

**STATES OF JERSEY**  
**Corporate Services Scrutiny Panel**  
**Fiscal Strategy Review**

**MONDAY, 1st NOVEMBER 2010**

**Panel:**

Senator S.C. Ferguson (Chairman)  
Senator F. du H. Le Gresley  
Deputy T.A. Vallois of St. Saviour  
Mr. M. Oliver (Panel Adviser)

**Witnesses:**

Senator A.J.H. Maclean (The Minister for Economic Development)  
Chief Officer, Economic Development  
Mr. J. Mews

**Also Present:**

Mr. S. Le Quesne (Scrutiny Officer)

[15:51]

**Senator S.C. Ferguson (Chairman):**

Welcome to this meeting of the hearing of the Corporate Services Scrutiny Panel on the Fiscal Strategy Review. I wonder if, for the sake of the ladies who will be doing the transcribing, you could say who you are and your position please.

**The Minister for Economic Development:**

Yes, Senator Alan Maclean, Minister for Economic Development.

**Chief Officer, Economic Development:**

Yes, Chief Executive of Economic Development.

**Mr. J. Mews:**

James Mews, Finance Industry Development, Economic Development.

**Senator F. du H. Le Gresley:**

Francis Le Gresley, Senator.

**Deputy T.A. Vallois of St. Saviour:**

Tracey Vallois, Deputy of St. Saviour.

**Mr. M. Oliver (Panel Adviser):**

Michael Oliver, Adviser to the Committee.

**Mr. S. Le Quesne (Scrutiny Officer):**

Sam Le Quesne, Scrutiny Officer.

**Senator S.C. Ferguson:**

Sarah Ferguson, Chairman. Right, the one thing that we seem to be missing with all this is the economic growth plan. Where is the new one?

**The Minister for Economic Development:**

Of course we still have the current one which is largely effective in terms of what it sets out to achieve, but we are updating it and the new economic growth plan is currently under construction. We hope to be in the position to deliver it in the early part of next year.

**Deputy T.A. Vallois:**

My understanding was that the economic growth plan was only agreed until 2009.

**The Minister for Economic Development:**

Yes.

**Deputy T.A. Vallois:**

So it is 2010.

**The Minister for Economic Development:**

Yes, but I said it is largely still effective. The basis of the plan that was put in place before is still largely effective as far as we are concerned. Of course we are updating that, which is what I was referring to.

**Senator S.C. Ferguson:**

What is not effective, then, at the moment?

**The Minister for Economic Development:**

Well, obviously the original plan was developed 2005 through to 2009. We were living in a very different economic climate in 2005 as you will appreciate. We have to take into consideration the effects of the global financial crisis, the impact it has had on the economy, and those are the sorts of elements that will be factored into the plans for the future.

**Senator S.C. Ferguson:**

So what would you consider that you have managed to produce under the economic growth plan? You know, which bits can you say: "Right, tick the box. Done that, this is how much it is going to bring into the Island"?

**The Minister for Economic Development:**

Well, I think what you need to do is to look at cause and effect. In terms of economic growth you saw above trend economic growth for the periods 2006, 2007 leading up frankly until the global financial crisis struck. So you can argue that many of the foundations that were put in place in terms of developing the economy, supporting key industry like the financial services industry, have delivered both employment and tax receipts which are clearly evidenced by increased tax take and growth in employment over the period.

**Senator S.C. Ferguson:**

Yes, so what about diversification?

**The Minister for Economic Development:**

Diversification is a key agenda as far as we are concerned. There is no silver bullet as far as diversification is concerned. I am sure you appreciate that some people step forward and regularly talk about diversification as if there is some magic industry that could be brought forward and developed that is going to replace, for example, financial services. The reality is diversification is diversification of existing successful industries like finance in terms of products and in terms of market and that is why we are investing as heavily as we have done in Jersey Finance, the promotional agency for the finance industry, investing and supporting them, in looking at new markets in Asia and Asia-Pacific and so forth. That is one element of diversification that should never be overlooked. We should also bear in mind the new industries that we are considering, legislation, for example that is coming forward with regard to intellectual property, e-commerce, e-gaming, inward investment. We have put significant resources into Jersey Enterprise and we have had some success with inward investment. We have seen relocated to the Island for example H.R. (Human Resources) and payroll organisations, mining companies, oil companies, setting up their headquarters in Jersey. So fitting the criteria and profile of what we are trying to achieve which is low footprint but high value, which is very important obviously as you will appreciate for the Island with resources being a key element.

**Senator S.C. Ferguson:**

What analytical work have you done on the cost benefits or the profitability of the money you have put into the sectors of the industry that your department deals with?

**The Minister for Economic Development:**

Again it goes back to the answer that I gave before. You can look at the results that have been delivered in terms of tax take, employment and so on, which gives a fairly clear indicator leading into work which is supported by the Economic Adviser and the success of the areas that we have supported. What we have done is we have taken our funding, our limited funding one might argue in terms of Economic Development, and we have tried to target it as best we can to make the maximum return. So we have aimed at high productivity being a key policy direction and putting the money into areas where we get a much higher return.

**Senator S.C. Ferguson:**

Yes, but if you have not identified where you are getting the returns, if there is not a numerical analysis, how do you know you are targeting it properly?

**The Minister for Economic Development:**

Well, there is. Clearly you can see from statistics ...

**Senator S.C. Ferguson:**

Yes, but where is the report?

**The Minister for Economic Development:**

The figures are available in statistical analysis produced by the Statistics Unit, the Economic Adviser in terms of return per employee in the finance industry and other high value areas of the economy.

**Senator S.C. Ferguson:**

Yes, but forgive me, where is the departmental report that is saying that?

**The Minister for Economic Development:**

Mike, do you want some input?

**Senator S.C. Ferguson:**

You are saying that, but we are not sure even what return we get on the couple of million a year we put into Jersey Finance. There must be a way, surely, of analysing the return we are getting for the money we are putting into tourism, Jersey Enterprise, Jersey Finance.

