

## **2.10 Deputy G.P. Southern of the Minister for Treasury and Resources regarding the latest estimates for the Island's Gross Value Added or Gross National Income:**

Following the publication of another disappointing business tendency survey, will the Minister update Members on the latest estimates for the periods 2009-2011 along with 2012-2013 for the Island's G.V.A. (Gross Value Added) or G.N.I. (Gross National Income), the squeeze on public and private sector incomes, including disposable incomes and state what specific measures he will take to stimulate the economy?

### **Senator P.F.C. Ozouf (The Minister for Treasury and Resources):**

Jersey's G.V.A. was £3.6 billion in 2009 and £3.5 billion in 2010. The Fiscal Policy Panel in their October update last year expected modest economic growth of between 0 and 3 per cent in 2011 and in line with the international development of the world economy slightly less growth in 2012 with the risks on the downside. The economic forecast will be updated in our normal practice in advance of the medium-term financial plan. So, there are no official measures of disposable income. The closest indicator, however, that we have is average earnings. The Fiscal Policy Panel showed that the average earnings growth increased at a similar rate to inflation in recent years. Future average earnings growth is, of course, not able to be forecast easily. The Council of Ministers has taken a number of measures to stimulate the economy. We are bringing forward capital spending. I am making an announcement today about housing schemes. We have been focusing on reducing unemployment, Advance to Work and Advance to Work Plus are hugely successful. Also, of course, the collaboration with J.T. (Jersey Telecom) on Gigabit Jersey. Last week the announcement of Digital Jersey. Next week I will be undertaking a promotional visit in the Gulf. The Chief Minister, Minister for External Relations and Minister for Economic Development have a range of promotional trips for Jersey. The Minister for Economic Development is also pressing me hard to fund the economic growth strategy, which he and other Ministers are preparing. So, this is all consistent with the advice of the Fiscal Policy Panel, that the States should be ready to support economic activity without weakening States' finances.

### **2.10.1 Deputy G.P. Southern:**

Does the Minister not believe that the time has come to put some fiscal stimulus back into the economy in order to prevent the extension of this terrible recession?

### **Senator P.F.C. Ozouf:**

I would remind the Deputy that, of course, the Fiscal Stimulus Plan that we and this Assembly approved continues to have some benefit to the economy as projects continue. Indeed, this year we will be spending more in the economy and we will be incurring a deficit as a result of the capital programme spending that we are making. We will be spending more than we are taking out. That in itself is fiscal stimulus. I am going to be working with Ministerial colleagues on a whole set of further improvements in terms of economic competitiveness and boosting economic growth. There is going to be a whole programme, not only in terms of Advance to Work, but boosting economic activity, which shows just how determined we are to do everything we can to boost economic activity in the Island.

### **2.10.2 Deputy J.H. Young:**

Will the Minister advise the Assembly whether he has asked the Fiscal Policy Panel to look particularly at the impact on the progressive withdrawal of tax allowances under the 20 per cent policy, which year on year has taken more money out of the system and the impact of G.S.T. (Goods and Service Tax)? Could he advise that he has asked them to comment on whether or not they are contributing to the economically depressed situation?

### **Senator P.F.C. Ozouf:**

I would say 2 things about that. Yes, the Fiscal Policy Panel has an overall ability to investigate whatever they want and they are receiving further briefings this week. It is very important, I think, for the Deputy to remember just how important it is for governments to show that they have responsible public finances. Governments who have been incurring debt and deficits are in grave difficulty at the moment. We have not done that. We have tackled our problems. We have dealt with deficits. Yes, some of that has been as a result of changing taxes. 20 Means 20 has meant that people on higher incomes are now contributing an effective rate which is nearer 20 per cent. I am sure that many Members would agree that that is fair. So there are both things you have to do. You have to make sure your public finances are strong. If you can do that, you can invest. I do not foresee this Assembly having to make any further dramatic changes in terms of private, the personal income tax, either on G.S.T or Income Tax.

