, p 15](#)

<sup>37</sup> Draft Budget Statement 2019, p 95

**Figure 30 – Detailed Forecast of Consolidated Fund 2017-2019 (September 2018)**

Revised Forecast Consolidated Fund Balance	Forecast Update for Draft Budget 2019 (September 2018)		
	Outturn	2018	2019
	2017 £'000	£'000	£'000
<b>Opening Balance brought forward</b>	<b>90,941</b>	<b>119,634</b>	<b>126,599</b>
Accounting Adjustment in 2017 Accounts	(109)		
<b>Adjusted Opening Balance brought forward</b>	<b>90,832</b>	<b>119,634</b>	<b>126,599</b>
States Income	767,252	783,707	826,338
States Net Revenue Expenditure	(703,811)	(772,583)	(763,227)
Carry Forwards adjustments	(13,261)	56,856	28,382
Transfers between capital and revenue	(7,210)	(18,228)	-
<b>Operating Surplus/(Deficit)</b>	<b>42,970</b>	<b>49,752</b>	<b>91,493</b>
<b>Funding for Capital Programme</b>	<b>(26,209)</b>	<b>(43,233)</b>	<b>(32,975)</b>
Capital Approval in Year for Les Quennevais School	(39,000)		
Additional in Year Capital Funding		(6,500)	
<b>Transfers from Strategic Reserve</b>			
Funding for Les Quennevais School	39,000		
Funding for Annual Capital Programme	16,273		
<b>Transfers to Strategic Reserve</b>			
Repayment for Economic and Productivity Growth Provision	(5,000)		
<b>Proposed Transfers to Stabilisation Fund</b>			(50,000)
<b>Proposed Asset Disposals</b>	<b>506</b>	<b>446</b>	<b>-</b>
<b>Original Proposed Transfer from COCF</b>		<b>6,500</b>	
Other Movements	262		
<b>Forecast Closing Balance carried forward</b>	<b>119,634</b>	<b>126,599</b>	<b>135,116</b>
<b>2019 Proposed Budget Measures</b>			<b>1,303</b>
<b>Forecast Closing Balance carried forward (including 2019 Proposed Budget Measures)</b>	<b>119,634</b>	<b>126,599</b>	<b>136,419</b>
<b>Forecast Closing Balance carried forward (Budget 2018 as amended)</b>		<b>56,848</b>	<b>60,305</b>
Opening balance from improved 2017 outturn		40,148	40,148
Reduced asset disposals		(554)	(1,554)
Increased operating surplus due to improved income forecasts		30,157	66,217
No transfer to Strategic Reserve			20,000
Transfer to Stabilisation Fund			(50,000)
2019 Proposed Budget Measures			1,303
<b>Difference in Closing Consolidated Fund Balance between Budget 2019 and Budget 2018</b>		<b>69,751</b>	<b>76,114</b>

- 84) The primary reasons for this are higher forecast tax receipts in 2018 and 2019, as well as a surplus from the 2017 financial year.
- 85) This means that the Consolidated Fund is expected to have closing balances of £126 million in 2018 and £136 million in 2019. This compares to previous forecasts of £57 million and £60 million respectively.

- 86) As can be seen from the following extract, the current MTFP (2016-2019) has a target working balance on the consolidated fund of £20 million. The previous MTFP (2013-2015) had a target balance of £10 million. Therefore, the outturn for 2017 and the forecast balances in 2018 are considerably in excess of this.

**“Establishing a working balance on the Consolidated Fund**

The first MTFP 2013-2015 proposed to maintain at least a working balance of £10 million over the three-year period. The MTFP 2016-2019 proposed to re-establish a £20 million target balance for the Consolidated Fund which annual Budget measures would also seek to maintain. The MTFP Addition proposes to maintain the £20 million target balance because this level of balance provides an initial contingency against variations in income and is consistent with the Fiscal Framework (R.107/2015).<sup>38</sup>

The balance will provide some time for off-setting measures to be introduced in future budgets without requiring the Council of Ministers having to immediately return to the States. A balance of £20 million provides for a 3% variation on current forecasts of States income in any year.”

