



Corporate Services Scrutiny Panel

Quarterly Hearing with the Minister for Treasury and Resources

MONDAY, 3rd JULY 2017

Panel:

Deputy J.A.N. Le Fondré of St. Lawrence (Chairman)

Deputy S.M. Brée of St. Clement (Vice-Chairman)

Connétable C.H. Taylor of St. John

Deputy K.C. Lewis of St. Saviour

Senator S.C. Ferguson

Witnesses:

The Minister for Treasury and Resources

Assistant Minister for Treasury and Resources

Treasurer of the States

Director of Financial Planning and Performance

Comptroller of Taxes

Director of Treasury Operations and Investments

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[10.30]

Deputy J.A.N. Le Fondré of St. Lawrence (Chairman):

Minister, as you are aware, we have the usual notice to your left, which I am sure you are aware of, and please pay attention to. To those sitting in the public seating, hopefully the point about not having disturbances from electronic devices or interrupting the proceedings. For the benefit of the tape, my name is Deputy John Le Fondré. I am chairman of the panel.

Deputy S.M. Brée of St. Clement (Vice-Chairman):

Deputy Simon Brée, vice-chairman of the panel.

Deputy K.C. Lewis of St. Saviour:

Deputy Kevin Lewis, panel member.

Connétable C.H. Taylor of St. John:

Constable Chris Taylor, panel member.

Senator S.C. Ferguson:

Senator Sarah Ferguson, panel member.

Treasurer of the States:

Richard Bell, Treasurer.

The Minister for Treasury and Resources:

Senator Alan Maclean, Minister for Treasury and Resources.

Assistant Minister for Treasury and Resources:

Constable of St. Peter, John Refault, Assistant Minister for Treasury and Resources.

Director of Treasury Operations and Investments:

Simon Hayward, Director of Treasury Operations.

Comptroller of Taxes:

Richard Summersgill, Comptroller of Taxes.

Director of Financial Planning and Performance:

Alison Rogers, Director of Financial Planning and Performance.

Deputy J.A.N. Le Fondré:

Great. Thank you very much. Just, also, in case people have forgotten, if we think we have had enough from you in order to answer the question we have been asking, we will try and move on. Obviously, if my hand goes up, please take that as an indication we do want to move on. That is a general sweep rather than looking directly at you, Treasurer. To start then, Minister, we have recent pronouncements that a new Code of Conduct is required for Ministers in respect of use of purchase cards. In the absence of such guidance, do you not agree that Ministers should be adhering to the existing Financial Directions governing all other uses for such cards?

The Minister for Treasury and Resources:

It is an interesting question, Chairman. Yes, I think the principle would be that Ministers and States Members generally should be adhering to the principles of the Financial Directions that are laid out for employees.

Deputy J.A.N. Le Fondré:

Thank you very much. Okay. We are going to move on to the future hospital funding. So the hospital funding proposals were pulled at the last minute prior to the debate in May. Can you explain what work, Minister, has been undertaken since then to put together a new funding strategy?

The Minister for Treasury and Resources:

The excellent advisers that we use continue to monitor the position in terms of the markets. As far as Treasury is concerned, the strategy that we laid before the States that was not debated is broadly the strategy that we still support and believe is relevant. Obviously there is going to be a delay now before it is re-presented. I know that you have asked for a timeline as for when that is going to be. My understanding is that the Chief Minister is intending to update the States on 18th July with regard to that timeline. Broadly speaking it devolves lodging a combined proposition with an updated business case, updated budget and the funding strategy at the beginning of October for debate in November.

Deputy J.A.N. Le Fondré:

Yes, at the end of last week we had the dates provided to us, lodged on 3rd October and debated on 14th November. Do you happen to know when it will be provided to Scrutiny?

The Minister for Treasury and Resources:

I am conscious, as I believe the Chief Minister is, that the timescale is going to be tight, as is often the case with these matters. As far as I am concerned, we will share with your panel, Chairman, all the information that we have available as early as we possibly can in order to help you to expedite your responsibilities from a Scrutiny perspective.

Deputy J.A.N. Le Fondré:

Do you have an indication of how early that could be at this stage?

The Minister for Treasury and Resources:

As I pointed out, the Treasury element is something that is well developed, because of the time period between now and the likely debate we are just continuing to monitor positions. Obviously, other departments were involved in the business case and the budgeting as well as Treasury's involvement. I think, if I may, we will come back to you as soon as we have greater clarity, because I would purely be speculating at this stage and I would not wish to do that. All I can say is: we will work as hard as we can with other departments to get you as much information as early as possible to expedite ...

Deputy J.A.N. Le Fondré:

Obviously you are aware, as we are all aware, the fact that the budget is being lodged probably at the same time is going to make that particular period of time somewhat tight.

The Minister for Treasury and Resources:

That is why I made the comment I made a moment ago: we are clearly patently aware of that situation. It is unfortunate that the lodging period for the budget and this important debate are going to be so close together.

Assistant Minister for Treasury and Resources:

Another thing to mention, Chairman, from my position in Health, they are very much aware of your needs as well and are doing their best to get their part of the information done as quickly as possible and bring it all together ...

Deputy J.A.N. Le Fondré:

Thank you very much. Okay. When can we expect to receive the ministerial response to the panel's report which was published in April? Bearing in mind that obviously that response is now significantly overdue.

The Minister for Treasury and Resources:

Yes, it is completed and we will make absolutely certain you have it in the next couple of days.

Deputy J.A.N. Le Fondré:

Thank you very much. Is the plan still to issue a bond to fund the hospital?

The Minister for Treasury and Resources:

As I have said, the strategy that was laid out previously is a strategy that is still relevant from a Treasury point of view, so the intention is still to issue a bond. As I have said though, Treasury has continued with excellent advisers to monitor the situation as we move forward due to the delay between now and when the debate is likely to be, in November.

Deputy J.A.N. Le Fondré:

Slightly puzzled, because obviously the fact that the debate was pulled implied that there was a new funding strategy, but obviously at this stage it does not appear that there is a new funding strategy. Is there likely to be any change to the strategy that you are aware of?

The Minister for Treasury and Resources:

Hopefully I have made that clear already. Our view is that we are confident in the proposal that we put forward originally. Clearly we continue to monitor any changes that may occur in the intervening period. You will appreciate that there are obviously a number of views in terms of the way in which the hospital could be funded. We continue to listen to any view, particularly with the intervening period that will occur between now and the likely debate. At the moment our position remains unaltered, and that is that the strategy we were proposing to the States is still the current strategy. We do not see, therefore, any likely change.

Deputy S.M. Brée:

Minister, sorry, I am slightly confused by the words you have been using, as I am sure other people are. You have inferred that the new funding strategy is broadly the same as the previous one you presented to the States, you have said that the strategy is still to use a bond. So it is apparently your view that the strategy you put in front of the States was the correct one. Why did you withdraw it?

The Minister for Treasury and Resources:

I do believe it was the correct strategy. Certainly it was the correct strategy at the time we were about to have the debate. The point I was just making a second ago was clearly: as time passes, if anything significant happens to change that view then of course that will be reflected between now and the next debate.

Deputy S.M. Brée:

But why did you withdraw the funding strategy that you presented to the States, if your view has not changed? We are still going to use a bond, it is still roughly the same strategy, why did you withdraw it?

The Minister for Treasury and Resources:

As I have made clear previously, it is a significant project, probably the largest project the States will undertake and therefore, in my view, it requires the complete support of the Council of Ministers. There were some Ministers who were not convinced by the strategy and therefore I did not feel it was appropriate to continue on the basis that it was not wholly supported.

Deputy S.M. Brée:

But you had launched the proposition with the support of the Council of Ministers and yet now you are saying that has changed, that they no longer support your strategy. Is that correct?

The Minister for Treasury and Resources:

I did not say the Council of Ministers did not support it necessarily. There were some Ministers who had concerns and it was right therefore, in my view, without unanimous support from the Council of Ministers for a project of this significance, to withdraw. There were also other issues that came into the consideration process and that was concerns expressed by others, including advisers employed by your own panel that it might be wise to wait a short period of time and have greater clarity over the business case and have greater clarity around the budget. So what we are proposing now is a strategy that will bring back the funding strategy together with, in one proposition, those 2 other items. That does seem to me to be a sensible approach, taking all those factors into consideration.

Deputy J.A.N. Le Fondré:

Okay. Just to be clear, as of today, the strategy remains borrowing up to £75 million by bond for a time period of 30 to 40 years?

The Minister for Treasury and Resources:

Ministers make decisions based on advice. I have no advice currently to suggest a change in that strategy. So that is the strategy that I believe we will be continuing with, unless I get any professional external advice and internally validated to the contrary.

Deputy J.A.N. Le Fondré:

So that is the strategy that I have just outlined?

The Minister for Treasury and Resources:

Yes, absolutely.

Deputy J.A.N. Le Fondré:

Okay. Obviously there was a lot of discussion of new information or a new way of doing things that had come through literally at the ... not even the 11th hour. Has that ... I will use the word "advice" but that may not be the label you want to attach to it. Has that suggestion been confirmed or checked yet by your third party advisers?

