

**STATES OF JERSEY**

**Corporate Services Scrutiny Panel**  
**Comprehensive Spending Review**

**TUESDAY, 15th JUNE 2010**

**Panel:**

Senator S.C. Ferguson (Chairman)  
Connétable D.J. Murphy of Grouville  
Deputy T.A. Vallois of St. Saviour  
Mr. M. Oliver (Economic Adviser)

**Witnesses:**

Senator P.F.C. Ozouf, Minister for Treasury and Resources  
Deputy E.J. Noel, Assistant Minister for Treasury and Resources  
Interim Treasurer of the States  
Team Leader, Corporate Services Review

**In attendance:**

Mr. M. Robbins (Scrutiny Officer)

[09:56]

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

Good morning, lady and gentlemen, welcome to this Corporate Services Scrutiny Panel public hearing on the Comprehensive Spending Review. I wonder if perhaps you could give your name and position for the benefit of the ladies in New Zealand who will be doing the transcribing.

**The Minister for Treasury and Resources:**

Philip Ozouf, Minister for Treasury and Resources, accompanied by ...

**The Assistant Minister for Treasury and Resources:**

Eddie Noel, Assistant Minister for Treasury and Resources

**Interim Treasurer of the States:**

Interim Treasurer of the States.

**Team Leader, Comprehensive Spending Review:**

Team Leader, Comprehensive Spending Review.

**Senator S.C. Ferguson:**

Super, right, well if we could ... we will have to rattle on, I think, in order to get through all this but did think that we would call a comfort break at 11.00 a.m. and then that saves everybody scuttling in and out.

**The Minister for Treasury and Resources:**

We have effectively got until 12.00, 12.30 p.m. and we are going to obviously tackle the broad issues of the C.S.R. (Comprehensive Spending Review) and then particularly be are going to be drilling down on to the Treasury Department issues, so do you want to think about a time split between the 2?

**Senator S.C. Ferguson:**

Yes, we think that probably about 5-6 minutes on the big questions and probably about 3-4 on the Treasury questions.

**The Minister for Treasury and Resources:**

Each question, yes, okay, fine.

**Senator S.C. Ferguson:**

So we are measuring.

**The Minister for Treasury and Resources:**

Okay, that is fine.

**Senator S.C. Ferguson:**

Super, so what sort of society is the Council of Ministers aiming to establish, what is your vision of the Island?

**The Minister for Treasury and Resources:**

I think the first thing to say on this is that we have had the debates about the kind of society and Island that we are creating or we want to put in place within the context of the strategic plan and business plan. One important aspect of the strategic plan that was set out is that the States should be matching its income with its expenditure. We can only afford to fund services in the future if we have a strong economy and I very strongly believe that the Island's economic strength has come from a track record of not incurring debt, of matching income and expenditure over the previous decades. As difficult as it is for me to say to States Members, there is a risk that we depart from that established principle of year to year matching of income and expenditure, and that is why I think that Comprehensive Spending Review and the ... because of course it is a twin track process of running a comprehensive spending review and a fiscal strategy review at the same time and is proving to be quite difficult for some States Members and also because they are told certain things ... the public is finding difficult to come to terms with some of the issues that we are dealing with. Our public financial issues are not the same and should not be compared in the sense that we are seeing governments around the world cutting expenditure. Governments around the world are needing to sharply reduce government expenditure in order to pay down debt because their interest costs are rising.

[10:00]

We do not have anything like that and we have got strong public finances. We are, however, projecting within 2 to 3 years a recurring mismatch of income and expenditure. Your first question was what sort of society are you trying to create? Another quite difficult thing that I have got to say to States Members is, is that the

Island does have low taxes and high spend. It has high spend which is on the back of a very strong economy and very high levels of corporate tax per person, even after Zero/Ten, than anywhere else in the world. So there is this issue and there is this big debate about low tax and low spend. Well, we have always had low tax. I want us to continue to have low tax. I want the income for the States to continue to be high levels of income but you need to address your fundamental economic issues to deal with it. I think there is a big debate, the Comprehensive Spending Review and your examination is just the start of a long process that is going to run for 9 or 10 months. There is a debate about whether or not government should ... yes, we should collect money to pay for services but I think there is a debate to be had, and there should be a lively debate, about whether or not government goes the additional step and provides those services too in the sense of physically providing them. Those are the kind of tough questions that we need to ask. Constructive questions; not necessarily tough. These are the questions that we as a States need to examine once in a generation and the Comprehensive Spending Review is designed to achieve all that. Sorry, I have just done a sort of whole download of information on a fairly sort ...

**Senator S.C. Ferguson:**

So do you feel that government is getting too large for the size of Island we are?

