

CS Quarterly Treasury

Corporate Services Panel

Witness: Minister for Treasury and Resources

Thursday, 19th July 2018

Panel:

Senator K.L. Moore (Chairman)
Deputy S.M. Ahier of St. Helier (Vice-Chairman)
Connétable K. Shenton-Stone of St. Martin
Connétable R. Vibert of St. Peter
Deputy J.H. Perchard of St. Saviour

Witnesses:

The Minister for Treasury and Resources
The Treasurer of the States of Jersey
Assistant Minister for Treasury and Resources
Director of Treasury and Investment Management
Director of Financial Planning and Performance
Deputy Comptroller of Taxes

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[10:30]

Senator K.L. Moore (Chairman):

Good morning everybody and thank you very much for joining us for this quarterly hearing of the treasury team. We are very pleased to have you all here. I think, Minister, you will be aware of the parliamentary privilege rules, which are just in front of you and, members of the gallery, I think you are all aware of the rules but if you could refrain from interacting during the hearing I will be grateful. With that, we shall begin with some introductions. We will start from this side. I am Senator Kristina Moore, the Chairman of the Corporate Services Panel.

Connétable K. Shenton-Stone of St. Martin:

I am Karen Shenton-Stone, Constable of St. Martin and a member of the Corporate Services Panel.

Connétable R. Vibert of St. Peter:

And Richard Vibert, Constable of St. Peter and a member of the Corporate Services Panel.

Deputy J.H. Perchard of St. Saviour:

And Deputy Jess Perchard, member of the Corporate Services Panel.

Deputy S.M. Ahier of St. Helier (Vice-Chairman):

Deputy Steve Ahier, Vice-Chair of the Corporate Services Panel.

Director of Treasury and Investment Management:

Simon Hayward, Director of Treasury and Investment Management.

Director of Financial Planning and Performance:

Alison Rogers, Director for Financial Planning and Performance.

The Treasurer of the States of Jersey:

Richard Bell, States Treasurer.

The Minister for Treasury and Resources:

Susie Pinel, Chairman of the Treasury and Resources Committee.

Assistant Minister for Treasury and Resources::

Lindsay Ash, Assistant Treasury Minister.

Deputy Comptroller of Taxes:

And Paul Eastwood, Deputy Comptroller of Taxes.

Senator K.L. Moore (Chairman):

Excellent. Thank you very much. We thought we would start the hearing by talking about priorities and the Constable of St. Martin is first.

The Connétable of St. Martin:

Can you update us on your key priorities over the next 6 months, please?

The Minister for Treasury and Resources:

Right. Key priorities. There are so many, Connétable, it is really difficult to know where to start. I am meeting all the arm's-length organisations to find out what their situation is and how we can work together on that. Obviously, the budget is a major thing because of the time frame of the elections. There is very little time to produce all the information required before the budget so it is anticipated that it will be a fairly quiet budget this year because most of the work is going to take place over the summer recess, when a lot of people are away. We have not faced this situation before, the elections having been later on. Obviously, it is a challenge from a personal point of view getting to know the job and the new team. Other priorities are the new finance law – as we all know, we have been emailed furiously by non-residents with their pensions, so we are looking at that and I am sure it will come up again later – funding responses, of which there have been many, as you can imagine, from all the different areas; so, dealing with all of those and how they are dealt with and in what order of priority; the hospital, of course, and the bond for that. So, where do I start and where do I stop? There is a huge amount.

Senator K.L. Moore (Chairman):

How do you set about prioritising those various strands of work?

The Minister for Treasury and Resources:

Time frames, essentially. The hospital – as you know, they are doing a review. We hope to get the result back from the Hospital Development Board, together with the planning inspector, round about September/October time, so we wait to see what they say, but hanging on the edge of that is when to take out the bond because if we take it too early we will have a problem with the pre-hedging of it. If we take it too late there could be a chance of an increase in interest rates. Again, it is a time priority and then, with the budget thrown into that equation – yes, timing.

Senator K.L. Moore (Chairman):

Talking about timing, we are grateful for a briefing from your team on the public finances earlier this week or last week and we are wondering what the time scale is for that process.

The Minister for Treasury and Resources:

We have had briefings on it too and I think that it is just a matter of our input and various other people's input as to when the law drafting will come through. Can you assist?

The Treasurer of the States of Jersey:

We would prefer to have this in place before we have the next medium-term plan because there are step changes that come through from the States Assembly or the legislative point of view. The back-stop position of that would therefore be to have received privy council by March so that we know we are in the position of launching a medium-term plan in the summer, to be debated in the autumn. So, the time frame will be towards the end of this year, probably the start of next year, for a debate and then moving on from there. So, as you have mentioned, we have had a briefing with you as a panel, jointly with the public accounts committee and we shall continue in that vein until we meet with the Council of Ministers. At the same time, we are talking to you as a panel so that we can ensure that you are all sighted on what we are doing as we proceed.

Senator K.L. Moore (Chairman):

Thank you. We are most grateful.

The Connétable of St. Martin:

Following on from the changes to the public finances law, the review of the public finances by the transformation team found systemic weaknesses, poor practice and a range of risks, to quote the report. Were these known about previously and why was nothing done to correct them in the past?

