STATES OF JERSEY

GOODS AND SERVICES TAX: PETITION

Lodged au Greffe on 18th September 2007
by the Connétable of St. Helier

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

to request the Minister for Treasury and Resources to take no further steps to introduce a Goods and Services Tax in Jersey until public finances have been examined independently to identify potential savings and until alternative methods of raising funds have been investigated.

CONNÉTABLE OF ST. HELIER

REPORT

The implementation of a Goods and Services Tax from May 2008 will have significant effects on the local economy and on the people of Jersey. Despite an extensive consultation process carried out on the overall Fiscal Strategy adopted by the States in July 2004, and further consultation leading to the approval of GST a year later, public confidence in the States' powers of 'good housekeeping' has fallen in recent years. It is not surprising, therefore, that the public is calling in significant numbers for further consideration to be given to alternatives to GST – 19,209 members of the public, to be precise, a number exceeding the previous highest total collected on a petition, which was for the Millennium Town Park (P.190/97) presented to the States on 2nd December 1997 with 16,404 signatures.

GST and the cost of living

Various external factors have significant impact on domestic inflation – U.K. interest rates and oil prices being the biggest influences. Reliable indications show that with an introductory rate of 3% GST would have very significant related costs to businesses with set up, technology, administration and red tape etc and will translate to a figure closer to, or above, 5% in reality, which will be passed to consumers in price rises.

Furthermore, if GST is introduced and when the effect of this filters through into the Retail Price Index the consequences are that it will exceed 3% and the outcome will have serious medium-term inflationary pressures as it feeds into fuel, transport deliveries, domestic and retail rents.

Many leases include an annual review linked to the RPI – without exclusions for the GST element it will be come a very real cost added to residential and commercial rents. Most rents have a review clause that increases rents annually. Virtually without exception the "guide" of how much to raise these rents is the Retail Price Index. Therefore, it follows that if the RPI increases to 7% or 8% the rents will also rise accordingly and have to be paid.

This of course will be passed onto the consumers as higher prices for goods and services – there is no other option as business will not absorb this extra cost.

It is well known that the cost of living is already higher than in the U.K. Since 2000 the Statistics Unit has carried out basic price comparisons between Jersey and the U.K. across a range of goods and essential items.

The latest comparators of June 2007 show substantial price differences to include meat, fish, fresh vegetables, bread and milk (all VAT-free in the U.K.) In Jersey, prices in some areas of basic essential consumer goods are already significantly higher – adding GST will add to this – a very real issue and one that people are angry about.

GST and Income Support

The implementation of the new Income Support system that will replace Parish Welfare and other benefits has been twice delayed and is now scheduled for 'probably the third Monday in January 2008', according to the Minister responsible. Recent moves to simply increase the levels of benefit by 3% to offset the effects of GST on the least well-off cannot disguise the fact that the Island is moving from a centuries-old system of discretionary benefit to one based on entitlement. The new system could well cost the Island more than expected, which will increase pressure on an early hike in the rate of GST.

The introduction of Income Support has also meant that a large group of Islanders are having to get to grips with complex forms, and consequently it is probable that not everyone who is entitled to receive Income Support, with its built-in protection against GST, will actually do so for many weeks or even months.

The introduction and monitoring of Income Support is much more likely to be successful if the new system is allowed to 'bed down' and its consequences fully understood before a second major bureaucratic exercise is embarked upon.

GST and 'middle Jersey'

Even if it were possible to be confident that Income Support will be effective in protecting the least well-off in our community, this would not affect the majority of those who have protested against the implementation of GST next May. In the words of one of the speakers at the recent rally –

> *So who will this Tax affect most? Will it be the poorer in society? No, we are told they will be cushioned by the introduction of the Income Support Scheme. Will it be the richer people in our society? No, 3% extra tax will mean very little to them. It will be you and me – the people in what I call middle Jersey. The people who have given so much to this Island and yet get back so little. The people who are living on a fixed income with a few savings who get penalized at every turn. The people who are means-tested for everything. The people who sometimes have to decide whether they can afford to pay the electricity bill and go to the doctor in the same month or whether they should choose one or the other.*

There has been a good deal of discussion about demographic changes to society and the increased number of people living beyond retirement and having to manage on a fixed income. Due to the much higher cost of basic foodstuffs and other costs associated with living on the Island, the addition of GST has infuriated a large section of our community who will not qualify for Income Support but who struggle to make ends meet already – that is to say, without an extra 3% on their bills.