The Minister for Treasury and Resources:

There are often views coming forward and they go through the same process as far as time is concerned. That is that they get assessed by our experts, both external and indeed for that matter the internal expertise that we have within Treasury. There are some other alternatives that have been put forward and they are being assessed by our experts. As I have said, I have had no advice to suggest that our strategy that was lodged needs to be changed. As I have said, there is a time period between now and the debate and indeed between now and lodging. If advice from my experts changes then I will reflect that and obviously let the panel know. Currently there is no change.

Deputy J.A.N. Le Fondré:

Okay. In the original debate in January, you obviously clearly stated that any delays would be costly. What has changed since that time?

The Minister for Treasury and Resources:

Nothing. I was expressing a view. Again, it was based upon external professional advice that the markets are volatile. I am sure panel members will have noted in recent weeks and months the volatility in all sorts of different areas. That volatility still exists. There is still a great deal of uncertainty in areas like Brexit nationally and internationally. Therefore, that does increase the level of potential risk that the cost of borrowing could increase. That was the view and advice that I had in January. That is still the advice. We have seen the rate fluctuate up and down. Indeed, from January until the date we were due to be debating, we saw a slight drop in the cost of borrowing. We have seen an uptake as well.

Deputy J.A.N. Le Fondré:

In terms of the delays to date, what costs have arisen?

The Minister for Treasury and Resources:

It got a little bit cheaper initially, since January, because of the way the market performed. We were monitoring very closely and I had the numbers at my fingertips, but I am not sure, Alison, if you have any of the latest numbers.

Director of Financial Planning and Performance:

Not that recent, no.

The Minister for Treasury and Resources:

I think 2.57 was the latest. Back in January it was 2.65 roughly.

Deputy J.A.N. Le Fondré:

Okay. So the present position loosely is that it is cheaper than where it was?

The Minister for Treasury and Resources:

That is a couple of weeks out of date.

Director of Financial Planning and Performance:

Just on the cost of borrowing, not necessarily on the cost of building.

Deputy J.A.N. Le Fondré:

Well, as I say, it was the cost of borrowing. At the moment you are saying we do not yet have a new strategy. Presumably there is an assumption that the proposal that caused the delay at the 11th hour and 59th minute, was going to achieve cheaper borrowing than your proposals. Is that correct?

The Minister for Treasury and Resources:

I think to comment on a proposal presented together with a whole raft of others we have had over recent weeks and months probably would not be that constructive because it does not come with the support of my professional advisers. So it is just simply opinion. It was proposing a different way of doing things which may or may not be appropriate, but until I have had some official advice from my advisers I do not think it is probably that constructive to mention it.

The Connétable of St. John:

Following on from that comment, why did you not continue with part (a) of the proposition, which was to fix the level of funding for the hospital at £466 million, being £392 million the cost of the hospital and £74 million contingency? This would have given the Treasury certainty as to the amount of money and it would also have given confidence and certainty to the hospital construction body to know what funding was available and it was definitely available.

[10:45]

The Minister for Treasury and Resources:

Yes, that is a very good point. In terms of the project team for the hospital and the importance of ensuring that they retained confidence and also that the project can progress. We sought confirmation that there were enough funds available in the budget to accommodate the delay that we are now seeing. I was advised that there was enough money in the budget to do that and the advice was that the whole project should be withdrawn and then re-presented in the package measure that I just mentioned. The importance is that confidence was given to the project team, both in terms of the fact that the project was going to progress. It was not a question of we are not going ahead with the hospital, and also that there was enough funding for them to carry on with their important preparatory work between now and the time that the States will debate it in November.

Deputy J.A.N. Le Fondré:

What has been the total spend to date on the funding mechanisms for the hospital?

Treasurer of the States:

I do not have those figures to hand, so I will have to come back to you.

Deputy J.A.N. Le Fondré:

Can you give us a ball park?

Treasurer of the States:

I would not wish to give you a ball park if it was not the right ball park.

Deputy J.A.N. Le Fondré:

Okay. Within the context of that, can we also ask how much internal staff time has been spent on the project so far?

Treasurer of the States:

Considerable.

Deputy J.A.N. Le Fondré:

If you could come back to us.

Treasurer of the States:

We don't have a time management system in the States that records what project you are allocated. It has taken quite a lot of my time, quite a lot of the Director of Financial Planning and Performance and quite a lot of the Director of Operations as well.

Deputy J.A.N. Le Fondré:

Perhaps we could have a bit more meat on that statement when you email us back, please? Okay. Minister, are you the only Minister to hold political responsibility for the hospital funding strategy?

The Minister for Treasury and Resources:

I would consider that ultimately a strategy of this size requires the support, as I was alluding to earlier, of the Council of Ministers. Ultimately it is my responsibility. The proposition, as I made clear in the States, was lodged in the name of the Minister for Treasury and Resources and therefore I was the only Minister who could withdraw it, because it was lodged in my name. But I do believe, as I have already stated, that a project this size requires the unanimous support of the Council of Ministers. That was the position that I took.

Deputy J.A.N. Le Fondré:

So your perspective is really from a procedural point of view? You were the only one who could withdraw it.

The Minister for Treasury and Resources:

If we consider where we are going now with the new combined proposition, that is going to be a Council of Ministers proposition because it is cross-departmental. To be frank, if you look at the project of the hospital as a whole it is cross-departmental, as you will appreciate.

Deputy J.A.N. Le Fondré:

So, it will be lodged by the Chief Minister, will it?

The Minister for Treasury and Resources:

I think that is the most likely outcome. Although, who will end up being the rapporteur is yet to be decided.

Deputy J.A.N. Le Fondré:

If it is lodged by the Chief Minister, he will be the one who is ultimately responsible for it?

The Minister for Treasury and Resources:

I think that the Council of Ministers are responsible, but as head of Council of Ministers, yes, ultimately that would be the case.

Deputy J.A.N. Le Fondré:

Okay.

The Minister for Treasury and Resources:

I suppose that does raise a question about scrutinising and how indeed one would progress in terms of doing that; sub-panels and the suchlike. Clearly that is a matter for your side.

Deputy J.A.N. Le Fondré:

That is in hand at the moment. Right. You have said that there are sufficient funds available for the project to continue until the date of the debate. How much, as of today, is there left in the kitty, for want of a better expression?

Director of Financial Planning and Performance:

It would be better if we could come back with that, if that is all right.

Deputy J.A.N. Le Fondré:

Yeah. As far as you are concerned, just to make sure it is clear, you consider there is sufficient to cover the cost of the project until the new funding proposals are debated in November?

The Minister for Treasury and Resources:

Yes, that was the position that was clarified at the time that the proposition was withdrawn.

Deputy J.A.N. Le Fondré:

Yes. That will be until you get the funding in place as a result of that debate?

The Minister for Treasury and Resources:

Yes. The clarity was that there was sufficient funding to allow the project to continue up until the end of the year, so December.

Deputy J.A.N. Le Fondré:

Okay. If you have the debate on 14th November, loosely speaking that gives you 6 weeks, including the run-in to Christmas, to get the bond in place, assuming that is where you go. Is that sufficient time?

The Minister for Treasury and Resources:

Yes, but I do not think it is just the bond money that is relevant as far as this is concerned.

Director of Financial Planning and Performance:

The plan would be to do the bond in the New Year rather than before Christmas, in terms of time. Christmas is a bit of a non-starter.

Deputy J.A.N. Le Fondré:

Exactly. That is what I was just wondering. So, you have funding until the end of the year.

The Minister for Treasury and Resources:

Yes.

Deputy J.A.N. Le Fondré:

Do you have funding to cover the time gap between the end of the year and when you get the funds from the bond, assuming you go for bond?

Treasurer of the States:

It depends on what the States' decision is. If the States decision will be for the funding of the bond. If we were to say that we wish to fund the whole of it from a bond, and clearly the funding would not be in place, the last 2 proposals in front of the States were firstly the panel's proposal that it be entirely from the funded from the Strategic Reserve, in which case it would be in place. In the case of the Minister's proposition that some is from the reserves and some is from the bond ...

Deputy J.A.N. Le Fondré:

You just take it up front.

Treasurer of the States:

The funding will be in place as well.

Deputy J.A.N. Le Fondré:

Okay.

Treasurer of the States:

But only in the scenario where you were taking all the bond ...

Deputy J.A.N. Le Fondré:

Okay. Thank you.

Deputy S.M. Brée:

Minister, just to ask a quick question: you have alluded to an alternative strategy currently being looked at. Could you tell us what that is?

The Minister for Treasury and Resources:

I would not want to go into any details at this stage. As I mentioned earlier, we have had a number of proposals for funding a hospital and they go through a process of being evaluated.

Deputy S.M. Brée:

Who have you received those proposals from?

The Minister for Treasury and Resources:

A raft of different organisations and people.

Deputy S.M. Brée:

Who?

The Minister for Treasury and Resources:

I do not have names to hand, but ...

Deputy S.M. Brée:

So you are not prepared to let us know who the proposals are from, you are not prepared to let us know what the proposals are and yet you are sticking rigidly to the fact that you support the original proposals in the original proposition that you withdrew. Is that correct?

The Minister for Treasury and Resources:

That is correct. It is no great surprise. I see you smiling, but it is no great surprise. The simple reason is this: that a number of proposals have come forward for ways in which projects can be funded, particularly something as emotive as this and as large as this. As I have said, and stated on numerous occasions, as a Minister, Ministers operate on advice from their professional advisers and therefore I do not validate anything until it has been through that process. Such proposals such as alternative funding strategies have to go through professional advisers. If they then come back and are a recommendation, of course, I would be happy to talk about them. Indeed, you would want to then assess them. That is exactly and appropriately the right way to go.

