

STATES OF JERSEY
Corporate Services Scrutiny Panel
Fiscal Strategy Review

MONDAY, 1st NOVEMBER 2010

Panel:

Senator S.C. Ferguson (Chairman)
Senator F. du H. Le Gresley
Deputy T. A. Vallois of St. Saviour
Mr. M. Oliver (Panel Adviser)

Witness:

President, Jersey Chamber of Commerce
Chairman, Financial Sub-Committee, Jersey Chamber of Commerce

Also Present:

Ms. S. Le Quesne (Scrutiny Officer)

[14:32]

Senator S.C. Ferguson (Chairman):

Thank you very much indeed for coming in to see us at this Corporate Services Scrutiny Panel on the F.S.R. (Fiscal Strategy Review). I wonder if now perhaps, for the convenience of the ladies doing the transcription you could say who you are and what your position is.

President, Jersey Chamber of Commerce:

President of the Jersey Chamber of Commerce.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

Chairman of the Financial Sub-Committee of Chamber of Commerce.

Senator F. du H. Le Gresley:

Francis Le Gresley, Senator.

Deputy T.A. Vallois of St. Saviour:

Tracey Vallois, Deputy of St. Saviour.

Senator S.C. Ferguson:

Sarah Ferguson, Chairman.

Mr. M. Oliver (Panel Adviser):

Mike Oliver, Adviser to the Committee.

Mr. S. Le Quesne (Scrutiny Officer):

Sam Le Quesne, Scrutiny Officer.

Senator S.C. Ferguson:

Sure, now I am sorry ...

President, Jersey Chamber of Commerce:

We are a double act, by the way, Rob and I.

Senator S.C. Ferguson:

We were hoping that Dr Kern was coming.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

David Kern? No, no.

Senator S.C. Ferguson:

We might try our economic type questions on the pair of you. But anyway you have the floor, gentlemen.

President, Jersey Chamber of Commerce:

You have seen our response to the *Personal Taxation White Paper*, really nothing has changed in that. Nothing that has happened since with the budget and everything like that has really changed our view. Our view is that really Government spending is the main problem, has been the main problem, and it is something that we have been going on about for ... under previous presidents, under Clive Spears and Kevin Keen. You mentioned David Kern, David did a number of reports for us at Chamber about 3 or 4 years ago when he highlighted this but nobody was listening. Now people are listening and that is really the problem that government spending in 2005 was £368 million, this current year is £606 million, and that is really the problem. It is not a lot more than that really. That is the biggest issue that those ... what I described on the radio last week as prolific overspending. It is really as simple as that.

Senator S.C. Ferguson:

Yes, now if we can pick up some of the points that have been made and so on. I think you, Robert, were saying that you would like to see something like £105 million reduction in spending, is that with £50 million tax?

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

No, that ... the view of Chamber is really to ... before you consider tax increases is first of all to balance the spending part of the element and the black hole, if you will, is estimated at £100 million and our view is of managing that black hole of £100 million by reducing expenditure to where it was supposed to be per the 2005 budget. That is our view and our broad comments on the consultation paper were that is really the most important one. If we have exhausted all those possibilities and then we are on to looking at taxation then business and personal taxation needs to be considered as a group because it is very difficult to segregate them, for example G.S.T (Goods and Services Tax) impacts persons and businesses. Business tax ultimately filters through to the man on the street in some shape or form and then we felt that in terms of description for taxes there needed to be more work done on the paper in terms explaining to the population at large, and the businesses which we represent, the pros

and cons of the different taxations, the cost of collection, the efficiency, the possible economic impact of one tax over another tax and such like. But the key message that we continue to reiterate is that government costs must be addressed and that a change in the effective culture of spending to much more careful spending.

Senator S.C. Ferguson:

So given that it seems as if we may have to do tax at the same time as the cuts, what is your feeling then on the balance between cuts and savings?

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

Our feeling is really that spending has increased, when you look at the overall figures, disproportionately over R.P.I. (Retail Price Index) or whichever measurements of inflation are used, and a tax is not necessary. It should be possible to do it all through expenditure cuts. It should not be necessary to look at taxation. Jersey's key selling point, which has made it very successful over a number of decades has been low tax, simple tax and a broad base. We are in an amazing position. We have a very simple taxation system, it has always been very low and we need to keep it that way. If we move towards a full O.E.C.D. (Organisation for Economic Co-operation and Development) Western taxation system then we will lose a lot of our advantages and that will cause us issues.

Senator S.C. Ferguson:

In Dr Kern's paper he talks about the economy achieving a 2 per cent average real growth rate. What did he base that on, do you know?

President, Jersey Chamber of Commerce:

Well, it was based ... my understanding anyway in talking to David, is that not necessarily ... that did not apply for another couple of years, he then saw it coming in a couple of years' time when the deficit has gone, in effect. There will be an increase in growth because there will be either more financial transactions or more finance industry growth, and on the back of that other growth of other parts, of other sectors of the Island economy: retail, hospitality, those sort of things. That is my understanding of what he was saying.