GST and red tape

Local businesses, large and small, are now having to deal with the threat of increased red-tape that will become a reality with the onset of GST.

The true cost of GST might be nearer 5% of spending instead of 3% when administration and collection costs, income support offset, etc are taken into account. This would be accompanied by all the aggravation involved in the accompanying red tape, imported goods exemption issues for local retailers and so on.

Also, companies outside Jersey are expressing some concern about doing business in the Island with the introduction of GST – if this happens it will lead to less consumer choice.

GST at 3% - the thin end of the wedge

Few Islanders believe that GST will remain at 3% for long, and its low introductory level is, therefore, almost an insult to our intelligence. The Treasury is clearly bending over backwards to soften the blow, introducing a stream of palliative measures – thresholds below which one will not be liable, good news for private schools, charities, and so on, because everyone knows that once a sales tax is in place its level can be adjusted to suit the spending needs of the States. If the new Income Support system proves more expensive than has been anticipated, as well it might, GST can be raised once the 3 years‘fixed rate’ are up.

GST and the finance industry

Those seeking a deferral of the implementation of GST have been called ‘irresponsible’ by Ministers, and a threat to the finance industry. In the recent supplement to the Jersey Evening Post designed to allay growing consumer fears about the new tax, it is claimed that –

> *Showing the world that we have faced up to these hard decisions has enhanced business confidence in Jersey and has led to more investment. Deferring GST could badly affect that confidence…*

while in the Jersey Finance Industry Review 2007, the Chief Executive of Jersey Finance writes –

> *... from an industry perspective, government decisions to introduce the zero-ten tax strategy, GST and other fiscal measures have been vital.*

What the finance industry requires of Jersey is a fiscal strategy that adds up: how the ‘black hole’ is filled is less important than confidence that it is going to be filled. It should be stressed that the petition does not seek to undo other components of the fiscal strategy, the move to ‘zero-ten’, nor ’20 means 20’ – its focus is on questioning the need for GST to provide the £45 million that the Ministers say cannot be found from any other means.

Are the Ministers seriously suggesting that if an alternative to GST can be identified, albeit at this late stage, business confidence will evaporate? Before resorting to such gun-to-the-head arguments, the Ministers should consider the significance of views such as the following –

> *The Island economy is now dependent upon the financial services industry and the authorities, in their desire to protect it, appear to have made proposals that have little regard for the consequences upon ordinary people.*

> *Fearing that any attempt to adjust the rules of the Money Game could kill the goose that for so long had laid our golden eggs, our rulers decided that ordinary folk should be completed to pick up the tab for this unfortunate fumble.*

Both of these letter-writers share the view that was evident at the recent rally against GST that ordinary hard-working people in Jersey will be made to pay to keep the finance industry in the Island – though as everyone knows, its ability to prosper here has as much to do with external influences, laws and global economic pressures and, therefore, the introduction of GST by no means guarantees that the current growth in the financial services sector will continue – and this is not a view which should be ignored.

GST and the tourism industry

One of the weaknesses of Ministerial government has proven to be the loss of a politician with responsibility for tourism. It would have been useful to have heard the views of an Assistant Minister for Tourism in recent months in the renewed debate over the impact of GST on our economy. Such a politician might have argued that 'tax free shopping' was still worth preserving, a view that has been raised by members of the public –

> *… what probably most gets up people's noses is that, notwithstanding the fact that our Island is now one of the most expensive places in the world actually to live in, we have always managed to fool ourselves into believing that Jersey was – uniquely perhaps – 'tax free'. We have always felt that it was that last little gem that kept Jersey special. Suddenly, even that delusion is to be snatched away from us. No wonder ordinary folk feel betrayed …*

> *Most supporters of GST, unsurprisingly, come from the finance sector. Recently the economist David Kearns warned that Jersey should not place on over-reliance on the finance industry and should diversify. He went on to say that Jersey should also expect further sanctions in the future. Should the worst happen and the finance industry retract, the only viable alternative would be tourism … It seems most unwise, therefore, to send a message saying that the Island's unique selling point of not having a sales tax has been removed.*