Deputy S.M. Brée:

Yet you yourself, Minister, said during the States debate in January, and this is taken from Hansard: "Each day and each week that we are extended over this matter it does make it an increased risk in terms of the borrowing cost." I am sorry, the 2 statements do not match. You are saying you are

looking at a raft of different proposals and yet you say at the same time you support your original proposals or Treasury do and yet you are not prepared to provide this panel with any indication of what the alternatives are, where they have come from and who is looking at them.

The Minister for Treasury and Resources:

Right, let me be absolutely clear. In the period of time leading up to January there were quite a number of alternative proposals presented, that went through the process of being assessed. You will be familiar with some of the ideas that were being considered that came through. That was an entirely different matter. At the point in January I made my statement, you have just quoted from me, that is based upon the external professional advice that I have received about the volatility of markets and about the risk of delay. I have just said earlier on this morning that is still the case; markets are still volatile, for obvious reasons. I have also said that I am still of the opinion that our strategy that was presented in January, that is still the strategy that I believe is the right one, because I have had no professional advice to the contrary. If I do, then I will let you know about it.

Deputy S.M. Brée:

Okay.

Deputy J.A.N. Le Fondré:

Thank you. We will move on to the subject close to the heart of the Treasurer, which is the 2016 accounts. Sarah?

Senator S.C. Ferguson:

Yes. The 2016 accounts appear to show a strong performance and were proclaimed with great enthusiasm by your colleagues. But both you and the Treasurer have urged a degree of caution. Why?

The Minister for Treasury and Resources:

Because we are prudent people and we realise that one set of accounts does not necessarily represent what is going to happen in the long term. We are delighted that the 2016 accounts were as positive as they were, in terms of improving the balance sheet and obviously in terms of our income and expenditure. We saw income up and expenditure broadly controlled. It was an all-round very positive position. But we realise that that is just one set of accounts and a single swallow does not a summer make. Therefore, we remain prudent. What I will say is that the very good results from 2016 have been through the Income Forecasting Group. They have updated forecasts over the period through to 2019. In real terms what that is showing us is a slightly improved position by 2019 of around about £4 million. A lot of people have got carried away with the investment returns. They are significant. We have locked about 80 per cent of them in, through a hedging

strategy. That is a very positive aspect. A huge chunk of it is in the Social Security Reserve Fund, which went up 19 per cent. In numbers it was about £254 million. That is particularly good news, because it means from an Islander's perspective that the Minister for Social Security or the future Minister for Social Security will have more flexibility about increasing rates, perhaps at a slower rate or a lower increase as we see the effects of the ageing population. So, there were some really strong positives in those 2016 accounts.

Senator S.C. Ferguson:

Yes, although the Government, as such, does not have access itself to the, for instance, the Social Security increase. That belongs to the pensioners.

The Minister for Treasury and Resources:

Yes and that is exactly as it should be. But for them, it is good news.

Senator S.C. Ferguson:

Yes. The accounts also show an overall surplus of £307 million. But if you take out the investment performance of special funds the £390 million, is there not really a deficit of £83 million?

The Minister for Treasury and Resources:

If you want to look at it in a negative way like that, yes, there is.

Senator S.C. Ferguson:

No, in a realistic way, Minister.

The Minister for Treasury and Resources:

No, no, that is fine.

Senator S.C. Ferguson:

In a prudent way, perhaps.

The Minister for Treasury and Resources:

Indeed. As indeed I am very prudent and the Treasurer is a very prudent chap and the Treasury team are very prudent. You will see there is a trend over recent years where there has been improving public finances. That is as a direct result of the approach that we take.

Senator S.C. Ferguson:

Yes.

Treasurer of the States:

Can I just add in? If you are going to take the income from the special funds out then you should also take out the expenditure out of the special funds. You cannot just take the income out of the special funds and not take the expenditure.

Senator S.C. Ferguson:

Well, you should perhaps have accounts that just show what is due to the Government and what the Government can play with.

Treasurer of the States:

We do do that. We have accounts that relate to the States Assembly, general revenues included and departmental expenditure. They are separate accounts within the statements and they are summarised separately in presentation.

Senator S.C. Ferguson:

Yes, I know. Yes, absolutely. There was an increase in general revenue of £45 million, mostly in increased tax revenue. How much of the increase in personal tax revenue was as a result of the change in accounting policy in 2015?

The Minister for Treasury and Resources:

It was about £7 million.

Senator S.C. Ferguson:

Right.

Treasurer of the States:

The budgeted amount was £7 million but the actuals were more in the region of £13 million.

Deputy J.A.N. Le Fondré:

Okay. Budgeted £7 million.

Senator S.C. Ferguson:

Right. So, how much of that increase relates to increases in the number of taxpayers?

The Minister for Treasury and Resources:

Hard to say, but there will clearly be in this current year taxpayer increases, so there will be a certain element that will be as a result of increased taxpayers. What I would say is that that would be positive taxpayers, people making considerable contributions, in terms of tax.

Senator S.C. Ferguson:

Right. Perhaps when you are sending us the rest of the information we have asked for, perhaps you could tell us that. How much is down to genuine economic growth?

The Minister for Treasury and Resources:

Well, you could argue that those being successful in getting the jobs, as we have just talked about, are as a result of businesses doing better. We have seen the economy growing. Businesses are employing more people. We have seen unemployment numbers falling quite dramatically. Businesses are employing more people and paying high levels of salaries, which we have seen in recent statistics. So, it is not a great surprise to see income tax receipts in this area perform in the way that they have, which is very positive.

Senator S.C. Ferguson:

Is there any correlation between increased tax revenues and increases in the population?

The Minister for Treasury and Resources:

There is bound to be a correlation. The important point is that they have ...

Senator S.C. Ferguson:

But we still have roughly the same number of unemployed.

[11:00]

The Minister for Treasury and Resources:

Unemployment numbers have fallen in recent years. We have seen the highest level of employment. So, we are also noting that because of these increases in income tax receipts that those people being employed are paying increased amounts of income tax. That is positive. That is a sign or a strong economy.

Senator S.C. Ferguson:

Yes. Obviously more people are employed, because we have just had another 3,000 or so over the last couple of years, in the Island. So, it is this Ponzi scheme again, is it not?

The Minister for Treasury and Resources:

Well, Senator, if you wish to call it a Ponzi scheme. You cannot have a successful economy without some immigration. You need to make certain, as the focus has been from this Council of Ministers,

on having good immigration. So, employing people that are on high salaries and who are making the greatest contribution in terms of taxes paid, which helps support our public services.

Senator S.C. Ferguson:

With respect, Minister, we are not sure of the figures, are we?

The Minister for Treasury and Resources:

No, we are not sure of the granular details of the figures. That work is ongoing. It is an important piece of work to be absolutely clear how that falls.

Senator S.C. Ferguson:

Yes, because obviously the increase in supplementation will correlate to the increase in low paid workers.

The Minister for Treasury and Resources:

Yes. I think it is important, therefore, to be clear about immigration in terms of, some of the more traditional industries, who are to ensure they remain competitive are having to import labour, as has been the case, not just recently but over decades. Those tend to be lower paid workers. That does not mean that it is not important, because you are supporting the hospitality sector, you are supporting the agricultural sector and, of course, they have direct correlation to many of our other important sectors like finance.

Senator S.C. Ferguson:

Yes. Although I do not think we are really supporting the traditional industries like agriculture and tourism when we are slamming large charges on them.

Deputy J.A.N. Le Fondré:

Just wait until we get there. Okay? Right. I have one question. Minister, but you may wish to direct this to the Treasurer, I do not know, on the accounts in relation to whatever the underlying deficit is there is £46 million sitting in there, the pension liabilities, which I presume is P.E.C.R.S. (Public Employees Contributory Retirement Scheme) and J.T.S.F. (Jersey Teachers Superannuation Fund), for example. Would you like to comment any further on those figures, because obviously that is over and beyond whether the deficit is £1.8 million or whether it is £80 odd million or whichever number you wish to use within that larger figure is £46 million of pension liabilities?

Treasurer of the States:

One thing I would like to say firstly is that with the changes in the valuation that we do every year, changes in the variables that were used in those valuations creates a great deal of volatility, so you

see the opposite happen in 2015, which points to that volatility. We are looking at an accounting ... there are different ways of accounting for this that might suggest that we should be smoothing it a bit more, so that we do not take this volatility year-in year-out. The volatility you see really has not changed much in the substance of where we are with those and we will have the actual reviews done on them, on those pension schemes in total, not just in terms of the past service liability. They will be due towards the end of this year, early part of the following year. So, I would not read too much into that variability that comes purely through the valuation, because as I say, the previous year nothing much has changed in terms of the membership there, but in terms of where the markets are we have changed the practice with in the valuation.

The Minister for Treasury and Resources:

Okay. Maybe that is something we will come back to. Simon?

Deputy S.M. Brée:

Yes. Minister, I would like to talk a little bit about financial forecasts. In October 2016, the forecast deficit of expenditure over income for 2016 was £87 million. The actual deficit income was only £1.8 million. How did you get your forecasting so wrong?