**Chief Officer, Economic Development:**

Clearly there is a way of quantifying that and it is quantified as a function of the money that we put in and the economic outturns and the economic growth that generates. I think that we invest in Jersey Finance, for instance, this year £2.2 million, on the basis of a very well defined business plan which has very well defined activity and extremely well defined outputs. In fact Jersey Finance probably more than any other grant-funded body that E.D.D. (Economic Development Department) or anybody else for that matter funds goes to great lengths to try and quantify the absolute returns on marketing expenditure and measure that regularly, on a monthly basis. That is reported to the board and we can see the benefits of that. Can you quantify or can you link £1 of investment in Jersey Finance to £1 of profitability in a financial services institution? That is a very difficult thing to do, but can you link that expenditure to the marketing output and the overall improvement in the G.V.A. (Gross Value Added) that we see, the G.V.A. growth that we see, our penetration into new markets, our development of new products, the efficiency of our legislative programme? Yes, you can and that is how you measure that. But going back to something the Minister said, let us be frank about it, we invest in the financial services sector because we are investing in the highest productivity sector that exists in the Island or for anywhere else, for that matter, and the returns are fairly impressive. I think we also invest in tourism, we also invest in agriculture. We do not see the same level of economic return, direct economic return, in those sectors but they are very significant employers and they are part of the social and economic fabric of the Island. There is a lot of dependency particularly within our tourism sector and our financial services sector. The airport, for instance, is only sustainable because of the throughput of tourism traffic, but it adds hugely to the product for financial services that the Island has. So there is a lot of dependency in there as well.

[16:00]

But a report as such is not something that we aggregate, but each of the areas that we support we measure the output, the activity and the output that we get from the financial input that we put in.

**Senator S.C. Ferguson:**

So you must have something in the department ...

**Chief Officer, Economic Development:**

That is an investment analysis.

**Senator S.C. Ferguson:**

... which says: "Okay, we put £2.2 million into Jersey Finance this year and on the basis of the figures they have given us" because each company ...

**Chief Officer, Economic Development:**

Absolutely, and you can see that in the business plan which is approved, in the marketing plan which is approved, in the quarterly returns that are there as part of the partnership agreement that we have and in terms of the monthly or bi-monthly now board meeting minutes that we have from Jersey Finance. We monitor that activity and that output very closely and that input. That is all there which we can quite easily aggregate and give to you on a year-by-year basis, if that is what you would like to see. But do we produce one great massive report on that? No, we do not. We look at it on a case-by-case basis.

**The Minister for Economic Development:**

There is tremendous interdependency across sectors, as you would imagine, driven largely by the finance industry. I mean retail is another one, a very big employer, and that is why in Jersey Enterprise or through Jersey Enterprise we invest in the way that we do in supporting small businesses. Small businesses make up something like three-quarters of all trading entities in the Island, those are the ones employing 5 or less people. Of course is it not a direct return on investment in the same way as you get such a return which is evidenced in finance, but it is important from an interdependency point of view in terms of employment, social aspect and so on.

**Mr. J. Mews:**

I suppose just looking within finance, for example, in my area, a good example of this is with the New Foundations project and we held a review meeting about a month ago to discuss the foundations law which was brought in about a year ago to see what the uptake of the law was, how many foundations had been set up, what sort of fees were being generated from those, what the likely tax take would be and it probably cost about £100,000 to the department in terms of developing the product, in terms of obviously time, salaries and also external experts which went into that. But a result of that, one year on we have an industry which while there are only around 60 foundations which have been set up we estimate there is about £2 million worth of fees coming into the Island which if you assume 10 per cent is then taken in tax take is generating a substantial amount of money. Each year on an ongoing basis, and that will only grow as time goes on. So you can see something there which we have put a considerable amount of time and investment into and you will have obviously our investment but then you have to sell it internationally so that people do invest and use those particular products and taken as a whole you can see something that has been very successful so far.

**Senator S.C. Ferguson:**

Well, 10 per cent of £2 million is something ... and that is pre-expense so that is on the gross, so net you probably are not making anything on it at the moment.

**Mr. J. Mews:**

I think you are. I mean clearly if you have got £2 million worth of fees being generated ...

**Senator S.C. Ferguson:**

Knocked off the expenditure, so you are looking at maybe £100,000 net and 10 per cent of that.

**Mr. J. Mews:**

Well, you need to think back and work out exactly what ...

**Senator S.C. Ferguson:**

Sorry, about £1 million net and 10 per cent of that is £100,000.

**Mr. J. Mews:**

£100,000 and that is on an annual basis, because these need administrating on an ongoing basis and you can see perhaps £100,000 investment has generated £100,000 per year going forwards and each year there are going to be more of these products set up and so you can see there that a form of investment has generated quite a large benefit for the States relative to what has been put in. That is a clear example of what we do. We will put something in place ...

**Senator S.C. Ferguson:**

But do you have figures like this for each of your industry sectors?

**Chief Officer, Economic Development:**

We do, but of course as we have said many times in this room Economic Development is a very broad church and those analyses are not identical. For instance tourism we put in about £5.5 million per year. We have a very good view from a G.V.A. perspective of what the net contribution the tourism sector makes and in addition to that we see on G.S.T. (Goods and Services Tax) alone, if you make the analysis on the basis of G.S.T. on turnover, we put £5.5 million in and we know that based on pure tourism leisure turnover alone we get about £7 million or £8 million back. So in terms of the return on G.S.T. and every incremental visitor that we put in, as a consequence of our advertising there is a very good top line to bottom line conversion because of the consumption tax that is applied to all of the expenditure. Agriculture, again we have got the export value of the crops that are there as a consequence of the levels of support we give to agriculture, particularly the potato industry and the dairy industry. That is directly measurable and it is a fairly good return if you take export value, employment contribution, the profitability contribution, that is a reasonable return on investment. I mean the problem with those 2 sectors is that they are not as high productivity and therefore they are not as big economic contributors as financial services.

**The Minister for Economic Development:**

But they do support small businesses, it does contribute about £239 million in terms of investment into the economy. There are a lot of underpinning statistics that you can see the returns that you are getting for the investment that you are making. Now if you turned around and said: "Are you getting as good a return on investment from

what you put into tourism or agriculture as you put in some other areas?" the answer is no. I mean that is clear. But there are statistics ...

**Senator S.C. Ferguson:**

No, but are you getting more than you put in?

