

CORPORATE SERVICES SCRUTINY PANEL

THURSDAY, 18th MAY 2006

Review of Financial Framework for the States Strategic Plan

Panel:

Deputy P.J.D. Ryan of St. Helier (Chairman)
Senator J.L. Perchard
Senator L. Norman
Senator B.E. Shenton
Connétable D.J. Murphy of Grouville
Deputy J. Gallichan of St. Mary

Witnesses:

Senator T.A. Le Sueur (Minister of Treasury and Resources)
Mr. I. Black (Treasurer of the States)

Deputy P.J.D. Ryan of St. Helier (Chairman):

Good morning, everyone. Good morning, Senator Le Sueur, Treasury and Resources Minister. Good morning to Mr. Ian Black, our Treasurer of the States. Good morning to Julian, our Liaison Officer. Good morning to members of the public and press. It is nice to see you. This morning we are here as a sub-panel of the Corporate Services Scrutiny Panel in order to ask Senator Le Sueur various questions on the financial framework of the States Strategic Plan. Obviously there are 2 extra members, Senator, that have joined us this morning to assist us on this sub-panel with this review: Senator Shenton on my right and Senator Norman on my left. Apart from that, I think you will be familiar with everybody else as usual on our Corporate Services Panel. So, good morning.

Senator T.A. Le Sueur (Minister of Treasury and Resources):

Good morning.

Deputy P.J.D. Ryan:

I have to do the formalities first of all, if you do not mind. You have listened to it before on several occasions; I hope you do not mind listening to it again. It is important that you fully understand the conditions under which you are appearing at this hearing. You will find a printed copy of the statement I am about to read to you on the table in front of you. The panel's proceedings are covered by parliamentary privilege through Article 34 of the States of Jersey Law 2005 and as a result you are protected from being sued or prosecuted for anything said during this hearing, although this privilege

should obviously not be abused. The proceedings are being recorded and transcriptions will be made available on the Scrutiny website. So, Strategic Plan, financial framework. We have about 4 or 5 sections, Senator. What we will try and do is exhaust each section of questioning. It is around the different areas of the financial framework. Just so that you are aware what those sections are, the objective of number one is to examine the original purpose for the establishment of the dwelling houses loans fund and to consider the options for the use of the balance in the loans fund. It is really around the dwelling houses loans fund that we want to ask you a series of questions. The second section is to look at the efficiency savings change programme and what is coming out of that. The third section will be basically around the revenue gap, the black hole, so to speak. Not specifically to do with the Strategic Plan, but in the Strategic Plan there are financial frameworks that go into the future and the black hole obviously has a bearing upon that area. Then we want to talk to you a little bit about the stabilisation fund that was part of the Economic Growth Plan from last year. We want to talk to you in that area. Then, finally, we want to talk to you about a general anti-inflation strategy and things around that area. These are the 5 sections. The reason I am relaying that to you is so that you know we are going to ask you about an area, so if you feel you want to hold part of a question back until we address it in a later section, that is fine. It will help to make it clear and understandable to everybody if we try and just keep to those sections. I will start by asking you a question. When we are talking about the dwelling houses loans fund, do you think it would be better to have a States debate specifically, solely, for the purpose of the future of the DHLF (Dwelling Houses Loans Fund)? Rather than to address it through the Strategic Plan, as it is at the moment, do you think it would have been better to have taken that out and had a States debate specifically on what the DHLF is, where it has come from and what its future use should be?

Objective One: Dwelling House Loan Fund

Senator T.A. Le Sueur:

I think it is important that the States get a chance to examine and discuss the use of the dwelling houses loans fund. I think a specific debate on that would be out of context because if you do that, unless you have a clear purpose for the use of that fund, you are likely to end up just by finding a vehicle with which to spend the money but not looking at that in the overall context of States spending. So, I think it is the other way round and I think, having looked at the overall level of States spending, we then want to say that includes the incorporation of funds from the dwelling houses loans fund and is it appropriate that that should go into the overall pot? The way I see it probably in terms of mechanics is that the dwelling houses loans fund monies would go initially into the consolidated fund and then be earmarked out of the consolidated fund for the purposes of spending on revenue and capital expenditure as set out in general terms in the Strategic Plan.

Deputy P.J.D. Ryan:

I suppose a supplementary to that is this: the States will be in a position, if there is no amendment in this

area to the Strategic Plan, of voting down the Strategic Plan if they do not like what you are doing in the dwelling houses loans fund, which could be construed as a sledgehammer to crack a nut. Do you see the point I am making?

Senator T.A. Le Sueur:

I think I see the point you are making and I think we need to be quite clear of the relevance of the Strategic Plan and the Business Plan, which will be debated on subsequently, because the Strategic Plan says given that we use the dwelling houses loans fund we can create a business plan with this sort of framework. There might be a general principle in agreement with the context of the Strategic Plan that we would have that sort of framework. If the Business Plan decided in the end that was the States spending too much money too quickly and the Business Plan said: “No, let us spend the dwelling houses loans fund maybe over a longer period or in a different way”, that is totally feasible within the context of the Business Plan. What this is doing is giving an indication that we could achieve the objectives of the Strategic Plan using the money in the dwelling houses loans fund, so I think we need to look at the relevance of the Business Plan as well.

Mr. I. Black (Treasurer of the States):

May I come in there? If you did not have the discussion on the use of the dwelling houses loans fund monies at the same time as the Strategic Plan, you could not take an integrated approach. For instance, if the States decided they did not want to spend the dwelling houses loans fund then you could not be doing things that are in the Strategic Plan. So you cannot have the separate debate on these things unless you say: “We will not use the dwelling houses loans fund monies and we will not improve the standards of social rented housing accommodation and we will not provide extra income support” If you do not make a decision that you are willing to use the dwelling houses loans fund in the Strategic Plan, you have to be clear what things in that Strategic Plan you are not going to do so you have to take an integrated approach, it seems to me.

Senator B.E. Shenton:

The Isle of Man brings the Strategic Plan and the Business Plan to the House as one proposition. Would it not be a lot more sensible to incorporate the Business Plan and the Strategic Plan and bring them to the House at the same time?

Senator T.A. Le Sueur:

I think it is difficult then because if you are going to amend the Strategic Plan, it would presumably have an effect on the Business Plan. What you would probably have to do, having amended the Strategic Plan, is then to revisit or amend the Business Plan, and it means you are making amendments then on the hoof and I do not think that is necessarily a very good idea. A strategic plan, in my view, is a sense of direction of the way we are going over the medium term period, between 5 to 10 years. A business

plan needs to be reviewed annually or even more frequently. I think the Strategic Plan sets the general direction; the Business Plan firms up timing, specific areas, specific spending. I do not believe that it would be right to debate the Business Plan at the same time as the Strategic Plan. In any case, the States of Jersey Law requires us to have the Strategic Plan presented within a certain timescale and I think the logistics of trying to produce the Business Plan in that timescale would be near impossible.

Senator B.E. Shenton:

Yes. I think standing order 21 also states that when you bring a proposition you have to detail the manpower implications. There are no manpower implications within the Strategic Plan proposition; therefore, it fails standing order 21.

Senator T.A. Le Sueur:

I think that is something which you would need to take up with the Greffier or the Law Officers' Department. I am no expert in interpreting the way that standing orders should be interpreted.

Senator B.E. Shenton:

I did ask the Greffier and he told me to refer the matter to the Chief Minister.

Senator T.A. Le Sueur:

I am not the Chief Minister.

Senator B.E. Shenton:

Or the Council of Ministers.

Connétable D.J. Murphy of Grouville:

Can I get back to the nitty-gritty of internal workings of the dwelling houses loans fund? That is, I see that the original fund was set up with £3.753 million in the year dot, according to this. Has it been topped up since then or is that the actual original capital which has accumulated from that sum?

Senator T.A. Le Sueur:

I think it is just the original capital has been recirculated.

The Connétable of Grouville:

Then we have a debtor temporary advance to the capital fund, which has gone up from £34 million in 2004 to £39 million in 2005. Which capital fund is that?

Senator T.A. Le Sueur:

We only have one capital fund. The capital fund I suppose can be regarded as the States' pot.

The Connétable of Grouville:

So, basically the States' pot owes the dwelling houses loans fund £40 million?

Senator T.A. Le Sueur:

Yes.

The Connétable of Grouville:

Okay, fine. Secondly, I notice the loans and interest outstanding decreased by £2.2 million over the last year. Is that a trend that has been gathering pace or is that a temporary aberration or is it the effect of more competition in the mortgage market now?

Senator T.A. Le Sueur:

I think for some time now the dwelling houses loans fund has not been used a great deal because the market is providing that service better than we can.

The Connétable of Grouville:

So, really, over a period of time --

Senator T.A. Le Sueur:

All that is happening is loans are being repaid and as they are being repaid they are not being re-lent.

The Connétable of Grouville:

So, over a period of time we would be looking at this dwelling houses loans fund really outliving its usefulness?

Senator T.A. Le Sueur:

Yes.

Mr. I. Black:

It has gone beyond normal repayments; people have chosen to refinance with banks and mortgage providers because this is a highly competitive market.

The Connétable of Grouville:

Thank you.

Senator J.L. Perchard:

Minister, the Council of Ministers obviously had discussion over the future of the dwelling houses loans fund. I think you will remember just last October one of the successful candidates in the senatorial election, who is now a Minister, suggested a use for the dwelling houses loans fund in the form of it

enabling an opportunity to provide shared equity. Have the Council of Ministers struggled with this dilemma or were they united in their decision that the dwelling houses loans fund will be added to the whole spending package?

Senator T.A. Le Sueur:

I think the short answer is we have not looked in any detail yet at the shared equity schemes or how they are going to be funded or where they would be funded from. This was simply the fact that we have the dwelling houses loans fund which has outlived its purpose and it seems daft to do nothing with it.

Senator J.L. Perchard:

There was no discussion about ring-fencing it for housing or provision of housing, whether through shared equity or housing?

Senator T.A. Le Sueur:

No. It is, in fact, likely to be used in terms of its original benefit, which was to provide social benefit by enabling people to buy housing which they otherwise would not be able to buy. The social benefit principle will be maintaining that the funds will be used primarily for additional social benefit in terms of maintaining the quality of existing States housing stock and other social benefits such as increase in income support.

Senator J.L. Perchard:

So, ring-fencing any funds is out of the question now at all. Are there any examples of ring-fencing funds within your fiscal strategy?

Senator T.A. Le Sueur:

I do not like ring-fencing as a general principle because you tend then to be in a straitjacket and not use the money for its best purpose. I cannot think of any ring-fenced funds but I dare say, Treasurer, if you think of any you will nudge me.

Deputy P.J.D. Ryan:

Can I just examine your statement I think you made just a second ago that the general principle has been kept, the original purpose of the dwelling houses loans fund, social benefit to loan money - loan money - to help people, first time buyers, who would not afford a mortgage.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Are you not now, though, effectively taking that money that was loaned (therefore, it was still an asset

of the States) and suggesting through the Strategic Plan that you are then spending that money? It was loaned originally for the purposes of making loans, but now that will not exist any more if it is lent. Would you agree with that statement?

Senator T.A. Le Sueur:

I think that is probably taking a fairly narrow interpretation. If you wanted to argue that to its logical extent, you would keep the £3.7 million still sat there for ever and a day as an asset and you would just use the surplus money. It is public money at the end of the day and what we are saying is we have got no better purpose for that public money than to keep it as an accounting principle by maintaining it year after year as (...inaudible). I just think that if there is an appropriate use for that money for the benefit of the public then it should be used.

