

2014.09.22

### **3.5 Deputy J.A.N. Le Fondré of the Minister for Treasury and Resources regarding the worsening of the income position compared to the figures included in the Budget:**

Could the Minister confirm there has been a further worsening of the income position of approximately £5 million compared to the figures included in the Budget? That is as identified on page 22 of the C.I.P.F.A. (Chartered Institute of Public Finance and Accountancy) report forming part of the Scrutiny review of the Budget. Are there any indications at all as to whether the position has changed since this June position was identified?

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

This question, as you will have noticed, is very similar to the next question, which covers a number of similar points so I will attempt to deal with them in one go but not go over the time. To help the understanding of Members, the Deputy's question and the C.I.P.F.A. report refer to in-year forecasts produced each month for internal use by the Income Tax Department and for management information within the States and the Corporate Management Board. Similar reports, of course, are now produced and we have improved the in-year monitoring across the States. The June report was provided to the C.I.P.F.A. adviser and did, indeed, show a reduction of £5 million in income tax revenue forecasts for 2014. It is worth just noting that that is less than a 1 per cent variance on a forecast. For information also, I can advise that the July report improved that figure slightly to £4 million; that is a £1 million improvement. The August report is still being collated based upon all the latest returns from income tax. In-year monitoring and forecasts will change every month. They are forecasts. They are not outturns. The purpose of in-year forecasts is to inform up-to-date management information for better internal decision making. What they are not there to do is to change tack on short-termism. The whole issue of moving to longer term decision making is a move against short-termism and these issues, these numbers, are very small and should not deflect us from the decisions that we are being called to make in this budget debate now.

#### **3.5.1 Deputy J.A.N. Le Fondré:**

I take the point that it is a relatively small variance. The reason I was asking is because the Budget is so tight and I am not sure what the position is. If the variance is now £4 million, then if you take £4 million off the balance in the Consolidated Fund it goes back into the red. The reason is that C.I.P.F.A. has stated it is critical for Members to have the most up-to-date information when considering the Budget. I suppose, really, Ministers can no doubt argue it is just a forecast, but on the basis the current figures are forecast to be worse than they are, on what grounds does he believe he should proceed with the Budget on the basis that it could still be in the red? Or is he going to introduce further measures just to offset that balance?

[10:15]

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

It is really difficult sometimes to deal with Deputy Le Fondré in a way that is balanced. **[Laughter]** I use that; that may be pardoning the pun. Deputy Le Fondré uses the words "red" and "deficits." Let us just reflect what the law says. The law says that we cannot make any spending decisions without an unallocated budget amount on the Consolidated Fund. Now, you have a very fine red robe, Sir, but red means deficit. At any one time the States current account has £100 million in it, so what we are talking about is to ensure that there is the theoretical allocated amount in the Budget to do it. Now, it is a very restrictive measure and what we are trying to do is when the forecasts are there we are making measures in order to ensure that there is some unallocated allocatable money there. It is wrong to portray this as (a) illegal; (b) wrong; and (c) a problem in our public finances. There is not. I remind the Deputy that we have 100 per cent of G.D.P. (gross domestic product) on our balance sheet, not the opposite that the U.K. (United Kingdom) has with the equivalent of £4 billion. I just wish he would stop using such loose terms

which can be misinterpreted by the general public to say that somehow there is a problem when there is not.

### **3.5.2 Deputy J.A.N. Le Fondré:**

A point of clarification if you do not mind. When the F.P.P. (Fiscal Policy Panel) did their presentation, I directly asked if it was a deficit Budget and they confirmed it was the case.

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

Again, let us be clear. There is a difference between deficits and spending and structural deficits, and we are coming on to a question. There is not a deficit in this Budget. Measures are being put forward. This is really critical and this is a massive issue on which Deputy Le Fondré is - I do not think intentionally - misleading Members. This Budget does balance and there is uncompromisingly more money being put into the economy than taken out. That is different from a current account deficit and this issue of the Consolidated Fund. Each individual issue needs to be understood for what it is and not linked-up and then drawn like some sort of screaming headline that there is a problem. There is not. This Budget does balance but we are putting more money into the economy than we are taking out and it is the right thing to do.