**The Minister for Economic Development:**

Are you getting a return? Yes. I mean you can break down ...

**Senator S.C. Ferguson:**

A positive return?

**The Minister for Economic Development:**

Yes. I mean if you break down, for example, tourism, there are a lot of statistics available. You can see the acquisition cost of each tourist that comes to the Island and you can see what you are spending in terms of pounds per acquisition and what they spend in the economy. The acquisition cost works out at about £7 and you will see that they are spending something like £250-odd, £270-odd per individual. So you can see the return. Those figures skew ...

**Senator S.C. Ferguson:**

Is that per individual or per day?

**The Minister for Economic Development:**

Per individual. But what you do see is that is broken down, that is the U.K. (United Kingdom) market, you will see that broken down by country. Some acquisition costs are significantly higher and obviously it is continually assessed on an ongoing basis to get the best return available from the spend that we have, which has obviously been diminishing in recent years as we have had to target it.

**Mr. M. Oliver:**

But if you were to spend nothing, what would your rate of return then be? Would it fall proportionally to ... it is a question I have asked you before, I know.

**Chief Officer, Economic Development:**

Let me just take the tourism sector as an example. This is an opinion, obviously it cannot be based on fact. I think if we stopped destination marketing completely then within a period of 3 to 5 years the number of visitors to the Island would halve. Leisure visitors would halve. That would have a massively detrimental effect on the commercial viability of the airport particularly but also to some extent to the harbour, because effectively the market would fail to all intents and purposes, and we intervene to make sure that does not happen and we keep Jersey in the public eye. The answer to your question, would the 50 per cent of people still arrive for that sector? Yes.

**Mr. M. Oliver:**

In Jersey Finance, if you stopped giving them £2.2 million a year, would you still be getting investment in?

**The Minister for Economic Development:**

Of course you would get investment in, but the question is you have got to look ... and particularly at the moment in a very competitive market, you have got to have half an eye on what the competitors are doing. The competitors are investing more. They have increased and upped the ante in terms of their investment, so clearly they think that they are getting a good return on that investment, they are not just frittering the money away.

**Senator S.C. Ferguson:**

Well, not necessarily. That is a big assumption. You are assuming that they are doing the analytical work to support their general marketing assumptions.

**The Minister for Economic Development:**

Well, if you are correct and they are not analysing it, which is what you are inferring, they are still spending the money and clearly that will put us at a very big disadvantage in the short term as they go out and acquire business that otherwise we would perhaps have got. If we just sit back and hope that we are going to get it, when they are putting more money into the investment, whether they have analysed that investment or not, still puts us at a disadvantage.

**Chief Officer, Economic Development:**

Where we have spent money in financial services is in 3 areas. We spend money continuing to bolster the regulatory reputation of this jurisdiction so that people invest in the jurisdiction from our traditional markets, the U.K. We also spend money on product development, because this is a very competitive marketplace and jurisdictions that introduce new products, and James mentioned the Foundations (Jersey) Law 2009, I think we were somewhat behind a number of jurisdictions in launching Foundations, and as a consequence you miss out on elements of business, and we spend it on developing new markets, because there are emerging markets which Jersey really has little or no involvement in at the moment that are tremendous wealth-generators and could make a significant contribution to the existing financial services sector where the top line to bottom line conversion is very efficient. That is where we spend the investment in financial services, nowhere else, and everything is aimed towards achieving one of those 3 objectives. Each of those things can be quantified and the return on the investment that we put into that, be it the legislative programme or the promotion through Jersey Finance or indeed the activity of the States, the Chief Minister's Department and others can be quantified and in the absence of that I think we would see a decline. It would not be as dramatic perhaps as the decline that I have described if we stopped advertising in tourism but in terms of productivity and overall tax take it could be far more dramatic, because of the balance that exists in the economy.

**Mr. J. Mews:**

Often the investment which has to be taken is not just investing at the same time as other people are investing but also leading that investment, so for example in China as a result of the representative office which you have opened there and the fact that there is much greater support for Jersey businesses who wish to set up in China, we are seeing for example Ogier opening an office up there, and we are seeing much more inward investment in China from Jersey, as a result which will lead to more work feeding back. So you can see there Government working hand-in-hand with industry to facilitate things which industry perhaps would not have done otherwise.

That is something which clearly if you do not spend the money you are not going to have that result.

**The Minister for Economic Development:**

I might add that it would be an extremely brave move to stop advertising just to see what might happen. **[Laughter]**

**Chief Officer, Economic Development:**

The question that we are challenging ourselves with all the time is do we need to spend as much money to deliver the same outcome? Are we spending in a most efficient way? I think one of the lessons that we learnt from 2010 was that what was a piece of tactical advertising when we went back to T.V. (television) in the aftermath of the volcanic ash produced a tremendous and very measurable response both in terms of inquiries and bookings, and that has caused us to completely change the investment mix in 2011 and it is going to be much more T.V.-led than print-led, because we believe that there is a better return on that advertising pound, and that is what the experience in 2010 showed us.

**Senator S.C. Ferguson:**

Have you got the figures for how many people turned up because of the advertising?

**Chief Officer, Economic Development:**

Yes, absolutely, both in terms of inquiries into all of the channels and bookings for all of the agencies, and it is dramatic.

**Senator S.C. Ferguson:**

From the hotels?

**The Minister for Economic Development:**

From the hotels, absolutely. This is coming independently, from the tour operators, from the transport operators, BA, Flybe, Condor and from the hotels as well, the accommodation sector. I think it even surprised the most optimistic of us and we had to be rather optimistic because it was money that came from fiscal stimulus and we had to be very optimistic to get that **[Laughter]**. It out-performed our expectations and it is measurable and we are more than happy to share that with you. But we need to learn from it and make sure that we therefore change, so we are in terms of an investment return, spending the money the right way.

**Senator S.C. Ferguson:**

Does that imply you need more marketing as opposed to more informed marketing?

**Chief Officer, Economic Development:**

I think you need to use the right channels and not in terms of the overall marketing programme rely perhaps on the approach we have taken historically. Jersey has always had a very print media, newspaper-led advertising campaign really. There has been a question asked whether we should be on T.V. We have been on and off T.V. and where we are now is that all of our print advertising will be done as partner marketing, so we will share the cost with individual businesses in the Island and where we will spend our destination marketing pounds will be either on T.V. or online, which is proving to be by far the fastest growing, not surprisingly, way that

people not only acquire information about the destination and compare it with others, but they book.