The Treasurer of the States of Jersey:

First, the report that I think you have seen reflects the fact that, notably, the C.& A.G. (Comptroller and Auditor General) has raised some of these issues previously. We had started a piece of work and that was the financial maturity analysis – I think the briefing talks about what the maturity analysis is – so in terms of whether we had we started doing anything, yes we had because we had started to commission the work with KPMG, whose results you have seen. However, when the Chief Executive came on board he and I agreed that we would put that on ice while Camilla Black did a review and then we picked that up jointly with Camilla to implement. Some of the systemic weaknesses relate to the organisation's structure and to the fact that we had an organisation that had a proliferation of accounting officers, such that we almost had a federal state, not a single government. And that is reflected in the public finances law, hence the public finances law was changed at the start of this year to reflect that the principal accounting officer, the Chief Executive

Officer, should be ultimately responsible for the finances, rather than it resting with each of those heads, and I think you will find that I am on record last summer, talking about the need to do that, so that is before the autumn of last year. So, we have been doing some bits but not enough. The charge of "why not?" comes down, basically, to the structure and culture of the organisation but secondly the resources to be able to do that and I am very happy that the organisation has recognised that one cannot do this off the side of one's desk because that is pretty much what we have all been trying to do for the last 18 months, if not longer than that, with little success.

Senator K.L. Moore (Chairman):

It is interesting that you mentioned there the culture of the organisation and that, with such a large piece of work, it requires such wholesale change. Also, being quite a dry subject, it is quite difficult to communicate. How do you anticipate getting that message across to the public that this is a positive change? Some still seem to be questioning it in the larger public arena.

The Treasurer of the States of Jersey:

Are you talking about the wider transformation? I am sure that you are not saying that finance stuff is dry.

Senator K.L. Moore (Chairman):

Of course not.

The Treasurer of the States of Jersey:

So, it would be correct to point out that it is not just about the finance transformation. The Chief Executive has put in place a number of work streams that address – we talk about the under-investment in financial transformation, the things that got cut in the past, typically, were maintenance but most particularly people development. We stopped training schemes, we cut training. It is unsurprising that people have not been developed over the period. So, investing in our people is a key part of improving the culture and also finding a consistency to that. In the past we would have different training within different departments without a thread that ran all the way through it. Investing in people is a key part of that. In terms of the public, it is about communicating with the public and I think that most organisations – I am thinking of large organisations – that have to get messages across to the public has professionals who are communication experts to do so. The Minister will remember that we have not had a history of, necessarily, allocating a great deal of resources to considering how to get messages across. An example of how we have benefited, as a finance organisation, from having extra expertise on communications, would be the case of this year's annual accounts. This year's annual accounts benefits from having at the front of it what you would see in any other organisation's accounts, which is: "What did we do and what did we achieve with the money?", not just: "How much did we spend?" As accountants, we are quite happy to have

all the pound signs and everything in there with piggy banks and safes that illustrate how much money we have. Obviously, what we spend is important, but explaining to the public what we have achieved with the money is critical and that is a key part of getting the messages across. And that part of the transformation has integrated financial and performance, as well as planning together.

Senator K.L. Moore (Chairman):

Thank you very much. We are going to go back to the financial accounts later on or we could use this as a moment to pick up on that. Perhaps it is a good moment to move on to it, as you mentioned. Clearly, the financial accounts, as reported in the final form, are showing surplus in budget for last year, which was not what was anticipated. Now that we are over half way through this year, how do you expect 2018 to turn out against projections?

The Treasurer of the States of Jersey:

If we talk in terms of States Assembly approved as opposed to overall organisation, so if we just deal with that bit that we typically address, rather than including the results of the wholly-owned subsidiaries and the social security funds. The panel will have access to the report that went to the Council of Ministers yesterday. That will show just in the area of deficit at this point, half way through the year in terms of forecasting, where we will be at the end of the year. There are a number of factors as to why we ended up with a deficit last year and it gives me no pleasure at all when people tell me that I am being too pessimistic on the forecast, to find that the actuals exceed our forecast, but we had extra money coming in that had not been forecast. Part of the issue there is that we were so far behind with our assessments for income tax at the time we did our September 2017 forecast. That is a product of having a system that is on its last legs. So, when we talk about financial transformation, just to go off on a little tributary, the priorities I saw when I started at the treasury, if we thought the financial transformation was overdue, the taxes transformation is a long time overdue. We need a new tax system; we have that new system half way through implementation. However, putting our best people on the transformation for taxes has meant that we have been falling behind on assessment. We are in a healthier position for this year partly because, with the need for transformation, we have to do the accounts, we have to do the tax assessments, by late autumn at the latest so that we can move over to the new tax system. That will mean this year I will have much better information with which to do the forecasts.

[10:45]

Added to that, the departments have underspent, way beyond what I might have expected earlier in the year. Some of the indications were there but we have, in the past, started to put budgets into that forecast as opposed to forecasting what we think we are going to spend. So those are 2 contributing factors which meant we were into surplus, which is good news. However, it is not seeing

its way through to an accelerated position into future years, that is at this point we still think we are going to be on track to balance the books but we may go slightly backwards. However, against the plan, we are slightly ahead.

Senator K.L. Moore (Chairman):

Given that it has been a year of political change, from one Council to another, how do you go about setting performance targets if you are going to take performance into the accounting process? What are the performance targets that will be measured in the 2018 accounts?

The Treasurer of the States of Jersey:

We can say what we did with the money. You have identified that we are going through a changing government. The current Council of Ministers is putting together a statement of common strategic policy. That will identify, subject to the States' approval, the priorities. Those priorities will be matched to outcomes we expect to achieve. Those outcomes – if you had Ian Skinner here he would tell you exactly what they are called – will have indicators that will give a shorter-term indicator as to whether those longer-term outcomes are being achieved. As you say, in 2018 we are in a state of flux, in that we are moving from one government to another. In fact, we are going through a big exercise now to change all our accounting over from one structure of departments into another structure of departments on top of everything else we are doing. So we will still have some of the core elements of that such as: "What were the A level results? What were the GCSE results? How do they compare elsewhere?" Some of those benchmarks are still expected to be able to point to – it is a transition year; 2019 at the end will be better but as we are going through the process of agreeing the statement of common strategic policy then we can start reflecting where we are in 2018 on those priorities.