**2.10.3 Deputy J.H. Young:**

Could I ask the Minister to clarify his answer, in that is he saying to the Assembly that sustainable public finances overrides all when one is considering issues of economic growth or is he telling the Assembly that a balance needs to be achieved? Could he also say whether or not the impact, the comparisons with our sister islands that have not gone in that same way, might give us some pointers to why our circumstances seem to be more depressed?

**Senator P.F.C. Ozouf:**

I certainly agree that the environment in Jersey is realistic in terms of what the international situation is. It is always interesting to compare almost the state of people's mind and their confidence. We will see what develops in Guernsey. Guernsey have a deficit to deal with. I am not criticising that.

[11:00]

But, we have tackled our deficit. Other countries have yet to deal with that. That is not a criticism. We have tackled our deficit and we have tackled it boldly, which means that now we can act. I have always said that there is a dividend to be paid for Islanders in the recovery phase. We have tackled our deficit, we have restored our public finances, which is important, and we have invested in the economy. My job, with Ministerial colleagues, is to make sure that we get money invested in the economy. That is local investment, that is public investment, that is looking at things like social housing, *et cetera*. That is how we are going to improve the economic situation. Promoting Jersey in the growing areas of the world is absolutely fundamental to the digital economy, financial services and everything else. That is how we will keep our standard of public finances and boost jobs.

**2.10.4 Deputy M.R. Higgins:**

In fact, I was going to ask another question, but I will ask this one first. The Minister has just told us he has solved our deficit. The truth of the matter is if the accounts were in balance this last year it is because of underspends which are being used. Is he trying to tell us that he has achieved his C.S.R. objectives and the economy, we have dealt with the structural deficit and it is no more?

**Senator P.F.C. Ozouf:**

Let me be clear: we had a plan to deal with the deficit. We would have a £100 million deficit in 2013 on a recurring basis if we had not made the decisions we did last year. They are difficult. We have made the taxation changes. 20 Means 20 is now finished. There is no further withdrawal in terms of 20 Means 20. We have come to the end of that process. We have made the decisions to increase G.S.T. and we have made the decision to put the 2 per cent above the cap on social security contributions. Those decisions have been made. If we follow through and it is this Assembly and the medium-term financial plan to confirm the savings trajectory. We have to reach that target of in excess of £50 million then we will have balanced our books and we will have dealt

with the problem. That is the clear caveat that I make. We have to deliver on the savings, so that we can balance our books.

**2.10.5 Deputy M.R. Higgins:**

Can I just clarify, so the answer was, no, you have not achieved balancing the books as yet.

**Senator P.F.C. Ozouf:**

I am an optimist. I am confident in this Assembly's decision making. I am confident that this Assembly will continue the prudent and realistic approach to public finances, on the one hand investment, but also on the one side of making savings and economies of modernising our public sector but also finding the money, in doing so, for the valuable areas of Education and Health that need investment. We should be proud of ourselves.

**2.10.6 Deputy M. Tadier:**

It is interesting to note how on the one hand the Minister for Treasury and Resources holds up the savings that we have got and then conveniently forgets about perhaps our crumbling infrastructure; the sewers, the potholed roads and the struggling hospital that we have, but that is perhaps for another time. The question I would say to the Minister is that all of these steps which are outlined could be positive. Does he agree that they depend largely on 2 things and, if so, how will he address these? The first one is to do with fiscal leakage; it is fair enough putting money into fiscal stimulus but if money is being leaked that does not help anybody in the long term. The second point is gone, so I will come back to that.

**Senator P.F.C. Ozouf:**

First of all on infrastructure; I inherited a Treasury which was difficult in terms of having problems in relation to revenue expenditure and we did not have a long term capital plan, such as the Constable of St. John had been asking. We are tackling our infrastructure. It is not all crumbling. There are issues which need to be tackled in terms of the liquid waste system and the hospital and I am going to be publishing, with Ministerial colleagues, a 25-year plan for capital which will be fully costed and will fully explain where the money is coming from. We should be proud of our infrastructure. We have got great schools. We have got sea walls which have had substantial investment in them. There is work to be done and we will tackle that. I do not understand the relevance of the comment in relation to fiscal leakage, if I may say. I did not understand what the Deputy meant about what the problem was. Perhaps he could restate the question.