Deputy P.J.D. Ryan:

Of course, the £3.75 million has been there since 1950 so during that period it would have of its own right accrued interest anyway over the period of time, so it would be considerably bigger than £3.75 million, would it not?

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Is there not an argument, therefore, that if it was a loan in the first place then it should be returned, in fact, to the Strategic Reserve rather than spent? Is there not a valid argument?

Senator T.A. Le Sueur:

It is an argument but I do not know how valid it would be. The States decided to spend some of its revenue in creating the dwelling houses loans fund. The States can decide then that when that fund has outlived its usefulness it should bring it back into the general revenue pot. You could say it should go to Strategic Reserve, but I cannot honestly say that I could debate that on the floor of the House and justify it particularly strongly.

Mr. I. Black:

I will repeat the point I made earlier. If you return the money to the Strategic Reserve, you could not deliver the Strategic Plan. You would have to cut out things which are in the Strategic Plan in order to do that. That is a political decision.

Senator T.A. Le Sueur:

I am not sure if you are suggesting we can put the original capital back into Strategic Reserve or the whole of the dwelling houses loans fund.

Senator J.L. Perchard:

Could you just confirm that the dwelling houses loans fund stands at £32 million currently?

Senator T.A. Le Sueur:

Not quite; the fund stands at about £50 million, I think.

Senator J.L. Perchard:

So, you are retaining £20 million in?

The Connétable of Grouville:

They have lent £40 million to the capital fund, which was the original source for the £3.75 million. The capital fund has been lent £40 million from the dwelling houses loans fund. The balance in the dwelling houses loans fund is represented obviously by cash and loans --

Mr. I. Black:

Outstanding loans.

The Connétable of Grouville:

Yes. We have a net figure at the moment available of £14 million but they have already pinched the rest. [Laughter]

Senator J.L. Perchard:

Well, the contribution in the Strategic Plan --

The Connétable of Grouville:

Why I say this, the contribution in the Strategic Plan from the dwelling houses loans fund up to the year 2011 is £32 million.

Senator T.A. Le Sueur:

Yes, so we have not used every last penny.

Mr. I. Black:

There is some confusion. The capital fund is a bit misleading on this. The money via the capital fund has gone in investments and it does receive interest. The capital fund is in a position to repay this money to the dwelling houses loans fund so there is £32 million available to the States. Sorry, there is a greater sum: than £32 million. The £32m allocation is the decision of the council of ministers.--

The Connétable of Grouville:

That is on a for sale basis. Your assets would have to be sold in order to repay the money.

Mr. I. Black:

No. We do have £32 million available in cash to spend.

Deputy P.J.D. Ryan:

Have you investigated taking that dwelling houses loans fund and its assets (in other words outstanding loans and interest) and have you considered whether that has a goodwill value to a private lender?

Senator T.A. Le Sueur:

I think the short answer is no. If a private lender wanted to take that loan book, I suspect he would take it at a fair discount.

Deputy P.J.D. Ryan:

Even though it has fairly high interest rates?

Senator T.A. Le Sueur:

Yes, it has got fairly high interest. I take back my previous comment. Yes, you could sell it to institutions. Would they be interested? I think it would be a risk to them if the person repays early.

Deputy P.J.D. Ryan:

Secured by property?

Mr. I. Black:

The overall effect to the States would be neutral. It would be foregoing a revenue stream for a capital sum and the net effect to the States should be neutral except it gets the money in earlier.

Deputy P.J.D. Ryan:

But my question was including goodwill? That would imply that there would be a net gain to the States.

Senator T.A. Le Sueur:

No, we have a fund that has not been touched virtually for the last 5 or 10 years. I do not know how much goodwill there would be in it. If a retailer has sold no goods for the last 5 years, it does not have much goodwill to sell.

Deputy P.J.D. Ryan:

Sure. Anyway, you have not looked at it?

Senator T.A. Le Sueur:

No.

The Connétable of Grouville:

I would suggest if you are paying 10 per cent interest to a lender, that lender does not have a lot of goodwill. [Laughter]

Senator J.L. Perchard:

Could I just ask for clarification? There is £52 million total balance in the dwelling houses loans fund. The proposal is to inject over a 5-year period £32 million of that £52 million into the fiscal strategy.

Senator T.A. Le Sueur:

Into States funding.

Senator J.L. Perchard:

Yes. So, that is £20 million remaining in the balance. Where is that?

Mr. I. Black:

That is with lenders. That is money we have not got. That is money that somebody owes to us. That money will come back over a period of time. Then you could spend it if you wished to. The only way you could realise it at the moment would be by passing on the loan book to a bank or something and then getting the money in.

Senator J.L. Perchard:

Could you give us an indication as to what sort of length, period of time?

Mr. I. Black:

Sorry, I really do not have that information. Based on recent history, it has been run down at quite a rapid pace when you see the figures for recent years.

The Connétable of Grouville:

You are talking about, what, 15 per cent a year it is dropping by?

Mr. I. Black:

Yes.

The Connétable of Grouville:

You are talking about another 6 or 7 years.

Mr. I. Black:

I do not know. It depends on individual decisions.

Deputy P.J.D. Ryan:

The Strategic Plan financial framework talks about income streams, and I am quoting from the Strategic Plan. It quotes the DHLF as an income stream. Do you think that is a good choice of words? Is it an income stream? Because once you have spent it, once all of the loan book is returned, is it an income stream?

Senator T.A. Le Sueur:

It is not an ongoing income stream.

Deputy P.J.D. Ryan:

That is all I wanted to establish. Are there any further questions on the dwelling houses loans fund?

The Connétable of Grouville:

The question that was worrying me at the start has been answered, and that is that the loan capital that has gone back has been reinvested into capital projects and not into the revenue spending stream.

Mr. I. Black:

I can confirm the cash is available. It has just gone via the capital fund to be invested and those investments are short term and they can be realised and the money used.

Objective Two: Efficiency savings

Deputy P.J.D. Ryan:

I would like to move on, then, to the efficiency savings as a general topic of questioning, if you would not mind. I will start the questioning off again. In the light of the projected deficits continuing into the years beyond 2012, presumably, would it not be prudent to keep the £20 million efficiency savings available rather than reinvesting them at this point into new initiatives?

Senator T.A. Le Sueur:

I think we have to balance a variety of requirements that we have. My overall objective is to maintain balanced budgets over the longer term and if by spending some or all of the efficiency savings I was of the view that balanced budgets could not be maintained over the longer term, I would have concerns. I am still of the view that balanced budgets can and must be maintained over the longer term and if we choose to use some of those efficiency savings at the present to maintain our infrastructure, we have to

accept the fact that we have at all times to look at the overall policy of those balanced budgets. I think we again have to look at these forecasts and say: "Yes, they are very much forecasts. They are perhaps reasonably accurate for the next couple of years, but as you go into the future all sorts of things can change." We have seen from today's financial statements that last year's downturn is slightly different from the forecast we previously had. Forecasts are just that; they show a reasonable level of accuracy, particularly in the short term, but certainly I would not put my hand on my heart and say that the 2011-2012 figures will be exactly as stated. I would be happier to put my hand on my heart and say that they will not be exactly as stated.

Senator L. Norman:

Is the forecasting not a little more difficult because of the asset changes in the tax structure? We have a totally different system; therefore, we are forecasting on something which is really unknown because up to now we have forecasted on something which is known.

Senator T.A. Le Sueur:

Yes, although we have got an indication of where the changes will come. It is a matter of just the magnitude of those changes. Because there are a variety of contributing factors to the £80-£100 million deficit and we are taking a very prudent line, I do not think I will have any nasty shocks in terms of financial forecasts. It may well be that one will be slightly worse and others will be slightly better. I think overall I am confident that that £80-£100 million is a reasonable forecast or perhaps even a slightly pessimistic forecast.

Senator B.E. Shenton:

Could I just point out to Len that if you look back at the forecasts over the last 5 years, the accuracy of forecasting without tax changes has not been particularly good on the income side. The deviation has been quite wide in some years.

Senator T.A. Le Sueur:

I think if one puts that into perspective, it has in past years sometimes been awry because even with the best estimate in the world you forecast from the basis of what you know and occasionally something gets thrown out. Over the last few years I would say we have been within one or 2 per cent of forecast each year.

Mr. I. Black:

May I just comment on that? Jersey's tax revenues come far more from corporate taxes than anywhere else in the world just about. They are far more volatile than the taxes that, for instance, the UK Chancellor of the Exchequer gets most of his money from: firstly personal income tax and secondly VAT. Corporate taxes by their very nature fluctuate far more than other taxes. Almost 2 years ahead we are forecasting by the time we know the actual figures. It would be a brave man who would say in 2

years' time what the profitability of companies in Jersey would be.

Senator B.E. Shenton:

No, I was just looking back on the previous (...overspeaking).

Senator T.A. Le Sueur:

No, that may look like (...inaudible) but it is not just a matter of (...overspeaking). Surely it is far more scientific or mathematical (...overspeaking).

Senator B.E. Shenton:

Can I ask a very simple question? If you are looking at balanced budgets going forward, which obviously you are, can you just tell me what the actual purpose of the Strategic Reserve is?

Deputy P.J.D. Ryan:

Well, hang on a second because we are talking about efficiency savings here, Ben. I know that we are getting slightly off the track. We can come to that, if you like, at the end. Could I just ask you to park that question?

Senator B.E. Shenton:

Well, it is relevant because you are asking to put the money into the Strategic Reserve, so I think we need to know what the Strategic Reserve actually is.

Deputy P.J.D. Ryan:

Okay, I will allow the question to go forward.

Senator T.A. Le Sueur:

I am not clear of the question now.

Senator B.E. Shenton:

What is the Strategic Reserve for? You are looking at balanced budgets going forward, so what is the Strategic Reserve for?

Senator T.A. Le Sueur:

Strategic Reserve is certainly not to enable a balanced budget. Strategic Reserve is there in case of a significant economic downturn and the unforeseen. For instance, a nuclear accident at Flamanville or some (...inaudible) oil pollution which made the Island totally cut off from the rest of the world. We are not talking about economic cycles going up and down. For that (and we will come to that later) there is a stabilisation fund. But Strategic Reserve is really there for the sole purpose of protecting the Island in the short term from a major disaster whilst we reposition ourselves.

Senator J.L. Perchard:

Going back to the efficiency savings, Minister, would you think this is a wonderful example of how to spin a yarn, to tell other States Members and the public that we are making efficiency savings but we are actually spending them and more in our financial framework for the next 5 years? Do you accept that you could be accused of spinning a great story here when, in fact, all you are doing is reallocating existing resources and adding more to the spending?

Senator T.A. Le Sueur:

I think they are 2 totally separate decisions which need to be looked at as separate decisions and were, indeed, looked at as separate decisions. The first decision was to deliver over a 5-year period efficiency savings which would build up to £20 million a year. That policy has been implemented. That policy has been followed through. That policy is delivering and will deliver £20 million of efficiency savings. The intention previously was that those savings should not be spent.

Mr. I. Black:

They should part-fill the black hole.

Senator T.A. Le Sueur:

They should part-fill the black hole. The revised strategic policy is that they should be spent in order to maintain our infrastructure. As Council Minister and as Treasury Minister in particular, I have various obligations. I have obligations to maintain a balanced budget. I have a policy of keeping inflation under control and a policy of restraint in States spending. I also have a policy of stewardship in respect of the Island's resources. To have assets of the States deteriorating to an extent where they may be beyond redemption, so to speak, at a time when we have funds available to maintain them could be regarded as bad stewardship. Now, it is difficult to balance those policies when they conflict and you have to take a reasonably balanced view. The view which I take and the Council of Ministers take is that it would be folly to allow our assets to deteriorate to a major extent. On that basis, we have decided that it is more prudent to maintain those assets than to maintain a policy of parking the money in a pot.