Senator K.L. Moore (Chairman):

Thank you. I am now going to move on. As you raised the point of that reform of the States as an organisation I shall move on to that section, which seems to fit quite neatly into the flow of conversation.

The Deputy of St. Saviour:

Minister, how many posts have been lost as a result of the new Chief Executive's One Government programme and what is the corresponding saving?

The Minister for Treasury and Resources:

It is an ongoing process so I do not know how many will change, how many will be there, how many will be increased, but the increased ones are the interim basis – the consultants who have

been brought in are on an interim basis rather than permanent, so it is difficult to say because the changeover is fairly constant. What was the second part?

The Deputy of St. Saviour:

The corresponding saving.

The Minister for Treasury and Resources:

Yes, we do not know that either, no. It is projected to be a greater saving than the expenditure in achieving it but we do not know that yet. I think that there will be a better idea by October but a lot of the consultants are here for 6 months, some for a year, to effect the changeover, which is considerable.

The Deputy of St. Saviour:

But a saving is intended?

The Minister for Treasury and Resources:

Oh, absolutely, over the long term, but quite what that projection is, I do not think anybody knows at this stage.

The Treasurer of the States of Jersey:

The number I have seen is for only tiers 1 and 2 at this point, and that is based upon our structure before the Chief Executive went through the consultation for tiers 1 and 2. We see a reduction in costs of about £1.5 million from tiers 1 and 2; we will not know the savings over all until we finish. The finance function is going through a transformation now, after consultation. We are looking in the same way at tiers 3 and 4 in our organisation. Once we have finished that, we will move to tiers 5 and 6 in our organisation and each department will have to do that across the piece before we see the full picture. The cornerstone of doing this is with an eye to delivering a more efficient organisation, so removing layers of duplication by acting as a single government rather than as a series of federal departments, as I called them earlier. To remove the duplication and reduce the number of times the customer has to touch the organisation is good for the customer and it is also good for us in terms of our efficiency. So, the whole organisation has to go through that exercise. Now it is just tiers 1 and 2. I think statements have been made in public about these numbers and I hope that they are exactly the same.

Senator K.L. Moore (Chairman):

Other aspects that would drive savings would be the changes that are being proposed to I.T. (Information Technology) systems, for example. However, we hear that that project has been stalled.

The Treasurer of the States of Jersey:

I am not sure which I.T. project we are talking about. If we are talking about e-Government, that was always due to move into the next phase. The first phases of e-Government were about building infrastructure through which departments could put their services on there. It is fair to say that the strategy on I.T., which is identified both in the financial transformation report and in other reports, is perhaps one that should be changed in that we find that we have a series of systems that have to be knitted together. That creates a great deal of work for our I.T. structure and does not allow for an efficient or effective organisation. We going to be looking at replacing the finance system but if we were to do that I would anticipate that we would integrate H.R. (Human Resources), purchasing and other systems into a single system rather than having these multiple trade-ups. Whenever Alison and the team put together an answer to a F.O.I. (Freedom of Information) question it takes some considerable time because they have to match data from different systems and in some cases take some data from one system, some from another. We are in the early days of looking at how to completely modernise our I.T., not just for e-Gov but also internally.

Senator K.L. Moore (Chairman):

I think that was what I was referring to.

The Treasurer of the States of Jersey:

Yes, it is being examined.

The Minister for Treasury and Resources:

There is also a move to put in various tax systems for the front-facing organisations with social security as well so people can just go to a one-stop shop, be it base or on-line for all the things where the data is pretty much the same.

The Connétable of St. Peter:

I just want to go back to the restructuring. We seem to be going ahead with the restructuring without the absolute certainty that there will be financial benefits. It must be possible to do projections. I have seen restructuring in big businesses and one can do projections. We say that we are looking at tiers 1 and 2, and tier 3, 4, and 5. It must be possible to do projections to establish what we should be aiming for but we do not seem to know what we are aiming for and that concerns me.

The Treasurer of the States of Jersey:

I am reluctant to put a specific number on it. A specific number has not been to the Council of Ministers this year but we are charged with delivering an organisation that costs considerably less.

So, work in terms of modelling that is in train. The ambition, the target is established. We just need to –

The Connétable of St. Peter:

So, we are going to do the modelling. We just have not done that. Okay.

The Treasurer of the States of Jersey:

Now we know what this new structure looks like, then we are going to do the modelling. Doing the work on that will establish how long it will take. I am sorry if I created a view that I am not sure whether it will be more or less expensive. It will be less.

The Deputy of St. Saviour:

In what period of time do you expect the saving to be found?

The Treasurer of the States of Jersey:

We are charged with having the new structure in place by spring of next year at the latest, so we will have a handle on what we would expect to be delivering, target-wise, certainly before the end of the year and probably before that.

The Deputy of St. Saviour:

The end of next year?

The Treasurer of the States of Jersey:

Yes. In terms of knowing what those numbers might look like as opposed to delivering them, because there will be a transition period through which we will deliver the savings. Back to the previous question, we will need to invest up front in order to deliver the savings, the efficiencies, the improved organisation. In the past we have been far too guilty of thinking that it can all be done off the side of the desk and very reluctant to do some of the investment that needs to take place. So it will cost less but I am trying to think it through. Going back, from March we will have a much better position relating to budgeting and understanding what we think the scale of the efficiencies will be.

The Deputy of St. Saviour:

So, once you have identified the scale you will be better placed to project how long will take for the investment that we have made to be balanced out by the savings we can expect?

The Treasurer of the States of Jersey:

Yes. To be clear, some of those investments will come through much faster than that as individual investment cases or business cases, but to build the entire model will take –

The Deputy of St. Saviour:

So, you think that by the end of this year we will be in a place to suggest the scale of efficiency that will enable us to predict how long it will take?

The Treasurer of the States of Jersey:

Yes.