**The Minister for Economic Development:**

It is not an exact science, marketing and advertising, obviously. That is why this particular campaign and example with television is particularly relevant, because there had not been any T.V. advertising up until that point. We put in place earlier this year the Tourism Marketing Panel which was largely populated with private sector individuals who have experience within the market. It was their experience and the fact that we had not been doing T.V. advertising and the direct response to the various mediums that we can measure like the internet which saw the returns that Mike is referring to.

**Senator F. du H. Le Gresley:**

Could I just change the focus of the discussion a little bit to focus more on the budget and I would like to ask the question how damaging on the retail and tourism industry do you consider the proposed 2 per cent rise in G.S.T.?

[16:15]

**The Minister for Economic Development:**

Well, any rise in taxation potentially is going to have an impact and it is a question of minimising that effect as best we can and understanding what that impact is going to be. I think in many respects we are going to be helped next year, certainly from a tourism point of view, when you consider our donor market being the U.K. They have had an increase or are about to have an increase in their V.A.T. (Value Added Tax) rate which is going to almost maintain the status quo. But overall I think that the impact will be relatively minimal as far as the impact on those industries that you refer to.

**Senator F. du H. Le Gresley:**

Your own role in the Fiscal Strategy Review group, could you just tell us a bit more about what part you took in the review yourself?

**The Minister for Economic Development:**

My role is purely from the perspective of my membership on the Council of Ministers, so I fed in from an economic perspective the views that I had on the proposals that were being considered and the likely impact that they may or may not have on the different areas of the economy. Clearly no business is going to want to have any increase in costs of operation, particularly in a difficult economic climate but we are having to balance a difficult situation in terms of the looming budget deficit, and getting the balance and I stress the word balance, right is absolutely key and I believe broadly speaking that balance has been achieved by the proposals that have been put forward. Not that anybody is going to welcome it.

**Senator F. du H. Le Gresley:**

Yes. On the issue of fairness, do you think the budget proposals achieve that?

**The Minister for Economic Development:**

I think they probably do, yes, as best they can. Again the aim has to be to deliver a fair taxation spread across the piece and I think all factors considered that has been well achieved with this package.

**Deputy T.A. Vallois:**

With regards to the 2 per cent on the Social Security, how damaging is that to growth for Jersey's economy?

**The Minister for Economic Development:**

Well again it is in effect a tax on business potentially in terms of the cost of employment, but I think the measure of the 2 per cent rate should not have an overall impact that businesses cannot absorb in the longer term.

**Senator F. du H. Le Gresley:**

We had the representatives of the Chamber of Commerce in earlier and their emphasis is very much on savings as opposed to taxes. Looking at your own department what would you outsource in order to save money in your department?

**The Minister for Economic Development:**

Most things. **[Laughter]** Apart from the gentlemen either side of me of course. In all seriousness I think that as a department, and I have said this relatively openly in the past, we should look at all our activities and both as our department, Economic Development, and Government on a more wider sphere should be getting out of the delivery game and concentrating on areas of legislation, policy, regulation and so on. From an Economic Development point of view we are considering areas like tourism. We have publicised a proposal for a P.P.P. (Private Public Partnership) in the past. The principle behind that is absolutely right. Unfortunately the timing was not as the onset of the global financial crisis made the implementation too costly. But nevertheless the principle of outsourcing destination marketing is the right thing to do, I think, longer term and we need to work through the potential for delivering that. I think we can look at other areas like Jersey Enterprise, Enterprise and Business Development. That function again could be outsourced, operating basically a contract for services arrangement with a private sector organisation to deliver those services and having a service level agreement between the Economic Development function that would oversee and manage that particular relationship.

**Senator F. du H. Le Gresley:**

Do you think there is still too much red tape in relation to businesses setting up in Jersey? We heard this afternoon there is something like 47 forms to be filled in. Are there any plans to reduce red tape?

**The Minister for Economic Development:**

Well, I probably ought to let my Chief Executive answer that because he knows my views on the subject. I think it is something we have to be very mindful of, certainly in terms of the ability for businesses. I mentioned earlier on that we have got something like 75 per cent of businesses trading in the Island that one might describe as small businesses. I am using the definition of small based on the number of employees. There are some small organisations that are multi-million pound entities but nevertheless three-quarters are employing 5 or less people. The smaller you are the more difficult it is to deal with the onset of red tape and bureaucracy and it is a

challenge for businesses and we do not want to swamp the wealth creators in these small fledgling outfits at a time when they need to grow and be supported. We are looking at the potential of again reviewing the impact on businesses and I think it is particularly important now, we have mentioned the increase in the tax burden, that we ought to look at red tape and bureaucracy and see if there are ways in which we can minimise that. I think there probably are and I have been talking to Mike about looking at doing a review. There was one historically but I think we need to revisit that because there have been a lot of changes in recent years.

**Senator S.C. Ferguson:**

Well, they have promised to send us a list of the 47 documents.

**Senator F. du H. Le Gresley:**

I just had one more question really picking up again from the Chamber visit earlier. I asked them a question about reducing staff costs generally across the public sector and they came up with the notion of performance-related pay as opposed to cost of living rises automatically. I would appreciate your views on that.

**The Minister for Economic Development:**

I understand where the Chamber of Commerce are coming from. With my own private sector background I can relate to the concept of performance-related pay. Clearly it would be quite a difficult concept to deliver, certainly in the short term, but there is no doubt the review of terms and conditions and the ongoing management of the way in which terms and conditions in the public sector are dealt with is a key factor that needs to be addressed.

**Senator F. du H. Le Gresley:**

But your department would be an ideal starting point?

**The Minister for Economic Development:**

In what respect?

**Senator F. du H. Le Gresley:**

Well, given that you were talking earlier about how you measure performance of the department and obviously individual officers, it would be easier to measure their performance than perhaps say in a hospital or something like that.