**2.10.7 Deputy M. Tadier:**

I am happy to do that very quickly. Clearly the question was about what the Minister for Treasury and Resources is doing to make sure that economic recovery happens, *et cetera* and all those things that are related with it. One of the ideas, of course, is to do with fiscal stimulus. We have got a project coming up from the Tourism Development Fund which would see, pound for pound, funding given to the private sector. I am concerned, first of all, that the States gets its money back from the private sector and, secondly, if we need to be investing in companies where the money stays in the Island and is not being either subverted up the chain or out of the Island completely. Does the Minister agree with that? If so, which steps is he taking to make sure that is the case?

**Senator P.F.C. Ozouf:**

I apologise for not having understood. I do agree with the Deputy that it is important that when we are engaging in fiscal stimulus activity that that money is, to a large extent, captured in the Island. That is why we put really tough rules around the fiscal stimulus projects, which we are now learning and we are now using for the other capital projects that we are doing, for example, in the capital projects that I am going to be announcing with my colleague, the Minister for Housing, later on this morning. I do agree that we should be focusing on on-Island jobs and any capital spending should be focused on on-Island employment and that is the clear direction of the Chief Minister.

There is an important issue of spending; sometimes you do need to bring the new talent into Jersey in order to help the local employment. It is that fusion of outside talent and Jersey talent which has built us the success we have today. If we are going to develop a digital part of the economy we are going to need to welcome some new workers in that area to help locals to build capacity. But I agree with the Deputy's comments; it is important to focus on what matters for Jersey's economy and that is what our focus is and continues to be.

**2.10.8 Deputy R.G. Le Hérisier:**

Would the Minister state whether he thinks that the fulfilment industry fitted-in with a proper economic strategy and, if not, how does he intend to diversify away from a labour-intensive but low-income industry?

**Senator P.F.C. Ozouf:**

I will try and fit that in with G.V.A. I was the Minister for Economic Development at the time when we analysed the fulfilment sector and we clearly separated out the fulfilment sector into 3 areas: whole-Island full-chain retailers, such as Play.com and then just the fulfilment entities and then the hybrids in between. I would remind the Deputy that the whole-chain retailers produce the G.V.A. per person of in excess of £100,000 that was equal to financial services. In its heyday it was an extremely valuable part of the economy. What was not was the use of fulfilment of just the picking and packing and the diverting of goods to Jersey; now this debate has obviously moved on. We warned that this was always going to be a problem and Ministers at the time I made decisions about, for example, U.K. retailers diverting round-tripping and that was not good for the Island's reputation and it was also not, effectively, very economically valuable. I think that the Island has handled this issue quite well. I am disappointed like everybody else is that we lost the court case and obviously there is an emerging picture in relation to this issue. But obviously it is important to analyse what went right and what went wrong, whether decisions were made appropriate. Yes, of course, it is a blow to our economy which was why we must step up our activities to find these individuals who are going to, sadly, lose their jobs to find alternative employment as soon as we possibly can.

**2.10.9 Deputy C.F. Labey of Grouville:**

I welcome the Minister's enthusiasm to invest in our economy. Does he foresee that investment stretching to our traditional industries that can be measured in so much more than just tax returns in keeping Jersey green and vibrant, not just see new?