The Minister for Treasury and Resources:

I would have thought you were delighted by the fact it is not as bad as it was suggested it was going to be. In fact the figures are ...

Deputy S.M. Brée:

I am talking about the accuracy of forecasting, not about whether it was good or bad, Minister, as you well know. I will go back to my question: how did you get it so wrong?

The Minister for Treasury and Resources:

We do not necessarily believe it is wrong. The point is that forecasts are updated on a regular basis as you move through the year.

Deputy S.M. Brée:

This was in October 2016 that you forecast £87 million deficit. Two months later the actual figures was £1.8 million deficit. I ask the question: how did you get it so wrong?

The Minister for Treasury and Resources:

Well, we do not consider it is wrong. Would you like to just ...?

Treasurer of the States:

There are 2 things to be said, firstly that ...

Deputy J.A.N. Le Fondré:

Could you just speak slightly louder, if that is okay?

Treasurer of the States:

Sorry. Budgeting deficit is firstly based upon all available budgets for expenditure being spent. So, you are quite right to point to that issue, which explains about that variability. The other variability is a combination of income from taxation and income from investment. There are certain panel members who would not be able to point to whether the investment income would continue to rise in the way it has done throughout 2016, which I have all the transcripts in front of me from those hearings. So, partly it is because of the way we have done it historically - indeed, this is something we are looking at - which is to make it very clear that when we are talking about the expenditure we are talking about the budgeted expenditure. What I am asking for now is that we do a forecast as we go through the year of the forecast of expenditure, as opposed to the budget for expenditure. So, those disclosures that were made in October time assume all of the budget is spent. Budget is never always spent.

Deputy J.A.N. Le Fondré:

That would be your actual?

Treasurer of the States:

There are balances that remain. So, that is part of it. I am sure you will come back to that later on in terms of departmental underspend. We are looking at changing that so we can come up with a better way of indicating forecast expenditure. For those that were at the presentation of the accounts, I think I talked about that. I talked about the fact that these forecasts deficits are based upon a budgeted expenditure and if the budget of expenditure does not come through then those forecast deficits will not come through. That is something we are looking at in terms of changing the approach there to talk about forecast spend as opposed to budgeted spend. On the income, I think we have covered that in terms of 2 specific areas. One, investment, so all we ever did throughout 2016 when we saw income started going up, and even that some would I am sure accuse me of being imprudent, was to bank what we had had. Clearly the markets could reverse and all of a sudden we would lose what we had. Now we had hedged some of that into place so we were reasonably certain it would not go down, but what we did not do was assume it would go on throughout the rest of the year. So, we took a prudent cut there. That does affect some of the forecast for ... income in the ... balances on the Consolidated Fund and the surpluses we have on the Currency Fund are in those income and the remainder is personal tax. We did not have full sight of everything in respect of the personal income tax forecast. Because of the state of our systems at

the moment we are behind all assessments. The assessments did all get done by the end of the year, but based upon the information we had in October, we did not have all of the upside, which was predominantly ... referred to it, are being currently at basis taxpayers' income having gone up. That is not just people who join in the year, that is people who joined earlier in the year, that is people who have now sort of got about ten-year existence of C.Y.B. (Current Year Basis) taxpayers and therefore we have seen some things within the increase in earning and other income within that particular group that we do not see in the prior year basis.

Deputy S.M. Brée:

Okay. If we can move on with forecasting, because obviously it is an important area of budgeting, the income forecast show that although corporate income tax is slightly higher in 2016 it is forecast a fall significantly by, I think, around £16 million in 2017. What is the reason for this?

Treasurer of the States:

What we have there, and the Income Forecasting Group has commented, is volatility within quite a small number of taxpayers. Corporate tax in Jersey is paid by predominantly a few in number of taxpayers. When their results change that can have quite a big impact upon the tax we receive through corporate. I think, to be fair, in the October 2016 forecast we did anticipate quite a portion of this. This is based upon what those companies have told us they are expecting their tax to be. Remembering that the results they already have for 2016, when they are telling us this and submitting their estimates to the Comptroller, so this is based upon the information that they are giving us. Some of it is structural, i.e. we can see that we anticipated will continue and some of it is one-off. Most of those one-offs were things that we covered in the October 2016 book. What we will be doing, or what the Comptroller will be doing with Financial Services Department is taking the top 20 taxpayers and going out on a further in-depth conversations about where they see those taxable profits going out into the future. It is variable to the extent to which they ... knowing to any level of granularity where that would be. But we are going to hike up the amount of work we do with them in time for the next forecast, which will be near the budget.

Deputy S.M. Brée:

Okay.

The Minister for Treasury and Resources:

It is probably just making a point here, that a number of the corporates of the nature the Treasurer has described seem to be fairly prudent on their assumptions and estimates on what they are likely to be contributing. In terms of variances in forecasts, we have had cases where a number of them or most of them are international businesses; they report generally in dollars. We have had a case in the past where we had been given indications of likely profit as a dollar figure, by accident, by the

taxpayer, which of course skewed one of the forecasts at one particular point. There are a number of things that can make a difference.

Deputy S.M. Brée:

Okay, well I mean looking at the March 2017 income forecasts, they do not seem to have improved in line with the 2016 actual performance; why is that?

Treasurer of the States:

On corporate tax?

Deputy S.M. Brée:

No, generally. Just income forecast generally when we are looking at income forecasts. Is this part of the word of caution that you are urging people to take, when looking at our results for 2016? Because one would have hoped one would have seen strong growth in income forecasts, which were issued in March 2017. Yet, there does not appear to be that growth.

Treasurer of the States:

Forgive me if I just take a second; having been criticised by this panel for not being prudent enough for the last 2 years. We do endeavour to be prudent. The Minister has spoken to that, but it is also clear that there is great uncertainty out into the future. In terms of the way we forecast, the forecast as the panel will know, but it is worthwhile going through again. We take the latest data that we have from the tax system. Now that towards the end of the decade will improve considerably, compared to the data we have at the moment. But nevertheless, we take the outtake for the year, we then apply any statistical figures we have that are updated, that were previously in the forecast and now are actuals as published by the Statistics Unit. To that, in terms of particular personal tax - say a personal tax base - we come back to corporates, we will then add the estimates that the companies are supplying to us, but in this case, will be 2017. We are forecasting based on what they are giving us. What they are telling us is what we are putting in the forecast. We then apply the latest assumptions from the Fiscal Policy Panel. Now, the panel will know that when we get more than 2 years out, what they do is just apply the long-term planning. So that long-term trend looks at G.V.A. (Gross Value Added) over the last 10 years or so and that has not greatly changed. The other thing that we have that we have not previously had, and as Senator Ferguson has talked about the estimate that is arising from the changing accounting policy, is we have got more data now on C.Y.B. and it does not just relate to the changing accounting policy. But we can see now, in years where we have a positive G.V.A. we have had a bigger uplift in the amount of G.V.A. and in the amount of tax we can expect through that changing basis in particular. So, we see in 2016 that we have had G.V.A. positive. It could well be that we see that in 2017 as well, in accordance with the forecast. So we take it more into the forecast for those years. But going forward, we are

based on flat line G.V.A. figures and therefore, from the analysis we have done, we are going back down to the assuming £7 million or £8 million, rather than what we have seen in the last 2 years. We can see now, the more years we have of C.Y.B. data, and we are doing some correlation of that, against whether how much extra we have got in from the C.Y.B., compared to the G.V.A. in the underlying economy for that year. We can see it jumps up - unsurprisingly - in years where we have good G.V.A., because that has usually been a year correlated with higher employment as well.

[11:15]

Deputy S.M. Brée:

Okay. I mean, there is a certain amount of uncertainty, I think one can say, in the economic outlook at the moment. There is talk about interest rate rises coming out of the Bank of England. Are you confident of the outlook for Jersey's economy at the moment?

The Minister for Treasury and Resources:

The Jersey economy has performed well. It has exceeded expectations. I think the approach we have taken has been the right approach. We have exceeded forecasts, which is much the preferred position to be in then the other way around. I think as is our advice, that over the coming few years, there remains considerable volatility and uncertainty and therefore, a prudent approach is even more relevant.

Deputy S.M. Brée:

Yes, Minister, we have seen announced last week that G.V.A. in the finance sector declined by 2 per cent in 2016. Productivity in the same sector declined by 4 per cent. There is a lot of talk from the Council of Ministers about improving productivity; it does not really seem to be having an effect in our biggest sector. How would you respond to that?

The Minister for Treasury and Resources:

Well I would respond by saying it is not a surprise to see those figures in Financial Services, in particular, because of the impact of the sustained low-interest rate environment since the financial crisis or shortly there afterwards. The structure and the heavy reliance on revenues from the banking sector within financial services has meant that productivity and revenues have fallen and that has been sustained. But what we are also seeing, as a result of considerable efforts to diversify financial services, is that other parts of the financial services sector have taken up some of the strain in terms of jobs in particular. We have seen more than 2,000 banking jobs been lost since the crisis started and many of those or most of those have been replaced in other parts of financial services, particularly funds, fund administration and subsectors like legal and accounting. So it is positive to see that diversification taking up some of the strain and looking forwards, the sector continues to

look at new geographical locations and new products in order to sustain itself as the world continues to change.

Deputy S.M. Brée:

So you are not concerned about the drop in G.V.A. and overall in the finance sector?