**The Minister for Economic Development:**

Yes, but if you also go back to my earlier comment about outsourcing elements of Enterprise, Business Development, destination marketing and so on, perhaps in the future that is less relevant. In the short term yes, you could argue that, but equally you could do in other parts of the economy. There are different ways you measure performance, not just on return on investment, if you like.

**Chief Officer, Economic Development:**

Could I just add something? I think it is a very good point you make and the States of Jersey I think is one of the few remaining large public sector bodies other than the U.K. where people do not have some form of performance-related element to their pay. Whether you go entirely performance-rated is another thing. What is absolutely key to be able to make that work though is a proper performance review process,

performance management process, and the fact that everybody has to have a current job description. Now we are working very hard on that but we are some way away from that yet, and until you have that baseline ... but I think the approach that E.D.D. takes and we have taken this to the spending review and we are taking it to the restructuring which the Minister has alluded to, if we can use ourselves as a guinea pig then we will, because we are of a scale and we do undertake a type of business that would allow that to happen. But really you are talking about something which is a corporate policy which I think could probably be trialled in an area like E.D.D. as can many other things.

**The Minister for Economic Development:**

It is a very important point you raise and I think it does merit further investigation, but there is an extension of that, and that is rewarding good ideas. There are a lot of people within the public sector that contribute a significant amount, both in their work but also in terms of their ideas. It was raised by a colleague, a fellow Minister, an example of where an employee in that particular department came up with an idea to solve a problem and the solution was adopted and it saved the department over £1 million. The Minister wanted to see this individual rewarded with some free holiday or something similar. We are not able to do that easily, as we are structured at the moment. We need to be more creative in the way we deal with our workforce.

**Senator F. du H. Le Gresley:**

Thank you.

**Deputy T.A. Vallois:**

Just back on the diversification side of things, should diversification in a new industry be part of the fiscal strategy if we are trying to deal with a partially structural deficit?

**The Minister for Economic Development:**

Yes.

**Chief Officer, Economic Development:**

Not necessarily a fiscal strategy. Even an economic growth strategy.

**Deputy T.A. Vallois:**

Well, economic growth or growth would be part of looking at fiscal strategy as well as the 3 parts of this whole thing, as I understand, and I am of the understanding that due to the uncertainty of new industries that it would be unwise to look at new industry for diversification if you are dealing with structural deficit.

**The Minister for Economic Development:**

But we are looking at new industries all the time and at investment and opportunities to grow the economy and diversify the economy.

**Deputy T.A. Vallois:**

But is it something that you are doing all the time, not particularly because of the F.S.R. (Fiscal Strategy Review)?

**The Minister for Economic Development:**

Well, it is factored in. Economic growth in terms of a contribution to the future budget deficit is a factor that is there. We are working to deliver growth in the economy because that will help shore up public finances. You have got to cut costs, you have got to, unfortunately, raise some other revenue, which in our case is taxation and grow the economy by supporting jobs and developing tax revenues.

**Deputy T.A. Vallois:**

But going back to what you are saying about diversification, there are 2 elements to it, so obviously if you are dealing with a structural deficit your priority would be looking at the first element on an industry that you know that has certainty, as part of the F.S.R.?

**The Minister for Economic Development:**

I am not sure I follow what you are saying.

**Chief Officer, Economic Development:**

The strategy for dealing with the deficit is a 3-point strategy. F.S.R. deals with a review of the tax system, C.S.R. (Comprehensive Spending Review) is the cost cutting and growth is the third one. The existing high productivity industry which on a risk basis stands the best chance of making a contribution and return us to growth is financial services. The tricky one is the low interest environment, and it may take longer than we originally thought. Almost key to that are the 3 things I mentioned earlier, maintaining our current markets, developing new markets and developing new products. So that is diversification there. But all the time what we are also trying to do is diversify the employment base, diversify the tax base by growing the scale and the scope, for a better word, of the small businesses in the Island. Some of the elements of the legislative programme that we are putting in place you will surely debate intellectual property, you have debated e-gaming and we have got another phase of that coming through, that legislation can unlock elements of diversification. But just reiterating what the Minister said earlier, the notion that there is some magic sector out there that all of a sudden through some form of legislation will come and save us as our diversification salvation is hard work. We are doing both, but we cannot ignore the fact that the greatest economic contribution does and will come from the sector that is very well developed, we have a very skilled workforce to deliver it, we have got a very competitive tax system which will remain so and underlying that there is support from the public sector. So we are doing both. It really is not an either/or. Diversification is part of the mix.

**The Minister for Economic Development:**

Do not forget that you also have got a situation in the current climate where businesses are cutting back on their staff, trimming their costs and what have you. Individuals are having or receiving voluntary redundancy or being made redundant. That is part of the reason and the U.K. has been the same why we have seen an increase in the number of start-ups, with the money people have got they have suddenly taken the opportunity to start up a business and there have been over 200 one-man start-ups up until the end of June this year. The trick with supporting these through Enterprise and Business Development is ensuring they are sustained. What we do not want, obviously, is them starting up and then failing. We want them to grow to employ people and to, as Mike was saying, help diversify the tax base.

**Mr. J. Mews:**

But to a certain degree as well there is a bit of overlap between growth and diversification, because they might be part of the same thing. So for example growth in a sector, which we do not have a huge concentration in at the moment, could really be diversification because there are not many businesses in that growing by attracting new entrants as well as growing the individual businesses which are there could have a real positive effect on Jersey as a whole. So there is a certain amount of overlap between those and the other important thing is to remember that diversification is not just diversification away from our existing industries full stop. So for example I have spoken about the foundation product. Well, the foundation product is something which is a new market in the sense that we did not do foundations before we did them now, but the people who are going to use the foundation product and grow as a result of that are our trust company businesses, because they are the people who administer these products. So you are talking about product development, diversification in terms of what the Island can offer and also that links into new markets, because there are many parts of the world who are not familiar with a trust but are familiar with a foundation. We have all heard of the Bill and Melinda Gates Foundation for example which sells the product very nicely across the world. Actually, that is not a foundation, but lots of people come and say: "I want one of those. If it is good enough for Bill Gates it is good enough for me." So we have got something which is both growth in terms of growing an existing sector but also diversification at the same time.

[16:30]

But clearly both strands if you are to segregate them are fundamentally important in order to enable the structural deficits to be filled.

