

**STATEMENT TO BE MADE BY THE CHAIRMAN OF THE CORPORATE
SERVICES SCRUTINY PANEL
ON WEDNESDAY 2nd MARCH 2011**

Statement on the Panel's Review of the Fiscal Strategy Review

Members have today received their copy of *Review of the Fiscal Strategy Review* (SR2/2010) which has been presented following the work of the Corporate Services Scrutiny Panel on the FSR. I would like to draw Members' attention to our report and, in particular, to our primary conclusions.

As Members are aware, the FSR was itself undertaken in 2010 and led to the inclusion of proposals within the 2011 Budget. However, while the 2011 Budget was adopted in December last year, the debate on the Island's fiscal strategy must, and will, continue. The primary issues that arose during our Review were broad in nature.

It is our view that the Island's fiscal strategy should be long-term and should be comprehensive. It should not merely aim to address issues of immediate importance but should look at the development of Jersey's tax regime over a span of ten, twenty, thirty years – or even beyond. It should include questions such as the balance of direct versus indirect taxation. It should also incorporate both personal and corporate taxation. And yet the Business Tax Review, implemented to consider options in light of the EU's examination of our Zero/Ten corporate tax regime, was seen by the Minister for Treasury and Resources as a separate entity and, indeed, has yet to be completed. While there may be logic in the Minister's perspective, it is our firm view that the Island's fiscal strategy must cover all forms of taxation. To do otherwise will only strengthen the perception that already exists that a "Business First, People Second" approach has been taken. Members will read in the report our conclusion that, taking into account the matters I have just raised, last year's FSR did not amount to the long-term, comprehensive exercise that the title of 'Fiscal Strategy Review' would suggest. More work is therefore required before it can be said that we have a true Fiscal Strategy.

We received a clear message that the FSR was only one tool that would be used to address the Island's financial and fiscal situation. We learnt that, alongside the FSR, one would expect to see an Economic Growth Plan and efforts to reduce spending. However, last year's FSR was conducted without a current Economic Growth Plan in place – the last one agreed by this Assembly 'ran out' in 2009. Although we understand that a new Plan is currently in development, its absence during the FSR is, at the least, regrettable. Furthermore, while the Comprehensive Spending Review has begun it is clear that spending is not yet under control. This is despite the clear message given by the public that the first priority should be the control of expenditure.

The Minister is aware of the work that remains to be done and, indeed, work has started. This can be seen, for instance, in the establishment of the Tax Policy Unit; work on the CSR also continues. Our Review has shown, however, that there remains a good deal to be done and our recommendations suggest ways in which the Minister can improve matters. To that end, we have recommended that he consult the Fiscal Policy Panel on long-term strategising; that he re-visit the Fiscal Strategy Review; and that he (and his successors) present an Annual Fiscal Strategy Report to the States. It is also more than apparent that further increases in the rate of Income Tax, GST or Social Security should not be mooted unless the second part of the CSR is delivered.

I encourage Members to read our report and I commend it to the Assembly.