The Minister for Treasury and Resources:

We are obviously always concerned. What I am saying is, it was not a surprise when you take it and put it into the context that I have just described. There is a lot of work still to be done. We have seen the financial services sector as a whole, recover since the crisis struck. It has been remarkably resilient; far more resilient than many people expected and therefore, I believe that if we continue to support the sector in the way that we have, there is the financial services strategy, which is being updated, and all the other work that goes on, the extra work from Jersey Finance, then I think there is every reason to be optimistic. But that does not mean that there are not challenges that are going to be difficult.

Deputy S.M. Brée:

The Treasurer mentioned underspends and obviously it is a question we have for you. Minister, you announced that departments had underspent their budgets by £33.9 million in 2016, and that some of this had been carried forward into 2017. It appears to us that a number of the projects benefiting from the underspends are, in reality, routine expenditure that should have been included in departmental budgets, rather than being funded through underspends. How would you respond to that?

The Minister for Treasury and Resources:

Well, first and foremost, I think it is worth commenting on the fact that although £33.9 million sounds a considerable amount of money, and indeed it is a large sum of money, you have to put it in the context of the overall spend of the States. Indeed, the fact that accounting officers are not able to overspend, so departments will tend to always have surpluses each year. So the level is something that we see year-in, year-out, often in excess of £20 million up to what we have seen the last year. We also need to look at the fact that within that number, there is roundabout £10 million or so, which is attributed to Social Security. We have seen the unemployment numbers fall and consequently, there has been less call on the supporting benefit system as far as that is concerned. So within that number, there is just over 19; £19.3 million¹ to departments and those are the projects I think you are referring to. We have also out of that £33 million, passed to reserves and contingencies £11.5 million and of course £3.2 million to the pay award. So I think it needs to be put somewhat into context. We have also got to consider that the nature of the way in which funding operates;

¹ The Minister later clarified that this figure should have been £12 million

roundabout £7 million is as a result of projects that have been started but not yet completed. Getting into the sort of granular detail of requests from departments - and you can go through the list and draw conclusions - but those are all approved and budgeted requests and pressures for departments and, from a Treasury point of view, we try to support departments where we can, in terms of delivering the best quality services that the Island would respect.

Deputy J.A.N. Le Fondré:

I think the point is, Minister, is that these notionally, each year is a one-off carry forward; if that makes sense.

The Minister for Treasury and Resources:

Yes.

Deputy J.A.N. Le Fondré:

But some of the expenditure seemed to be promoting routine expenditures. So in other words, growth.

Treasurer of the States:

Sorry if I come in, because that is the very point of having carry forwards and having a 4-year spending envelope. A 4-year spending envelope is so that we do not create arbitrary cut-offs on 31st December.

Deputy J.A.N. Le Fondré:

Right, so 4-year spending ...

Treasurer of the States:

So the 4-year spending envelopes allows departments to say: "I have got something that costs, say for example, £400,000. It is a project, but what I want to do is find the money over that 3 to 4-year period to pay for it." So these are underspends that are underspends at an arbitrary point, which is New Year's Eve in a year. But what we have now are spending plans over 4 years, which allows the very purpose of our ... is to allow departments the luxury, if you want to call it that way; I would not call it a luxury. But in actual fact, to make the right spending decisions and say: "Well, we have all these demands within our service; we will see if we can put the money together within those cash limits, to deliver these projects." So they are being delivered because these underspends exist in those cash limits and therefore, they are being delivered through those cash limits.

Deputy J.A.N. Le Fondré:

Well, the query was though, is it not just adding to the potential pressure at the end of the M.T.F.P. (Medium Term Financial Plan) ...

Treasurer of the States:

Well it is not if they are one-offs, is it? It is not if they are one-offs.

Deputy J.A.N. Le Fondré:

No, that is the point I am making.

Treasurer of the States:

It is not adding on to the pressure.

Deputy J.A.N. Le Fondré:

No, the point we are making is they do not appear to be one-offs; they appear to be annual recurring routine expenditure.

Treasurer of the States:

Well, no, they are different projects each year, are they not? You can say that they are annual recurring, but they are more usually than not, because we do not like putting them into pieces of work that have a recurring spend. Sometimes there will be elements of that, but more often than not, they are individual projects. They just have different projects at different times.

Deputy J.A.N. Le Fondré:

Okay, so just to move forward because we have got to move on the time; from your perspective ...

Treasurer of the States:

But another example ...

Deputy J.A.N. Le Fondré:

Well, from your perspective, these should not ... so if a project comes through and it should not be adding to the departmental pressure in the next M.T.F.P. for an increase in that department's expenditure?

Treasurer of the States:

That is pretty much most of it will relate to that too.

Deputy J.A.N. Le Fondré:

That should not ...

Treasurer of the States:

In terms of carry forwards and departmental spends.

Deputy J.A.N. Le Fondré:

It should not add to their spending pressure?

Treasurer of the States:

There are some examples.

Deputy J.A.N. Le Fondré:

Okay. Just to say the ...

Treasurer of the States:

I know there are some examples. I know there are some examples ...

Deputy J.A.N. Le Fondré:

The Minister is nodding so you just say yes, that should not ...

The Minister for Treasury and Resources:

Yes.

Deputy J.A.N. Le Fondré:

Yes, okay. Thank you. Chris?

The Connétable of St. John:

You told us at our last public hearing in February that the States vacancy rate had reduced from 12.9 per cent to 10.1 per cent. Do you have the current figure?

The Minister for Treasury and Resources:

I do not have a current figure that I can give you. We are in a position where the H.R. (Human Resources) and payroll system is being updated. I think you are familiar with that particular project - or hopefully you are - and by quarter 4 of 2017 of this year, that will be in place and therefore, the latest updated and accurate statistics will be more readily available.

The Connétable of St. John:

Thank you. How much of the £33.9 million savings last year was from wages on unfilled vacancies, and used in the 2016 carry forwards?

The Minister for Treasury and Resources:

That is an interesting question. I mean, in terms of 2016, 270 F.T.E.s (Full-Time Equivalents) were lost and I think the total saving in that was £5 million. I do not know, Treasurer, if you are able to ...

Treasurer of the States:

Well, in terms of the underspends, so in terms of delivery of the savings; the savings were already hardwired in. So the majority of the savings that finance directors have confirmed; they have been delivered. Not that much more than the targeted sum. They do not feature heavily in the underspend. They do feature to a degree and they come back to try and analyse that. Financial directors have told me, that in terms of what they were supposed to deliver as savings, they have been delivered broadly; just some variation around the edges. In terms of underspend of staff costs, which could be a number of different factors. It could be that growth has not been implemented to the degree and as quickly as budgeted, so it could be that. It could be higher vacancy management in terms of ... which is there; it is undeniably there that vacancy management systems are in place. But in terms of the staff cost underspend for 2016, the amount was £6 million, which was 1.6 per cent. So against budget as recorded, which will come out in the annexe, which will be published in the next couple of weeks; 1.6 per cent cost underspend against budget.

The Connétable of St. John:

Presumably none of that £6.1 million has been carried forward.

Treasurer of the States:

Some of it will because some of it ... well, it depends where we carried it forward into. So some of it has gone into C.C.C. (Court and Case Costs Smoothing Reserve) for example the Law Officers; the Law Officers' Department and other court services have not spent their entire budget. What that generally means, because of the way we budget for court and case costs is they have had less activity but they have come down on costs as well in terms of costs that they outsource, if "outsource" is the right word, but to pick then law firms. But also what we do is we manage court and case costs so what we say is you will have good years in terms of a few big cases and you will have bad years that have above average numbers of cases. Now they will have underspent to a degree because of that but as I am talking that would more often relate to external costs rather than internal costs. That does not make the point as well as I would like to have made it in respect of your question.

The Connétable of St. John:

I think the case of law like that is an oddity because it can vary enormously but where a piece of work was to be done with a labour force but it was not done last year, it should presumably be within the budget for some following year.

Treasurer of the States:

Yes, but there are, say, for example I think we have carried forward the Pupil Premium sum which will be a large element of stamp costs involved in there and that is because that has fallen behind what the schedule was and therefore they have said we still want to do all of those pilot cases, we want to do them on top of the spend we have in 2017 so we have taken forward that. That will not have a recurring element to it because the budget in 2018 is the budget in 2018.

The Minister for Treasury and Resources:

There is some confusion in these areas sometimes with unbudgeted manpower held to allow for flexibility within departments and D.f.I. (Department for Infrastructure) is a good example of that. So they have got posts but they have not got a budget associated. They have kept the posts in place as they go through their restructuring. It can skew the figures in other words but it does not necessarily mean there is cash sitting there that can be realised which I know was a view held. There is in some areas but just a point to make.

The Connétable of St. John:

Okay. Well, moving on. In light of the recent report issued by the Comptroller and Auditor General into arm's length organisations, what additional involvement or controls does the Treasury Department intend to introduce over and above the existing controls?

The Minister for Treasury and Resources:

I think it is probably worth talking about how we are managing our shareholder involvement and the introduction of the oversight group T.S.H.A.P.(Treasury Shareholder Advisory Panel). I do not know, Assistant Minister, if you want to ...

Assistant Minister for Treasury and Resources:

Yes, I think that this is referring to the C. and A.G.'s (Comptroller and Auditor General) report which looks at different agencies like family medicine and healthcare, those are the ones you are talking about I think, is it not, Chris?