Senator K.L. Moore (Chairman):

Shall we move back to a topic we previously mentioned, the marginal relief issue, deriving from the 2016 budget? Are you able to give us an indication as to the number of people you feel have been affected by this change?

The Minister for Treasury and Resources:

The number of ex-pats, non-residents, whatever we call them, is very small. To put it in context, we do not know how many, but in the region of 25 to 30. Although the marginal tax relief removal in 2016 was very carefully worked out, clearly some people are in jurisdictions where there is this NRR, non-residents relief, and that is what makes it complicated. We have agreements with many countries, in fact most countries, but some of them just aren't on that list and that is where the problem arises so we have promised to look at it although we cannot promise to reintroduce anything, but it is under review at the moment because we do not want these people in hardship and they have campaigned very well, as you will know, to put their case forward. So, our Treasury is looking at it with a view to bringing forward some idea as to how we can help the people who are in a negative situation. Paul, who is at the table, has been doing the work so he can explain this with more clarity.

Deputy Comptroller of Taxes:

There is a larger number of ex-pats than the Minister has mentioned.

Senator K.L. Moore (Chairman):

How many, exactly?

Deputy Comptroller of Taxes:

In 2015 500 people, approximately, were claiming non-residents relief in the tax returns that they were submitting. We are able to look at the addresses that are associated with those tax returns and look at the tax situation that applies to those people. The Minister is right that although those people may end up paying more tax in Jersey, when we look at their overall global tax position, they may be in a similar position and that is for 3 reasons.

[11:00]

One is that we have a treaty with the other jurisdiction, under which that income is exempt from tax in Jersey. The best example of that is pensioners who are in the U.K. and in France. We have treaties with the U.K. and France under which we are unable to tax pension income arising in Jersey and paid to a resident of the U.K. or France, so the change has no implications for those persons, so long as they are going through the process of claiming that treaty relief, which is a relatively straightforward process: they need to get their certificates approved by the tax authority of the jurisdiction in which they are resident and to send those forms back to us. Then we can exempt that income. The second approach under which the impact can be negated is that we have a treaty with a jurisdiction under which that treaty provides for double tax relief. So, in the jurisdiction in which they are resident they are able to set off against their local tax payable any Jersey tax paid on those income streams. The third route is a thing called unilateral tax relief – I apologise for being technical and tax boring for a second – which means that jurisdictions will give credit, double tax relief, even though there is not a treaty in place between those jurisdictions. For example, we do not have a double taxation agreement with either Spain or Portugal. However, as far as we can see, under the domestic legislation that applies in Spain and Portugal, they will give relief against Spanish and/or Portuguese tax for any Jersey tax paid on Jersey-source income. So, these people may be paying more tax to us but, we think, the majority are not paying more tax on a global basis; they are paying more here but less somewhere else. Does that make sense?

Senator K.L. Moore (Chairman):

It does make sense. However, the problem that some of the pensioners are having is that if they were resident in Jersey they would still benefit from that marginal relief, yet they have made a lifestyle decision to live elsewhere. Often, within this particular group, it appears that this is to enable them to have a cheaper cost of living, so they are ill-equipped to pay the difference in the loss of marginal relief.

Deputy Comptroller of Taxes:

As you say, we think that most people, are, holistically, no worse off and, as the Minister has said, for those who have been caused hardship, the Minister has charged us with coming forward with a scheme that targets such people. This may well not be a return to where we were before because, effectively, we would be giving tax to the other jurisdiction, if that makes sense, in the majority of cases, so it is much more about targeting those people who have been caused hardship and particularly those who have been subject to double taxation, that is they have been taxed on the same income here and in the jurisdiction in which they are now resident. The Minister has charged us to come forward with proposals to deal with that.

The Deputy of St. Saviour:

How are you defining or measuring hardship?

Deputy Comptroller of Taxes:

I am going to say that that is a political choice.

The Minister for Treasury and Resources:

I think that that is the language that is being used by people who have been upset by it, rather than technical language.

The Deputy of St. Saviour:

I just wondered whether someone who is paying and losing out, but who does not fit the definition of hardship, might not be helped by this. However, that is not the intention; the intention is to help people who are, perhaps, pensioners who are paying the 20 per cent without marginal relief and suffering from that.

Deputy Comptroller of Taxes:

The thing that we have been charged to look at – there is a range of options for the Minister to consider but in particular a focus on those who have a low worldwide income, however you wish to define low, and where they are suffering double taxation.

Senator K.L. Moore (Chairman):

Are you confident that you will be able to deliver a solution before budget 2019?

Deputy Comptroller of Taxes:

The Minister has charged us with coming forward with a solution and another thing is that there is clearly concern – I have talked about Spain and Portugal. There are concerns about whether they really are giving double taxation relief to these people, so we now in correspondence with the tax authorities in both countries to ensure that that process is operating correctly and to find out, generically, whether there is anything that we can do – not dealing with any particular cases unless people want us to get involved – to make that a more streamlined process and to provide advice to people about how they can improve that claim for double taxation relief in Spain and Portugal.

The Minister for Treasury and Resources:

And non-residents are not taxed on their Jersey old age pensions; it is purely on private pensions and/or any other income that they might receive in Jersey.

Senator K.L. Moore (Chairman):

So the Jersey pension – social security – will be unaffected?

The Minister for Treasury and Resources:

Yes. For non-residents.

Senator K.L. Moore (Chairman):

Okay. That is helpful. I guess this is an example of an unintended consequence of a policy decision. That is sometimes inevitable, very difficult to avoid entirely. Are there any aspects of the learning from this situation that would assist the Treasury team in future development of policy, in terms of avoiding unintended consequences for groups such as this?