Senator S.C. Ferguson:

Yes, and does he see the changes in the retail industry as a structural change through things like the internet? A comparison, I think, is with the 1930s when they had a structural change in the agricultural industry because they went from being labour intensive to machinery intensive.

President, Jersey Chamber of Commerce:

I think that is probably where it is. There is no doubt about it, the internet is having an enormous effect on the retail industry and I am of the view that we say ... you know, people are touchy-feely. If you want to buy a pair of shoes you feel them, you want to buy clothes you feel them rather than ... it is down to service level and after sales service and also to be competitive, which is really ... I can accept that it is quite difficult but I recently bought a D.V.D. (Digital Versatile Disc) player here that was 15 pence less than the recommended price in the *Which* magazine. I bought an iPod, I think it is, at Christmas which was £25 cheaper than you can get on the internet. So you can ... it does happen here and I think the retail offering in Jersey is really quite

important but a lot of it is financially ... the financial services industry, the staff in the financial services industry, it is driven by their salaries and the amount of disposal income they have as to how many suits the guys go and buy in De Gruchy's and this sort of thing. I think that is really what drives it and I think what was behind David's idea was that even though you can have a tough couple of years, when it gets better, the economy will be in a much stronger state because there will be the whole issue of confidence, which is really important. I think part of what has happened in the tax consultation was this idea of we are going to double the rate of tax from 20 to 30 per cent, and really that is our U.S.P. (Unique Selling Point), that is our unique selling point. We have always had it at 20 per cent, it should stay at 20 per cent and I think that created a fair amount of uncertainty, headlines in the *F.T. (Financial Times)*: "Jersey is raising its tax by 50 per cent" and that really was not the best thing, let us put it like that. The whole thing is a question of confidence and I think that if Jersey could be in the position in a couple of years' time where the deficit is virtually eliminated then the confidence factor will return and that will be good for all sectors of the economy.

Senator S.C. Ferguson:

Standing on the outside looking in, where would you look to see cuts being made?

President, Jersey Chamber of Commerce:

That is a difficult one of political priorities. But in a way across the board. There are whole functions of government that the Government is involved in and I am not sure they should be involved in and a debate has never been had as to whether they should be. I have already, when we had a Chamber forum the other week, suggested that the operation of car parks is not really a core function of government. The operation of the harbours, the airports, parks and gardens, those are areas that government needs to be involved in as strategic assets but perhaps are not the right people to be involved in the actual running and management of those type of business. Then you could talk about the whole areas of I.T. (Information Technology) and this sort of thing. I realise it is quite difficult and I can see that there are problems there. But it is in a way we are catching, or we should be catching up what happened, what has happened in many countries, not just the U.K. (United Kingdom) over the past 30 years. There is a whole area, whole sway of government business that they are involved in that perhaps debate needs to be had whether the government should be doing this. Are they the right people to do it? No disrespect to the civil service, but are they the right people to run what are effectively commercial enterprises.

Mr. M. Oliver:

Can I then just say that if that was the case and we did contract out government services it would lead to people perhaps having to pay it out of their own money and perhaps that would indicate a lower rate of income tax and to compensate an increase in G.S.T. for revenue purposes?

President, Jersey Chamber of Commerce:

Well, that is an interesting possibility but if that opens up to the private sector more companies then those companies are making money and therefore they are paying taxes anyway. So maybe that fills the hole. I think the whole area of G.S.T. obviously again is political but I think once you start in a way going over 5 per cent you are starting to run into problems of exceptions of administration and this sort of

thing and I think that is going to be really costly. Because as Rob referred to, the advantage of Jersey's tax system has been and what the finance industry was built on, simplicity. I think the rate was set at 20 per cent because that was all Jersey needed to run its government. That should have always been the basis of how things were done.

Senator F. du H. Le Gresley:

Could I just ask a question going back to G.S.T. To my knowledge I have not seen Chamber campaigning to have the *de minimis* figure for imports reduced. Surely that would be something I would expect Chamber to be doing?

President, Jersey Chamber of Commerce:

My understanding, and I did ask this question when we had the pre-budget proposals given to us by the Minister for Treasury and Resources, that the *de minimis* level will be reduced from £400 to £240 because it was set at a figure of tax ...

Senator F. du H. Le Gresley:

Sorry, what figure did you say there?

President, Jersey Chamber of Commerce:

From £400 to £240.

Senator F. du H. Le Gresley:

£240.

President, Jersey Chamber of Commerce:

So if it goes up to 5 per cent, if that is passed by the States in the budget next month from June when the new rate comes in, it will be £240.

Senator F. du H. Le Gresley:

Have you had any indication that might happen?