The Connétable of St. John:

It is the recent report that has just come out on the ...

Assistant Minister for Treasury and Resources:

They have not been held up as States wholly-owned entities they are a bit more like the question of family medicine and healthcare, if they are totally at arm's length they do not have the shareholder function.

The Connétable of St. John:

Yes, the ones that do not have shareholder functions but are given grants.

Assistant Minister for Treasury and Resources:

Yes. I cannot give you any ... the problem with shareholder point of view, we are involved with those not from the shareholders' point of view. The Treasurer can help.

Senator S.C. Ferguson:

You are next.

Treasurer of the States:

So in terms of the work we have got in train there, there is firstly the piece of work that the Chief Executive commissioned off the back of the J.I.F. (Jersey Innovation Fund), which is ... Jersey Innovation, I am sorry, which is looking at all those grants in any case and it will refer to the C. and A.G. report.

[11:30]

In addition to which we have a draft Financial Direction which is currently being reviewed by an adviser who sometimes advises the panel; C.I.P.F.A. (Chartered Institute of Public Finance and Accountancy). C.I.P.F.A. are currently looking at that for me and I expect that in the next week or so. It was originally due at the end of this month.

The Connétable of St. John:

Yes, because one of the main reasons for the Comptroller's concerns was the complete difference of control. There is no uniformity between these arm's length organisations and therefore there is no, as it were, structure as to how the grants would be given and how the money was controlled.

Treasurer of the States:

I do not think she necessarily said there was no structure what she said was there was no consistency across all departments. Now that is not unsurprising in terms of the history of the States and the way the States is structured, so these will often have been grants that were originally given into the committee system and as various Members around the table, some of whom have served on the committee system, will know that therefore departments were held to be far more independent. I do not think much has changed in terms of ministerial input to that extent and therefore those grants were made originally at that time, the purposes were made and laid down during that time and the rules were put in place by the departments under that system which is not

the system we have necessarily now. What the C. and A.G. is saying is that she does not think that is the right way of doing it and that therefore we should have one set of rules across the whole of the grant system. I can see advantages in both. Often separate knowledge is held at a departmental level in respect of the services that will have been drawn up but on the other hand if we are a single government then we should have a consistent rule. If anything leads to a single government then that is where we should move to.

Deputy J.A.N. Le Fondré:

Okay, that is good. Kevin.

Deputy K.C. Lewis of St. Saviour:

Minister, bearing in mind that next May we are having a general election, will you, Minister, undertake to publish the accounts next year by 31st March 2018?

The Minister for Treasury and Resources:

The joy of general election. There are very set timetables under which we can physically deliver and I think, Treasurer, that would be stretching it somewhat to get publication by that date.

Treasurer of the States:

There is very little prospect of either snow in August or having an audit completed by March next year of the States results.

Deputy K.C. Lewis:

Sorry, could you repeat that?

Treasurer of the States:

There is very little prospect of having completed an audit of the States accounts by March next year.

Senator S.C. Ferguson:

Okay, will you have them completed before the election?

Treasurer of the States:

Remind me of the date of the election.

The Connétable of St. John:

16th May.

Treasurer of the States:

Presumably I could. What I would say to that, if I did it it would be in the day or 2 before it which would not allow for a lot of time for that therefore to be discussed at hustings, or otherwise, timetables. I think the earliest we could go with here for the early signing off, that is not signing off and then me standing in front of people and explaining what has happened in terms of those accounts. We will look at it, a couple of weeks may well be possible but what you are really asking me is to therefore finish by April which the only thing I could probably offer at that point would be to provide an audited result.

The Minister for Treasury and Resources:

It is worth making the point though that we will also be moving into the purdah period so the ability to sign off accounts is another issue potentially.

Deputy J.A.N. Le Fondré:

Okay, Chris, number 6.

The Connétable of St. John:

Moving on then. States of Jersey Development Company: can you provide us with an update on new tenants for building 4 and 5 of the International Finance Centre?

The Minister for Treasury and Resources:

I will ask my Assistant Minister, who has responsibility, to give you an update on the news.

The Connétable of St. John:

Thank you.

Assistant Minister for Treasury and Resources:

Currently the S.o.J.D.C. (States of Jersey Development Company) are having conversations with a number of people that are looking. Some are holding back a little bit at the moment but there are no new ones signed up at the moment. I am not aware of any terms being agreed within the last couple of months.

The Connétable of St. John:

We understood that building 4 was to be fully let at the point of completion or soon after, so why has this not happened?

Assistant Minister for Treasury and Resources:

We have had a number of people come and look but a very strong bid came in towards the end of last year which would have brought that up to around about 90 per cent on building 4. That person

has backed off for other reasons at the moment, not entirely sure, as an external to the Island potentially applying to be the occupier there and so that expectation unfortunately at the moment is a struggle.

The Connétable of St. John:

In a recent media comment the Managing Director of S.o.J.D.C. said that the sale of the building, that is building 4, was likely to occur when it was 90 per cent let.

Assistant Minister for Treasury and Resources:

Quite.

The Connétable of St. John:

That still stands, does it?

Assistant Minister for Treasury and Resources:

That still stands.

Deputy J.A.N. Le Fondré:

That is correct?

Assistant Minister for Treasury and Resources:

Yes.

The Minister for Treasury and Resources:

So just to clarify on that, the Assistant Minister said 65 per cent is let, there is 10 per cent under offer so that is 75 per cent, and active negotiations are underway on a further amount up to around about that 90 per cent.

Assistant Minister for Treasury and Resources:

Yes.

The Minister for Treasury and Resources:

Okay, but nothing signed. There has been a lot of positive progress made and the market conditions have improved quite considerably as well which has helped in the last 12 months.

Assistant Minister for Treasury and Resources:

There is enforced consolidation of an acquisition going on at the moment which has been holding people back from making commitments on the premises.

The Connétable of St. John:

It is just that we were told practical completion would have 90 per cent occupied. Practical completion was last February, here we are 4 months later we are still nowhere near that 90 per cent and targets are being well missed.

Assistant Minister for Treasury and Resources:

I do not think there was an expectation or wish at that particular time that 90 per cent would be met by the time the building was practically completed.

The Connétable of St. John:

It was those expectations upon which the building went ahead.

Assistant Minister for Treasury and Resources:

No, the expectation for the building to go ahead was that we had enough sufficient pre-let to fund the cost of the building and we did that because the first client was UBS.

The Connétable of St. John:

We will move on. The States of Jersey Development Company has publicly stated there is material interest in acquiring both buildings 4 and 5. Do you know when this is likely to happen, especially of building 4?

Assistant Minister for Treasury and Resources:

Building 4 is the one we have been talking about but it is also known as building one, sorry about the confusion but that is the same thing. As we have just discussed there are no firm offers in there at the moment other than where we had one last year. As for building 5 we have 3 let clients in there on 5th December.

The Connétable of St. John:

Sorry, this is for the sale of the buildings.

Assistant Minister for Treasury and Resources:

Sale? Sorry, my apologies. Yes, sorry, the note I have got here is that the board intends to market the property once it is 90 per cent and at the moment we are probably around a 5.75 per cent yield which is extremely good. That is approximately 9 per cent less, it is definitely less.

The Connétable of St. John:

I would prefer to say extremely optimistic rather than extremely good.

Assistant Minister for Treasury and Resources:

This is the advice of our advisers.

The Connétable of St. John:

Precariously optimistic.

Deputy J.A.N. Le Fondré:

Okay. A question from me around the 2016 S.o.J.D.C. accounts, now you state that there are £4.37 million worth of assets held for sale and agreed with the shareholders to be disposed by the end of 2017. Can we just clarify what is being sold?

Assistant Minister for Treasury and Resources:

Right, I can give you the list of them. It was, in 2016, the sub-station at Liberty Wharf to the J.E.C. (Jersey Electric Company), they achieved £230,000 for that one. The offices at Harbour Reach, that they moved out of into Anley Street, was sold in 2016 to BlueCrest at £1.65 million. In 2017 the ground lease of Waterfront Hotel to Point Properties Limited went for £3.15 million and that is currently where we are.

Deputy J.A.N. Le Fondré:

Okay. Why are they being sold?

Assistant Minister for Treasury and Resources:

A quick look at the Waterfront Hotel I think was in our books at £1.6 or something, £1.7 million, thank you, and to get 3.15 seemed a very good idea to get that monies in and it gives revenue to continue doing the work they are doing on the Finance Centre, Zephyrus, Westwater and Castle Quay 2.

Deputy J.A.N. Le Fondré:

Okay, just for detail there is also part of a public square being sold, could you just clarify which square and which part? It is showing in the accounts under note 8 of the ... it says: "Non-current assets held for sale part of a public square."

Assistant Minister for Treasury and Resources:

I am not aware of that one, Chairman.

Deputy J.A.N. Le Fondré:

So it is in note 8 of their accounts.

Assistant Minister for Treasury and Resources:

Part of a public square being sold.

Deputy J.A.N. Le Fondré:

Okay, perhaps you would like to come back to us on that.

Assistant Minister for Treasury and Resources:

Yes.