**Mr. M. Oliver:**

Can I just read you something from David Kern who wrote in the Chamber Online recently because I am not quite sure I understand it and perhaps you can help me out here. He says ... **[Laughter]**

**The Minister for Economic Development:**

If you do not understand it probably not.

**Mr. M. Oliver:**

Well, let us just see. For Jersey he said: "Lack of political will is the main obstacle to a credible growth strategy. Growth policies can only succeed if they enjoy public support but this requires changes in attitude." So 2 questions. Why is there a lack of political will, and how do we change the public attitude?

**The Minister for Economic Development:**

I mean he has not really finished his statement. He has said there is a lack of political will to change, but in what respect? He is not really ...

**Mr. M. Oliver:**

Well, that is why I am asking you, because I am not sure myself. Is this lack of political will for new growth strategy, is this looking for this magic bullet which does not exist, perhaps? What has prevented some of these things from coming on line

sooner, the intellectual property, the e-gaming? I mean I think that is what he is saying, there has been this lack of political will, surely.

**The Minister for Economic Development:**

I do not think there has been a lack of political will. I mean you can pick any one as an example. You can take e-gaming, I mean there has been a very, very strong sort of ethical and moral view to developing e-gaming in the Island. The difficulty there has simply been that. There have been debates over decades, for example, with casinos and this was seen as an extension. Gambling is bad, so on and so forth, despite the fact that we are about the only jurisdiction that does not do it. That is the political difficulty with that particular area. I think you look at what we have got in terms of economy and the way in which we are looking at new sectors, new ideas, and also encouraging inward investment in some of the ones I mentioned earlier on, like mining companies, H.R. payroll, I.T. (Information Technology) and so on. These are all examples of businesses that have relocated in the last couple of years to the Island. Carbon trading. Quite diverse. I do not personally feel there is a lack of will. There is certainly no lack of will within Economic Development.

**Mr. M. Oliver:**

I just saw that today and I thought [Laughter] ...

**The Minister for Economic Development:**

It is not a good picture, is it?

**Mr. M. Oliver:**

It is not the picture that concerns me. In terms of creating a market economy, 17 years to create a fair trading law.

**The Minister for Economic Development:**

Yes.

**Mr. M. Oliver:**

Why, and now a *Green Paper*? A consultation. Do you believe that now is the right time to introduce a fair trading law? In terms of all those different things the E.U. (European Union) did in 1985 to create a single market, we are way behind. Mr. Kern's point.

**The Minister for Economic Development:**

Well, the U.K. you might argue are way behind as well because they only introduced that piece of legislation in 2008, so it is not 17 years, we are only 2 years behind the U.K.

**Mr. M. Oliver:**

I think the U.K. was seen to have greater protection before that law anyhow.

**The Minister for Economic Development:**

Yes, but that particular one was introduced in 2008. We are trying to come up to speed. I am the one that is bringing it forward. Historically, yes, maybe we have been slow.

**Chief Officer, Economic Development:**

I think the answer to the question is it is multi-faceted, for want of a better word. We do have, and we are just starting now to recognise, the fact that there is a process that is really about speed to market. Within that is law drafting, the role of the law officers and this is not just in financial services, intellectual property is a classic example. We have just lodged the first part of the intellectual property legislation. We are updating a law that is 100 years old, so you could probably say it has taken 100 years to put that in the right place. But it is a 400 Article law and it is probably the equivalent of the trust law that was written here in terms of its complexity and its potential. It is incredibly complex legislation and what we did not want to do with that one as an example was to copy what had been done in Guernsey and other jurisdictions because their legislation is not fit for purpose for a world where intellectual property is effectively traded electronically. So there are things in our law which do not exist in other laws. So I do not think there is a lack of political will. What there is, I think, and this is an interesting thing I think for us to say is that there is probably a lack of resource in some of the key bottlenecks to get legislative change on the books. That sometimes translates as a lack of political will but there is literally such a broad range of legislation coming forward and it does come to a pinch point both in terms of law drafting and the law officers, not because they are not capable but it is just the sheer capacity that a small jurisdiction is trying to put through. We are talking about something here which is mirroring U.K. legislation. You had the Chamber in earlier complaining about the amount of legislation we put in, because it adds red tape. Now we are working on a whole range of things and I think it is wrong for David Kern to have attributed it purely to a lack of political will. There are things that we can do to improve the speed to market and it is quite frankly ridiculous that anything, if it is true, took 17 years. That should not happen. But intellectual property that we thought was going to take us 18 months took us getting on for twice that because of the complexity of the law and there are no shortcuts to make it fit for purpose for the current market place.

**The Minister for Economic Development:**

You could argue that in the last 5 years we have made greater strides in terms of trying to unblock the bottleneck and you might be able to proffer an argument that Ministerial Government has helped speed things up. It has taken 17 years for this particular legislation and if you read back through the history and all the various issues that have occurred, the stops, the starts, over that period of time now we are picking up and running it. Interestingly it is not something that is going to add red tape to businesses, this particular piece of legislation, but it will protect consumers which is a good thing.

**Mr. J. Mews:**

That is always one of the difficult things when you are coming forward with new legislation because on the one hand it may have benefits but it might also add cost to businesses as well and that is very much a careful balance. Because if you get the balance wrong and as a result of that businesses end up paying more and it is more of a drag than it is a benefit to them, that is no good to anyone. Another thing which you find in the legislative development of things which is often a major factor is that you do not want to just have the same as everybody else has, as Mike has alluded to, because often consumers or products however they are sold people have a tried and tested route where they buy from. So if you are going to then change that they buy

from Jersey rather than somewhere else, you cannot just be as good as somewhere else, you have to be better than somewhere else. You have to break that chain and make people think: “Well, there is a real tangible benefit to going and buying this from Jersey” and as a result you do the market, you do where the gaps in the market are, but that only tells you where the gaps are in the market. That does not tell you how much you are going to benefit from bringing in those changes, because yes, you may win a slice of that pie but are you going to win much of that pie? So then you have to do further work which is costly in order to examine what are the real cutting edge things you could do in those different areas and it might be that you do a whole host of work and you realise that you can only match your competitors. Well, then you have got a decision do you still go ahead and spend considerably more time bringing it in, matching your competitors, or do you then change your focus and move on to a different product which you think: “I can go and steal a march on our competitors” but you do not fully know what that march is. So there are lots of interesting and different issues which get thrown up in product development, and one of the reasons why the whole area is so complex, but I think it is a real tribute to the Economic Development Department looking across the whole range, not just my area, and seeing all the different initiatives which are going on at the moment and where people are really taking steps to bring things forwards.