Senator L. Norman:

I understand that, but that leads me to something which I wanted to ask because I am a little bit confused about this £20 million and how you are planning to spend it. In the Strategic Plan "Vision for the Future" chapter you say you believe such savings should be invested in infrastructure and services, talking about roads and housing. Then, in your statement, you say the plan reinvested £20 million efficiency savings in health and the rising cost of welfare. There are 2 questions here. Which one of those 2 is it that the Council is planning to spend the £20 million on, and how can you describe spending on health and welfare as an investment?

Senator T.A. Le Sueur:

I take the point. I think what one needs to do is to look at this revenue plan as a whole and it is difficult to say: "We will put the dwelling houses loans fund into housing or roads. We will put efficiency savings into health and whatever." What we have decided as Council of Ministers is to spend a total sum of money in expenditure and revenue and capital of £502 million in 2007, £521 million in 2008 and so on. In order to fund that spending, we will utilise 2 additional areas; one being the revenue from efficiency savings and the other being the funds available in the dwelling houses loans fund. I think it is difficult to identify this particular pound note and say: "That particular pound note is for housing, that particular pound note is for education". They are all pound notes and they are all spent in one form or another. I accept that when the document here says the plan reinvested £20 million efficiency savings on health and the rising cost of welfare, what we are really saying is that health and welfare spending will go up but also the revenue will go up because we will be using the money from the efficiency savings. Perhaps in retrospect that could have been amplified in saying that the additional spending will be met from efficiency savings and the dwelling houses loans fund.

Senator L. Norman:

Perhaps it also could have been consistent with the vision of this particular plan. You did say there, Minister, that you cannot identify where each pound comes from that is being spent on either health, education, roads, whatever. I believe at the last Council of Ministers meeting it was suggested that £12 million of the dwelling houses loans fund should be spent on housing maintenance. Is that not identifying where the pound is coming from?

Senator T.A. Le Sueur:

I think it did show a tenuous link between the 2 in the same way as we said the original purpose of the dwelling houses loans fund was in respect of social housing. We are just indicating that there is at least some link, however tenuous or otherwise, with the current policies.

Senator L. Norman:

From these responses, could I be forgiven for thinking that the Council of Ministers is planning to spend these additional funds, but from these answers would appear not to know where the money is going to come from?

Senator T.A. Le Sueur:

No, we know perfectly well where the money is going to come from. It is going to come from the normal revenue sources that we have previously expected, plus the £20 million that we expect to generate from efficiency savings, plus an injection of funds from the dwelling houses loans fund.

Senator L. Norman:

Going back to the sentence: "The plan reinvested £20 million efficiency savings in health and the rising

cost of welfare”, could I ask you once again how can you describe spending £20 million in health and welfare as an investment rather than as an expenditure?

Senator T.A. Le Sueur:

It is a use of words in the sense that it is spending it rather than keeping it. I admit we could have said the plan spends £20 million in health and the rising cost of welfare and that might have made it clearer, but I think that is perhaps playing with words rather than the principle of what we are doing.

Senator L. Norman:

This is a public document, and when one talks about investing would the public not expect if you are investing £20 million you expect a return; if you are spending £20 million that money is gone?

Senator T.A. Le Sueur:

Yes, but you could say this is investing in people, perhaps, rather than in buildings, maintaining the future health and well-being of the community. It is not an investment in the same way as an office block on the waterfront would be, but it is an investment of a different type. I think we are probably playing with words here.

Deputy J. Gallichan of St. Mary:

I was just wondering how you would answer the question that the reason that you need to reinvest this £20 million savings is simply because we are spending too much money and that the Council of Ministers really have not got behind the idea of let us spend less?

Senator T.A. Le Sueur:

I think we have been looking for some years now at ways in which we can spend less. I think there is a level below which it is difficult to do that without incurring public opprobrium and a deterioration in the quality of service and the quality of life on the Island. Certainly we could spend £10 million a year less on healthcare, but the effect on the public would not be particularly desirable. There would be longer waiting lists at the hospital, poorer treatment, maybe more services provided off Island. It is a balance between what we are prepared to spend and the quality of life the Islanders expect us to deliver.

The Deputy of St. Mary:

So, really, there was an imbalance in what we thought was achievable in our savings and what we actually can do because we are effectively saving £20 million less?

Senator T.A. Le Sueur:

I think we have to say what is a better use of our assets. Yes, if push came to shove and if we had no money, we would have to reduce the amount we spend on education or health or anything else. That will lead to a deterioration of public services, which the public will not particularly like. If because we

have no money we have to do that, then they may well understand that. I think the public will say that where we have the means to deliver that quality of services and still maintain balanced budgets we should do so.

Senator J.L. Perchard:

Can I just ask about the £20 million worth of efficiency savings, as you call them, Minister? Could you tell us a little bit about broad-brush where they are coming from and are you attacking soft targets in these efficiency savings, the easy targets?

Senator T.A. Le Sueur:

I do not know if any target is particularly easy. Certainly what we aim to do is to have a lot more centralisation of services such as human resources, Treasury functions, computer services and so on, together with efficiencies within departments. It is probably the area where the previous T and R Committee set a policy and told chief officers: "We want you to deliver efficiency savings of £20 million over these 5 years. You as the people on the ground providing the services at a managerial level are probably best placed to know where those efficiencies can be delivered." So, it may well be that the Treasurer and other chief officers can explain the detailed list, but certainly the intention as far as we were concerned was that we should do things generally at a corporate level rather than a duplication in many cases within individual departments, but also have processes which are more appropriate to the 21st century than the 20th or even 19th century which we currently have. In many cases that does take some investment in re-engineering the existing processes and we agreed that as part of the ability to deliver that £20 million worth of efficiency savings, we would need to invest £9 million or £10 million up front in re-engineering to make our processes far more appropriate for the current play. So, I think it is in that context that we have set out the efficiency savings and how that can be achieved.

Senator J.L. Perchard:

I have just one supplementary on that. So, no soft targets then --

Mr. I. Black:

When you say "soft targets", let us be clear: the £20 million savings come primarily from corporate services, which I think is what the public expected. They wanted to reduce civil servants, bureaucrats. They did not want to cut teachers, nurses. It is coming primarily from central functions such as finance, human resources, IT, improved purchasing and those sort of areas. I do not know if it is soft targets.

Senator J.L. Perchard:

I was just about to move on. So, we can expect a reduction in the number of public sector employees as a result of these efficiency savings?

Senator T.A. Le Sueur:

I think we should not get hung up about numbers of public servants. I am more interested in the cost of those public servants. I would far sooner have 20 people with a total pay packet of £200,000 than 10 people with a total pay packet of £300,000. To the extent that you may be able to correlate numbers and potential costs, fine, but it is the cost which concerns me, not the head count.

Senator J.L. Perchard:

I understand that, but can I say to you, Minister, £20 million of efficiency savings, will it or will it not result in a reduction in the number of public sector employees?

Senator T.A. Le Sueur:

It must do.

Mr. I. Black:

Yes, and we set a target for that. I am not sure I have it with me today, but I think it is 300.

Senator T.A. Le Sueur:

It is an inevitable consequence. If you are going to deliver those efficiency savings then you only deliver them with a reduction in the wages bill. You only get a reduction in the wages bill of that magnitude by having fewer staff.

Mr. I. Black:

I have to give a “but” as the person responsible for the head count: but if you decided to reinvest the money into frontline services, particularly health and education, you are going to achieve that saving in civil servants and end up with more nurses, doctors and teachers. In fact, the recent figures tend to show that; fairly significant reduction in civil servants offset by an increase in teaching staff, in particular, resulting in still a net reduction in States employees.

The Connétable of Grouville:

The last time we had this efficiency savings crackdown was in 2003-2004. My opinion was at that stage you were trying to use too broad a brush. In other words, you were saying right across the board everybody must save 10 per cent or 5 per cent (I cannot remember the figure) instead of targeting it at the areas where there was obvious waste. We got to the stage with public services that we got so far down the line and we still had not hit 10 per cent that the next move would have been to close all public lavatories. Seriously. So, the targeting was not there. I would have thought from the top do you think you should be targeting areas rather than a broad-brush approach to this?

Senator T.A. Le Sueur:

Yes, certainly it is not going to be the case that you will get this by uniform approach across all departments. I think also we need to be quite clear of the distinction between efficiency savings and

service cuts. Closing public lavatories is not an efficiency saving; it is a service cut.

Mr. I. Black:

On the targeting, the savings are highly targeted now. I, as head of finance profession, have a target of £1.25 million. I think that is the area where people want savings in things like civil servants and the finance function. It is a very significant hit for me. I think it is 20 per cent of my budget, so that is a big reduction. So, the savings are being concentrated I think on those areas where people expect them to be achieved now.

Deputy P.J.D. Ryan:

I would like to move on, still on the efficiency savings but specifically on the property side of these efficiency savings. I think Constable Murphy has a number of questions he wants to put to you in that area.

The Connétable of Grouville:

Could I start at the beginning just for a change, just to get the structure sorted out in my own mind? What happens now is that all the States property has gone into one pot. We have a fund, is that not correct?

Senator T.A. Le Sueur:

With the exception of States housing and services.

The Connétable of Grouville:

Yes, I understand that. Can you tell me out of that pot, out of that huge pot of property that we have, what percentage of that would you consider as being unsaleable or untradeable, i.e. schools, fire stations, police stations, stuff that we would never, ever even have the possibility of valuing to that extent or even selling?

Senator T.A. Le Sueur:

If you are asking a percentage-wise value I could not answer that because I do not know the values. (...overspeaking). I would say that the majority of our assets such as schools and hospitals and fire stations and so on clearly we cannot dispose of or we cannot dispose of completely. But, for example, the Education Minister last year or the year before closed down the school at St. Saviour's Hill because we could merge those pupils with the pupils elsewhere into a new school at La Pouquelaye. It may well be that you can, if you like, get efficiency savings by combining 2 schools into one, but you are not going to eliminate them.

The Connétable of Grouville:

We are talking again very roughly (I know some of this you cannot value) of a pot of about £1.5 billion,

I think is the figure bandied around. If we take out 75 per cent of that straight away --

Senator T.A. Le Sueur:

I am not sure why we are taking it out, but anyway.

The Connétable of Grouville:

I am taking it out in my long-term question, for want of a better word, and come down to, say, £400 million.

Mr. I. Black:

I have to say no one has ever done this calculation so whether it is 75 per cent or 50 per cent, to be honest we really do not know.

The Connétable of Grouville:

The Minister said the majority, so I had assumed 75 rather than 50. Then you go down to the situation where the States are renting property or they own property which is being used as offices for various departments and things like that, which are saleable but which would be unlikely to be ever sold because we need them.

Senator T.A. Le Sueur:

We do not necessarily need all of them.

The Connétable of Grouville:

No. So, there will be an adjustment there of some kind anyway where we will get rid of older properties, perhaps, and reinvest in new ones.

Senator T.A. Le Sueur:

I think you will see that within the efficiency savings we are targeting or expecting to get £4 million over the period.

The Connétable of Grouville:

Well, that is what I want to get down to, as to where the £4 million is coming from. If we get down to a place where we are not looking at £1.6 million of yielding assets; we are now down to about perhaps £200 million at the most of assets that yield a notional or positive rental.

Senator T.A. Le Sueur:

No, I would say that is looking at it from the wrong direction. What I am looking at is maybe a principle here that we have offices dotted here, there and everywhere round the Island, some of which are fit for purpose, some of which are not fit for purpose, some of which are badly under-utilised. I

think the total office space that we rent compared with the head count and cost of that does not compare favourably with the private sector.