- 87) The Budget states that the reason for running high surpluses in the Consolidated Fund is to provide “a level of flexibility against variations in the income forecasts ...” and “flexibility in developing funding proposals for the Government Plan”<sup>39</sup>.
- 88) **FINDING – It is highly unusual to amass large surpluses in the Consolidated Fund without either transferring to reserves or having a plan to spend the money.**
- 89) **RECOMMENDATION – In a period of uncertainty as a result of Brexit, there is a lack of political direction regarding the high balances in the Consolidated Fund. The Council of Ministers should clearly state now what the plan for these balances is, rather than wait for the Government Plan to be prepared further down the line.**
- 90) In addition to the forecast balances on the Consolidated Fund, the Budget proposes to transfer £50 million into the Stabilisation Fund “to provide for future economic stimulus as required, in the event of a downturn in the economy”.<sup>40</sup>
- 91) This replaces a transfer of £20 million to the Strategic Reserve which had previously been planned for 2019 (repaying funds drawn out of the Strategic Reserve in 2016 and 2017).
- 92) The forecast balances on the Strategic Reserve are £889 million in 2018 and £933 million in 2019.<sup>41</sup>

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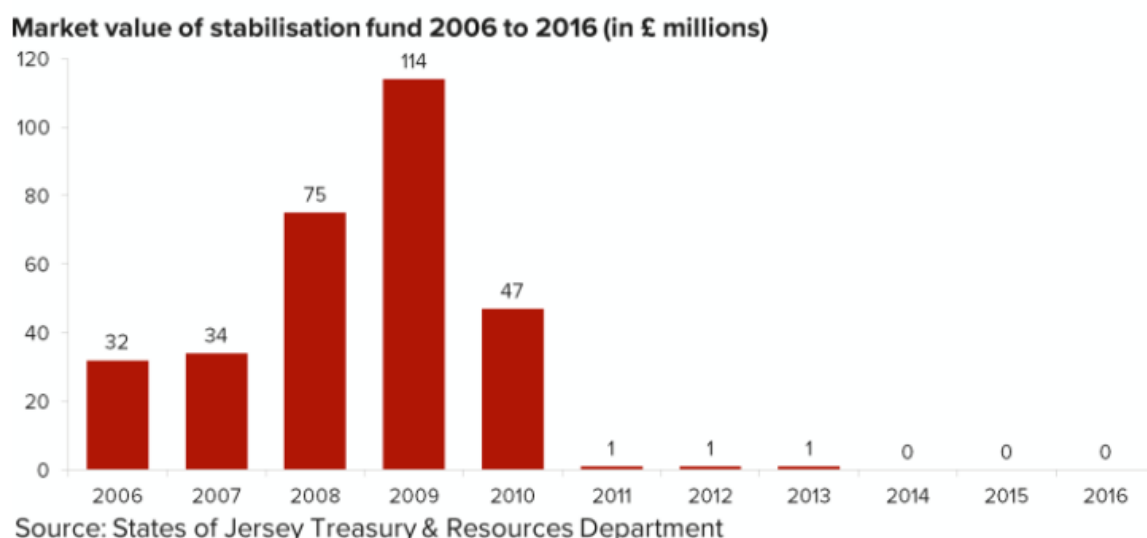
<sup>38</sup> [See MTFP Addition 2017-2019, p1 28](#)

<sup>39</sup> Draft Budget Statement 2019, p 96

<sup>40</sup> Draft Budget Statement 2019, p 96

<sup>41</sup> Draft Budget Statement 2019, p 97

- 93) The Stabilisation Fund was last used by the States between 2006 and 2014. Significant withdrawals were made between 2009 and 2011 to support the Island’s economy and Government spending.<sup>42</sup>



- 94) In their October 2018 report, the Fiscal Policy Panel (the “FPP”) recommend that surplus funds available to the Government should be added to the Stabilisation Fund and that the States should set out a plan to bring the value of both funds to their optimum level to meet their objectives.

“The further surpluses forecast for 2018 and 2019 will mean that the balance on the Consolidated Fund will continue to grow. This has allowed Budget 2019 to propose a transfer of £50m to the Stabilisation Fund. This is instead of the £50m transfer to the Strategic Reserve in 2019 which was originally planned, and is intended to act as a buffer against any consequences that may arise from the short-term uncertainties that face the global and local economies.