**Senator P.F.C. Ozouf:**

Absolutely and that is why, with my colleague, the Minister for Economic Development, we have put forward changes to the Tourism Development Fund. I perhaps did not answer Deputy Tadier's question about whether or not we are going to get money back from investments in tourism. What is commanding our attention at the moment is how can we get capital that is circulating in the Island investing in business? I presume I, in the past, was not particularly keen on progressing tax concessions for investment in businesses such as the film industry as we have seen in creative industries elsewhere. I am looking again at that because I understand that the credit squeeze is meaning that businesses are finding it difficult to get capital. If we can find an incentive to get local capital investing in local businesses then we are going to do so. I am going to be making some announcements about that in the budget later on this year. I am determined that all sectors of the economy, agriculture, tourism and others, with my colleague, the Minister for Economic Development, get investment. The T.D.F. (Tourism Development Fund) is part of that but there is more to be done. I agree with her that we need to look at all sectors of the economy and it is not just the G.V.A. figure that matters. It is about jobs and what makes our Island what it is today.

**2.10.10 The Connétable of St. John:**

The Minister has been mentioning the infrastructure; given that St. Helier Marina is being reinforced at the moment with concrete cladding around that particular marina, is the Minister happy to see that staff working on that particular site are being employed from outside the Island? Given that his view that we want to do an awful lot of work within the Island and it should go to local labour and this work that is being done is the type of work that can be done by many of the building companies on the Island, is he happy to see U.K. vehicles parked across marina parking berths and the like, which are there paid for within the dues of the marina users, is he happy to see U.K. vehicles and U.K. staff working within the Island when this work could be done by Jersey residents?

**Senator P.F.C. Ozouf:**

Sir, you are allowing quite a stray here but I am happy to say ...

**The Bailiff:**

The Connétable is so eloquent I had to ...

**Senator P.F.C. Ozouf:**

Okay. Sometimes it is said that the Minister for Treasury and Resources puts his tentacles into too many things and this is clearly within the remits of my good friend, the Minister for Economic Development, but he tells me that it is a local firm which is employed in this endeavour. Clearly it is important infrastructure, which I am sure the Connétable will agree is important. Sometimes there is the necessity of bringing in expertise from outside the Island but I am advised that perhaps he will address to the Minister those questions as to the on-Island... But I understand it was a local contracting arrangement, it is a local firm and just because there are some U.K. vans does not mean to say that there are U.K. people in them. Sometimes you need to bring in the facilities in order to do so. I turned up at Victoria Avenue in the middle of the fiscal stimulus project at 2.00 a.m. to check myself whether or not it was local people engaged in Victoria Avenue replacement. Actually it was U.K. vehicles but they were Jersey employees working within them but they needed the vehicles to do the job.

**The Bailiff:**

No supplementary, Connétable. **[Laughter]** Very well, the final question, Deputy Southern.

**2.10.11 Deputy G.P. Southern:**

Does the Minister accept the figures I circulated earlier today, largely based upon the Fiscal Policy Panel's reports that there has been between 6 and 8 per cent squeeze on disposable incomes for employees in Jersey?

**Senator P.F.C. Ozouf:**

The recession, the worldwide financial contagion, has had its effect on all economies and all individuals across the developed and the developing world and this has been a problem. I am not going to deny the fact that our Island residents have not been unaffected. Of course they have but we are trying to mitigate that effect and we are also committed to not ensuring that our residents are beleaguered with debt and deficits and problems in the future. We have dealt with our deficit and we have, of course, constrained disposable income but that is the right thing to do because when economic recovery does come, and we are going to do everything possible we can to ensure that we boost the economic growth in Jersey, then the fruits of that economic growth can be shared and will not have to go back to pay back the deficit and the debt of the past. That is the difference of approach, perhaps, between the good Deputy and myself in relation to economic management. We need to now concentrate on economic growth, economic activities and getting people back to work. We need to be realistic with our public sector and all individuals in Jersey about what is an appropriate wage settlement in these difficult times. If wage rates go up we will be, effectively, running fast at a standstill.

**2.10.12 Deputy G.P. Southern:**

Will the Minister answer the question? Does he agree with the figures and, if not, will he produce a response to the figures I circulated earlier today?

**Senator P.F.C. Ozouf:**

I have just seen this piece of paper on my desk this morning. I have not had a chance to review it. If I do have some comments which may be helpful in terms of further explanation of course I will circulate it to the Deputy and Members.