Mr. I. Black:

Could I give you a good example? At Cyril Le Marquand House, the new property department did a review of utilisation of the offices there, and by some changes that are currently taking place on the 3rd and 6th floors, I think, and other changes, they discovered that we could save the equivalent of 2 floors of that building. That has meant a significant contraction in our office space. So, your figure may be on the low side.

Senator T.A. Le Sueur:

That is where I am looking at efficiency savings in terms of property. It is not necessarily the sale of the property; it may be from making better use of the property and thereby indirectly saying: "We no longer need that office block because we have merged all those functions into separate space that we have now made better use of."

The Connétable of Grouville:

So, you are assuming, then, you are going to save £4 million a year which can then be taken out of that fund, but the block itself, the fund we have at the start, will remain intact? We will not be chipping away at the capital involved in that fund is the point I am trying to make.

Senator T.A. Le Sueur:

I think you are probably trying to be too simplistic here because there is a mixture of property that we own, property we rent, and so on. What the efficiency savings is targeted to doing is making better use of our resources, better use of those property resources, be they assets that we own or assets that we rent, and if we can even with rented property make better use of that rented property, we will require less of it and, therefore, we will pay less rental.

The Connétable of Grouville:

What I am interested in really, the basis of all my questioning, is the fact that we are not going to be selling off assets in order to include it in this £4 million anticipated revenue that you are going to get from the property situation. In other words, if you do that you are going to hit the situation like you have the dwelling houses loans fund, which is gradually working itself out.

Senator T.A. Le Sueur:

I do not want to be tied down to say that we are not going to sell any property within that £4 million.

The Connétable of Grouville:

No, I do not mean that at all. What I am saying is if you sell a property then you reinvest in another

property, that that capital will not be taken out as part of your £4 million income every year, revenue every year, from that.

Senator T.A. Le Sueur:

No. If the States have surplus property, I do not see any point in selling it and reinvesting it into new surplus property.

The Connétable of Grouville:

No, but I am talking about properties which are outdated. We have them all round town. Just across the road here we have outdated properties which cannot be let or cannot be sold even. What I am saying is if you could sell them obviously you would not want to buy something else like that; you would buy something super new and instantly lettable. What I am trying to find out from you is that you intend to keep this property fund at a certain level, at a certain asset level?

Senator T.A. Le Sueur:

No. It is not a property fund. It is the assets which the States owns.

The Connétable of Grouville:

All right. You have a box, right? At the moment this box has £1.5 billion in or whatever it is. Do you anticipate chipping away at the value of that £1.5 billion in order to meet your target of £4 million a year coming out of it? Selling and buying property within the thing does not matter. If you do, you do, but what I am interested in is at the end of the day that in 10 years' time we do not end up £40 million light on our £1.5 billion.

Mr. I. Black:

May I come in? If the States have got £1.5 billion in property assets, why does it have them? It only has them to deliver essential services. If actually what it needs is £1 billion in property assets, then why should it keep £1.5 billion? Surely it is a good thing?

The Connétable of Grouville:

No, you are missing me completely. What I am saying is we have an asset base. It does not matter what it is; it could be cash, it could be property. What I want to know is that you are not going to chip away at the value of that asset base in order to meet your £4 million a year revenue?

Senator T.A. Le Sueur:

I think I see what you are getting at. [Aside] [Laughter] I think to the extent that the States owns strategic assets we have always said that if we replace one strategic asset which is a property with something else which is cash, then that needs to be kept as a strategic asset in the strategic fund.

The Connétable of Grouville:

Exactly.

Senator T.A. Le Sueur:

I think an example of that would be if we sold part of or one of our utility companies. That would be a strategic asset, changing a share certificate into cash, which should still be held as a strategic asset and not simply spent.

The Connétable of Grouville:

Exactly, ring-fenced not for a particular use but as an asset of the States and not dribbled out to revenue.

Senator T.A. Le Sueur:

But that is a policy presumably which the States can take at any time. The States could decide it wanted to whittle down its asset base and spend the money. That would not be my intention; that is not what is contained in this Strategic Plan here. This Strategic Plan suggests that we can achieve £4 million worth of savings on the property side by making better use of property resources.

The Connétable of Grouville:

Well, that is very laudable and I think that is a great idea. However, what I want is an assurance or I would like to know that you will not be chipping away into the capital of that fund in order to achieve your £4 million a year. In other words, there must be an income situation here. There must be a creditor situation within the property portfolio and those have to be balanced. Is there a £4 million income stream there that can be used or are you going to cash it in and take out assets?

Senator T.A. Le Sueur:

I honestly cannot say. If the way to achieve that efficiency in use of property was to consolidate and make one building redundant, then clearly I am going to sell it. I think we have to accept that the £4 million will be simply a way of ensuring that our property assets are used to the best advantage.

The Connétable of Grouville:

Okay, so you will not say that you are not going to use the capital?

Senator T.A. Le Sueur:

I cannot at this stage because I think we have to deliver these efficiency savings in a way which is most appropriate.

The Connétable of Grouville:

Yes, but it is not a saving if you are using capital.

Senator T.A. Le Sueur:

It is not a recurring saving.

The Connétable of Grouville:

Well, it is £4 million a year for ever. Well, for at least 5½ years.

Senator T.A. Le Sueur:

No, let us be quite clear. The plan was this was a 5-year plan to deliver efficiency savings which at the end of 5 years would total £20 million. There is no policy at this stage for anything beyond that time. In year 6 we could say: “We are not going to have any efficiency savings any more. We are going to squander it all.” That would not be a particularly good policy. This is quite clearly a 5-year policy, no more and no less.

The Connétable of Grouville:

But we could end up at the end of the year with £20 million less in assets, having spent it? Having taken the £20 million out of the property fund over a 5-year period? Sorry, it is more than that because there is another £1.5 million. I have yet to find out the difference between the £1.5 million and the £4 million, what the differential is. However, over a 5-year period, say you are taking £20 million out of the fund, we could still end up with a fund that is worth £20 million less than it was at the start if you have not made those efficiency savings within it. If you make the efficiency savings, that is absolutely fine. The money comes out; the efficiency savings are paid into the general stream; that is great. If you do not make the efficiency savings, the money still comes out.

Senator T.A. Le Sueur:

£20 million in generated efficiency savings has to be genuine efficiency savings. We do not do it just by sleight of hand and saying: “Well, if we sold that block of flats that would raise £20 million, so we have achieved our target.” That is not efficiency; that is reduction in assets.

The Connétable of Grouville:

Absolutely, yes. So if you do not achieve the efficiency savings within the property box, then you will not be taking the £4 million a year out?

Senator T.A. Le Sueur:

Right. I think I can probably give you the assurance you want.

The Connétable of Grouville:

Not very well! [Aside] [Laughter]

Senator T.A. Le Sueur:

No, because you may well decide to sell the family silver and reinvest in platinum.

Mr. I. Black:

I understand where you are coming from. Surely you cannot argue this is a reason not to be selling off unnecessary assets?.

The Connétable of Grouville:

There is no reason for not selling it, no.

Mr. I. Black:

It is a poor phrase that is used of “selling the family silver” because that infers it is an asset. What we have here quite often is perhaps...we could call it a car that we are leaving parked in a field in the open air that is just a deteriorating and is a reducing asset. Surely selling that car, that you do not need, must be a good thing?

The Connétable of Grouville:

Well, absolutely. I am not arguing about the internal workings of how you buy, sell, trade or whatever within the fund as long as the fund stays intact. The value of the fund must stay intact. If you are not achieving your efficiency savings you are still going to be taking £4 million a year out. That would worry me.

Mr. I. Black:

I see your point. The only other comment I would make, though, is that money effectively is being recycled into the pot and so allowing us to continue to maintain the assets we need. So, significant sums will go back into maintaining our assets.

The Connétable of Grouville:

The other point I was trying to make by bringing out the fact of how much of this is unsaleable and how much of it we desperately need, et cetera, is you come down to a very small figure at the end and that small figure, the £4 million, will be percentage-wise a much larger percentage of your actual trading property available than the £1.5 billion roughly we are talking about. If you are down to, say, £200 million or something like that of tradeable type assets, and you take out £4 million, that is 2 per cent of it gone straight away. It is not 2 per cent of 1.5; it is 2 per cent of the smaller amount.

Mr. I. Black:

Again, I take your point and I am not the property person, but I know that we have done initial work on this and, in fact, we think the target we set for the disposal of poorly utilised property is on the low side. We think there is considerably more potential to realise under-utilised property assets in the States.

Deputy P.J.D. Ryan:

I think just to finish that one off, to crystallise it so that it is pretty crystal clear, your property savings are in 2 classifications in the paperwork that I have: split into revenue property savings and capital property savings. The £4 million that the Constable has been talking about is the £4 million capital element.

Mr. I. Black:

Yes.

Deputy P.J.D. Ryan:

The revenue ones are fairly clear. That comes from saving on rents or spending less money on maintenance or what have you, so that is fine. The £4 million, to crystallise this and make it clear, I think we have probably established that that will over a long period of time very slowly erode the capital base of the property portfolio as you take the £4 million out.

Senator T.A. Le Sueur:

If it were ongoing after the 5-year period it would --

Deputy P.J.D. Ryan:

Well, even during that 5-year period.

Senator T.A. Le Sueur:

But the erosion will be relatively small.

Deputy P.J.D. Ryan:

It will be relatively small but it will nevertheless be an erosion?

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Okay, just so that everybody is clear. Nobody is saying that is the wrong thing to do or the right thing to do; what we are saying is that it is clear that it is an erosion of the property asset base.

Mr. I. Black:

Would it be fair to sum up that everyone agrees that under-utilised assets should be disposed of? The discussion here is what we do with the proceeds.

Deputy P.J.D. Ryan:

Yes, and what you do with the proceeds, precisely. If you were, for example, to take that £4 million a year of property capital asset and take it out of there and put it into the Strategic Reserve, the overall asset base of the States would stay the same, it would be neutral.

Mr. I. Black:

Forgive me, I know I have now made the point 3 times; this plan is predicated on that amount being used. If it is not used you would have to look back through the plan and say: “What am I going to do? Am I now going to reduce the capital programme or am I going to cut health spending?” There is a consequence.

Deputy P.J.D. Ryan:

There is a further point and that is that I believe in the original analysis of the efficiency savings that were to be made and were agreed, I think, in 2003, the analysis showed that the property capital savings were, in fact, going to be £5 million and that the rest of the efficiency savings, revenue savings one way or another, would have been £15 million. You are to be congratulated because I think there is an extra million of revenue savings that you have made and the capital element is reduced to £4 million, so I think that does need to be pointed out. I think that is a fair point. I think you would agree with that.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Is there anything else on the property side, Senator Shenton?

Senator B.E. Shenton:

I still think you are just playing with accounts, to be honest with you. Basically, what you are saying is - and let us use the example (...inaudible) - you will charge charities for renting the property and then you will take the money and then you will give it back to them and invest in it and then (...inaudible) £20 million?

Senator T.A. Le Sueur:

I think we are probably getting sidetracked again here. The intention is not to charge rental for those charities. It is to improve our accountability and transparency by saying at the moment we lease those assets to the charity for a peppercorn rent and no one sees it. What we should do for accounting purposes is say that that --

Senator B.E. Shenton:

You should charge them the rent --

Senator T.A. Le Sueur:

We charge them the rent and --

Senator B.E. Shenton:

So you get more money out of the property and then --

Senator T.A. Le Sueur:

No, and give them a matching donation.

Mr. I. Black:

It is financially neutral. We are not taking that as a saving. All we are saying, as you will see, they may be a charity but currently we give free a highly valuable property.