The transfer of £50m to the Stabilisation Fund is in line with the Panel’s advice in its August 2018 letter. However... the forecast balance on the Consolidated Fund remains significant. Budget 2019 indicates that this is designed to meet the need for flexibility as the Government Plan is progressed, not least because of the considerable capital investment required.”<sup>43</sup>

- 95) The FPP also provides analysis of Jersey’s “automatic stabilisers” which shows that they are relatively limited in comparison with other OECD economies, which they say reinforces the need to consider boosting the Stabilisation Fund.<sup>44</sup>

<sup>42</sup> Further information available at: <https://www.gov.je/Government/JerseyInFigures/GovernmentAccounts/Pages/TaxReceipts.aspx>

<sup>43</sup> [Fiscal Policy Panel 2018 Annual Report, p 39](#)

<sup>44</sup> [Fiscal Policy Panel 2018 Annual Report, p 40](#)

- 96) We asked Treasury officials about the rationale for using the Stabilisation Fund. They told us:

**Deputy S.M. Ahier:**

“While we are on the Stabilisation Fund, of course, this was set up by Terry Le Sueur in 2006, and there was £32 million put in the first year and then £63 million transferred in 2009. By 2011 there was only £1 million left in the fund. So the money was fairly frittered away. Would that be the same intention this time round?”

**Director for Financial Planning and Performance:**

The money was allocated through quite a robust process of fiscal stimulus. A number of capital schemes formed part of that. Also there was some money allocated to changes within the Social Security system.

**Deputy Comptroller of Taxes:**

The important thing about the Stabilisation Fund is sort of the purpose of the Stabilisation Fund is to support the economy during the economic cycle. In good parts of the economic cycle, consistent with what the F.P.P. are saying, you pay into the fund and then through the downturn in the economic cycle you then take money out of the fund to support the economy. In some ways, having next to nothing in the Stabilisation Fund in 2011 reflects where we were in terms of the economic cycle. Here we are now with F.P.P. advice saying we are probably towards the top end of putting money back in. That cycle that we are seeing is not a surprise in the light of how the economic cycle moved through 2008 to 2010, et cetera.”<sup>45</sup>

## Funding Pressures

- 97) In light of the high balances on the Consolidated Fund and the Stabilisation Fund, we wanted to know whether some of the surplus funds could be used to relieve short term funding pressures.
- 98) By means of an example, and as part of our review of the Budget, we visited the charity Brighter Futures. Brighter Futures supports families with parenting and life challenges and delivers the sort of services that fit with the Council of Ministers’ Strategic priority to “Put Children First”.
- 99) We saw at first hand the work that the charity does with families. The charity explained to us that there was a need to provide additional support to families with more complex needs where Children’s Services are involved.
- 100) Brighter Futures previously provided support to these families, but has had to reduce that work as the costs involved are double what it would normally cost to support a family.<sup>46</sup>

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<sup>45</sup> Public Hearing with Minister for Treasury and Resources, 31<sup>st</sup> October 2018, p 25

<sup>46</sup> [Brighter Futures Submission, p 4](#)

- 101) We also heard from Trade Union representatives about the current negotiations over public sector pay. It was explained to us that the Trade Unions had asked for pay rises equivalent to increases in the cost of living (i.e. the Retail Price Index).

**Vice-Chairman, J.C.S.A./Prospect:**

“Our claim is for a cost of living rise. Cost of living for 2018, which was 3.1 per cent based on September 2017; that is the agreed figure that cost of living is going to be considered September in the year before the negotiating year in pay negotiations. Then we are now putting in a similar claim for 2019 based on 4.3 per cent.”<sup>47</sup>

- 102) The Unions explained that they had been told that there was not enough money available to make pay awards equivalent to the cost of living and a lower amount had been offered instead:

“...We have been offered 1 per cent for 2018, 1 per cent for 2019, and the rest is unconsolidated. The unconsolidated part is a one-off payment, it is not part of people’s pay increases, it is just a single lump sum ...”<sup>48</sup>

- 103) The Unions had been told that the money allocated in the current MTFP for pay awards did not allow for the claim submitted. The Chief Minister acknowledged the constraints within the current MTFP:

**The Connétable of St. Peter:**

“Chief Minister, so given you are constrained by the Medium Term Financial Plan in accessing large balances on the Consolidated Fund, have you looked at how you could reprioritise money from existing budgets to fund pay rises?