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

Let us refer to the word "shortfall" shall we then? There is an accepted shortfall in predicted income revenue in the 2015 Budget. There was one in the 2014 Budget. The measure taken, raiding each particular fund which is supposed to be ring-fenced for specialist demands, is a short-term measure which balances the Budget, if we have to use the Minister for Treasury and Resources' words, for the short term, i.e. 2015, and the Minister for Treasury and Resources will not be here in 2016, it will be somebody else's problem. Is that not the case?

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

This is not raiding. These are not shortfalls. The income forecast is lower. We know the reason why that is. It is because of the financial contagion. Somehow to project this shortfall as being a personal criticism of the Treasury, a personal criticism of me, is wrong. The income from tax is lower than that that was originally expected in 2012 because of the worldwide financial contagion. The first 2 years of the Budget forecasts were up. I brought those surpluses straight to this Assembly for the Assembly to spend. Deputy Southern was nowhere to be seen criticising me for that. There is a lower income which is being met by Budget measures and it is the right thing to do. It is supported by the experts on the Fiscal Policy Panel. I just do not understand the mixed messages. I think Deputy Southern is talking, if I may say, on both sides of the debate and using both sides of an inaccurate debate to criticise me personally. It is, frankly, not right and not accurate.

### **3.5.4 Senator S.C. Ferguson:**

The Minister has said that, in effect, there is a deficit on the current account. Income is falling, expenditure is rising, and there are structural tax changes. Will he not explain to the public that it is a deficit on the current account and what his plans are to deal with it once we start growing again?

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

Senator Ferguson has been chairman of Corporate Services. She has spent hours understanding this and she has just put a question to me which is inaccurate. There is no deficit in this Budget because we have put income measures in order to balance the Consolidated Fund, full stop. What the Budget is doing is its effect is putting more money in than taking out because we are funding that income downturn by raising money elsewhere. That is the best thing to do, advised by the F.P.P., in order to put the next Assembly in the best position to see the income line growing to deliver economic growth. That is what we are doing. We have underneath that cut taxes and the marginal

rate of tax. If she did not agree with the marginal rate of tax cut, then she could have reversed it in this year's Budget, but she has not done so.

**3.5.5 Senator S.C. Ferguson:**

Will the Minister not admit that there is a deficit, as the F.P.P. have said in their report: "We are running a net deficit"?"

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

We are putting more money into the economy than we are taking out. That is what we are doing. If Senator Ferguson wants to call it a deficit in that context, then that is absolutely correct. That is the defensible, correct decision for all the reasons that we have explained. To then move on and to say that somehow there is some long-term issue is a different matter and there is another question dealing with that.

**3.5.6 Deputy J.A.N. Le Fondré:**

I will try and keep it higher level. Given the deteriorating decline in the income figures for the last 12 months, why was the Minister even remotely considering a further reduction in the marginal rate of income tax, which he has just referred to, in June of this year?

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

I would have loved to have a marginal rate of tax cut down to 25 per cent. The Budget measures that are being proposed are designed exactly to get the economy under way, to turbo-boost economic growth, to ensure the income line rises so the next Assembly can do that cut in the marginal rate of tax. If I could have done it, I would have put it forward, but the reduction in income means that I cannot do that further reduction in the marginal rate. I would have thought Deputy Le Fondré, who opposed the increase in G.S.T. (Goods and Services Tax), who does not agree with higher taxes, would be commending me for doing everything I can in order to cut taxes for working people, not criticising me for doing so.

**Deputy J.A.N. Le Fondré:**

Can I give clarification? The Minister knew the bad forecast since September of last year. He has made that very clear. So the question was: why did he even contemplate the reduction in June of this year, not all the enthusiasm about the economy?

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

It is a theoretical question and technically out of order, but I am happy to answer it.

**The Bailiff:**

Well, answer it briefly.

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

I considered it because if the income forecast would have allowed it, I would have proposed it. But most of the effect of it would have been in the 2016 numbers, so I did not think on balance, after discussion with the Chief Minister and Ministerial colleagues, that it was the right thing to do at the moment. This Budget is ...

**The Bailiff:**

I think that is it because it is a very hypothetical question.

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

I know, but it has been hashed and rehashed so many times and I am not getting my point across.