Senator B.E. Shenton:

No, all I am saying is you increase your property revenue and then invest it (...overspeaking).

Mr. I. Black:

No, that is incorrect.

Senator T.A. Le Sueur:

No. If it is okay to proffer an example, if housing have a property which they lease out to a proper charity, what will happen is that housing will now show rental income of £5,000 and a donation to XYZ total of £5,000. This is totally cost neutral to the charity, but it is much clearer that we see what total property rental we are receiving and we see what donations we are making to those charities and the public sees that.

Deputy P.J.D. Ryan:

I think we are moving outside our terms of reference, which is the Strategic Plan, and I do not think this is --

Mr. I. Black:

Can I just clarify that that point in relation to the charities is making no contribution whatsoever towards the property efficiency savings. We are not saying there is some sleight of hand in pretending we are getting a saving from that. We are not taking savings.

Deputy P.J.D. Ryan:

I think that is accepted. We hear what you say. Was there one more question on the property plan?

Senator L. Norman:

Is it proposed that £12 million of the dwelling houses loans fund, as I mentioned before, is going to be allocated to increase the maintenance and improvement of States housing?

Senator T.A. Le Sueur:

It is probably better to say that £12 million is going to be put over 4 years into the capital programme.

Senator L. Norman:

For the maintenance of States housing?

Senator T.A. Le Sueur:

That would enable the maintenance of States housing to occur.

Senator L. Norman:

Well, this is quite an important point in that case because the Housing Minister, and previously the President of the Housing Committee, did indicate that that was the sort of money that is needed to bring the stock up to standard. Are you now saying that there is some doubt about whether that money is going to be made available?

Senator T.A. Le Sueur:

No, I am just trying to reiterate the point that you do not label one particular pound note to **[Interruption]**.

Senator L. Norman:

Ignoring where the money has come from; it is coming from the taxpayer from public funds.

Senator T.A. Le Sueur:

Yes, and the Council of Ministers have decided to increase the capital expenditure from £39 million a year for 2008, 2009, 2010 and 2011 to £42 million and then £45 million respectively.

Senator L. Norman:

The significant increase in housing maintenance of £3 million worth of property with the States' own public sector housing, is that strictly necessary when we have seen in the past, highly successful enterprises by housing associations and housing trusts, where the maintenance and the improvements of property has been done by the private sector rather than the taxpayer? There is one a few hundred yards away from us in Pier Road which has been a great success.

Senator T.A. Le Sueur:

Yes.

Senator L. Norman:

Has any consideration been given to expanding the operations of the housing trusts and housing associations to save the taxpayer significant amounts of money in this area?

Senator T.A. Le Sueur:

Yes, I think that is an ongoing policy that the States is not building any new social housing, but are encouraging the housing trusts to do that. They are now encouraging housing trusts to maintain upgrades to existing properties which the States will then transfer to. But that it is a gradual process, and there is a limit to what trusts can take on. Meanwhile, we have assets there which we could allow to deteriorate until such time as the trusts might be able to take them on in 10 or 20 years' time. That may sound fine from an economic point of view, but it is not much fun for the tenants living in those houses.

Senator L. Norman:

Have discussions then taken place with the housing trusts? You were saying that they cannot take on significant amounts of property for another 10 or 12 years.

Senator T.A. Le Sueur:

No, I am not saying that. In fact, they are taking on property; not just existing property. They are also taking on the new properties. For example, there is one not far from where you live that CTJ Housing Trust is developing. There is another in Aquila Road that, I think, Jersey Homes Trust is going to develop. So, it is not just a question of maintaining existing stock; they are also actively developing new stock because there is a policy of greater provision of social housing and, indeed, I think a very good policy of making sure that the supply of housing better meets the demand.

Deputy P.J.D. Ryan:

Well, I think that concludes the property side and I would like to move on to the next area.

Senator T.A. Le Sueur:

Can I just question how long we are supposed to be meeting?

Deputy P.J.D. Ryan:

Well, exactly. It is 10.45 a.m. We have got 2 more sections. We will try and see how we go. I mean, we may need to ask you to come back another time depending on how we go.

Senator T.A. Le Sueur:

No, I would like to continue. I just did not know whether we had a particular deadline. **[Interruption]**

Deputy P.J.D. Ryan:

We are supposed to be finishing at 11.00 a.m. We might need to ask you back for another session

depending on how we end up.

Senator T.A. Le Sueur:

I am prepared to continue until 11.15 a.m. or 11.30 a.m. if we needed to, but I did not know whether you had another **[Interruption]**

Objective Three: the 'Black Hole'

Deputy P.J.D. Ryan:

Can we talk about the revenue back on the black hole? I will kick off the questioning. What is the current projected estimate of the size of the black hole? Of the revenue?

Senator T.A. Le Sueur:

The current estimate is £80-100 million. We are currently revising that figure and we should know later on this year a more accurate - or a more up-to-date - estimate, which I would not like to be quoted - for it is pure guesswork - but it might be slightly reduced.

Deputy P.J.D. Ryan:

Okay. So, its current size is £80-100 million but you are in the process of re-assessing it basically?

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

So, work is being done to monitor and review it?

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Okay. Well, I will throw that open to anybody else who has got questions on the black hole.

The Connétable of Grouville:

Not really. I would just like to say congratulations on today's results. Better than Arsenal last night; the £9 million surplus.

Mr. I. Black:

Of course, we will now analyse the reasons for that and if we think it is recurring, we will build it into both this year's business plan and the future forecasts. It could be that the forecasts and the Strategic

Plan may change as a result.

The Connétable of Grouville:

Do you find it worrying that -- I mean, I have only heard the radio broadcast, so I do not know what the actual results were, but the business receipts are falling. Was that correct, that business receipts are falling and personal taxation has gone up?

Senator T.A. Le Sueur:

Yes.

The Connétable of Grouville:

Yes.

Senator T.A. Le Sueur:

Corporate tax revenues have decreased.

The Connétable of Grouville:

By a lot or ...?

Senator T.A. Le Sueur:

I think you have got to remember that 2005 corporate receipts are very often based on 2003 trading activities which may have probably been when the Island was in some minor recession. But it may also be affected by financial institutions again anticipating the move to Zero 10 in terms of making sure that they have IBC (International Business Companies) status before the end of December 2005. To that extent it might have an impact on the size of the black hole deficit. I do not think that is a significant amount. I think it is, primarily, due to the fact that 2003 was not a particularly booming year for the economy.

Mr. I. Black:

I have got the figures in front of me. The company tax revenues went down by 2.1 per cent.

The Connétable of Grouville:

2.1?

Mr. I. Black:

Yes.

The Connétable of Grouville:

Personal tax revenues?

Mr. I. Black:

Personal tax revenues went up 13.2 per cent. Overall tax revenues went up 3.9 per cent, and we are reviewing the £80-100 million hole, but what we suspect is happening is that the companies are moving towards that Zero 10 arrangement effectively in advance. So, that is why we are hoping when we review it the £80-100 million may be less, because it might be that some of it has already happened now. So, it may not seem it, but it is good news in that the switch from corporate to personal taxation is necessary to keep the economy going, may be happening slightly ahead, so when we get there, it may be quite not so bad as we were anticipating.

Senator J.L. Perchard:

Can I just ask about the black hole? Your provisional estimate £80 million, detailed work is being undertaken at the moment to try and refine the size of it. Are there any other contributions besides the Zero 10 tax package to that black hole, and what are the influences that will affect the size of it, and why are you unsure as to how deep the hole is?

Senator T.A. Le Sueur:

The hole is caused by the move to a corporate structure of zero as in the companies we tax and the 10 per cent of financial service industries. The effect is primarily on the financial service industries cutting their tax phase down from 20 to 10, but there will also be other elements to that - deficits (...inaudible) - as indicated in Projet 106 in 2004, but relatively smaller, and we see, for example, the fact that shareholders who are not resident to the Islands - of companies trading in the Islands - would not thereafter be contributing to our corporate tax revenues. That contributes £12 million to the total £100 million deficit and there are 2 or 3 other areas like that which make up the total.

Senator J.L. Perchard:

So, there are no other contributing factors to the black hole other than Zero 10?

Senator T.A. Le Sueur:

No, because the black hole arises absolutely out of it.

Senator J.L. Perchard:

Yes. Well, that is what --

Mr. I. Black:

Yes, it is totally from Zero 10.

Senator J.L. Perchard:

Yes.

Mr. I. Black:

You asked a question about estimating. Well, first of all, you have got a moving target because if you look at the companies operating on the Island at any one time, that is always changing, as is their profitability. But more importantly, whilst we can work out from that what the effect would be of reducing their tax bill, what, we cannot work it out; it is how they respond to that. Some companies may find Zero 10 unattractive and will leave the Island. Others may find it very attractive and will come, so you can work out the primary effect of the move to Zero 10. You cannot work out how people are going to respond to it, which companies will grow and provide more tax, and which companies will move on and not provide any.

Senator J.L. Perchard:

In that case, what sort of margin of error are you going to build into your calculations?

Mr. I. Black:

Well, we have already provided a 25 per cent one in 80 to 100. It is a big range.

The Deputy of St. Mary:

Yes.

Senator T.A. Le Sueur:

Just talking about forecasting on tax revenues where we have been trying to come within a couple of per cent, here we have got a 25 per cent range. I think that indicates the fact that it is, to a certain extent, uncertain and that is the level of uncertainty.

Mr. I. Black:

But the good news is that we have built our plans on the worst end of the range, so anything better will help us.

The Deputy of St. Mary:

Looking ahead, the projected deficits beyond 2012, do you think it is likely that the rate of GST (Goods and Services Tax) will increase above the 3 per cent?

Senator T.A. Le Sueur:

No, I think we have to remind us of what I said at the start, is that those 3 figures of 2009, 2010 and particularly 2011 and beyond, become very much hazier, particularly and as they move to Zero 10, the totally different way in which tax will be generated and the effect that may have on the economy of the Island. Let alone the external influences there may be from recessions, oil prices, and anything else. So, the one thing we do know is those figures are not going to be the same in 2010 as they are now.

The Deputy of St. Mary:

Yes.

Senator T.A. Le Sueur:

So, I think we have to take those figures with some reservations. What we have to do is to make sure that we update our plans annually in the light of the most up-to-date information, and make sure that we still continue to live within our balanced budget policy.

Deputy P.J.D. Ryan:

Have you done any projections past 2012 as shown in the Strategic Plan?

Senator T.A. Le Sueur:

Yes, we have. As I say, they are almost academic; they are sort of a mathematical extension to where we are now, rather than a realistic position.

Deputy P.J.D. Ryan:

Well, they would be based on certain things that obviously when you are doing a mathematical calculation you make certain assumptions, and I think it is accepted that the further out you go, the less certainty that you have.

Senator T.A. Le Sueur:

That is right. But also it is different then maybe from your placed position.

Deputy P.J.D. Ryan:

Yes.

Senator T.A. Le Sueur:

We have now found that this Strategic Plan has said there was a projected deficit last year of £9 million

Deputy P.J.D. Ryan:

Sorry, I missed that with the door closing. Could you repeat that?

Senator T.A. Le Sueur:

Within the Strategic Plan we have got a projected deficit from last year of £9 million.

Deputy P.J.D. Ryan:

Yes.

Senator T.A. Le Sueur:

Now, we have already said from the accounts today that that deficit has changed.

Deputy P.J.D. Ryan:

Could you just for the sake of -- it has changed to ...?

Senator T.A. Le Sueur:

We have got a surplus now of £3 million.

Deputy P.J.D. Ryan:

Plus 3? Okay.