**The Chief Minister:**

I think it is a fair comment to say that we are acutely aware we are constrained by the spending limits that, you know, are in this present Medium Term Financial Plan. It ultimately comes down to if we reprioritise the money has to come from somewhere by the real definition and what does that do? So the discussions, as I said, which are being lead obviously by the States Employment Board and then obviously the Chief Executive and the H.R. (human resources) team are trying to continue to work in the envelope they have.”<sup>49</sup>

- 104) Within a 4 year financial planning cycle, it is highly likely that funding pressures will emerge (particularly towards the final year) that would not have been predicted at the start of the cycle.

- 105) With 2019 being the final year of the current 4 year MTFP, we asked Treasury officials what flexibility there was to amend the MTFP to take account of new spending pressures such as those we have identified above:

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<sup>47</sup> [Public Hearing with Trade Unions, 14<sup>th</sup> November 2018, p 9](#)

<sup>48</sup> [Public Hearing with Trade Unions, 14<sup>th</sup> November 2018, p 9](#)

<sup>49</sup> [Quarterly Public Hearing with the Chief Minister, 5<sup>th</sup> November 2018, p 7](#)

**Deputy S.M. Ahier:**

“What is preventing you to coming back to the States Assembly to ask for approval for additional expenditure over what was approved in the Medium Term Financial Plan?”

**Director for Financial Planning and Performance:**

Basically, the Public Finances Law, as it is written, does not allow the Minister to ask to spend more money without it meeting certain criteria and they have to be extraordinary matters, as opposed to just general matters.”<sup>50</sup>

- 106) Although we were told that additional expenditure had to be extraordinary (and earlier in the hearing, we were told that this could only be done in a state of emergency<sup>51</sup>), we note that Article 9 of the Public Finances law does allow the Minister for Treasury and Resources to amend an MTFP where the Council of Ministers is satisfied that “there is an urgent need for expenditure”.<sup>52</sup>
- 107) The Jersey Civil Service Association suggested to us in their submission that this could be a mechanism to overcome the “straight-jacket” that the current MTFP imposes on expenditure.<sup>53</sup>
- 108) **FINDING – The structuring of the MTFP in the Public Finances Law is restrictive and has led to constraints on expenditure in the final year of the MTFP, even when there are surplus funds accumulated in the Consolidated Fund and the States’ Reserves.**
- 109) **FINDING - It is the Panel’s view that the Treasury Minister has the tools available to amend the MTFP to tackle the constraints on expenditure if the Council of Ministers is determined to do so.**
- 110) **RECOMMENDATION – The Minister for Treasury and Resources should bring forward a proposition as soon as possible to amend the MTFP in accordance with Article 9(2)(ca) of the Public Finances Law on the basis that there is an urgent need for expenditure in 2019 to fund emerging priorities in relation to the Common Strategic Policy and to resolve the public sector pay dispute.**

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<sup>50</sup> [Public Hearing with the Minister for Treasury and Resources, 31<sup>st</sup> October 2018, p 24](#)

<sup>51</sup> [Public Hearing with the Minister for Treasury and Resources, 31<sup>st</sup> October 2018, p 19](#)

<sup>52</sup> [Public Finances \(Jersey\) Law 2005, Article 9\(2\)\(ca\)](#)

<sup>53</sup> [Jersey Civil Service Association submission, p 9](#)

## Financial Forecast and Economic Outlook

111) The Budget outlines the financial forecast from 2018 to 2023 as follows<sup>54</sup>:

**Figure 23 – Summary of Updated Financial Forecast for draft Budget 2019 (September 2018)**

Outturn	Financial Forecast	Draft Budget 2019 Forecast (September 2018)					
		Forecast			Indicative		
		2018	2019	2020	2021	2022	2023
2017							
£'000		£'000	£'000	£'000	£'000	£'000	£'000
	<b>States Income</b>						
514,930	Income Tax	529,000	566,000	597,000	625,000	655,000	688,000
87,946	Goods and Services Tax	90,517	92,358	93,482	94,538	95,728	96,833
59,999	Impôts Duty	62,109	62,785	62,679	62,692	62,816	62,960
33,283	Stamp Duty	34,736	35,366	35,008	35,771	36,557	37,366
12,427	Island Wide Rate	12,825	13,261	13,698	14,150	14,617	15,100
12,323	Other Income (Dividends)	14,224	14,422	9,768	10,442	11,125	11,586
17,927	Other Income (Non-Dividends)	11,337	11,727	12,326	12,380	12,788	12,873
28,417	Other Income (Returns from Andium and Housing Trusts)	28,959	30,419	31,493	32,582	33,708	34,871
<b>767,252</b>	<b>Total States Income</b>	<b>783,707</b>	<b>826,338</b>	<b>855,454</b>	<b>887,555</b>	<b>922,339</b>	<b>959,589</b>
<b>703,811</b>	<b>Total Net Revenue Expenditure</b>	<b>772,583<sup>1</sup></b>	<b>763,227<sup>2</sup></b>	<b>828,941</b>	<b>869,329</b>	<b>904,350</b>	<b>940,051</b>
<b>63,441</b>	<b>Forecast Surplus/(Deficit) for the year</b>	<b>11,124</b>	<b>63,111</b>	<b>26,513</b>	<b>18,226</b>	<b>17,989</b>	<b>19,538</b>
40,063	Departmental Depreciation	45,500	53,000	54,802	56,610	58,479	60,408
<b>23,378</b>	<b>Indicative Surplus/(Deficit) of General Revenue Expenditure over Income</b>	<b>(34,376)</b>	<b>10,111</b>	<b>(28,289)</b>	<b>(38,384)</b>	<b>(40,490)</b>	<b>(40,870)</b>
	<i>2019 proposed Budget Measures (for information only)</i>	-	1,303	1,176	1,176	1,176	1,176
<b>23,378</b>	<b>Indicative Surplus/(Deficit) including 2019 proposed Budget Measures</b>	<b>(34,376)</b>	<b>11,414</b>	<b>(27,113)</b>	<b>(37,208)</b>	<b>(39,314)</b>	<b>(39,694)</b>
	<sup>1</sup> Includes Carry Forwards from 2017 and Revenue to Capital transfers						
	<sup>2</sup> Includes Carry Forwards from 2018						

112) The forecasts show a deficit of expenditure over income of between £28 million and £40 million each year, with the exception of 2019.

113) We note that the forecasts only show a deficit after the deduction of depreciation. Without this deduction, there would be a surplus each year.

114) John Shenton, highlighted the inconsistency in income forecasts:

“It is also noted that the 2018 income is £30 million higher than predicted and 2019 £36 million higher. If one looks at previous budgets it would appear that forecasts are either continually pessimistic (as we seem to be annually surprised by the surpluses) or that the accuracy of underlying data needs to be reviewed or expanded.”<sup>55</sup>

115) Mr Shenton goes on to say:

“One may suggest that scrutiny ask the Income Forecasting Group (“IFG”) whether they are satisfied with the data that they have access to. At the recent presentation by the Fiscal Policy Panel (“FPP”) the panel suggested that although the results were in line with expectations the underlying assumptions used were not proved to be correct.

<sup>54</sup> Draft Budget Statement 2019 p 83

<sup>55</sup> [John Shenton Submission](#)



One would again question whether their role and the parameters that they have set (or been set) are wholly appropriate for an island economy and whether any changes are required to make forecasting more relevant to Jersey”<sup>56</sup>

- 116) The Budget refers to efficiencies and savings to be announced. Mr Shenton notes that:  
“the document does not make any attempt to determine when any of these savings will materialise (if at all) or the quantum of such savings.”<sup>57</sup>
- 117) Since the Budget was published, it has been announced that the savings for 2019 generated by the new Target Operating Model for the States will be an estimated £30 million. However the detail of how the savings will be achieved has not yet been published.
- 118) **FINDING – There is no allowance in the Budget for the savings generated by the new Target Operating Model.**