**Senator S.C. Ferguson:**

Is this the role of Government?

**Mr. J. Mews:**

Is what the role of Government?

**Chief Officer, Economic Development:**

To bring legislation forward is the core.

**Senator S.C. Ferguson:**

Well, the legislation but you are implying that by bringing forward the legislation you are participating in the growth plan.

**The Minister for Economic Development:**

Because the growth plan is an enabler, is it not?

**Senator S.C. Ferguson:**

You are identifying product.

**Chief Officer, Economic Development:**

We are, because the products are underpinned by legislation.

**Senator S.C. Ferguson:**

Yes, but is it the job of Government to identify the products or is it for both the private sector to say ...

**The Minister for Economic Development:**

The private sector will identify opportunities and come forward and Government should work with the private sector in terms of delivering an appropriate piece of

legislation, if there is a proven economic case that it will help enable something to happen that would not otherwise have happened.

**Senator S.C. Ferguson:**

Right. How many of your product developments then have been requested by the private sector?

**Mr. J. Mews:**

Virtually all of the products which I have personally been involved in with the development have been requested by the private sector. What we need to do is look at the different requests which come in and try and evaluate which will deliver the best benefit for the Island, and that is how we prioritise accordingly.

**Senator S.C. Ferguson:**

But is that not the job for the private sector to do to say: "We can do this"?

**Mr. J. Mews:**

Well, as Mike said unfortunately they cannot deliver it because ...

**Senator S.C. Ferguson:**

Should Government be deciding what is going to be sold? Is Government the right body to identify businesses?

**Chief Officer, Economic Development:**

Government is probably the worst.

**Senator S.C. Ferguson:**

Absolutely.

**Chief Officer, Economic Development:**

But Government has the role to provide the legislative platform on which the private sector can deliver it, which is what we are doing. In the area that James works in particular there is awareness that comes from the private sector, and this is not to say that we write private law, but there is an awareness that comes from the private sector of gaps in our product offerings and they are fully justified in terms of if that gap is plugged what the business advantage to them and therefore the business advantage to the Island is, and therefore we move forward on that legislation. The one we are working on at the moment is an amendment to the Companies Law to allow cross-border mergers for instance. We do not have that in the legislation and when we do it will help us, particularly in our new market entry in markets like India and China. Our role is merely to put the legislation on the books. I mean we will promote it through Jersey Finance, but it is the businesses that deliver that. The same is true with the gaming legislation. Our role is to have the legislation and the regulation in place. Those are the core government functions. The delivery is done by the private sector and unless we want to take equity in an online gambling company which could be very good revenue **[Laughter]** ...

**Senator S.C. Ferguson:**

That is an interesting investment for the strategic reserve.

**Chief Officer, Economic Development:**

Yes, and there are probably others who are doing it. But I think the core government functions, and this is something the Minister referred to earlier, are policy, strategy, legislation, an element of oversight of regulation and contract administration. Because delivery is best done outside.

**Senator S.C. Ferguson:**

Going back to the 2 per cents that we are doing, the Social Security and the G.S.T. how much are those going to affect the overall growth plan? Are you going to find that people say 2 per cent on Social Security: "Oh, I do not know if I am going to hire more people, I do not know that I am going to open there. It might be too expensive."

**The Minister for Economic Development:**

But it is not just one factor and that is why the point was raised earlier on about red tape and bureaucracy. I mean there is as much of an issue potentially there if one does a sense check on a regular basis to make certain that what is being proposed and introduced is proportionate. All of these things, the cumulative effect is the one that one really needs to focus on, not try and pick on any one item in isolation. I mean there are many other places with significantly higher taxes that see significant growth in their economies and different sectors of their economy. It is not just whatever the Social Security rate or the consumption tax rate might be at any particular time. At the point of imposition clearly there is going to be an impact, but it is the longer term view where you have to look at the potential for businesses to continue to prosper and grow. I think the balance we have got is not unreasonable, although no business is going to welcome it, as you would appreciate.

**Senator S.C. Ferguson:**

Well, yes.

**Senator F. du H. Le Gresley:**

When G.S.T. was introduced it was 3 per cent for 3 years, £300,000, I think those were the 3s that came around. This time around the Minister is not giving any assurances about the term that we will have 5 per cent. Do you think he should have done? Would you recommend that he did so?

**The Minister for Economic Development:**

I was about to answer the question: "It is a matter for the Minister." I think it is unwise in many respects to give guarantees. Things change rapidly and he would not necessarily be constraining his own ability to carry out his functions but his predecessor in the future, depending on what the economic climate might be. What I would say is that we have to work harder and harder to ensure that we constrain the costs of operating government. Smaller government, more effective government, to ensure that we minimise any future tax rises. It is a matter that I feel particularly strongly about and I think we have got to continue to bear down on the cost to the public sector and ensure that we deliver value for money. Because that is the only way you are going to constrain future tax rises, whether they be G.S.T. or any other indirect taxation that may come along.

**Deputy T.A. Vallois:**

That is not the whole view of the Council of Ministers, though, is it?

**The Minister for Economic Development:**

I think I just said: "I feel strongly about that."

**Deputy T.A. Vallois:**

That is not what they all signed up to. That is your own view.

**Mr. M. Oliver:**

Can I ask then would you favour long-term just a shift towards greater indirect taxation so as to enable income tax to be lowered, perhaps?

**The Minister for Economic Development:**

I think it is important to have a balance and clearly we have learnt a lesson from the consultation process where the 30 per cent rate was on the table for discussion. We are aware that that caused some damage and some business was lost purely by virtue of the fact that it was included in the consultation and that is evidence. I think we need to protect what is important for us from a competitive point of view and our 20 per cent tax rate has been an important aspect in that respect. So I think a balanced tax system, I would not necessarily think it would be easy to move to a wider range of indirect taxes to enable us to reduce the 20 per cent rate but I think the balance is important.