Senator T.A. Le Sueur:

Although to be fair, that plus 3 was compared, I think, in the budget accounts to a deficit of £7 million. It is a constantly moving figure. But what I am saying is, in the light of the most recent experience, that deficit is less and we have shown it in those accounts. But that does not just affect 2006; that affects your starting point and therefore affects every year thereafter, and the same for the subsequent years. So, that is why I do urge that these longer-term figures are taken, not with a pinch of salt, but certainly with a health warning.

Mr. I. Black:

Well, I have got to go beyond that. In the Treasury, we do various projections all the time on different assumptions; various modelling. We have gone out as far as 2015, but I have got to say that they are almost not worth the paper they are written on. The uncertainties become so enormous once you get past 2009, 2010, and the range of possible outcomes becomes so meaningless, we have found that a fairly small change to the assumptions alter our figures for 2015 by 100 per cent.

Deputy P.J.D. Ryan:

How accurate would --

Senator L. Norman:

If it is a waste of time and paper, why do you do it? Why do you not add that to the efficiency savings?
[Laughter]

Mr. I. Black:

There is a saying; "any planning is better than no planning". We put a lot of effort into short-term projections. Next week there is quite a team of senior people meeting to revise our tax forecasts for next year. We do not put anywhere near that amount of effort into future years, so there is no great saving.

Deputy P.J.D. Ryan:

Nevertheless, you do do these projections.

Mr. I. Black:

Yes.

Deputy P.J.D. Ryan:

They are showing in the Strategic Plan - financial framework - they are showing that when Zero 10 kicks in that you will already have had the increases, largely speaking, from GST that will give you surpluses in 2008 and 2009 ...

Senator T.A. Le Sueur:

Yes, the timing does not come into the implementation of GST (...several inaudible words).

Deputy P.J.D. Ryan:

So, you think that the closer we get, we are getting fairly accurate, or reasonably accurate? Now, 2011, it is 5 years away; 2010 is 4, when you first get hit with the Zero 10 black hole. When you look at it, on the face of it, it seems to me that your indications are that we still will have a structural deficit after Zero 10 kicks in. I mean, one cannot help but come to that conclusion. I mean, the question I want to ask you is that when you look at your projections to 2015 that you have done, and I accept that they may not be very accurate, what do they indicate? Do they indicate that that structural deficit, in fact, is not a structural deficit? I mean, does the position get better in 2013, 2014 and 2015, or in fact, does it indicate, in very general terms, that in fact - well, what does it indicate, let me ask you?

Senator T.A. Le Sueur:

I think it is intended to indicate that we could live within our means within a 5 year period but yet at the end of it, if nothing else changed those figures, there could be difficulties thereafter. I have also said that, inevitably, things will change and those figures will alter.

Deputy P.J.D. Ryan:

But surely with your projections, if you knew of any things that would alter, then you would have put them into the indicative numbers that you have got.

Senator T.A. Le Sueur:

I think, rather like the £80-£100 million deficit, we give a range of £80- £100 million, and then plan the worst possible scenario. To date, £100 million, and anything better than that is a bonus.

Deputy P.J.D. Ryan:

Okay.

Senator T.A. Le Sueur:

The same with this: we plan what happens on these figures. This is, if you like, the worst possible likely scenario (...several inaudible words).

Deputy P.J.D. Ryan:

The best possible one you have said is 25 per cent better; 80 to 100, so what is the range of scenarios shall we say in post-2010?

Senator T.A. Le Sueur:

I suppose even from a surplus £50 million to a deficit £50 million but the range --

Deputy P.J.D. Ryan:

That is a lot more than 25 per cent.

Senator T.A. Le Sueur:

Well, in terms of £500 million annual spend, not higher than 20 per cent. But what I am really saying is that they are not scientifically or mathematical certainties. What I am saying is that the range gets quite broad as you let it go out. So, whatever figures we come up with, it is going to be very approximate. What this is simply indicating is that the strategic policies within this plan over a 5 year period are capable of being delivered while we still achieve our budget.

Senator J.L. Perchard:

Can I ask a question, Chairman?

Deputy P.J.D. Ryan:

Please.

Senator J.L. Perchard:

Can I take it back, Minister, to the fiscal strategy before I was in the States that the States approved, and you were projecting an £80-£100 million black hole and provisionally the plan to fill the black hole was £45 million to £55 million from GST, £20 million out of efficiency savings, and approximately a target of £20 million worth of economic growth to help fill this black hole, yes? Am I quoting it accurately from that document?

Senator T.A. Le Sueur:

Not quite. The GST figure was £45 million. There was another £10 million from taxing those on a higher disposable income.

Senator J.L. Perchard:

2020?

Senator T.A. Le Sueur:

2020. Another £5 million from ITIS (Income Tax Instalment System).

Senator J.L. Perchard:

Yes, making a total of --

Senator T.A. Le Sueur:

A total of taxes of £60 million.

Senator J.L. Perchard:

Plus hopefully the economy will be stimulated to grow and contribute an extra £20 million through the new form of taxation. Yes? How has that changed, and how have you amended this calculation to fill the black hole now that the efficiency savings are no longer that? Where is this extra £20 million going to come from?

Senator T.A. Le Sueur:

At the moment, I think it is probably unfair to say -- we are not looking at any other source of revenue to raise the £20 million. We are saying that we think that we can live within that range, still spend that £20 million, and still achieve balanced budgets over the period. We will do that by making sure by the way of prudence on our revenue expenditure and our capital expenditure.

Senator J.L. Perchard:

As you move on, is that what you are suggesting; a flexibility?

Senator T.A. Le Sueur:

Well, certainly, flexibility in terms of we will review our plans each year. Those plans will get discussed in the context of the business plan each year to make sure that we continue on the ongoing 5 year rolling programme on keeping balanced budgets.

Senator J.L. Perchard:

But we have not charged Senator Ozouf to do his utmost to encourage the economy to grow more than £20 million, is that what you are saying, and for Jersey to become a boom town?

Senator T.A. Le Sueur:

No. We have set targets for £60 million from tax, £20 million out of efficiency and £20 million from economic growth. If it turns out to be a bit more from economic growth than we expect, so be it. But

that is certainly not the intention. I would be even a bit wary about expecting a huge amount more than £20 million from economic growth because that might well be difficult to achieve within an inflationary policy of keeping costs under control.

Senator J.L. Perchard:

Minister, the £20 million of efficiency savings that are no longer efficiency savings that you are spending, where is that money coming from to fill the hole?

Senator T.A. Le Sueur:

That is what I am saying; there is no additional sort of revenue. We have to accept the fact that if we are going to spend those efficiency savings, we are going to have to make sure that we balance our budgets over the 5 years and in terms of where else we spend.

Senator J.L. Perchard:

Can you be specific then, where would you get it from? That is what we are here for.

Senator T.A. Le Sueur:

No, but in the Strategic Plan, we are saying there is an overall figure for revenue expenditure and an overall figure for capital expenditure and there is an overall figure for different areas. We have a business plan that we say where those specific areas will be. Always we assess figures for each particular department for the next 3 years. Those will not yet be agreed by the Ministers until we come to agree on the business plan.

Deputy P.J.D. Ryan:

What will your options be if you get to the end of 2010? Now ... at the end of 2010. So, you have GST set at 3 per cent, already States decision, 2008, 2009 and 2010. So, you are at the end of 2010 and the beginning of 2011, so for the 2011 budget and onwards. If you are left with a structural deficit of - and I am putting this generally, I am not saying you will - shall we say, £20 million or something like that, best case scenario. Worst case scenario more than that, what are your options? What could you do to fill it, and bearing in mind that we need balanced budgets, what are the options?

Senator T.A. Le Sueur:

Structural deficits do not happen overnight, and this plan says that over the next 5 years we can achieve balanced budgets. We will review the plan next year. It will not be in December 2010 that we suddenly say: "Oh, dear. We have got a problem." We should be aware of that by 2008 and 2009 and plan it accordingly at that time. The whole idea is not to have sudden shocks to the economy but to plan on a rolling programme in advance.

Deputy P.J.D. Ryan:

Let me modify the question then: when you are aware with reasonable certainty, whenever it is, that at the end of 2010 you are going to have -- if you get to that point and there is a structural deficit at the end of 2010, what are your options? What would you do?

Senator T.A. Le Sueur:

What you will do is say to Council Ministers and say to the States: "If we carry on the way we are, we are heading for disaster; we have to adjust our plans. We have to adjust our plans at an earlier stage in order that we do not mess them about." That early stage is not December 2010; it is probably sometime in 2008. If the States, in its wisdom or policy, refuses to heed that message and heads for a structural deficit, that is the States decision. But they need to be aware by 2008, or even earlier, the way they are heading. That is why it is important that we have updated forecasts. We have projections which, although they are perhaps not absolutely spot-on accurate, give an indication: "Look this is going in the wrong direction. We need to take corrective action now." If I thought that this Strategic Plan was heading in the wrong direction, I would not be recommending it now.

Senator B.E. Shenton:

Can I ask a ...?

Deputy P.J.D. Ryan:

Just let the Minister finish, Senator.

Senator T.A. Le Sueur:

No, I am finished.

Deputy P.J.D. Ryan:

Okay, please.

Senator B.E. Shenton:

Are you expecting a Member to bring a proposition to bring GST in with exemptions, and have you done calculations based on GST with exemptions?

Deputy P.J.D. Ryan:

Or zero ratings.

Senator B.E. Shenton:

Or zero ratings.

Senator T.A. Le Sueur:

I am expecting, and it is quite likely that a Member will bring a proposal for exemptions, and I would

hope that the States in their wisdom would maintain a policy of keeping GST simple and at a low rate.

Senator B.E. Shenton:

But have you done calculations on that basis?

Senator T.A. Le Sueur:

No, because the States policy is to raise £45 million from a GST. We say we can achieve a 3 per cent rate if we have a few exemptions. If States Members decide they want to exempt this, that, the other, and something else as well, then you are able to go above 3 per cent. The 3 per cent rate is predicated on; there being few exemptions. It is not 3 per cent full stop. The Members must realise that.

Mr. I. Black:

A relatively small number of exemptions, and food would be the major one, would push the rate up to 4 per cent required to get the same yield.

Senator T.A. Le Sueur:

It is the yield that is important. The 4 per cent is what might be needed with more exemptions.

Senator B.E. Shenton:

So, the £45 million is more important than the actual rate, is it?

Senator T.A. Le Sueur:

Yes, absolutely.

Deputy P.J.D. Ryan:

You did quite skilfully avoid answering directly the question I put to you on what your options were. Can I suggest to you that, pretty much - you can disagree or agree - the only option that you would have under those circumstances where you were faced with a structural deficit, whenever you knew it was definite, would be in fact a raising of the GST rate?

Senator T.A. Le Sueur:

No. If you see a structural deficit you have the options of cutting overall expenditure, be that either capital expenditure or revenue expenditure, or raising GST, or raising income tax, or raising some other form of taxation, or generating revenue by some other means. What I wanted to try to achieve is the greater flexibility of these greater revenues, which is one reason for diversifying away from being so dependent on income tax, having a variety of income tax or GST in order to fulfil a different view. But I think what you must say that it is simply a matter of if there is a structural deficit you need to raise more money. I mean, you may not be able to raise more money; you may have to cut expenditure.

Deputy P.J.D. Ryan:

Yet in the Strategic Plan, we are spending more money.

Senator T.A. Le Sueur:

In the Strategic Plan we are saying that we can spend more money, even invest more money, depending on how you look at it, and still getting a balanced budget scenario within the timeframe. When you cease to be able to deliver a balanced budget scenario, then you have to revisit your strategies.