President, Jersey Chamber of Commerce:

Well, apart from the fact the Minister for Treasury and Resources said so in public to us last week, last Friday. So I guess that is right.

[14:45]

Senator F. du H. Le Gresley:

The first I have ever heard of it.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

Normally, when indirect taxes are increased the *de minimis* changes according to the rate going up or down but that is generally quite common. So I suspect that will come in the detail of the budget.

Senator S.C. Ferguson:

Or it will change because of the take from it will have gone up.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

Yes.

Senator S.C. Ferguson:

Yes.

President, Jersey Chamber of Commerce:

So it is a percentage figure.

Senator S.C. Ferguson:

You would be happier with it just a straight 5 per cent and no exemptions?

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

The challenge with ... one of the benefits of an indirect tax like goods and services is that it is relatively cheap to collect when it is just applied across the board because there is no exemption and you do not get into these crazy debates about whether this falls within the exemption or not. That whole grey area. It is very simple and cost effective to collect. I understand it costs just less than 1 per cent to collect GST so that is very efficient for a tax. Once you increase exemptions, it becomes much harder for the businessman to understand whether they are in or out of the exemption. They are required to employ accountants and such like which is to no one's real benefit ultimately, apart from the accountants obviously, but an exemption just makes things more difficult. The use of the income support lever on the other hand is a much more efficient way of supporting those who are hit hardest by it rather than trying to build in exemptions. Exemptions also do get abused as well. You see that in the U.K. where exemptions are abused.

Senator S.C. Ferguson:

I think there are about 6 different categories just for nuts.

President, Jersey Chamber of Commerce:

We have what I call the jaffa cake example. Is a jaffa cake a biscuit or is it a snack and then what rate does it come in under?

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

For finance in the U.K. there is something called the Blue Book V.A.T. (Value Added Tax) and it is about 2.5 inches thick, and that is just for finance. That is not where we need to be. Jersey is all about simplicity.

Senator S.C. Ferguson:

So how would you like to see taxes here going forward. Do you want indirect/direct or continue with the sort of mix as before?

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

We currently have a pretty broad base. On the one hand we have impôt, we have a low G.S.T. level which is good because the levels of collection are not subject to the economic up or downturns, it tends to be pretty constant. We have a low income tax; we have a low corporate tax on finance businesses and utilities for real estate; and a small amount of stamp duty. What we have is a good simple mix. Everyone understands it, including our international gatekeepers, people we work with, particularly in finance, they all understand it. The locals all understand it and it should be relatively easy for the tax administrator to police evasion from that. That is,

I believe, where we should be staying, on that very simple basis. Once we start to make things more complicated then that makes it more difficult for the tax administrators so the cost of collecting every pound of tax goes up, and also you are more likely to get evasion and such like because when people are faced with more and more complexity they talk to the man in the pub, if you will, and they look for ways around things. By keeping it simple and low people feel it is a moral duty to pay and there is little incentive to plan around it.

Senator S.C. Ferguson:

Around about the time of the introduction of G.S.T. there was a fear that certain retailers, or some retailers, would raise their prices beyond the levels set by the tax. Did you do any work on that to see whether anybody was?

President, Jersey Chamber of Commerce:

At the time, our view ... when G.S.T. first came up and when Chamber agreed that this was the way to go forward, what we had in mind was a U.S. (United States) style sales tax. So in other words you had the till receipt and the 3 per cent is at the bottom of the till receipt and that it is and then it is clear to everybody that is the amount of tax that you are paying. But, no, it was decided that it would be done on the U.K. and E.U (European Union) rule, even though we are not part of the E.U., we are not even part of the U.K. That meant that retailers had to have shelf price which they then, being retailers, people have price points and therefore you raise and adjust your pricing to the price points. That was a possible cause of inflation because human nature being what it is, prices in general moved up to the £1.99 or £2.49 or £2.99 price point because that is the way goods are sold at particular levels. We are argued against that because then it was never quite clear to the consumer how much real tax they were paying. But we were not listened to, we were overruled on this, and the other thing is that added a lot of cost to retailers as well, because if you could have kept the shelf price the same and then you just added on the bottom of the till receipt but we were asked to do an inclusive figure, even though on a number of transactions you still have to show the G.S.T. for companies, people buying things, this sort of thing. For example, for my petrol or whatever I get a G.S.T. receipt and it is just another ... you have got another complication, let us put it like that. We did not agree with that and we had a bit of a ... not a fall out but we had a very serious discussion with the then Minister for Treasury and Resources about it and the Minister for Economic Development. We fought the battle but we lost because that was the way they intended to do it. I could not, for the life of me, see that but there we are, that is what happened.

Senator F. du H. Le Gresley:

Would you fight that battle again?

President, Jersey Chamber of Commerce:

I think that battle was lost last time, I really do.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

Also, I think, given a lot of businesses have adapted systems now it would be a crazy additional cost to go back to a ... once you have got the system you may as well stick to it.