Deputy Comptroller of Taxes:

This is not the only area. We always try to use post-implementation reviews of the consequences of a policy change to see whether it has achieved the things that we thought it would achieve in terms of revenue -- has it achieved the revenue targets that we set with it? Is it impacting on the number of people that we thought it was impacting on? and so on – so you are right; we learn from all of these experiences and there are learning points to be taken from this one. Part of the post-implementation review is that if something has not gone quite according to plan or there are unintended consequences then we have the opportunity to put things right.

Senator K.L. Moore (Chairman):

I guess that takes time. A process of 2 years in terms of policy development is not such a long time, but people who are experiencing considerable financial hardship within that time would like some commitment that a solution can be found and their personal situation remedied more quickly.

Deputy Comptroller of Taxes:

As I say, we have been charged with finding that solution and I have no doubt that we will do that. The Minister needs to choose exactly how and when that is implemented.

The Minister for Treasury and Resources:

It does appear that it is 2 years but, of course, we have a prior year and a current year tax basis so in most cases it is probably just about a year. With a new government coming up I can understand why people have chosen to raise it now. However, it is not quite as long as it seems to be.

The Connétable of St. Peter:

Can I ask a question on double taxation? A different tax but it is something that I may have misunderstood. When we had the retail tax on the large retailers, there was a lot of noise about:

"This is going to cost us so many hundreds of thousands extra in Jersey," and when one of the new brands moved into the Island they cited it as a reason why they would charge a higher rate in Jersey than they did in the U.K. Surely if there is double taxation globally, those organisations do not pay any more tax. They might pay a bit more in Jersey but not on their global tax, if there are double taxation agreements – is that correct?

Deputy Comptroller of Taxes:

In certain circumstances it is so. In many corporate structures where they end up paying more tax in one jurisdiction, they are able to offset that tax against when you distribute the profits back up. Global tax is a complicated issue. There is not, unfortunately, a one-size-fits-all answer to that question. In theory, you are right. Double taxation relief does exist. Hence –

The Connétable of St. Peter:

So, even though there was a lot of noise the impact on those retailers may not, necessarily, have been as great as they – okay. Thank you very much.

Senator K.L. Moore (Chairman):

Staying with the Constable of St. Peter, I think we are going to move on now to hospital funding.

The Connétable of St. Peter:

I think you have answered some of the questions on the hospital bond already in that the bond is not yet in place. You have already covered, also, the fact that you have looked at the effects of changes in yields. I do, perhaps, need some clarification on the strategic reserve fund itself. The funds from that will be invested and the investment income is repaying the bond. That means that, in effect, our strategic reserve is no longer a strategic reserve because if there were an emergency we could not spend it. If we did, the investment rate would fall and then we would be unable to pay back the bond. That is in simple terms but am I correct? Therefore, do we need to keep topping up the strategic reserve, putting more into it, so that really do still have a rainy-day fund?

The Minister for Treasury and Resources:

There is, in law, if I am correct, a capital sum under which we cannot go in the strategic reserve, so it is only sums above that that can be used to repay the interest on the bond.

The Treasurer of the States of Jersey:

If we go back to the strategy, when we first put the strategy in place we were looking to find a way whereby we could make the best use of our wealth without asking Islanders for more taxation. We are reasonably confident, not in any one year – someone asked me yesterday why returns this year may not reach that target rate and I had to talk again about medium to long-term strategy and the

fact that in the medium to long term we are reasonably confident that we can. We are trying to say that we do not know that we will need the strategic reserve tomorrow. At the point in time when we might need the strategic reserve, we will change our strategy as to how we will fund the bond. Okay? If we were to set our strategy trying to deal with every single eventuality, we would not do anything. We are saying that we have the balance sheet as it stands and we acknowledge that if we were to need the strategic reserve in the future we would then have to think about how we would fund the capital and the repayment. I think, in such a scenario, if it were related to significant changes in the economy the Chief Executive would be putting together a plan to make our finances sustainable in those changed circumstances and one of those things, high up there, would be paying our obligations. We would change our plan, we would change the way we funded it, given the different circumstances. However, in the meantime, why not make the best use of the returns or the rewards? We reflected that circumstances might change; that is why we have strategic reserves. At the point at which we needed to use the strategic reserves, this would be the point at which many things would have to change, of which this would be only one.

The Connétable of St. Peter:

And I hope that we can add to the strategic reserve in the future.

Senator K.L. Moore (Chairman):

How heavily weighted is that risk that there may be a need to rejig the situation and maintain funding of any borrowing in the case of a downturn or a crisis?

The Treasurer of the States of Jersey:

We should not confuse it with a cyclical downturn. This would be a large-scale structural change to our finances. There is always a possibility of that but it is not as likely as we might suffer a cyclical event. In a cyclical event we should be covered by a stabilisation fund. When we talked about the large balances on the consolidated fund we expected to be able to talk, later this year, about the need to repopulate the stabilisation fund. The stabilisation fund should be that which sees us through a cyclical event as opposed to a structural event until we come back through the recovery. The likelihood of a structural event? We have done some modelling in the Treasury Advisory Panel on – is it black skies or black swan events?

Director of Treasury and Investment Management:

Black skies events, so a significant drop in the annual investment portfolio and how we would manage that. That is something that the Treasury Advisory Panel looks at on an annual basis.

The Treasurer of the States of Jersey:

Have we done lots of those scenario plans? What is the definition of the black skies—?

Director of Treasury and Investment Management:

A black skies event is a one in a hundred-year event.

The Deputy of St. Saviour:

Moving on to the care inquiry, Minister, how will you ensure that sufficient funding is made available for the government to respond to the recommendations of the care inquiry?

[11:15]

The Minister for Treasury and Resources:

The issue is that previous governments have promised that we will fulfil the recommendations of the care inquiry. That is difficult in itself because there were 2 that were not, in a lot of people's view, part of the remit of the care inquiry. I will not go into those. However, fulfilling the recommendations so far – another £3 million was put aside for fulfilling the first part of the recommendations and to date we have spent, drawn down on that, £456,000. That leaves £2,600,000, roughly speaking, still to go. Many things have been put in place following those recommendations in as much as, as everybody will know, we have a children's commissioner and the office that surrounds that, and various other bodies that have been formed through government, with consultation and consultants, to further pursue the recommendations that came out of the inquiry. So, that is what these monies are being used for.