On the same day, a tourist's letter was published in the JEP under the byline, 'I'd love to come back but I just can't afford to' –

> *Having explored the Island I would describe it as an upmarket Cornwall with a French flavour thrown in, but it has to be said that Jersey is poor value for money … Why is Jersey so expensive when there is no VAT and low-cost labour is so prevalent?*

It is all very well for the Treasury to cut a deal with the Jersey Hospitality Association 'GST reprieve for hoteliers' (J.E.P. 13th September) but this is but a stay of execution. 3% on an already high cost base cannot be good for the future of our tourism industry, even if it does fulfil one of the conditions of those who support GST as widening the tax base.

Tourism has been through a hard time. It is expensive to travel to this Island and expensive to stay here. With Spain, Portugal, France and other places beckoning at more reasonable prices, the introduction of GST will put another nail in that coffin.

Alternatives to GST: cutting costs and raising revenue

The States of Jersey has dismally failed to reduce its costs or maximize its revenue raising ability. People are starting to ask how much more our ministerial system of government, complete with scrutiny panels, costs to run, and to contrast that with the former committee system. Decision-making is no doubt quicker than it used to be, with a single politician being spared the need to achieve a consensus, but is it better? Would the old system have permitted such own-goals by the Ministers as in excess of a quarter of a million pounds spent on the new Jersey brand, the abortive raid on the Christmas bonus, and more recently the Chief Minister's suggestion that we cut Overseas Aid to fund free nursery places?

What is more disappointing and of more relevance to the GST debate is that ministerial government does not seem to be providing an end to departmental 'silo-mentality'. Ministers are still fighting to keep their budgets and to increase them where possible. When asked to volunteer savings they shake out their pockets. There is no evidence that civil service posts are being reduced by closer interdepartmental working – on the contrary, new centres of administrative activity are being set up.

But one of the first decisions of the first Council of Ministers remains the most lamentable, and has justly attracted the public scorn and cynicism – the first tranche of £20 million savings that were part and parcel of the Fiscal Strategy being 'reinvested' in essential services. Recently it emerged that the Ministers had raided the Millennium Park fund to provide half a million pounds for the Minister of Transport and Technical Services to carry out unscheduled improvements to Victoria Avenue. It is clear that the culture of the Council of Ministers is to only pay lip-service to cost-cutting.

The Ministers keep repeating that no one has come forward with alternatives to GST. The Chairman of the Economic Scrutiny Panel has recently stated –

> *The (Treasury) Minister states that all the alternatives have been carefully examined and rejected. Not true. Some alternatives have been dismissed on superficial grounds; others, like Land Value Tax, have been ignored. We have learned that 2006 will produce an additional £30m in tax from the growth in profits from the financial services sector. This growth is predicted to continue into 2007. The Public Accounts Committee have now produce a realistic proposition to cut £12m from the government's spending plans. The Jersey public can do the sums. This additional £42m in revenue/savings could be used to replace GST. The impact of the zero-ten black hole will not arrive until 2010. The logic is inescapable; it states that we do not have to implement GST before then. We can afford to wait to see what happens to the economy before taking this damaging and regressive step. (JEP 10th September)*

A former Chair of the Chamber of Commerce wrote in a similar vein –

> *Given the strength of opinion against GST overwhelmingly demonstrated by the Consumer Council petition, I would recommend that Senator Le Sueur and his colleagues look at an option for avoiding the new tax that they obviously have not considered seriously for some time, and that is to cut planned revenue expenditure from 2010 onwards by £45 million per year. This may sound very radical and will no doubt result in a lot of shroud-waving about the impacts on Islanders of cutting essential public expenditure from ministers and their departments. However the reality is that ministers would only be sticking to the levels of expenditure forecast in the 2006 – 2011 Strategic Plan committed to by the Council of Ministers in early 2006. For example, 2011 revenue expenditure was forecast in the Strategic Plan at £522m whereas in the 2008 Business Plan it is now expected to be £565m – £43m higher, in one year! Clearly there would be some tough decisions to make, some of which would have to impact on public sector jobs. However, we do have a couple of years to make the necessary change which should obviously be carried out sympathetically and hopefully in a continuing buoyant economy. Most importantly though, Government could avoid placing this additional cost on Island consumers and local small businesses. Oh, and of course we could also keep up with Guernsey which looks like remaining a GST-free zone for some time to come! (JEP 7th September).*