Deputy J.A.N. Le Fondré:

What we would like to ask, and you have identified the assets, is that the exit strategy for S.o.J.D.C. assets was laid down in P.73/2010 which is obviously, as you are aware, the proposition that the States approved and that proposition required the 5 assets, including the hotel and the land for the sub-station, to be transferred back to the States before being sold. Now, I suppose the query is why are you not complying with what is laid down in P.73?

Assistant Minister for Treasury and Resources:

They are sold. Effectively as S.o.J.D.C. is a States owned entity it is still within the gift of the States.

Deputy J.A.N. Le Fondré:

So, would you agree that the cash realised from those assets in order to comply with P.73 should be transferred to the States?

Assistant Minister for Treasury and Resources:

One could take that view but then the States would have to fund the upfront cost so that would ...

Deputy J.A.N. Le Fondré:

No, the assets, it was agreed that when S.o.J.D.C. was created that those 5 assets would be transferred to the States and it is part of the proposition. It is not in the report it is part of the proposition. Now, the S.o.J.D.C. have been holding those but now they have realised them there is surely an argument to comply with that proposition that the money should come to the States because the company cannot have been relying on those because it would have known from day one that those assets were to come to the States.

Assistant Minister for Treasury and Resources:

I would need to do some research on that and come back to you.

Deputy J.A.N. Le Fondré:

Thank you, if you could, please.

Assistant Minister for Treasury and Resources:

Yes, will do.

Deputy K.C. Lewis:

Minister, in a similar vein, the 2016 accounts also state that dividends will not be paid to the States until 2019. As you will be aware the dividend previously paid by S.o.J.D.C. represented the income for the parking charges on the Esplanade car park. This will have an impact on the States overall income. Why can you, as shareholder representative, allow the board to do this?

Director of Treasury Operations and Investment:

So the income from the car park is used for helping S.o.J.D.C. fund its ongoing costs. The first dividend we are expecting will be from the completion of the College Garden site.

Deputy J.A.N. Le Fondré:

Sorry to clarify, the company has been declaring a dividend for the last few years which has basically been the car park, the revenue from the car park fund ... from the Esplanade car park and now that has ceased.

Director of Treasury Operations and Investment:

[background noise] I am just waiting for the bike... We will come back to you because I do not think there has been a dividend in the S.o.J.D.C. accounts for that calendar year that was just published.

The Connétable of St. John:

The S.o.J.D.C. have been paying a dividend which has been the income that they have derived from the Esplanade car park.

Deputy J.A.N. Le Fondré:

For the last few years. I cannot tell you for 2016 but certainly for the last few years they have been paying it.

Director of Treasury Operations and Investment:

No, it has not.

The Connétable of St. John:

It stopped in 2016 and we would like to know why.

Director of Treasury Operations and Investment:

We will come back.

The Minister for Treasury and Resources:

Are we talking about the Waterfront car park or the Esplanade car park?

The Connétable of St. John:

No, the Esplanade.

The Minister for Treasury and Resources:

That was under the T.T.S. (Transport and Technical Services) control ...

The Connétable of St. John:

It was and it was transferred.

The Minister for Treasury and Resources:

... and therefore the parking charges went to T.T.S.

Deputy J.A.N. Le Fondré:

No. What happened, there was a change. So originally the States used to receive the money from the Esplanade car park and it went to the Car Park Trading Fund. There was a change which said that the money would go to S.o.J.D.C., there was a change in what I will call, the commission, that Treasury take from S.o.J.D.C. ... from the Car Park Trading Fund to compensate that, and then the company then paid the dividend to Treasury, I believe, to roughly that amount that was received. That has been going on for a number of years and that dividend has now stopped.

Assistant Minister for Treasury and Resources:

It seems a rather circuitous way of doing it, but yes ok, we'll clarify that, Chairman.

Deputy K.C. Lewis:

Surely by allowing this to happen, this equates to a public subsidy to the company, Would you not agree?

Assistant Minister for Treasury and Resources:

For a company that we own, yes, I agree.

The Connétable of St. John:

Sorry, could we clarify that? You are agreeing that taxpayers' money has been used to subsidise the company.

Assistant Minister for Treasury and Resources:

No, I am agreeing that income derived from the company being paid to the States and refunded back to the company is money going around within a States-owned company.

The Connétable of St. John:

That money should be coming to the Treasury?

Assistant Minister for Treasury and Resources:

As I said I am clarifying that point.

The Minister for Treasury and Resources:

I mean the important point in all of this is that the company is 100 per cent owned by the public, by the States and therefore by the public. We have seen revenues up, profit up and the balance sheet has increased substantially from something like £58 million to £85 million. So as a publicly owned asset it is performing extraordinarily well so how the monies flow, providing we do not impinge but support the development of the company has got to be in the public interest.

[11:45]

The Connétable of St. John:

Would you explain how the company makes a profit when it has not sold anything?

The Minister for Treasury and Resources:

Well you are talking about a development activity as opposed to the rest of its activities.

The Connétable of St. John:

But then bonuses and other payments should be based on cash profits not on notional profits that are made through developments.

The Minister for Treasury and Resources:

I think there are rules for that.

The Connétable of St. John:

We will leave it there.

The Minister for Treasury and Resources:

It is normally our side who is being asked to stop.

Deputy J.A.N. Le Fondré:

No, I am just keeping time so we will accept that you will come back to us and no doubt we will have a further discussion on this but we wanted to flag it up on a timely basis because the accounts have only come out relatively recently. Right, Sarah.

Senator S.C. Ferguson:

Yes, the report of the review on personal tax mentions that a second stage of the review is underway. What is this going to cover and when can we expect to see it?

The Minister for Treasury and Resources:

If I may I will ask the Comptroller to give you an update because he has been leading on this. There has been a political oversight group in the first stage but perhaps, Comptroller, you could just give an update.

Comptroller of Taxes:

Yes, sure. I mean the main part of the review was really looking at personal taxation. The second stage of the review is to bottom the issue of how in future to tax household income. So there are 2 obvious main options there, one is to institute what is called independent taxation where for example husbands and wives are taxed as individual economic entities rather than as a couple. The obvious other option is to tax people who live in a couple as one person regardless of whether they are married, in a civil partnership or whatever, so a modern form of partnership taxation. The proposition was that we would start to consult across the Island this year, and we are in the process of planning for that, and then to conduct the review over the next couple of years. I think, as we said at the States Assembly briefing on the review, we cannot operationalize the outcome probably until 2021 or 2022 because we need the new systems to deal with that. So that is the main aspect of the continuing work.

Senator S.C. Ferguson:

Right. The second part of the report is going to be an analysis of taxpayers and it mentions that a separate piece of work is being undertaken to reconcile the taxpayer base with the population statistics. When can we expect to see this?

Comptroller of Taxes:

Yes, I think the chief statistician has been working on that. I will need to check and get back to you on that.

Senator S.C. Ferguson:

Thank you very much.

Deputy J.A.N. Le Fondré:

I think we will keep pushing forward, so Simon, 24.

Deputy S.M. Brée:

Yes. With regards to budgeting, last year there was £46 million worth of vacancies sitting in States departmental budgets. So, when will you insist on zero-based budgeting in all departments so that these figures can be reduced?

Treasurer of the States:

Sorry, it was £46 million of what?

Deputy S.M. Brée:

Vacancies.

Treasurer of the States:

The year-end gap show underspend against that budget of £6 million.

Deputy S.M. Brée:

Well last year's budget we are talking about.

Treasurer of the States:

So you have checked though, because I am telling you, against the budget, the underspend was £6 million on staff cuts. But we do not take the vacancy rates for any point in time and then extrapolate the ... there was not a £46 million underspend on staff cuts, there were £6 million underspend on staff cuts which points to what we need to do is get better explanations to you of what is included within those vacancies. The point of zero-based budgeting though is still valid and we are committed to that if not resourced to do that at this point.

Deputy S.M. Brée:

So when you say you are committed to it, committed to do it by when?

Treasurer of the States:

If we laid down commitments over a period of an M.T.F.P. we will probably go into the next M.T.F.P. before we get to do this and there are good examples of it being done but by no means on a States-wide basis. It is good discipline to have and as the finance function is currently resourced there not being sufficient resources to do that unless we move on elsewhere with finance.

The Minister for Treasury and Resources:

There are some departments that are doing it but you are absolutely right. Just to be clear, Treasury supports the principle and would like to move and will move towards zero-based budgeting as soon as is practically possible.

Deputy S.M. Brée:

So within the next M.T.F.P. Treasury will be making a recommendation that all departments move to zero-based budgeting?

The Minister for Treasury and Resources:

As soon as is practical we believe it is important to move.

Deputy S.M. Brée:

Okay. Moving on then. In this panel's last budget report we made some recommendations in relation to impôt duties and the link with consumption of alcohol and tobacco. Has your department, Minister, done any further work on this and in relation to the undertaking to include more detail in the 2018 budget?

The Minister for Treasury and Resources:

Yes, in fact I think, if I remember correctly, that of the recommendations, there were 9 recommendations within that report and we agreed to the vast majority of them. In fact there were only 2 where we rejected the recommendations from your panel and that was largely, if I remember correctly, around hypothecating taxes for specific uses. We have a view as expressed previously about hypothecating taxes.

Senator S.C. Ferguson:

You have not answered the question, Minister.

Deputy S.M. Brée:

Yes, you did not answer the question. The question was quite clear about further work needing to be done in relation to impôt duties and the link with consumption of alcohol and tobacco. You said more work was going to be done on it, what has happened?