Senator J.L. Perchard:

Can I just ask a question about economic growth? I think in the Strategic Plan you are anticipating, or hoping, for economic growth at 2 per cent; a minimum of 2 per cent, in real terms.

Senator T.A. Le Sueur:

Yes, that is right.

Senator J.L. Perchard:

That is very modest compared to the Isle of Man and Guernsey - and modest targets - who are looking to achieve real economic growth, even accepting the fact that it is just about double. I think, the Isle of Man is over 4 per cent and Guernsey is closer to 5 or 5 and a half. So, you do not anticipate problems with achieving real economic growth to deliver £20 million worth of contributions for the hole?

Senator T.A. Le Sueur:

No. The States agreed a policy that 2 per cent was the appropriate target to set. I think that is realistic. We looked, not just at the Isle of Man and Guernsey, but at the UK and Western Europe. They are running, at the moment, at about between one and three-quarters and 2 per cent, I think. Jersey economy may not be a reflection of a major country's economy, but I would have thought that 2 per cent per annum was a reasonable level over those 5 years.

Mr. I. Black:

I would point out that our GDP (Gross Domestic Product) is currently far, far higher than the Isle of Man and, indeed, considerably higher than Guernsey. We are at the top of the market. We are a market leader and just like in business it is hard to carry on with very high levels of growth. So, you need to maintain that position but also recognise that in Jersey we are land constrained, so a higher rate of economic growth might be at the expense of population growth.

Senator J.L. Perchard:

I am pleased you have answered the question the way you have, Minister, because I understand that GST has a set target figure that you wanted to achieve from the tax, however you achieve it. We have set a target figure for what we want to achieve from economic growth, and we were going to try and put

a ceiling, because economic growth ultimately will cause problems with population, with overheating. Were you going to try and set a ceiling on it?

Senator T.A. Le Sueur:

No, a ceiling would be the wrong word.

Senator J.L. Perchard:

We will let it rip?

Senator T.A. Le Sueur:

I do not think we will let it rip. I think we will find it quite hard enough work, I think, to achieve the £20 million without expecting it to be falling out at double that figure. If we can achieve double the level of economic growth without stoking up inflation, without over-populating the Island, and without destroying the Island's culture, then we would be foolish to ignore it and to throw it away, and, I should have said, raise it in a sustainable way. You could have a 5 per cent increase in one year, followed by a 10 per cent decrease the following year, we would not be any better off. We want to make sure that the Island economy grows in a sustainable way.

Senator J.L. Perchard:

We would all agree with that but if there is no ceiling, we have got a policy here that --

Senator T.A. Le Sueur:

There is no ceiling as such, but, I think, common sense will tell you that with a constrained land mass, a reasonably constrained workforce, and not a great variety of new activities that you would develop the Island in a way which would generate economic growth. I would be very surprised if we had rampant economic growth.

Objective Four: Stabilisation Fund

Deputy P.J.D. Ryan:

I think, unless anybody has anything specifically on this area, I would like to move on to objective 4, or rather in our terms of reference, the fourth line of questioning. Just this one and one more to go. Are you okay? Do you need a 5 minute break?

Senator T.A. Le Sueur:

No.

Deputy P.J.D. Ryan:

I do not think this one will take too long, because I suspect I know the answer. The proposed use of a stabilisation fund that you mention in the Strategic Plan, I think it is true to say that you are - and I have seen some other paper work which says that you intend to start a study plan in this area fairly soon, but I do not know the time scales. It may be too soon really to pre-empt that. We have the economic growth plan which goes into it in some detail. Is there anything you want to add to that or ...?

Senator T.A. Le Sueur:

I do not think I can add very much to what is in the Economic Growth Plan where we tasked the economic adviser to come up with some detailed work which should come back to us in the summer, I think, and I would be in a better position later on. The principle of the stabilisation fund, I think, is fairly clearly understood. We wanted to have a way of reducing the volatility of the ups and downs in the economy.

Deputy P.J.D. Ryan:

Have you looked at any possible sources of funding for that stabilisation?

Senator T.A. Le Sueur:

I think a source of funding would be unexpected capital receipts, possibly from the sale of property or from the sale of other assets, or from maybe capital dividends. Certainly, we have not yet identified a specific area, although I have heard, which I think is very likely, that the Jersey Electricity Company recently distributed capital dividends to the States and to other shareholders. To me, as a capital dividend, that would be a suitable sum of money to put into a stabilisation fund. The mechanics of it because of the Public Finances law, that revenue comes into the consolidated fund as part of States revenues and it would then have to be specifically transferred from consolidated funds to the stabilisation fund. I think in terms of trying to identify it in terms of pound notes that you could not say that was clearly --

Deputy P.J.D. Ryan:

I do not think you are clear yet on the size that it should be or whether --

Senator T.A. Le Sueur:

We are not clear yet on the size it should be or, as we say, it is probably premature to go into detail at this stage.

Deputy P.J.D. Ryan:

Are there any further questions?

Senator B.E. Shenton:

No. It is not dissimilar to the Strategic Reserve in some ways. I mean, I still have problems with the

Strategic Reserve; the taxable concept of it and I have (...inaudible).

Senator T.A. Le Sueur:

As you say, it is not too dissimilar in concept, except that it would be a tap that you could turn on and off. Clearly, when there is no water left in the tank, it does not matter if you leave the tap on. I mean, you cannot get any water out of it.

Senator B.E. Shenton:

Yes. Would you argue that the way the States does its accounting is too rigid? I mean, I had a meeting with Education on Friday, who has basically said that the university funding issue was partly the fault of Treasury because we found --

Senator T.A. Le Sueur:

We get blamed for everything, do we not?

Senator B.E. Shenton:

Because they knew that they had this sort of bubble of students coming up through the ranks and they are now getting to university level, but they had a fixed amount to allocate. They used to have a sort of amount set aside for when the student base widened, but you took that away from them in the planning programme.

Mr. I. Black:

We do have a process, that I know the chairman of your committee knows extremely well, called the Fundamental Spending Review. Education has said, and we know it is the case, that they did know that they had a bubble coming in student grants. If they did, we had a process for dealing with that which was they put in a growth bid to the Fundamental Spending Review, and my recollection is that they did not. So, there was, but I do not want to get into an argument between the Treasury Minister and the Education Minister, because we have such a mechanism for dealing with this.

Senator B.E. Shenton:

Well, our argument was that they knew this bubble was coming but they had a fixed sum allocated --

Mr. I. Black:

No, they had a method for growth bids which they did not utilise.

Deputy P.J.D. Ryan:

I want to try and keep this - I do not want to talk too much here now - but for the sake of public record, I think, my understanding is that the increase in demand for funding for student university loans has come as an initiative of the UK increasing fees and/or --

Senator B.E. Shenton:

No, it is not. It is because **[Interruption]**.

The Deputy of St. Mary:

Can I just ask one more quick thing on the stabilisation fund? Is it still an idea that there will be an initial one-off transfer from the Strategic Reserve funds that ended up --

Senator T.A. Le Sueur:

Not necessarily. If it can be funded from capital receipts elsewhere, I think we need to keep the reserve intact.

Senator B.E. Shenton:

You have just moved some money into the Strategic Reserve, have you not?

Senator T.A. Le Sueur:

No.

Senator B.E. Shenton:

No? I misheard on the radio this morning.

Senator T.A. Le Sueur:

The Strategic Reserve has grown, partly from interest earned and partly from an increase in asset values.

Objective 5: Inflation Strategy

Deputy P.J.D. Ryan:

I think this stabilisation fund is probably an issue for another day, and no doubt we will be having lots of discussions on that at some stage in a future meeting. So, I will move on to the last area really, which is the general area of an anti-inflation strategy. I suppose it is linked to the stabilisation fund in many ways, but it is wider than the stabilisation, because let us talk about what you had in the past - your performance with an anti-inflation strategy in the past and currently - and how you see that before the stabilisation fund is available to you, because we are talking about the next, realistically perhaps, one or 2 years.

Senator T.A. Le Sueur:

I do not see the stabilisation fund as having a major contributory effect to the anti-inflation strategy. It may well be one facet of it, but I do not think it will be fundamental to it. If one must have some

evidence of the anti-inflation strategy, you have got the States policy which was debated in the year 2000, that it is the anti-inflation strategy, which at the time they said it would take some time to take effect and ultimately would bring down the rate of inflation. I think the evidence of the last 5 years is that policy has finally taken effect, and has had an effect on the rate of inflation. Like any policy, that needs to be reviewed regularly and we tasked the economic adviser to help us to revise and update that anti-inflation strategy which then will continue to build a framework for the next 5 years.

Deputy P.J.D. Ryan:

In general terms, to help our understanding generally of an anti-inflation strategy - and I am completely generalising here, because I am sure it is much more complicated than this - but in very general terms, is it a question of to reduce inflation we generally try to reduce any over-heating in the economy by removing the supply of money available to the economy and vice versa when it is going in the other direction? Is that, in very general terms, a fair statement?

Senator T.A. Le Sueur:

I think in general terms it probably is a fair statement. I think one has to look at this strategy again, or the new anti-inflation strategy, in the light of the fact that the tax framework within the Island over the next 5 years is going to be very different from the tax framework which pertained in the year 2000. We are going to see consumption tax which will have some effect on people's disposable income. We have seen ITIS which certainly has a timing difference but probably no overall effect on people's disposable incomes. But we are certainly in a changing situation from what we had in the year 2000. We have got to review our strategy in the light of that different fiscal climate, balance that against the plan for economic growth to generate another 2 per cent to £20 million, balance that against the need for the States to push spending and for all these things to be balanced and, as far as I am concerned, I think there is a danger of trying to set unrealistic targets - a target of 2 and a half per cent - which everyone said 3 years ago when I first took office as President of Finance and Economics, was a sort of pie in the sky figure. We delivered that. It is not a question now of trying to, I think, improve that target. I would be happy to sustain an inflation target of no more than 2 and a half per cent for the next 3 to 5 years and I would be very happy if I could improve that.

Deputy P.J.D. Ryan:

Yes, I am just looking back statistically over what happened over the last 2 or 3 years, in fact, the overall level of public - and I am including capital and revenue together in 2004 from your own department's statistics supplied to us as a precursor to this meeting - we had an overall increase of 2.6 in 2004 which was probably decided in 2003, to be honest, when we were doing budgets for 2004. So, that would have been your first year, I think, pretty much.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Shall I finish the rest off?

Senator T.A. Le Sueur:

Carry on.

Deputy P.J.D. Ryan:

So, we have got 2.6 per cent increase in 2004; 2.4 per cent in 2005; 2.3 per cent in 2006, which was, again, decided last year. What we have seen, therefore, as a result of -- would you say that we have seen the benefits of that through inflation being held down to at or below the UK inflation rate as a result of this kind of control of public expenditure generally?

Senator T.A. Le Sueur:

Certainly, there is, I think, a correlation between the reduction in the growth of the States spending and the rate of inflation. It is not an absolute correlation, but there is certainly a link there.

Deputy P.J.D. Ryan:

Is this because we are the single biggest employer or we are the single biggest supplier of money into the economy as a unit, the public sector?

Senator T.A. Le Sueur:

I think, largely, yes. I think that these are the economic questions which may be better asked of the economic adviser rather than myself; we are treading into a more technical and --

Deputy P.J.D. Ryan:

Well, why I talk to you about it and put it to you and remind you about those numbers, which I have to say is largely as a result of your very careful handling of the economy, I mean, I would say that is true.

Senator T.A. Le Sueur:

It is the States that makes the ultimate decision, so it is the States decision.

Deputy P.J.D. Ryan:

Yes, but in the previous --

Senator T.A. Le Sueur:

My guidance of the States decision.