[16:45]

**Mr. M. Oliver:**

So that is probably a yes then, because it is unbalanced at the moment and the argument from the economic sector is that we need to move more towards G.S.T. as opposed to income tax?

**The Minister for Economic Development:**

I think we need to be fair but we need to be competitive. We need to be mindful of what other jurisdictions are doing in order to drive their competitiveness. It is as simple as that.

**Deputy T.A. Vallois:**

Can I ask in terms of looking at the F.S.R. we did 5 years ago, now we are doing another one and going forward what would you say is an appropriate period before you review the tax system again in terms of certainty for businesses?

**The Minister for Economic Development:**

There is a difference, I suppose, between major reviews driven by specific events, which is what has happened at this particular juncture and the need for ongoing review. I think it is appropriate that government is continually reviewing the tax system, not necessarily in a public way but being mindful of the issue that I was referring to, which is competitiveness. We have got 2 issues. We have got to obviously deal with the internal aspects of the tax system, it has got to be fair to the local population but we have also got to make certain that we remain competitive and attractive from an inward investment point of view, and that people want to come here and do business and so on. Because that is where we are going to drive our tax revenues that help pay for our public services. It is about balance.

**Deputy T.A. Vallois:**

Do you not believe in having that opportunity to revisit taxes like a Fiscal Strategy Review, which is a major review, as often as 5 years gives the opportunity for spending more for Government?

**The Minister for Economic Development:**

What, by raising more taxes and ... yes, I mean you have clearly got to be careful. It must never be lost from sight the fact that business does not have the opportunity, particularly in difficult economic climates, to solve a problem by putting its prices up. It just does not happen. I mean it is easier for governments to deal with it in that respect, there are other impacts that occur, but governments have in recent years borrowed, borrowed, borrowed and now we are seeing the outcome. It is not an easy or pain-free solution, unfortunately. We are fortunate in Jersey in the way that public finances on the whole over many decades have been managed here. We must not lose sight of that fiscal prudence.

**Senator F. du H. Le Gresley:**

Just a summary one really. The purpose of economic growth at the moment obviously is to balance the States funds, but surely the long-term prospect for economic growth is to deal with the big problem we have coming which is the ageing society, and have any of your business plans factored that into your thinking?

**The Minister for Economic Development:**

The solutions for F.S.R. and C.S.R. have been developed specifically for the problem at hand at the moment. Clearly we are mindful of a number of issues that are coming, the ageing population being one of them. There will be other solutions that will need to be worked up in order to deal with those, retirement age and so on and so forth. So not specifically no, but in the future. Economic growth is not just tax revenue of course, it is the supporting of jobs. We work and invest in the Skills Executive and Skills Board and we need to look at areas like an ageing population, older people being supported to maintain their activity and contribution towards not just the community but the economy as well. So there are many areas that need to feed in to the longer term view of where we are going and as far as the economic growth plan for the future, the one that is being developed at the moment, an ageing population is something that needs to be considered.

**Chief Officer, Economic Development:**

I think that is one of the primary reasons why the existing economic growth plan and the new economic growth plan are productivity-led. There is no doubt as the population ages, the number of people taking money out of the system is going to be far greater than the number of people putting money into the system in terms of beneficiaries. Therefore each person putting the money in has to be putting more in which is effectively a requirement which pushes up the productivity ladder, so that is one of the things that sits behind this unstinting strategy to deliver higher productivity, which some people find quite challenging but it is absolutely necessary because I think we are going from a 5 to 1 contribution ratio down to 2 or 3 to 1 by 2035. That puts a very significant burden on those people who are contributing into the various funds to continue to support it.

**Senator F. du H. Le Gresley:**

Would you say that policies are joined up? So your department with the Social Security Department in the way that we are going to have to deal with an ageing society?

**The Minister for Economic Development:**

Absolutely, and I think it is evidenced at this initial stage through the Skills Board and Skills Executive in terms of understanding the profiles. Both Economic Development, myself, Social Security and Education all sit on that particular group and it is a good example of Ministers and departments working together. In the future there has to be more and more of that collaborative work to understand. There is crossover between departments.

**Senator S.C. Ferguson:**

Just one small thing. If we have got all these offices for Jersey Finance spread around the world, are we not putting tourism stuff in them?

**The Minister for Economic Development:**

It is a very good point and there needs to be, and is, a role with Jersey Finance in terms of promoting the finance industry and promoting tourism at the same time. We are looking at ways in which there can be a closer working from a promotional point of view. At the moment we do not target much tourism in those areas but it is an opportunity I think that needs to be addressed.

**Senator S.C. Ferguson:**

It just seemed like getting 2 for the price of one to me.

**Mr. J. Mews:**

It is quite an interesting area in a sense but it all comes down to what type of offices you take and the cost of that whole thing. Because for example you could have an office which is fine to service the finance industry offering but which perhaps is not on the ground floor, is not in a place which is appropriate.

**Senator S.C. Ferguson:**

Excuse me, I was not talking about drop-in tourists, but the sort of people who you are selling the concept of services to are obviously high net worth or serving high net worth people. Therefore to have a background encouraging the destination marketing which Mike was talking about, it is a bit more subtle than having a shop window saying: "Visit Jersey."

**The Minister for Economic Development:**

There is a very good correlation here because there is a cultural aspect you need to bear in mind. In Asia, Asia-Pacific and what have you, the culture there is that people want to do business with someone they trust and someone they know, and it takes time to build relationships. We have picked that up when the Chinese Ambassador visited last year and various other people that we have had visiting from those regions. So consequently that was one of the drivers behind setting up offices there, so relationships, employ local people out there, build relationships, feed directly into networks to build trust. But what they tend to do for the financial services, they will come over here and they will meet, touch, feel, see and you open up opportunities for

tourism as you say. So you are right, and there is an opportunity there, and it is just a question of how we extrapolate that for best advantage. But I think it will and can show some advantage.

**Senator S.C. Ferguson:**

Right. Well, thank you very much indeed, gentlemen. I do not think we have got any more balls to hurl at you or gems to drop in front of you. Thank you very much indeed.

[16:53]