3.2 Statement by the Chairman of the Corporate Services Scrutiny Panel regarding the Fiscal Strategy Review Report

3.2.1 Senator S.C. Ferguson:

The Chairmen's Committee has decided, in fact, that in order to make sure that our reports perhaps have a little more publicity and encourage Members to read them, that we will adopt a number of methods in order to bring them to the attention of the States and, in this case, we decided to have a statement. Members have today received their copy of the review of the Fiscal Strategy Review, S.R.2/2010, which has been presented following the work of the Corporate Services Scrutiny Panel on the F.S.R. (Fiscal Strategy Review). I would like to draw Members' attention to our report and, in particular, to our primary conclusions. As Members are aware, the F.S.R. was itself undertaken in 2010 and led to the inclusion of proposals within the 2011 budget. However, while the 2011 budget was adopted in December last year, the debate on the Island's Fiscal Strategy must, and will, continue. The primary issues that arose during our review were broad in nature. It is our view that the Island's Fiscal Strategy should be long term and should be comprehensive. It should not merely aim to address issues of immediate importance but should look at the development of Jersey's tax regime over a span of 10, 20, 30 years, or even beyond. It should include questions such as the balance of direct versus indirect taxation. It should also incorporate both personal and corporate taxation and yet the Business Tax Review implemented to consider options in light of the E.U.'s (European Union) examination of our Zero/Ten corporate tax regime, was seen by the Minister for Treasury and Resources as a separate entity and, indeed, has yet to be completed. While there may be logic in the Minister's perspective, it is our firm view that the Island's fiscal strategy must cover all forms of taxation, to do otherwise will only strengthen the perception that already exists that a "business first, people second" approach has been taken. Members will read in the report our conclusion that, taking into account the matters I have just raised, last year's F.S.R. did not amount to the long-term comprehensive exercise that the title of Fiscal Strategy Review would suggest. More work is therefore required before it can be said that we have a true fiscal strategy. We received a clear message that the F.S.R. was only one tool that would be used to address the Island's financial and fiscal situation. We learnt that, alongside the F.S.R., one would expect to see an economic growth plan and efforts to reduce spending. However, last year's F.S.R. was conducted without a current economic growth plan in place. The last one agreed by this Assembly ran out in 2009. Although we understand that a new plan is currently in development, its absence during the F.S.R. is, at the least, regrettable. Furthermore, while the C.S.R. has begun, it is not clear that spending is yet under control, this is despite the clear message given by the public that the first priority should be the control of expenditure. The Minister is aware of the work that remains to be done and, indeed, work has started. This can be seen, for instance, in the establishment of the tax policy unit and work on the C.S.R. also continues. Our review has shown, however, that there remains a good deal to be done and our recommendations suggest ways in which the Minister can improve matters. To this end, we have recommended that he consult the Fiscal Policy Panel on long-term strategising, that he revisit the F.S.R. and that he and his successors present an annual fiscal strategy report to the States. It is also more than apparent that further increases in the rate of income tax, G.S.T. or social security should not be mooted unless the second part of the C.S.R. is delivered. I would like to encourage Members to read our report and I commend it to the Assembly.

3.2.2 Deputy G.P. Southern:

Did the panel examine whether income tax revenues from companies have been reduced to an unsustainably low level and did the panel examine or find any evidence for economic growth as yet?

Senator S.C. Ferguson:

That is an interesting question. As the Deputy will know, the Business Tax Review has not yet been completed. We would like to see it as part of the overall fiscal strategy; a fiscal strategy should be looking at the direct tax, the indirect tax, the balance of taxation; the whole gamut of corporate tax, consumption tax, property tax, income tax and so forth. We are awaiting the results of the Business Tax Review which is, basically, to look at the Zero/Ten position and once we have those we will be looking at it. I am sorry, I do not remember the second part of the question.

[16:15]

Deputy G.P. Southern:

Did the panel find any hard evidence of economic growth in the economy as yet?

Senator S.C. Ferguson:

Not particularly. This was not particularly what we were looking at specially, we were looking at the F.S.R. We have looked at economic factors, for example, the O.E.C.D. (Organisation for Economic Co-operation and Development) work ...

The Bailiff:

I think a reasonably concise answer ... I think the question was whether you had seen signs of economic growth and you say it was not within your review plan.

Senator S.C. Ferguson:

It was not within our remit, Sir.

The Bailiff:

Deputy Le Hérisssier?

3.2.3 Deputy R.G. Le Hérisssier:

The panel appears to say, and I congratulate the Chairman on her statement, that there had not been the requisite determination and enthusiasm in terms of controlling expenditure hence the premature move towards more taxation. Where does the panel feel, in a general sense, that expenditure can be more tightly controlled or that cut-backs can occur in the public services?

Senator S.C. Ferguson:

We will be returning to the C.S.R. in a new review starting shortly. As the Deputy will remember from his days on my P.A.C. (Public Accounts Committee) the Comptroller and Auditor General's Review looked at the cross-cutting issues and, so far, we have not really seen many signs of solid progress on that but we have a briefing with the Minister for Treasury next week and we will be asking for an update on this. But we will be returning to it as a panel report to see what the progress is in implementing the C.S.R.

3.2.4 Senator A. Breckon:

The Chairman has made reference in her statement to no further increases in income tax, G.S.T. (Goods and Services Tax) or social security and that is also contained in paragraph 2.5 of the report. Can I ask her, from that statement, does she mean from increases that have already been agreed or from where we are now?