Deputy P.J.D. Ryan:

Well, yes, but in a previous life, of course, the Finance and Economics Committee were pretty powerful when it came to deciding on, through the fiscal spending, through the fundamental spending reviews and things like that. Well, you may not accept it, but, I think, generally speaking, the public would agree with me that a pretty good job has been done over the last 2 or 3 years in holding back expenditure and we are seeing the benefit of it in our current inflation numbers. The Strategic Plan though for 2007 would go back to 4.4 per cent, and in the year after, 3.8. Are we getting back to the bad old days, Senator, then?

Senator T.A. Le Sueur:

There is certainly a pressure there which we have got to be able to manage and that is why we need a new anti-inflation strategy. I do not deny that there is that pressure there, and it would be easier to manage an anti-inflation strategy with lower States spending. This is where I came in an hour or so ago by saying that one has different priorities to manage and although inflation remains a very high priority, maintaining our assets also remains a priority.

Deputy P.J.D. Ryan:

We are going to get GST then, though are we not, in 2008? Now, what is that going to do to inflation?

Mr. I. Black:

Sorry, can I come back a second to what you just said? One of the reasons for that growth in States expenditure is a new income support scheme. One of the reasons for the income support scheme is GST, so what we are doing is we are taking money out of people's pocket with one hand, and we are giving it back in benefits to increase States expenditure. So, between those things, it should not contribute to inflation as one of them, in fact, it should be slightly deflationary because if we take money out of people's pockets it will.

The Connétable of Grouville:

Chairman, I am sorry, we did mention earlier that both of us have got a meeting. We did not expect it to run quite so far.

Deputy P.J.D. Ryan:

I think we probably need to think about closing the meeting. I do not really want to carry on the meeting and I think we need to ask you if you could find some time pretty early next week for us just to conclude this last area.

Senator T.A. Le Sueur:

No, I cannot make it next week. If we need to conclude this last area now, maybe we can get through it

with a smaller panel.

Deputy P.J.D. Ryan:

Smaller panel. Are you happy with that?

The Deputy of St. Mary:

Yes.

Deputy P.J.D. Ryan:

I think we have got no choice, but I am going to lose 2 members of our panel. I have covered most of --

The Deputy of St. Mary:

I apologise for this, but it is a medical appointment I have been waiting for for weeks.

Senator T.A. Le Sueur:

I suspect that we have not much more.

Deputy P.J.D. Ryan:

No, we probably have not.

The Connétable of Grouville:

No, I do not think there is much more to do, but I would like to speak to you after (...several inaudible words).

Deputy P.J.D. Ryan:

We will carry on with a smaller panel.

Senator T.A. Le Sueur:

(...several inaudible words)

The Connétable of Grouville:

Is that okay within the quorum?

The Deputy of St. Mary:

Thank you very much.

Deputy P.J.D. Ryan:

Yes, that is okay. (...several inaudible words) make a quorum.

The Connétable of Grouville:

Thank you very much.

Senator T.A. Le Sueur:

May I?

Deputy P.J.D. Ryan:

Yes, please, Senator.

Senator T.A. Le Sueur:

As I was saying, the Strategic Plan says we will review and enhance our anti-inflation strategy, so I think at this stage it may be premature -- we do not have a great deal of detail of what the new strategy will be, what we are saying is we need to review it given that there are changing circumstances.

Senator L. Norman:

Quite consistently during recent budget debates the last Vice President of the Finance and Economics Committee very strenuously argued during a series of budgets, that increasing impôt duty on things like petrol, alcohol and tobacco products reduced inflation. The Treasurer indicated that the introduction of VAT (Value Added Tax) and therefore the probable putting up of prices would reduce inflation. Is this a view you agree with?

Senator T.A. Le Sueur:

Yes, and I think we will have to learn to distinguish between inflation and prices. The imposition of the GST will probably in many more cases, increase prices. The imposition of an extra couple of pence duty on tobacco or alcohol does inevitably increase prices by that amount or more. What it also does is reduce people's spending power. So, it is that effect to that extent that it is deflationary; it reduces people's spending power. The danger is that if people will match that by putting in wage demands which go up over and above that newly generated wage inflation, you do not, at the end of it, have any possible benefit. So, the correlation to this is one has to manage the situation where you can contain price increases without necessarily feeding that through into wage increases, which would then have a detrimental effect.

Senator L. Norman:

Is the logical conclusion of that then that with the price increases that we have seen in petrol recently - increases, not impôt duty, but increases in alcohol put on by the brewery - should reduce inflation? I mean, what I am saying, if States price increases reduces inflation, then surely private sector increases also reduces inflation.

Mr. I. Black:

No, the important issue is what the States is doing in terms of increasing taxes to eradicate a deficit. It is a gap between the States spending and its income that is inflationary. If the States, for instance, were to inject the Strategic Reserve into the economy and spend more than its income that would cause inflation. If the States was to run a budget surplus, that would help take down the inflationary pressure. It is not prices and where they come from --

Senator B.E. Shenton:

It is a money supply issue.

Mr. I. Black:

It is money supply. It is not the absolute prices; it is whether the effect of that is that the States runs a surplus or a deficit that affects inflation.

Senator B.E. Shenton:

Over the last few years you have taken credit for bringing inflation down, even though it has been more with -- local inflation has come down. We are going to see inflation creep up over the next few months, will you take credit for that as well?

Senator T.A. Le Sueur:

I do not take credit for inflation coming down; I take credit for achieving our target which was to have an inflation rate of 2 and a half per cent. Now, to the extent that most of this is outside our control, I accept this. I mean, the States is not (...several inaudible words) inflation definitely.

Senator B.E. Shenton:

Also, you spoke about wage inflation. I mean, last year there was significantly major wage increases within the public sector and the utilities in particular. How are you leading the way in the fight against inflation when it is the private sector that is suffering?

Senator T.A. Le Sueur:

I think the earnings index is not necessarily an accurate prediction of wage inflation. The earnings index partly talks about earnings rather than wages, and secondly, can be affected by timing differences where you may get 2 years' pay increases reflected in one years' earnings. I think it is certainly true that earnings typically have risen faster than prices - a lot faster than the RPI (Retail Prices Index) - and that is probably a reflection of the fact that we have an economy which remains buoyant.

Senator B.E. Shenton:

Yes, but we have a public sector now where wages are higher than the private sector, which is incredible.

Senator T.A. Le Sueur:

I think, in that case, we better have another discussion on the States wages policy, and that may be listed for another day.

Senator J.L. Perchard:

Can I go back then, Senator, to the very interesting point made by Senator Norman and the example he gave about price rises should be - he put your argument that - anti-inflationary, which you tried hard to argue. Not successfully, I do not think, I just want to give you an example: if Jersey decided to invoke a complete consumptions tax to yield a majority of our tax intake, for example, 17 and a half per cent GST or VAT, your argument would say not inflationary. Of course, that would hit the retail price index smack on the nose, up goes the RPI and all the inflationary effects as a result of that would be triggered. Can you tell me honestly that it is not inflationary? I am not an economist but that is how it looks.

Senator T.A. Le Sueur:

It is the next step in the chain; what the States does with that 17 and a half per cent it collects. If it collects that and sticks it under the mattress, that will not be inflationary. If it spends it - and maybe more - that will be inflationary. It is not the 17 and a half per cent itself that is inflationary; it is what the States does with it.

Senator J.L. Perchard:

Of course. But the RPI, as a result of everything going up by 17 and a half per cent -- everything will rise in price and the RPI would rise, as it does, and wage claims, and everything. It would be the starting pistol for an inflationary cycle, surely?

Senator T.A. Le Sueur:

Prices would certainly rise and as any economist will tell you, after a year, that will come down to the price cycle and then after that it will stabilise again at a different level. But in that period, yes, it could lead to increased prices by 17 and a half per cent. and that could lead to wage demands at 17 and a half per cent and that would be, as I said in the States on Tuesday, it is a question then whether employers, including the States, can justify paying that much increase and still remain in business, or saying: "Well, despite that, we are going to give you, let us say, a 10 per cent wage increase as a result of which your standard of living is going to suffer."

Deputy P.J.D. Ryan:

I think you are on record as saying that the imposition of GST would be mildly inflationary for a short period of time and then because it would remove money from the economy over the slightly medium-term --

Senator T.A. Le Sueur:

It would have an effect on the RPI at the time but I think there has a misunderstanding between in the RPI and inflation.

Deputy P.J.D. Ryan:

I am going to come to Senator Norman just in a second, Senator, if you just do not mind. But can I just ask you about ITIS, because ITIS is, in fact, taking money out of the economy in 2006 and probably 2007. Will that stabilise as people realise and, you know, those that were not saving for ITIS in the past?

Senator T.A. Le Sueur:

It is not really taking money out of the economy; it is a timing difference. It is taking money out of the economy monthly rather than one lump sum at the end of the year.

Deputy P.J.D. Ryan:

Is that anti-inflationary, as it is working at the moment?

Senator T.A. Le Sueur:

It should be more or less neutral but it may have an initial impact of dampening people's spending ability.

Deputy P.J.D. Ryan:

Yes, but that will then end probably some time in 2007 perhaps?

Senator T.A. Le Sueur:

It should end by December this year.

Mr. I. Black:

In a much stronger way, the same applies to bringing in GST at 3 per cent. The prices you would expect, all things being equal, to go up by 3 per cent, that will drop out of the RPI a year later entirely unless employers succumb to inflationary pay rises.

Deputy P.J.D. Ryan:

Senator Norman?

Senator L. Norman:

Not you, Minister, and certainly not you, Treasurer, misunderstand the difference between -- or do not understand the difference between the retail price index and the cost of living. Now, I know you understand it. But I am right in saying, am I not, as you suggested, that if impôt duty or GST come in,

that does impact on the retail price index and it falls out after a year more rightly. But the cost of living, of course, still stays at the higher level. It is the cost of living which affects people much more than the retail price index.

Senator T.A. Le Sueur:

Yes.

Mr. I. Black:

But it cannot be denied that the whole focus of the fiscal strategy is to re-balance taxation. It is taking £45 million out of people's pockets.

Senator L. Norman:

What I am trying to say, perhaps as more of a political point, is that some of the spin that is put out by the previous Finance and Economic Committee and, I stress, not the foremost President, was that price increases are good for you.

Senator B.E. Shenton:

Well, maybe you believe that.

Deputy P.J.D. Ryan:

Are there any more questions? **[Laughter]** I think there were a couple of questions I had in mind about whether GST, in fact, could be a tool in the fight against inflation, either upwards or downwards, but I suspect that is linked to the stabilisation fund and probably, in a way, as part of a stabilisation fund review, I suspect that an inflationary (...inaudible) review or something would be more appropriate.

Senator T.A. Le Sueur:

Yes, it may be more appropriate than an expensive (...several inaudible words), but when we publish an anti-inflationary strategy, we look at the States management of funds. If you decide at that stage you wanted to scrutinise those, I would be happy to come and talk to you.

Deputy P.J.D. Ryan:

Yes, okay.

Mr. I. Black:

With the economic adviser. **[Laughter]**

Senator T.A. Le Sueur:

Yes, all right then.

Deputy P.J.D. Ryan:

Are there any more questions to be had from anywhere? Well, can I thank you, Minister, and Mr. Treasurer for joining us this morning. It has been a very interesting and quite detailed, and in some places, technical - or sometimes technical - but thank you for that.

Senator T.A. Le Sueur:

I hope we have increased your understanding, and not that you are even more confused than you were when you started.

Deputy P.J.D. Ryan:

Thank you, and thank you to the members of the public for joining us this morning and I now close the meeting. Thank you.