President, Jersey Chamber of Commerce:

We estimated that the cost across the retail sector was between £5-6 million to introduce the new tills, the new software, accounting software and this sort of thing, to account for it all. So that was just an extra cost which I did ask the Minister for Treasury and Resources if could we keep 5 per cent and was told no. So that comes back to what Rob was saying about for government the ease of collection, somebody else does it. The business acts as an unpaid tax collector but that is the way things happen. It just needed to be pointed out.

Senator S.C. Ferguson:

Yes.

Deputy T.A. Vallois:

Can I just ask on the basis of the G.S.T. proposals what your views on the international services entity would be?

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

That is the rise from £100 to £200. Going back to the point about simplicity and low, the key is always about making sure that everyone can understand how Jersey operates and this is particularly true in the finance sector where a lot of people who use the jurisdiction are from far away, whether it is the U.K., Hong Kong or further afield, and they need to have certainty and simplicity in terms of the fee arrangements and stuff. There was a consultation about increasing the annual return fee from £150 to £250 and that has been put to one side, so that is going to stay at £150 and the I.S.E. (International Service Entity) fee is going to go from £100 to £200. Overall that is a reasonable increase when you compare Jersey's total company charge, if you will, which is now going to be around £350, which compares in line with Bermuda, Cayman, Isle of Man, Gibraltar, Singapore. So it is a simple number, it is simply applied; it is in line with competition so it should not have a significant detrimental effect on industry at this stage.

Senator F. du H. Le Gresley:

What about the lovely phrase that has been coined by yourselves, 20 means 22. The effect of the extra 2 per cent employer's contribution from January 2012, what is the general view of your members on that?

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

Obviously it has only been around for a week, and a half term week so unfortunately a number of our members are away, but the view is of concern around the extra 2 per cent because while it is social security as opposed to income tax it does effectively breach one of those golden rules that we almost implicitly have within the Island of 20 per cent, because it does mean it is effectively 22 per cent and there is no cap on that amount. That is not going to make anyone rush for the harbour or rush for the planes who is living here but it does start to mean that new entrants looking at coming here, particularly those essential workers, whether it is nurses, teacher, et cetera, it is another: "Oh that has gone up, that is different, why has that changed." It makes nervousness. For the hedge fund managers and sort of high end finance people again it just adds another why? It is a bit more ... it is nothing ... you cannot really grasp it and say it is a deal breaker but it just creates that uncertainty. It is like the *F.T.* headline where is said: "Tax in Jersey going up by 50 per cent." It makes people

nervous. Whereas if you can say: "It has always been 20 per cent, it has been 20 per cent since the Second World War" people just have that warm glowing feeling and it just gives certainty. You could ask people who have moved in the last 5 or 10 years, myself being one. I have been here 8 years and when you just read it is 20 per cent and 6 per cent and it has been like this for years, you just think: "Great, fine, tick" and move on to the next thing to think about. So I think the issue is ideally it should not go up because we should manage the costs first and it is just not a great message.

Senator F. du H. Le Gresley:

What about from the employer's side, because you represent employers particularly, the extra 2 per cent from January 2012, how do your members feel in general?

President, Jersey Chamber of Commerce:

It is just another payroll tax in effect. So I guess psychologically it will maybe make ... it just really, as Rob was saying, is an extra cost that you have to bear in mind when you are taking on staff at that particular or over that particular salary level, it is just another cost. The important thing is that the social security costs is not a tax as such, it goes to ... I put my hand up as a pensioner, it goes towards the pension.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

A ring-fenced fund.

President, Jersey Chamber of Commerce:

Yes, and that is really important because then it reduces the amount of supplementation central government gives to social security. Or that is what we are told it will do anyway. So I think that is really quite important to separate it from the general taxation and what goes into social security. The very fact is that you pay your cheque to social security, not to the States Treasurer. I think that is a really quite important psychological difference, let us put it like that.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

But ultimately you are talking ... if you have got someone earning £100,000, say, you are talking £1,200 extra social security spend. That is not going to make them fire someone or dismiss someone or not recruit someone but it is just another slightly psychological barrier for people to think about. Also does it motivate employers to possibly start planning around social security?

Senator S.C. Ferguson:

I do not know, you are the employers, does it?

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

Well, for sizeable employers it might well do. Once taxes start to go up and up, the benefit of thinking about and working around them legitimately becomes more and more attractive. That is why Jersey with simplicity and low taxes, people just say: "Well, it is fine, it is a fair amount, 20 per cent a morally agreeable amount." There has been surveys done that people generally feel that 20-25 per cent is morally acceptable to contribute to infrastructure and such like, but once people feel it is going above that level, they start to think: "Well, why should I?" and then they plan around things. That is in no one's interest.