The Treasurer of the States of Jersey:

On the long-term basis, whenever we do forecasts, when we are preparing or putting forward plans for 2020 and beyond, we reflect those numbers on an ongoing basis in those forecasts, so we have built them into the forecasts. Obviously, they are then going to be subject to decision making by health ministers and then the States Assembly but whenever we do forecasts that is one of the things that we assume, going forward, that the States will want to keep in play.

Senator K.L. Moore (Chairman):

Minister, when you refer to the findings of the care inquiry as made under a previous government, is that an indication that the attitude towards the findings has changed under this current government?

The Minister for Treasury and Resources:

No, I think the current government is very keen to pursue the recommendations, largely, and I have a list here, if it is any good, of the projects for the allocated funding – there is a children's inspector, there is a commission review of fostering services. We had a meeting with the interim director

general of the children's services yesterday, with a lot of emphasis placed on the fostering service, which certainly, in my view, has not had enough attention in the last few years. There is a children's rights officer, a report and review on the justice system, a completion report of the Ofsted inspection. We have had the report establishing a youth council, policy principles to lead on children's legislation and completion report on key worker housing needs and solutions. That is rounded view of the recommendations for the third quarter of 2018.

Senator K.L. Moore (Chairman):

So, is some of the unspent money allocated to all those projects and does that finalise the spending?

The Minister for Treasury and Resources:

I think it is for this year. So, there may be other things that come up from these recommendations that we have to address in Q4.

Senator K.L. Moore (Chairman):

So, how recently did you receive the Ofsted report?

The Minister for Treasury and Resources:

Gosh, a month, 3 weeks ago?

The Treasurer of the States of Jersey:

The Ofsted report is not published until late in the year, is it? The Care Commission document – so, we understand what it may say I do not think formally –

The Minister for Treasury and Resources:

It has not formally been published, no.

Senator K.L. Moore (Chairman):

Yes. I do not think that we have seen it. I would be grateful if it could be shared with us. Let us move on to the next –

Deputy S.M. Ahier (Vice-Chairman):

St. Helier regeneration. Obviously, it has been highlighted in the Strategic Plan between 2015 and 2018 and have suitable funds been raised from the international finance centre to support the regeneration of St. Helier?

The Minister for Treasury and Resources:

The finance centre? At the moment, I.F.C.1 is under negotiation for tender for sale so there will be a return on that. There has been a lot of regeneration of St. Helier from S.o.J.D.C. (States of Jersey Development Company), with the recent completion of the college gardens in the north-of-town area. And Project Horizon is going forward. The I.F.C.5 – they have changed all the numbering, that is why I am sounding a bit hesitant. It is building 2 but I think it is called number 5 – is due to open in September. And then the third building has been given planning permission. So all this is generating activity in St. Helier. And then the other side of it, there is Ann Street, where there is going to be housing and a new park. So, it is going ahead but a little slower than the previous strategic plan suggested.

Deputy S.M. Ahier (Vice-Chairman):

But will you be guaranteeing that the money from whatever is being sold will be put into more regeneration of St. Helier or are you saying that that is included?

The Minister for Treasury and Resources:

That is the idea but I cannot guarantee because we do not know yet what sort of profit that is going to produce because that depends on the tenders we receive.

Deputy S.M. Ahier (Vice-Chairman):

Some States members have stated that they would like to find a solution for a future Fort Regent. How would this be funded?

The Minister for Treasury and Resources:

Very good question. We are starting with the demolition of the cable cars, which is a danger area. I have seen, in the last government, that there is a capital project for Fort Regent and that was 3 or 4 years ago. That was £60 million. There is simply not that sort of money for that sort of capital project but I do agree that the regeneration of Fort Regent is of paramount importance.

Deputy S.M. Ahier (Vice-Chairman):

And has this Council of Ministers discussed how St. Helier fits into the strategic plan and where would any additional funding come from?

The Minister for Treasury and Resources:

We are doing the strategic plan as we speak. That is supposed to be produced in September time, which means working through the summer recess to do it, along with everything else that is going on. However, the idea is for the Council of Ministers to produce a strategic plan by the end of September/October time and that will be included in that plan.

Deputy S.M. Ahier (Vice-Chairman):

St. Helier is, obviously, the gateway to the Island and tourists form their first impression from going through St. Helier, and the regeneration of the town centre and, of course, financial support for struggling business, is essential. We see some of the shops closing down. We are not leaving a very good impression. We need this funding as quickly as possible.

The Minister for Treasury and Resources:

We do. A lot of the shops, as you call them – retail outlets closing down – are large U.K. chains, over which we have no control, so that causes a problem. I think the smaller shops in town seem to be okay, but I do agree that there is a problem with the rents and the rates, which are very high.

Deputy S.M. Ahier (Vice-Chairman):

But also some of the investments such as People's Park – I know it just recently had investment for its play area because it is outside St. Helier and yet St. Andrew's Park, for example, does not get the same investment. It seems as though St. Helier has been left out of all of these plans.

The Minister for Treasury and Resources:

I do not think that the request for investment in the People's Park for the play area and lavatory facilities has been agreed.

The Treasurer of the States of Jersey:

I think St. Andrew's Park is a parish park and the States decided last year that the States would pay the rates. I do not think that that means – was that £600,000 a year will be going from the States to the Parish of St. Helier?

Deputy S.M. Ahier (Vice-Chairman):

I believe that that has already been allocated.

The Minister for Treasury and Resources:

It has not been requested yet.