## Revenue Administration Law

- 119) Alongside the Budget, the Minister has lodged the Revenue Administration Law. The Budget explains that the Revenue Administration Law.  
“brings together many of the administrative provisions currently distributed among various tax laws. The new law enables the creation of Revenue Jersey; establishes the office of Comptroller of Revenue (in place of the existing office of Comptroller of Taxes); and introduces important modernisations to the administration of Jersey’s tax system, most of which has not been updated since 1961”
- 120) We intend to undertake a separate review of the Revenue Administration Law, the debate of which has been moved to 29 January at our request.
- 121) We have not looked in detail at the draft law yet, but note the comments of John Shenton:  
“The draft Revenue Administration Law (“RAL”) simply seeks to increase the powers of the Comptroller with no safeguards whatsoever for the taxpayer. It is disappointing that a paper on tax policy was produced in 2014 but other than seek to increase the Comptroller’s powers most of the other matters seem to have been ignored. It is noted that Scrutiny are seeking to put the debate in relation to the RAL back. I would strongly support this approach as the RAL, and overall tax policy needs to be reviewed in depth. Although little issue is taken with most of the proposals laid out within the draft, the RAL should only form a small and single part of a more detailed plan and without a clear and firm timeline to the implementation of the remaining parts one would not support the law being approved.”
- 122) We will consider these comments and seek the wider views of stakeholders in the coming weeks as part of our review.

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<sup>56</sup> [John Shenton submission](#)

<sup>57</sup> [John Shenton submission](#)

## Capital Programme and Growth

- 123) We received very few comments from stakeholders on either the capital programme or the proposed growth funding.
- 124) The capital programme for 2019 totals £35.9 million.
- 125) Of this total, £32.9 million is funded from money agreed in the MTFP and £3 million is transferred from unspent capital allocations (i.e. projects that did not proceed or did not use all of the funds allocated).<sup>58</sup>

**Summary Table C – Proposed Capital Programme for 2019 (funding sources)**

	Proposed Funding 2019 £'000
<b>Departmental Capital Allocation</b>	<b>35,993</b>
<b>Funding Sources</b>	
Consolidated Fund	(32,975)
Transfer of unspent capital	(3,018)
<b>TOTAL CAPITAL PROGRAMME FUNDING</b>	<b>(35,993)</b>

- 126) The Capital programme does not include major projects such as the Future Hospital, which are funded separately.
- 127) Among the capital projects scheduled for 2019, there are included two (“ERP Solution” and “Modernisation and Digital”) that are not funded yet. It was explained to us that these will be funded in 2019 from a reallocation of existing resources. Although no funds are to be allocated in the Budget, the Public Finances Law requires that they are included in the capital programme so that a head of expenditure can be set up.<sup>59</sup>
- 128) During the course of our review, we identified a concern in relation to a decision to transfer £3.7 million out of the 2018 capital programme into contingency. The rationale for the transfers was that the projects were either not going ahead or there were unspent contingency funds. It is proposed that some of the £3.7 million be used as part of the 2019 capital programme.
- 129) The decision, as published in [R.132/2018](#), concerned projects at Sandybrook care home (£1.2 million), homes for children with autism (£1.1 million), and a number of other smaller projects.
- 130) Although we were informed that it was part of routine good financial management to return unspent funds to contingency, we were concerned that the projects at Sandybrook and the children’s homes had not proceeded and asked for more information on the status of the projects, the reasons that they did not go ahead and the future plans.

<sup>58</sup> Draft Budget Statement 2019, p 109

<sup>59</sup> [Public Hearing with the Minister for Treasury and Resources, 31<sup>st</sup> October 2018 p 19](#)