Senator F. du H. Le Gresley:

Did you feel that it was right to give a one year lead in to these increases in social security contributions or could it have been implemented from 2011, January?

President, Jersey Chamber of Commerce:

I would have thought, for a start bearing in mind that none of this will be decided for at least another month yet, to really do it in December, on 7th or 8th December, whether or not that gets passed by the States and they say: "You have got to do this in January" I think that is really pushing it a bit on the part of the employers as well as, I guess, on the part of Social Security. I think that lead time is really quite important.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

Employers have to adjust their payroll systems, they need to ask software providers to amend and adjust so you need at least 3 to 6 months to do that. One month's notice would make things tight.

Senator S.C. Ferguson:

Looking at it in the context of the increase in social security, looking at it in the context of people living longer and having to provide for that, does that not tone down the argument against it?

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

I think if you go historically the reason people used to retire at certain ages is because we were all doing much more manual labour, we were down the mine, we were on the steam train and stuff and we ...

Senator S.C. Ferguson:

You were falling off your perch earlier.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

Yes, you would fall off your perch relatively early and you would only be in retirement hopefully for 2 to 5 years, I think it used to be 40 years ago. I have recently seen that one of the Nordic countries is introducing a regime where your retirement is linked backwards from the average age of death for your profession. So they are saying if you are an accountant, your average age is 69 when you drop off your perch therefore your retirement age is 59. They are doing it ... what we have got is we cannot just increase social security contributions to fund the ageing population, we are going to have to adjust when people retire. We just cannot carry on in a position where we work 30 or 40 years and then we retire for 30 or 40 years. Financially it is impractical. So I think there needs to be a big discussion, and I know this was started about 18 months ago, about how do we address the ageing population and it has got to be done in a number of ways. Retirement age is one, social security is another. We have got to ...

[15:00]

Senator S.C. Ferguson:

Euthanasia is another. [Laughter]

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

Euthanasia is may be an option [laughter]

Senator S.C. Ferguson:

No. No.

President, Jersey Chamber of Commerce:

We will all take to the streets like my colleagues in France have been doing.

Senator S.C. Ferguson:

What areas would you like to see ... everybody says we have to have creditable growth strategies and diversification, what sort of ideas are coming out of your members?

President, Jersey Chamber of Commerce:

E-commerce, intellectual property, use of internet based companies. That, I guess, is probably the area where I would have thought there would have been the largest amount of growth. I know there are steps going ahead now changing various parts of the laws and this sort of thing but I would have thought that is the type ... because that is the small company start up. A number of people are doing those internet style, internet based businesses and I think that is probably where the growth area would be, I would have thought because that is really. That is the way of the future. Obviously it needs much better broadband connection and this sort of thing that J.T. (Jersey Telecom) say they are going to have. Jersey is going to be a gigabyte Island. That, I would think - and I do not know if Rob has any ideas on that - is probably where the growth will be, I would have thought.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

I think the other thing is about government cutting red tape. So we have now G.S.T., social security, income tax, why can we not put those on to a single form for an employer or a single internet portal. Let us simplify the bureaucracy and make it easier for start ups. Because they might have a great idea on intellectual property or something but if they are filling in, I think someone said, 47 forms a year for your average small business, if we can cut that down to just 12, for one a month, then that makes their life simple and means they are more likely to get up and run it. I think that is another area where government needs to work on simplifying matters for small start ups. The other thing is just speak to market. Jersey has been a very nimble Island over the years, it has done very well out of some very intelligent people moving rapidly, but also we need to get things through quickly. The intellectual property law, we are nearly there, let us get it through, let us get it in place and then let businesses take it forward. Same with amendments to company laws, trust laws and e-commerce. Government needs to drive that in and then step aside to let the businesses drive it forward.

Mr. M. Oliver:

So you would be against Government, Economic Development, say, pushing I.P. (intellectual property) and setting up offices around the world to promote Jersey's intellectual property regime?

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

The promotion, once you introduce a new concept you have got to promote it in some shape or form and there is a number of ways of doing that. You can set up quangos like we have for Jersey Finance Limited or you can get, say, an anchor business in. So you could say ... a big insightful property business, you could bring them in and they effectively do your promotion for you. I think a discussion needs to be taken on, we say, intellectual property, which is the best way to do that. I do not think either myself or Ray are experts on that field and I would not know which ... but if you are bringing in a new idea you have to have some way of getting the message out there. But I am not sure which is the best way.

President, Jersey Chamber of Commerce:

A few years ago you did one tax form a year. I have one employee in my day job, one tax form. Now I have the I.T.I.S. (Income Tax Instalment Scheme) every month, there are 12, and then I pay 12 payments just on I.T.I.S. That is 24 separate transactions that have to be done plus G.S.T. and it just goes on.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

The social and manpower returns. We could bring all those into one relatively easily, they could all be done over the internet relatively easily.