Senator S.C. Ferguson:

From where we are now. I think we have agreed increases as of 31st December 2010 but we would prefer to see genuine progress with the C.S.R. before we start looking at increases in taxes. But, in fact, we would like to see this broad fiscal strategy that I have mentioned developed before we start fiddling at the edges and doing things piecemeal. We have got to look at the whole thing in a strategic manner; as I say, we have got to look at all the types of taxes, we have

got to look at their interplay with the social security system and the benefits. I know Deputy Southern is very keen on changing the disregard, or at least getting it and encouraging people back to work, and I know the Minister is equally keen to get that piece of work done. As for increasing them, no more.

3.2.5 Senator P.F.C. Ozouf:

The last question has been partly confirmed but I think I just would like to know: does the Chairman still give her support for the fiscal strategy that was brought to the Assembly last year? Is she surprised that the Minister for Treasury agrees with the focus of a long-term fiscal strategy and does she agree with me that the fiscal strategy should be part of the strategic plan that the Assembly agrees at the start of its term of office?

The Bailiff:

Chairman ...?

Senator S.C. Ferguson:

Sorry. Pause for thought, Sir.

The Bailiff:

Yes, but do not use up too much of your ten minutes. **[Laughter]**

Senator S.C. Ferguson:

The mills of the brain grind exceedingly slow but they get there. Last year's fiscal strategy in December, to be fair, we considered that those were necessary short-term measures in order to meet a particular situation. As far as the strategic plan goes, it is a little broad, it says we want: "Balanced budgets, we want sustainable finances." We were thinking more in terms of the New Zealand approach which, if Members have the report, you can find under paragraph 5.21: "New Zealand publishes an annual fiscal strategy report and measures how the government is doing against its overall goals." The strategy report ...

The Bailiff:

I think, Senator, a concise answer to the question.

Senator S.C. Ferguson:

I have cut out the middle, Sir. **[Laughter]** I am just encouraging people to read it. I see that the Minister for Treasury is already looking for it, it is page 22. This strategic report is meant to have a horizon of at least 40 years and is reviewed at least every 4 years. I think that is a very good model that we should be looking at.

3.2.6 Deputy M. Tadier:

If only more Ministers would pause for thought, they maybe would not speak at all. My question is to do with ...

Senator S.C. Ferguson:

I am not a Minister.

Deputy M. Tadier:

Yes. I know you are not a Minister ... I know the Senator is not, that was not the implication. **[Laughter]** Back on track. The question is the Senator seems to have suggested that there has been a short-term approach taken in the F.S.R. Can the Senator advise why she thinks this short-term approach has been taken?

Senator S.C. Ferguson:

The short-term approach was necessary for the particular situation we found ourselves in. Yes, my panel and I are very keen, as we said in our C.S.R. report, for very much more work on policy, on looking ahead. In the Strategic Plan it says: “Balanced budgets and sustainable finances”; that is fine, and we are here and those are there and how are we going to get from here to there? This is what we are trying to encourage the Minister for Treasury to continue to do, he has already started on this work, and we are just trying to encourage the Ministers to get along the road and just have a better plan of where we are going.

Deputy M. Tadier:

May I have a supplementary, Sir?

The Bailiff:

Well, the 10 minutes tends to allow one question so that many Members can ...

3.2.7 Senator J.L. Perchard:

Does the Senator really believe it is a good idea for chairmen of scrutiny panels to give a statement when they publish a report?

Senator S.C. Ferguson:

We were hoping that it might encourage such luminaries at the Senator to read the report beyond the ... [Laughter] executive summary.

3.2.8 Deputy G.P. Southern:

In the final lines of this statement, it says: “It is also more than apparent that further increases in the rate of income tax, G.S.T. or social security should not be mooted unless the second part of the C.S.R. is delivered.” Based on what evidence is it: “More than apparent” that that should be happening? From where did the evidence come for that statement?

Senator S.C. Ferguson:

The evidence comes from the report from economic adviser and from anecdotal evidence and evidence from Jens Arnold of the O.E.C.D. and Alesina and Camper Mellor(?), I think it is, in that economies that have fiscal adjustments using spending reductions and more efficiency, have a very much better record of economic growth afterwards than governments who ... and let us face it, we all know that governments have wonderful ways of managing to increase taxes; it is the easy way out, it is not the way to get sustained economic growth and the evidence proves it, not just the anecdotal or “this seems like a good idea from the text book”, the evidence shows this.

Deputy G.P. Southern:

A supplementary, Sir, if I may? No, too late ...

The Bailiff:

I am sorry, Deputy, we have run out of time.