The Minister for Treasury and Resources:

Well I think we also made it clear in our answer, or my answer within that particular area, that there was a raft of evidence which we outlined for the benefit of the panel both nationally and internationally about the linkage between taxation and consumption, the reduction in consumption.

Deputy S.M. Brée:

So for the budget 2018 you are going to be including a lot more detail in the correlation between the increased impôt duty and the, if you like, risks involved with consumption of alcohol and tobacco, is that correct, you will be providing a lot more detail?

The Minister for Treasury and Resources:

The point I am making was that there was a wealth of information available previously and we alluded to that and pointed the panel in the direction of the information available on the various linkages and that will be developed leading into the budget 2018 proposals.

Deputy S.M. Brée:

So the answer basically is yes, you will be providing more detail.

The Minister for Treasury and Resources:

We will be providing more detail than was the case previously.

Deputy S.M. Brée:

All right. Okay, to move on quickly if we may. The latest income forecast showed that future revenue raising measures will be needed to raise £7.5 million in 2018 and £15 million from 2019 onwards. Do you still intend to bring forward measures for 2018 and 2019 in the budget later this year?

The Minister for Treasury and Resources:

Yes, there will be some measures it is intended to bring forward in the budget later this year and I have previously discussed those in outline around a retail type of tax extending Zero/Ten as we have seen happen in other jurisdictions like Guernsey and the Isle of Man. Those of retail businesses with a profit level for example in excess of £500,000, that is one area that is being looked at, and we are also looking at and have been collecting data in order to be able to support this, extending the definition of financial services companies that can be taxed. As an example at the moment regulated businesses are and non-regulated are not so you would get, for example, finance houses, insurance companies and suchlike and we believe there is scope to extend into some of those areas. That work is ongoing and we hope to be in a position to announce in the budget whether the extension of the financial services 10 per cent rate is going to be feasible in some of those areas and generate more revenue to help fill the gap. I would just simply say that the £7.5 million you are referring to, we will also now fully focus on the longer term as well on the understanding that health costs continue to rise and so there will need to be sustainable measures in the next Medium Term Financial Plan to deal with that particular issue of continuing rising costs of healthcare.

Deputy S.M. Brée:

Okay, well bearing in mind those additional revenue raising measures that you have just laid out there and in light of the fact that we have a £307 million surplus in our accounts for 2016, Minister, do you still support the introduction of waste charges?

The Minister for Treasury and Resources:

The Council of Ministers has, as you are aware, Deputy, had a strategy which included waste charges. The Minister for D.f.I. has suggested upon representation from the industry that the impact of the waste charges should be offset somewhat in the early introduction and from a Treasury perspective we were content to support that in part as a result of the good performance in 2016. Although I would point out the £307 million you have just referred to, a lot of that is in the investment area and is not money meant to be spent which I am sure you are fully familiar with. But nevertheless we were mindful that a change such as that proposed would be ...

Deputy S.M. Brée:

So your answer is yes, you do still support the introduction of a waste charge?

The Minister for Treasury and Resources:

We do still support it but we recognise that the impact should be mitigated ...

Deputy S.M. Brée:

All we were looking for was a yes or no answer, Minister, thank you.

Deputy K.C. Lewis:

Minister, States-owned companies. What influence and involvement do you, as a Minister, have on purchasing policy of States owned companies?

The Minister for Treasury and Resources:

Purchasing what?

Deputy K.C. Lewis:

Policy.

Assistant Minister for Treasury and Resources:

Basically the policy is to maximise the yield back to the shareholder, therefore, for example, wherever possible have a best value level user for suppliers, for example, Jersey Post bought a fleet of vans and they were bought locally through the local provider albeit they were imported in from the

U.K. (United Kingdom). But other things are not available locally and at the right price and some of them will go to the U.K. or wherever they can get the best price for the shareholder.

Senator S.C. Ferguson:

In that case why have you ... for instance you have the power of direction to States-owned companies, why are ports having and dealing with transactions where there is not much difference between the local tender and the foreign tender and they are going for the foreign tender?

Assistant Minister for Treasury and Resources:

I am not aware what you are referring to, Senator, unfortunately.

Senator S.C. Ferguson:

I am referring to the garage opposite the airport.

Assistant Minister for Treasury and Resources:

That is a commercially confidential detail at the moment and I am unsure of the ...

Senator S.C. Ferguson:

Well I do not think it is commercially confidential because everybody knows about it.

Assistant Minister for Treasury and Resources:

Well the detail of the deal, I am told that the opening tender value is considerable on the new garage compared to the old one.

Senator S.C. Ferguson:

So we are happier to have somebody in Texas owning our garage or leasing our garage rather than a local?

Assistant Minister for Treasury and Resources:

I am not aware that somebody in Texas owns that garage.

Senator S.C. Ferguson:

No, I did not say "own" I said "leases".

Assistant Minister for Treasury and Resources:

Or leases.

Senator S.C. Ferguson:

Right.

Deputy K.C. Lewis:

Expanding on the previous question. What directions have you, Minister or Assistant Minister, given to Corporate Procurement Department to ensure that, where possible, priority is given to Jersey based companies?

Assistant Minister for Treasury and Resources:

The only direction we give all of the companies is they maximise their income in return for the Government located in Jersey. How they do that is a matter for the boards.

Deputy J.A.N. Le Fondré:

Let us point out that is about corporate procurement so that is outside. It is not just States-owned companies it is within the States as well.

The Minister for Treasury and Resources:

Yes, it is and unlike some years ago where there was a bias for local companies, I think it was 10 per cent if I remember correctly, that was deemed to be unworkable. But there is a view and there is some thought going into ways in which local businesses can perhaps be given a time advantage, for example where you have complex projects that, given obvious biased off-Island providers, if there is a time bias for local companies then they have an opportunity, particularly in a tech space, I might add, the opportunity to partner with off-Island companies so you get an uplift in terms of skills transfer but also more benefit going into developing the small businesses and particularly in the sector we are keen to see develop. But we are looking and working on that at the moment.

Assistant Minister for Treasury and Resources:

Just another little add, if I can do, on procurement. Some of these particularly were the countries involved with construction, after the tender element, were also included a requirement for them to do some apprentices as part of those contracts which does give a bit more of a local focus to them as well. So that is something that we do actively encourage with our construction elements of our portfolio.

[12:00]

Deputy S.M. Brée:

Yes. Assistant Minister, with regards to your comment about States-owned companies' purchasing policy, you seemed very keen to emphasise the fact that the direction given to them is to increase the yield back to the shareholder not about supporting the local economy. Is that correct?

Assistant Minister for Treasury and Resources:

I had assumed it was the same, I am afraid.

Deputy S.M. Brée:

No, it is not. The yield back to the shareholder is paid in the form of a dividend which can then be used by the shareholder in any area they see fit. What we are asking is whether or not direction has been given to wholly owned subsidiaries of the public, effectively - we own them - to buy locally, i.e. support the local economy. From what you are saying that has not happened, the only direction is to increase yield back to the shareholder. Is that correct?

Assistant Minister for Treasury and Resources:

No. As I said earlier I am aware if it is possible for them to have their contracts on local companies they will use those. If there are better deals available which improves the yield of the company that are not local then they will go with them.

Deputy S.M. Brée:

So all you are concerned with is the dividend yield to the shareholder, nothing else?

Assistant Minister for Treasury and Resources:

No, as I said I am concerned with both elements. Originally it was a balance to be struck which is in the best interest of both the local economy and the dividends to pay back to the Government.

Deputy J.A.N. Le Fondré:

How do you express that to the companies then?

Assistant Minister for Treasury and Resources:

It is something that they manage within their own board of directors, their own direction is within. We do not direct them on that, that is a matter for their board of directors which we appoint usually through ...

Deputy J.A.N. Le Fondré:

Yes, so the point is there has not been a direction effectively to the boards.

Assistant Minister for Treasury and Resources:

There is not a written direction as such, no.

Deputy K.C. Lewis:

So it is just down to their conscience then?

Assistant Minister for Treasury and Resources:

We challenge them from time to time if we are not entirely happy with what we think they are doing and ask them to explain the details, and generally speaking we do get the result that we think is appropriate.

The Minister for Treasury and Resources:

There is a balance ...

Senator S.C. Ferguson:

How long ago have you challenged them?

Assistant Minister for Treasury and Resources:

Two weeks ago, I think, was the last one.

Director of Treasury Operations and Investment:

When we meet with them on a quarterly basis there are standing agenda items around apprenticeships, how they are supporting the economy through employment and those types of areas, that is a standard discussion at every quarterly shareholder meeting.

Senator S.C. Ferguson:

That was not my question. How often have you challenged them? For instance, have you challenged them on the matter of the garage? Have you seen the figures?

Assistant Minister for Treasury and Resources:

No, I have not seen the figures because that is confidential as I told you but, yes, I have challenged them, that is why I am confident that the outcome in value is significantly more than the provider. That is why I am confident to make that statement in this environment.

Senator S.C. Ferguson:

You must have seen different figures from me.

Deputy J.A.N. Le Fondré:

Right, are we done? Okay, fractionally after 12.00 but thank you very much, we have managed to keep everybody reasonably to time and on that basis we will conclude the hearing for the time being.

The Minister for Treasury and Resources:

Thank you very much.

[12:03]