President, Jersey Chamber of Commerce:

We are told that the data protection law is the problem, which I find really hard to believe. It really should not be that at all. We should just ... as Rob has suggested, that should be just done ...

Senator S.C. Ferguson:

That should not stop one portal.

President, Jersey Chamber of Commerce:

Different bits of the Government, yes.

Deputy T.A. Vallois:

That is the problem with the information sharing arm of the data protection which has been going on for the last year. Because the U.K. have got it but when we adopted data protection we somehow missed that information sharing order.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

That is the way to simplify things so that things ... also it will cut down on fraud and other small matters if you have got information being shared between Social Security and tax, someone is claiming income support but paying a lot of tax then there is clearly an issue. So that makes it simpler for businesses and then they can get on and make money and then pay tax.

Senator F. du H. Le Gresley:

In 2009 the States of Jersey had a pay freeze, I think it was 2009, I hope I am right, as business leaders, if you had a workforce of the size that the States of Jersey have and you wanted to reduce your costs, would you have further pay freezes or pay cuts? What would you do?

President, Jersey Chamber of Commerce:

I think it is a question ... well, pay freezes are quite normal in the private sector and there are people that are only getting pay rises through promotion. There is very little levels of annual increases based on the R.P.I. that is for sure. I think that it is really down to a question of performance, performance-rated. If you do well and you make money for your business then you get bonuses. But the bonuses that we are talking about are, so I am told - and Rob might know this better than I do - the average in the finance industry is around £4,000 a year in the way of bonuses. It is not the telephone number figures that you read about in the city and this sort of thing.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

The numbers have dropped dramatically. I suspect most business in the finance world have had very, very limited pay rises for the last 2 years and I do not think this year is going to be hugely different. I also think a number of finance businesses particularly have taken other steps in terms of moving people to shorter working hours for periods and such like. So I think there is a number of ways of addressing it but the actual market, there is unemployment, it is easier to get people and ultimately you do not have to pay them as much. So therefore ...

Senator F. du H. Le Gresley:

Sorry, am I getting the message that you are suggesting that States of Jersey have performance related pay rather R.P.I. increments?

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

I think the message is that there should not be sort of R.P.I. pay rises year on year but people should be given a pay rise if they move on to effectively the next grade. It is very hard for a non-profit organisation such as the States to have performance rated pay because you have got no metric to measure them against. You cannot measure them against tax collected or G.D.P. (Gross Domestic Product) gross because out of 6,500 people who has driven that forward or ... so I think what we are saying is very much that to manage payroll costs, which is the largest cost within the States, ultimately the largest cost within any business, is you effectively freeze pay and you just pay additional amounts when people increase their level of knowledge or performance and value, if you will.

President, Jersey Chamber of Commerce:

I would agree with that, yes. In reverse, of course, the same applies to increased States charges, which is another issue which I feel very strongly about. It may be not for this Committee but why should it go up because the R.P.I. says so. That is what has happened in the past and that should not be happening as well but that is another issue.

Senator S.C. Ferguson:

I suppose that is a knock-on effect from if it is labour intensive then you put it up by R.P.I. Yes.

President, Jersey Chamber of Commerce:

Yes.

Senator S.C. Ferguson:

Super. Right, anything else?

Senator F. du H. Le Gresley:

I have got one on the impôt duty, which of course is catching up on a year when nothing happened in increases. How do you feel that the proposed impôt duty increases will affect the tourism industry in particular?

President, Jersey Chamber of Commerce:

Well, I think not just what has happened this year, what has happened over the years Jersey is not ... Jersey always was cheap fags and booze. That does not exist any more now so therefore I think all that has done is probably just accept the reality of that, that Jersey should not targeted as it was when I first came over here 40 years ago and the ferries would come in with 4,000 people a day and they all worked for British Rail and they had not paid a penny to get here in the first place, and fags and booze were cheap. Those days have gone now and I think that what happens with the budget and what happens with the increases in impôt is just keeping pace, in a way. It is not even keeping pace with the cost of living, so it is below that. I just think that makes ... that does have an effect on the hospitality sector. It does make it more expensive to go out and have a drink, but I think in way seeing they lost ... did not get the money last year the Minister for Treasury and Resources was bound to look for getting that rise this year.

Senator S.C. Ferguson:

Yes, but it is a combination, surely, of social engineering, because there is an argument to be had that we are looking at diminishing returns.

President, Jersey Chamber of Commerce:

I think there is, yes, definitely.

Senator S.C. Ferguson:

Because interestingly the take from fuel, the impôt receipts are fairly static but the number of cars in the Island have gone up significantly.

President, Jersey Chamber of Commerce:

People, you know ...

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

But fuel efficiency has increased dramatically which will have contributed to that.