The difficulty for the public is that there have been too many examples of profligate States spending in recent years for them to be convinced that a new tax is fully justified. Despite numerous debates, the States have not even managed to reduce the number of elected Members. In the words of one of the speakers at the recent rally –

> *At the moment we have: (a) 53 States Members running an Island 9 miles by 5 miles with around 90,00 inhabitants; (b) a myriad of Senior Civil Servants many of whom have take-home salaries of more than the Prime Minister of England … I say to the States get your own spending under control before bringing in this tax.*

Deferring GST: what does the Treasury have to lose?

The States are urged in this petition to reconsider the need for GST. The new tax has been consulted upon, developed, adopted by the States, tweaked and amended, and only requires an Appointed Day Act to come into force. However, the 19,209 Islanders who have signed this petition represent a significant section of our community.

Deferring GST and carrying out the independent review of public finances that these Islanders have called for, will go some way to restoring the trust in government that has been eroded in recent years. It will show that the States listens to the people of Jersey, and not only at events like 'Imagine Jersey', either.

Even if the outcome of a deferral is the demonstration that GST is, to quote the Minister for Treasury and Resources –

> *the best available or 'least worst' option and the one which will have the minimum impact on our standard of living and businesses (JEP 7th September)*

and GST is implemented in 2009 or 2010, the States will be credited for having gone the extra mile to satisfy the doubters that expenditure has been controlled and income maximized.

Treasury will have 'lost' a year or two of potential income – though it is, of course, our money, not government's – and in many respects the administration and collection procedures will have been improved by the delay. It is difficult to avoid the sense that at present there appears to be an enormous haste to make the deadline of May 2008, and the suspicion that some aspects are being made up 'on the hoof' – the issue of price-marking being just one example.

If, on the other hand, the examination of public finances yields savings and new sources of revenue that make the early introduction of GST unnecessary, so much the better. By getting public finances under control without recourse to this deeply unpopular tax, the Minister for Treasury and Resources and the States as a whole will enjoy the respect of the Island. GST, meanwhile, will remain in the toolbox, to be brought out and used at some point in the future should circumstances require it to be.

Financial/manpower implications

The financial consequences of the States' supporting the request of the petitioners for an independent review of public finances would depend on how the Minister for Treasury and Resources were to set about getting such a review carried out. If he were to use consultants the cost could be considerable, *vide* the recent experience of commissioning the new Jersey brand or 'flying banana'. However, a number of appropriately qualified local experts might be willing to carry out such a review for a reduced fee or even for nothing. Or the Minister might decide to use a combination of external consultants and local experts. The financial savings resulting from implementing measures to reduce the cost of the public sector and raising income from other sources, were GST to be deferred, would be of the order of millions of pounds.

The manpower consequences of deferring GST would depend on the ability of the States to reallocate staff currently preparing to administer the new tax to other administrative posts within the States; the more staff from the GST unit that could be redeployed, the lower the cost of not implementing the new tax.

In conclusion, the Minister for Treasury and Resources is requested to take no further steps to introduce a

Goods and Services Tax in Jersey until public finances have been examined independently to identify potential savings and until alternative methods of raising funds have been investigated.

PETITION

TO THE PRESIDENT AND MEMBERS OF THE STATES OF JERSEY

Name of person(s) or body responsible for this petition –

JERSEY CONSUMER COUNCIL

The background to this petition is as follows –

The imposition of a Goods and Services Tax in Jersey will lead to higher inflation, increased red-tape and considerable extra cost to consumers and local businesses alike.

We, the undersigned, petition the States of Jersey as follows –

The Minister for Treasury and Resources is requested to take no further steps to introduce a Goods and Services Tax in Jersey until public finances have been examined independently to identify potential savings and until alternative methods of raising funds have been investigated.

Full name (please print)	Full postal address	Signature