- 131) The Minister for Treasury and Resources agreed to delay the transfer of funds out of the capital programme until we had received the information requested. In both cases, it became apparent that the amount of funding originally allocated to the projects was insufficient and that the projects had also been subject to a number of changes and delays during the design and development phases.
- 132) In relation to Sandybrook, it appears to us that the management of this capital project has been unsatisfactory over the last 6 years, leading to a situation where much needed refurbishment and renovation has not been carried out.
- 133) Having raised our concerns, we were disappointed at the time it took to provide us with the information we asked for. At the same time as this report went to print, we wrote to the Minister for Health and Social Services to ask for his policy objectives in these areas and will report to the Assembly during the Budget debate.
- 134) **FINDING – We have identified concerns regarding transfers out of the capital programme into contingency in relation to projects at Sandybrook Care Home and for homes for children with autism.**
- 135) **FINDING – It appears to us that the management of the capital project at Sandybrook Care Home has been unsatisfactory over the last 6 years, leading to a situation where much needed refurbishment and renovation has not been carried out.**
- 136) The growth expenditure for 2019 totals £20.5 million. The Budget highlights that:
- The amount of funding originally allocated to Health and Community Services is reduced by £4.6 million. This is predominantly because delivery of the Health Strategy agreed in 2012 (referred to as P.82/2012) is behind schedule.
  - An amount of £4.1 million is allocated to the Growth Housing and Environment Department to address the shortfall in its budget resulting from the rejection of the waste charge in 2017. A further shortfall of £6.9 million will be funded out of other savings in 2019.
- 137) The Budget also notes that once efficiencies arising from the implementation of the Target Operating Model are delivered, then the additional Health Growth can be reinstated.<sup>60</sup> This suggests that funding is being withheld from the health budget in the interim and provides additional evidence that, perhaps, the budget restrictions imposed by the MTFP process need to be looked at again.
- 138) As a more general point, we were concerned by recent reports that Ministers are not clear what the budgets for their portfolios are. This follows comments in a Scrutiny Hearing by the Minister for the Environment. We have heard other anecdotal comments along the same lines.

**The Minister for the Environment:**

“...On the financial side I have to say - and I think maybe I am going to ask Andy [Group Director, Regulation] to comment here - because I have absolutely no idea how

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<sup>60</sup> Draft Budget Statement 2019, p 59

much budget I, as Minister, am able to call upon or where those responsibilities are. When we had an Environment Department there was a very, very clear structure of budgets and accountability and I would have been in a position, I think, as Minister to ask officers to proceed if budgets would allow on certain matters...”<sup>61</sup>

- 139) There is clearly some uncertainty whilst the States' new Target Operating Model is implemented. It is important, however, that budgets for 2019 are finalised as soon as possible so that ministers and departmental director generals have certainty over the funds they are responsible for.

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<sup>61</sup> Environment, Housing and Infrastructure Scrutiny Panel, Quarterly Hearing with the Minister for the Environment, 13<sup>th</sup> November 2018

## Appendix

### Corporate Services Scrutiny Panel

Senator Kristina Moore - Chairman



Deputy Steve Ahier, St. Helier No. 3 – Vice Chairman



Deputy Jess Perchard, St. Saviour No. 3



Connétable Karen Shenton-Stone, St. Martin



Connétable Richard Vibert, St. Peter



## Terms of Reference

1. To consider the proposals of the Minister for Treasury and Resources in the Draft 2019 Budget Statement in respect of:
  - a. Personal Tax;
  - b. Stamp duties;
  - c. Business tax;
  - d. Impôts duty;
  - e. VED Proposals; and
  - f. Any other tax proposals, as set out in the Draft Budget Statement 2019.
2. To consider the Capital Programme for 2019-2020, as presented in the Draft Budget Statement.
3. To evaluate the proposed central growth allocation for 2019.
4. To evaluate proposals in relation to the States Reserves and any transfers to or from Reserves.
5. To consider proposed legislative changes arising from the Draft Budget Statement.
6. To consider the financial forecasts and the economic implications of the Minister's proposals in the Draft 2019 Budget Statement, including the potential impact of Brexit on the economy.

## Public Hearings

The Panel held two public hearings as part of the review:

- Public Hearing with the Minister for Treasury and Resources on 31st October 2018; and
- Public Hearing with JCSA/Prospect, Jersey Head Teachers Association and NASUWT on 14th November 2018.

Transcripts for the public hearings can be accessed via the States Assembly website.

Webcasts for the public hearings can be accessed via the [States Assembly webcast site](#).

## Evidence Considered

The Panel approached Mr. John Shenton, Director of Tax at Grant Thornton Limited to provide evidence as an expert witness. Mr Shenton's written submission can be accessed [here](#).

Connétable Karen Shenton-Stone declared an interest, in that Mr. Shenton is her brother.

All written submissions considered by the Panel in compiling its report can be viewed on the [States Assembly website](#).



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