President, Jersey Chamber of Commerce:

Also you do not drive as much. People ... maybe you have ... I do not drive every day now. This morning I came in on the bus. People do adjust their lifestyle around the cost of petrol. I fill my car up every 3 weeks now. As Rob said, you have more efficient engines, you do not burn as much, you do not burn as much fuel. I think the same goes for ... I have made some statements about cigarettes, no cigarettes or cigars apart from in the car. But I think that there becomes ... there is a health issue, I accept that, and that becomes the basis for taxation, and for alcohol as well. There is an alcohol issue in the Island as well. In a way probably price is the only way that you control it. I do not see any other realistic way of doing it.

Senator S.C. Ferguson:

So social engineering and alcohol through price. I am not sure that that really follows logically.

President, Jersey Chamber of Commerce:

It seems to be the way in many economies in the West. That is the way it goes now.

Senator S.C. Ferguson:

But is that because it is the easiest thing to hit?

President, Jersey Chamber of Commerce:

Probably, yes. It is an easy way of doing it. It is an easy way to try to price people out of drinking. I am not sure it works but it is an easy way to do it, which then puts the burden on the hospitality sector for paying duties on tobacco and alcohol when they come into the Island. So that is another expensive cost that is added to it, let us put it like this.

Senator S.C. Ferguson:

But are we being fair to industries which are presumably some of your members? Do you have many hotels?

President, Jersey Chamber of Commerce:

We do have some and we do have the wholesalers in the wine and tobacco trades, yes. They are members. That is just an additional cost for them where they are acting as an unpaid tax collector to the government.

Senator S.C. Ferguson:

But the consumption ...

President, Jersey Chamber of Commerce:

Is going down, yes.

Senator S.C. Ferguson:

... is going down significantly.

President, Jersey Chamber of Commerce:

Yes, it is, yes.

Senator S.C. Ferguson:

The impôt take is barely rising.

President, Jersey Chamber of Commerce:

Yes, that is right. I know for example tobacco is around £13 million a year so the government has a dichotomy. You have got people ... what do they do, people who have smoking related diseases cost money in hospitals but on the other hand Treasury want to receive its £13 million a year in tax takes and therefore that is a problem there. I guess the same applies on alcohol as well. There should be sensible levels of taxation and sensible levels of consumption. Social engineering is always a bit out of ... it is more of a moral issue, so it is not really something that in Chamber we get too involved in, except we do get involved in the consequences of that in town on a

Friday and Saturday night. That is an issue, but then that is more of a policing issue and a licensing issue, more than anything else.

Senator S.C. Ferguson:

Yes.

Deputy T.A. Vallois:

Can I ask how long you think, in terms of businesses, it is appropriate in amount of time for a particular jurisdiction to hold back on reviewing tax because this is, of course, the second one we have had in the last 5, 6 years and obviously that can give some form of uncertainty to different kinds of businesses. So thinking long-term, do you think this F.S.R. would suffice for, say, 10 years and would that give businesses certainty?

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

There are a number of issues there. The Zero/Ten changes which were agreed in 2002 and came into force 2008-2009, they did provide certainty to businesses and at the moment they are on hold because of the pending of the EU Code Group. review and the position on that. Ideally businesses do not want change so if we can retain the Zero/Ten regime indefinitely then that would be ideal. Because, as you say, uncertainty creates fear and they go elsewhere. This paper which is more on personal tax and was one of our arguments that they should really all be dealt with as one.

[15:15]

Again, creates uncertainty because people do not know exactly what is the true position, why is moving so often. So ideally, yes, if there are any tax changes that are required through this document then it would be best if they could be fixed for a number of years, again to provide certainty. It provides certainty in managing costs as well in terms of businesses thinking about new software packages, how they are managing till systems and all that sort of stuff. So, yes, the more certainty the better. Things like Zero/Ten, it continues to need tweaks and amendments as any new tax system would but if we could retain it that would be great.

Senator F. du H. Le Gresley:

I have just got one general question just to finish off with. Reading the Minister's Executive Summary from the budget paper it says that the 2 key elements of the F.S.R., which is the 2 per cent social security raise and the G.S.T. going up to 5 per cent, and I am quoting him: "These 2 changes achieve the twin aims of delivering a package which is fair where those on higher incomes pay more in cash terms and as a proportion of their income and which minimises any impact on our competitiveness and wider economy." I just would like to know if you agree with that statement.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

In numerical terms I think that is a fair statement. As I said, we are not all going to leave tomorrow because G.S.T. is going up 2 per cent and social security is going up 2 per cent. In a broader sort of view and perception it creates the point that Tracey referred to as the uncertainty in this issue about what is going to change next. I think we have got to look at both aspects, the numerical position and the uncertainty. We need to really sort out the uncertainty thing because it does deter businesses from

making ... investing in bringing in new people and such like because they do not know what is going to happen next. Just like managing your own personal budget. So in numerical terms, fine; in perception I think we need to address that.