Deputy S.M. Ahier (Vice-Chairman):

All right, okay. Thank you, Minister.

Senator K.L. Moore (Chairman):

You mentioned earlier, Minister, the number of shareholdings in the States of Jersey within your portfolio and I think that Deputy Ahier had a question for you on those.

Deputy S.M. Ahier (Vice-Chairman):

The Jersey Appointments Commission commented earlier this year that Andium had not complied with the usual processes when the new chair was appointed. Have you raised this with Andium?

The Minister for Treasury and Resources:

Yes, I have had a meeting with them and there seems to have been a little confusion over the memorandum of understanding undertakings, as to what happens when. So, I have inherited this, if you like, and we are in discussions with them about how we make the M.o.U. clearer to both sides.

Deputy S.M. Ahier (Vice-Chairman):

And there was no open competition held for the appointment.

The Minister for Treasury and Resources:

For the appointment of the chairman? I honestly cannot answer that question. I do not know. I just know that Mr. Walker took over from Mr. Jones.

Deputy S.M. Ahier (Vice-Chairman):

And how do you interact, as shareholder, with arm's-length companies, on issues like recruitment? Do you expect companies to follow guidelines such as those issued by the Jersey Appointments Commission?

The Minister for Treasury and Resources:

Yes.

Director of Treasury and Investment Management:

So, the shareholder relations team within the Treasury Resources Department meets regularly with all the entities to obtain updates and talk about matters such as succession planning. We also converse directly with the appointments commission to talk about the shareholders' views on matters such as board succession planning but we do expect all the entities to follow the guidelines that the commission lays down.

Senator K.L. Moore (Chairman):

Minister, will you be delegating responsibility for the shareholdings?

The Minister for Treasury and Resources:

Yes, I will, to Deputy Lindsay Ash, who is Assistant Minister for Treasury and Resources. The Treasury is spread over so many levels it seems to be one very demanding part of it that can almost be ring fenced and Deputy Ash, with his huge financial experience, will be best placed to do it.

Senator K.L. Moore (Chairman):

And will any other aspects of the Treasury portfolio be delegated?

The Minister for Treasury and Resources:

Yes, to the Treasurer. No, I think the arm's-length organisations is quite a big brief for anybody but I have total confidence that Deputy Ash, with his experience, will be able to do it.

Senator K.L. Moore (Chairman):

Is there any anticipation of a change of vision for the way in which the States of Jersey interacts with those arm's length organisations and perhaps seeks different working arrangements that benefit the public?

The Minister for Treasury and Resources:

Yes. We have talked a bit about these things with the arm's-length organisations, at least the ones that we have met. It is too early to say exactly what we have discussed but there are lots of thoughts about how they can work together.

Assistant Minister for Treasury and Resources:

I have not met yet with Andium. I have met with S.o.J.D.C. and Jersey Telecom. The one thing that comes across when you first meet them is that they are very well run companies and they are doing well. When you look at S.o.J.D.C., particularly, recently it seems to have really – I was going to say suffered. It has not, but it has had quite a good upturn in its fortunes, I think. If you look at some of the projects that it has put together, they have been beautifully done. I hope that things will continue to look good and we will get the dividend in returns. There are things that we can look at in future with those companies and where we take them but that is for another day.

Senator K.L. Moore (Chairman):

You mentioned Andium. One thing I did want to ask was about the money that Andium returns every year to the Treasury, that is hypothecated, I believe, and paid back in a user(?) per housing component. Is there any interest from the Treasury team in changing that money-go-round as it is called?

Assistant Minister for Treasury and Resources:

I think we will be looking at a number of things with Andium and with Senator Mézec. As housing Minister, we will have to liaise with him as well. So, it is too early, again, to say what we will do but there will be things we will be looking at, definitely.

The Treasurer of the States of Jersey:

The other problem, not necessarily Andium, would be that they operate entirely on creating partnership with the arm's-length organisations or subsidiary companies, with a view to looking at the States as a whole. So, earlier I talked about the bit of the accounts that is in the middle that we spend most of our time looking at, but the States is a bigger group. It is much larger than that. And I think that there is work to be done there in terms of how we can work better with those entities in a 2-way direction to better achieve outcomes for Islanders. They are part of the States of Jersey Group. They are not completely independent, just as any other owned company that is owned by its shareholders is not completely independent from those shareholders.

[11:30]

We think that there are lots of opportunities there to deliver better outcomes and to have more co-ordinated planning.

Senator K.L. Moore (Chairman):

Thank you. We look forward to future updates on that subject. You will be pleased to hear that in the room is a list of questions. We have touched on the issue of the 2019 budget. Could you just confirm to us when you anticipate lodging?

The Minister for Treasury and Resources:

Yes, on the 8th of October, for debate on the 4th of December. We are in the process of deciding whether the budget speech will be with the lodging or whether it will be pre- the budget debate in December. There is an option to do either. And then amendments, I think, are 2 weeks before, if there are going to be any. So it is quite a lot to pull together in quite a short space of time, really.

Senator K.L. Moore (Chairman):

You suggested at the beginning that it might be a quiet budget. However, there are some big issues. For example, a recent report on the finance industry reported that productivity had seen a 3 per cent decrease in that area. Are any measures being considered to help to boost productivity across business?

The Treasurer of the States of Jersey:

We identified productivity as one of those areas that, I think, the Council of Ministers wants to examine in putting forward its statement of common strategic policies. It is seen as a priority. The economics – we are fairly early days in the new government putting together its plan. Productivity more generally as well as – as you say.

The Minister for Treasury and Resources:

Yes, it is. It comes up in everything, productivity. It is the main focus of the strategic plan in lots of ways.

Senator K.L. Moore (Chairman):

Thank you for that. I think we have also some questions from members of the public.

