

2014.11.25

#### **4.6 Deputy M.R. Higgins of St. Helier of the Minister for Treasury and Resources regarding the possibility of a structural deficit in States finances from 2016:**

Will the Minister outline his definition of what constitutes a structural deficit in States finances and state whether he believes there will be one going forward from 2016 based on the current figures and projections available to him, giving his reasons for this?

##### **Senator A.J.H. Maclean (The Minister for Treasury and Resources):**

There are of course a number of different definitions of structural deficit. I would describe a structural deficit as a permanent mismatch where expenditure is greater than revenue over a defined period of time. Whether there is a structural deficit going forward from 2016 is a complex question requiring extensive analysis and where there is no simple answer. I listen to expert advice on such important economic and fiscal questions. The Fiscal Policy Panel in their 2014 annual report stated that there is a risk of an underlying structural shortfall between States income and expenditure. Let us be clear. There is a risk but we do not know the answer and perhaps more critically the scale of any structural deficit, if indeed there is one. The F.P.P. (Fiscal Policy Panel) have stated that they will advise us further on the underlying structural position in the next report they produce. This is due to be published at the end of January to assist in the preparation for the next Medium-Term Financial Plan.

##### **4.6.1 Deputy M.R. Higgins:**

Does the Minister not accept that when we have a tax system whereby the only companies that pay tax are financial services firms who pay 10 per cent and utilities who pay 20 per cent and no other companies are paying any tax whatsoever, and that the only people paying tax are employees of those companies ... the owners do not pay it because the deemed distribution rules were deemed unacceptable to Europe and discriminatory. So therefore does the Minister not accept that he has a problem? He will not be able to get sufficient revenue from companies, any companies that he brings into the Island. The only people who are going to be paying tax will be their employees, so therefore does he not accept that unless we change our tax system we will be going forward with a structural deficit because there simply will not be enough money to pay for all the services we provide?

##### **Senator A.J.H. Maclean:**

I do not choose to view this as a problem. I choose to view it as a challenge. Yes, of course there are challenges. Jersey is not the only place that is suffering and has seen, due to the economic climate over the last 7 or 8 years', extremely difficult climate where revenues have fallen. Tax receipts have fallen. Our structure is, in many respects, quite unique but it had to be produced for a competitive environment that we were living in and I believe that although there needs to be adjustments, and there have been over the last few years, that it meets the needs that we have at the moment. That does not mean that we are not going to suffer from continuing challenges to our revenue line and continuing challenges to expenditure. As such, we are going to have to ensure that we drive for even greater efficiencies through States departments; that is going to be absolutely essential for all planning.

##### **4.6.2 Deputy S.Y. Mézec:**

It is obviously the responsibility of the Minister for Treasury and Resources to endeavour to see that in 2016 we do not have a budget deficit. Since he was in the media last week saying that raising taxes would be a last resort can I ask him what public services he will be cutting instead?

##### **Senator A.J.H. Maclean:**

I made no statement of cutting public services, but clearly we are going to have to look at all the lines of expenditure across the States of Jersey in all departments and some difficult decisions will

probably have to be taken as a result, but it would be inappropriate for me to make any clear statements at this stage without going through an appropriate process. There is a long way to go. We have not yet had the outturns from 2014. We have not yet, as I said in my opening remarks, had the review from the Fiscal Policy Panel due at the end of January next year.

#### **4.6.3 Deputy S.Y. Mézec:**

Supplementary please? The Minister has just said that they will be looking at all departments. I recall a couple of weeks ago when I asked a question about education funding he seemed to indicate that that was an area where cuts could not be coming from. So can I ask: is there any coherence at all in his plan?

#### **Senator A.J.H. Maclean:**

Very coherent indeed if the Deputy listened closely to what I said. What I said was, and I made it clear that there are priorities, and clearly education, health and growing the economy are 3 areas of priority as far as this Government is concerned. That does not mean that departments like Health and Education cannot drive greater efficiencies. They cannot afford not to be efficient and I will insist that we do drive efficiencies in those departments and get best value for money. Every pound of taxpayers' money should maximise the return that one would expect.

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

Whether one calls a deficit a problem or a challenge is neither here nor there. If the Minister looks on page 75 of his supplementary addendum to the Budget 2015, he will see a shortfall of over £50 million on the books, followed by a list of ways in which he can amend that for 2015, suggested by his predecessor. Does the Minister have any other resources on which he may amend the budget, correct the budget, balance the budget in 2016? Does he know of any funds because they do not appear to be on this sheet and they do not appear, I think, anywhere in our particular structure.

#### **Senator A.J.H. Maclean:**

What the Deputy is saying is correct. What was proposed by my predecessor were a range of largely one-off measures to balance the books for 2015. We are focusing on dealing with those and working with departments and once we are clear about the latest updated forecast we will be working on plans for 2016 and beyond and, as Members know, that is the period 2016 to 2019, which covers the Medium-Term Financial Plan, and it is that piece of work that we are focusing our attention on.

[10:15]

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

Supplementary, if I may. Has the Minister got anything up his sleeve? Does he know of any resources that he can divert to maintain the level of public services, which came in last in this year's J.A.S.S. (Jersey Annual Social Survey) as third on the list of priorities; maintaining public services? Does he have any access to secret funds that we do not know about?

#### **Senator A.J.H. Maclean:**

I am not quite sure what the Deputy is referring to. Why he thinks there is some form of secrecy and secret funds I have no idea. I think public finances are fairly clearly laid out; the Deputy indeed has the statements in front of him. If he wants any further detail I am more than happy to speak to him about it.

#### **4.6.6 Deputy M. Tadier:**

I think it relates to the structural deficit, it may well do. Will the current Minister for Treasury and Resources explain to us what was contained in the note that the outgoing Minister for Treasury and

Resources left for him and did it say anything about the structural deficit? And did it say anything about good luck with that?

**Senator A.J.H. Maclean:**

Good luck was about all it said.

**4.6.7 Deputy M.R. Higgins:**

Does the Minister not accept that if economic growth does not grow substantially over the next few years - and I mean substantially not marginally - then if he is not going to raise taxes he is going to have to slash public sector services or transfer them into the private sector or something in order to balance the books for the projected deficits going forward?

**Senator A.J.H. Maclean:**

The Deputy uses emotive language like “slash”. I have said it once and I will repeat it again: we have to continue to look to drive efficiencies through the whole of the public sector. There are savings that can be delivered without necessarily cutting or, using the Deputy’s term, slashing services. Make no mistake though - and I am sure Members will not either - we do face an extremely challenging period over the Medium-Term Financial Plan 2016 to 2019 that is going to require difficult decisions to be made. Members of this Assembly are going to be party to those difficult decisions. At this stage we are assessing the position, we are waiting for the outturn from 2014, we are waiting for the latest forecast updates and we are waiting for the review from the Fiscal Policy Panel. I make decisions based on expert advice and when the time is appropriate that will be made public and the measures in which we are going to deal with the problems that we may face.