President, Jersey Chamber of Commerce:

It is a confidence issue, especially in finance confidence is all really; it is very important. I think when the outside world realises that we have been serious about things it creates the right sort of climate of confidence and that is where you will get investment.

Deputy T.A. Vallois:

Can I just ask one more thing? How does a government having an economic growth plan affect businesses, if it does at all?

President, Jersey Chamber of Commerce:

In a way it is what I have just said, it creates the right climate of trust and confidence that people will think: "Right, we can invest in this, we can go down this route, we can try this new idea, we can try this new enterprise." This sort of thing. I think government creates ... where there is a feeling that government understands where business is coming from, it creates that atmosphere and businesses will react. In a way it has always been a problem, I have always felt, with the Regulations of Undertakings law, that you have to put up your business plan to a civil servant, and no disrespect to that civil servant, and it is like a bit of point scoring from ... point scoring in other words for a credit risk. You know, if you are applying for a bank loan you have to tick, tick, tick. There is a lot more to it than that and that is one of the things that does concern me and always has done, that you have to start off with, for your new idea if you are a new venture, you have to get approval to even start it, let alone everything else that is needed in getting it up and running. If you have less government regulation on that type of thing because that is really important, it means that people just go ahead and just do it with at least regulation from government. Obviously people have got to be legal and comply with the laws and everything like this but with the least regulation makes it easier even to get permission to start up in the first place.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

A government that understands the future and invests in the future creates huge confidence for businesses.

Deputy T.A. Vallois:

Where do you see the future for Jersey?

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

I think the future is all about continuing to work hard at driving the finance industry and its competitiveness but also bringing on intellectual property, e-commerce and these other ideas that are out there and letting businesses ... but we must not kill the golden goose. It is a very, very good business, it brings in a lot of profit per employee so it means we do not have as much immigration pressures. We have a fantastic reputation and we just need to take more and more advantage of that.

Senator S.C. Ferguson:

Just one small question. You said that there were 47 forms that a business has to fill in. Can you send us a list?

President, Jersey Chamber of Commerce:

Yes.

Chairman, Financial Sub-Committee, Jersey Chamber of Commerce:

We can, yes.

President, Jersey Chamber of Commerce:

We will find them. Yes, okay.

Senator S.C. Ferguson:

Yes, if you would.

President, Jersey Chamber of Commerce:

Yes, certainly.

Senator S.C. Ferguson:

Having seen the health and safety list for the police in the U.K. this morning it would be interesting to have our form list.

President, Jersey Chamber of Commerce:

I had not even thought about health and safety when we talked about all that as well. But ... **[Laughter]** I was just thinking of the regulatory forms under I.T.I.S., Social Security and all this sort of thing that one has to do. I am sure there is health and safety ones as well, yes. I will have a word with our ...

Senator S.C. Ferguson:

Let us have a list.

President, Jersey Chamber of Commerce:

I shall a word with our chairman of our H.R. (Human Resources) Committee who does all that all the time. I will talk to Tim about that, yes. Okay.

Senator S.C. Ferguson:

Anything else you would like to ...

President, Jersey Chamber of Commerce:

No, not really, not from our point of view. The only thing I just thought perhaps I should have mentioned earlier when we were talking about the effect of V.A.T. was that there are a number of businesses in the Island who charge V.A.T. equivalent prices. V.A.T. does not apply in Jersey and therefore as far as we are concerned you cannot call it V.A.T. and that is really down to the consumer. If people want to make it ... they make their commercial judgments as to what they want to charge and Mr. and Mrs. Consumer with his wallet or her purse makes the choice and that is it, and that is really important.

Senator S.C. Ferguson:

If there is a price ticket on it that was put on in the mainland then it will have V.A.T. in it, quite simple.

President, Jersey Chamber of Commerce:

Yes, and that is when people decide: "No, I am not paying that." That is people's individual buying decision because V.A.T. does not apply here and should not be charged. That has always been Chambers' view from the onset of G.S.T. starting. That is just something that I wanted to mention because it does come up in the question of G.S.T. as well. Obviously that causes a differential. That was it.

Senator S.C. Ferguson:

Super. Well, thank you very much indeed, gentlemen. Will you convey our thanks to Dr Kern because ...

President, Jersey Chamber of Commerce:

Yes, I will. Yes.

Senator S.C. Ferguson:

Well, apart from the fact he thinks like us obviously, it is a splendid ...

President, Jersey Chamber of Commerce:

As I said, we asked him to have a look at it because it needed an independent economist's viewpoint and because he did understand the Jersey economy from the work that he did a few years ago, it was just really to update people's views on how things were going.

Senator S.C. Ferguson:

Yes. We would be interested to know where he gets his 2 per cent figure from, though.

President, Jersey Chamber of Commerce:

Okay, I shall ask him that.

Senator S.C. Ferguson:

Thank you.

[15:22]