The Connétable of St. Peter:

Yes, one was prompted on vehicle emission duty. There was concern about the increase in V.E.D. last year, which did not appear to be in any consultation. It was introduced very quickly. The top end of that scale increased from roughly £1,300 to £2,000, partly because there was an increase in V.E.D. rate, I think. But the bandings were also changed at the same time, so there were some quite big increases for certain categories. The impact of that almost seems to be negative, if it is a vehicle emission duty charge, in that consequently people might have been changing to a newer vehicle. The increases in V.E.D., to some extent, have caused a decline in the number of second-hand vehicles being imported and generally these are not particularly old vehicles. They are generally white vans and that sort of thing, somewhere around 5 years old but more efficient than the ones that people are currently driving. The result of this increase is that people will carry on driving those older vehicles. Also it puts up the price of new vehicles; same thing there. So, is it something you would reconsider?

The Minister for Treasury and Resources:

That increase at the last minute was an amendment, I think, brought by a Back-Bencher. That increased it at the last minute. The whole thing is being looked at at the moment because of the increased possibility of electric vehicles because that is being pushed hugely as Jersey being an ideal place – the Chairman will validate that – of not even trialling but being an ideal place to have electric vehicles.

The Treasurer of the States of Jersey:

On the point about "there was no consultation", as the Minister said, it was a Back-Bench amendment. Which can happen. So, we just said that there can be amendments right up to 2 weeks before the budget. In this case that was quite a significant – not massively significant from a financial perspective but there was a significant impact. The previous Minister did react in the case of hire cars. Hire cars came forward and said: "We have already published our rates. This is going to be a big problem for us," and so the Minister gave a relief for the year. It was identified in that case and we think that is probably the industry that will be most affected by that, given that hire car companies' business is cars, and they buy cars and, having published their tariffs for the year, they would have found it almost impossible to reverse those decisions, so we accommodated that. It

was a States Assembly decision. We keep the position under constant review and it will be interesting to see what has happened in the year in terms of vehicles bought and sold. So, as the Minister has identified, this is a very rapidly changing area. I think we have made 2 big changes to the rates of V.E.D. in 3 years and you can see for yourselves. I do not necessarily think it is a success of the duty. It is probably events that are happening elsewhere in the world that are resulting in manufacturers of cars – more hybrid vehicles, more electric vehicles and, in some cases, they are flagging up that they are going to drop petrol and diesel models going forward. So we have an issue in terms of V.E.D.

The Connétable of St. Peter:

At a guess, V.E.D. would die out anyway.

The Minister for Treasury and Resources:

And so would the impôts on fuel.

The Connétable of St. Peter:

One anomaly with V.E.D. is that a person coming to the Island, provided they guarantee that they will not sell the vehicle within 12 months, pays no V.E.D. However, an Islander importing the same vehicle on the same day pays the full rate and I have always considered that unfair. There should not be that concession because it makes no sense whatsoever. I do not think that the U.K. government would give me a free year.

Deputy Comptroller of Taxes:

It is part of the package of when you change jurisdictions. So, for example, you bring in lots of other goods with you. G.S.T. is not charged on all the other goods that you bring with you; it is all part of the package of coming across.

The Connétable of St. Peter:

It is still unfair because if you are resident in the Island and you want to bring in the same vehicle, you have to pay duty on it. It would be your vehicle; you would buy it in the U.K. exactly the same. I consider that an unfair concession. I do not think that it should exist. If it is vehicle emission duty, then you pay vehicle emission duty on any car that comes into the Island. So, would you consider doing something about that?

The Minister for Treasury and Resources:

I have written it down.

The Connétable of St. Peter:

Thank you very much.

Senator K.L. Moore (Chairman):

If nobody else has any other questions –

Deputy S.M. Ahier (Vice-Chairman):

Just one quick one. As a source of future revenue streams would you consider raising the cap on social security?

The Minister for Treasury and Resources:

That is a question. Am I being double hatted here? There is a social security review going on as we speak, the results of which – again, everything is happening in September – should come through between September and the end of the year. That has been a 3-year review broken down into 3 lots of one year on different – we had work-place pensions and that is only one of those. The contributions are in this current year's review and that is one of the considerations as to whether to raise the cap or remove it all together. There will certainly be a change; there has to be with an ageing demographic. One has to consider that there will be double the number of pensioners by 2035, obviously more people claiming pensions, and the social security fund has to be sustainable for that reason. So, however it moves around, whether contributions will increase and/or caps removed, we will wait and see what the results of the review are. It is certainly being considered.

Senator K.L. Moore (Chairman):

We have one other question that has been submitted by a member of the public and we think this in relation to dividing up people who are locally entitled to live and those who have simply registered and the difference in contributions that they may be asked to pay. So, the question from the member of public is: "Since some thousands of non-qualified residents pay these contributions over many years and receive less in benefits and opportunities, has the Minister any plan to introduce lesser rates of contributions for them or to introduce a system of repayment if they leave Jersey before gaining qualifications?"

The Minister for Treasury and Resources:

They will pay contributions as registered people and then, after 5 years of paying contributions they are entitled to work, so no longer registered; it is a different licence. Then they will be entitled to receive benefits but not until they have paid in for 5 years and there has certainly not, to my knowledge, certainly not in the last 2 months, been any idea of repaying these contributions to people who leave the Island, from a social security contribution point of view. However, from an accrued pension point of view, those can be paid overseas. Obviously, what one accrues depends on what the contributions are, but in 5 years it is fairly negligible but people are entitled to receive

pensions overseas but not any of the contributory benefits that would provide them with income support or any of the L.T.I.A.s (Long Term Incapacity Allowances) or other benefits.

Senator K.L. Moore (Chairman):

Thank you. We will ensure that the member of the public gets the transcript of your answer. Thank you for that. That is it. Without any further questions, we thank you all for your time and I close the meeting.

[11:42]