**The Minister for Treasury and Resources:**

In some areas, yes, we have ... but I think these things are ... I think it is very difficult to pronounce in a Caesar-like judgment that we have too big government or too small government. We have in some cases fairly light government. We have quite light spending on areas. Quite a lot of the information, it would be quite interesting to share with the panel, of exactly where public money has gone in recent years. There has certainly been a shift in the last decade of putting much more money into income support and into welfare payments. Very significant amounts of money have gone into creating a better welfare society. While income support is criticised, millions of pounds are now paid to families with young children, to recipients who were, it could be argued - and justifiably so - below what is an acceptable standard of living and are now assisted by government to an extent that is far greater than ever we would have envisaged in Jersey a generation ago. There are some debates about that, there are gritty hard facts about the amount of transfer payments we are taking from central taxation, providing effectively a much more generous welfare society. That is the kind of ... if you want to have a debate about the high levels of spending then we are going to have to have debates about that kind of society; the kind of society that accepts a significant proportion of people who effectively receive benefits as opposed to being in productive employment. That is all quite hard to say and it is extremely sensitive but I think it is the kind of things that have to happen. We also need to be realistic in that one of the problems that I am tackling with in the overall public finances of the F.S.R. (Fiscal Strategy Review) and the C.S.R. is the requirement I think that we are going to have to face in having to put more money into some areas of spend, particularly in health care, and you have not heard me ... I think there is a question later on about whether or not there should be any departments that should be exempt from the Comprehensive Spending Review 10 per cent. No department should be exempt but that should not be translated as also saying that I do not believe that some new money is going to be required for particularly health care in future. Health need to deliver what they are currently doing for less, they need to make efficiencies, they need to reprioritise some of what they are doing currently in order to

reduce their budget and we need to get them into a fit state of efficiency and effective organisation to receive what I think are going to need to be more money in future to provide the new services that we as a community are going to require, whether that be more treatments, more medicines, et cetera, or different ways of curing people. At the end of the day we are facing a once in a generation challenge that I am signalling that there is a structural gap in income to expenditure of around about £80-100 million a year within 2 or 3 years. That is an honest download of information. We have do not have an officer budget responsibility with Sir Alan Budd but we do have an independent F.P.P. (Fiscal Policy Panel), we have a much higher level of transparency of financial information, we do not put forecasts that are unachievable, we do have G.A.A.P (Generally Accepted Accounting Principles) accounts, we show all of the facts in relation to our public spending, we also show very opening to our community what the likely increases in spending that are going to be required. That is what we are having a debate about. We are having a debate about good household keeping for Jersey for the next 5 or 6 years. We are not in a crisis situation that we are having to slash spending because we are dealing with a yawning public deficit and paying down debt. We are in a virtuous position and I want to keep us that way but I also want us to be realistic about some areas of inefficiency in the public sector and be realistic about some of the areas whereby we do need to put more money in.

**Senator S.C. Ferguson:**

But there are areas where government should not be involved. As part of this C.S.R. have you taken an overview of government and said: "Government should not be involved in these areas"?

**The Minister for Treasury and Resources:**

The C.S.R. is designed to do exactly that and that is exactly the debates that we need to have in the context of the 3 and 5 per cent. The 2 per cent should be ... and anybody arriving in Jersey with experience of the public sector anywhere else in the world, or the charity sector or the commercial sector, would say a 2 per cent cut is a standard efficiency that you should be delivering without really much debate at all. It should be done. There is lots of newsprint being printed and there is lots of airwaves being filled by people wanting to stop the Comprehensive Spending Review in its first stage. The 2 per cent is something that should just be delivered with almost no debate, frankly. Ministers should be telling their chief officers to say in 2011 there will be a 2 per cent efficiency cut, of which some will require cuts in services. They cannot all be delivered necessarily by just shrinking the myth of the civil servants relaxing behind their desks with their large expense allowance. All that does not really exist, there is a myth that there is efficiency. But the 2 per cent should be delivered and our real debate in Jersey and in the States, in Scrutiny and in the Executive should be about how we deliver the 3 and the 5 per cent. The 3 and the 5 per cent will not be delivered by efficiency savings alone, it will be cuts and that should be, as you quite rightly say, after an informed, intelligent debate about where the States should not be providing some things. The States provide some services which are less important and less valued by taxpayers than others. Our job is to make sure that we are taking taxpayers' money and directing it towards the services and the activities that the public really want.

**Senator S.C. Ferguson:**

Yes, in actual fact if you reckon that each taxpayer is contributing nearly £2,000 towards income support and benefits how you are going to tell the man who pays £1,500 a year in tax that he is transferring £500 further down the ladder? It is effectively being redistributed. Or the person who is paying £2,000 in tax and all of that is going into income support, how are you going to convince them?

**The Minister for Treasury and Resources:**

Taxpayers first of all need to know that the services that they receive generally are heavily subsidised in Jersey compared to most other places by corporate tax. We collect a significant ... even after Zero/Ten we collect a significant amount more per capita, per resident in Jersey from corporate tax than Guernsey, the Isle of Man, the U.K. (United Kingdom) than virtually everywhere else. My job, and I was at the hustings meeting last night at St. Helier where a questioner asked: "Zero/Ten is all bad, we should be taxing all financial services entities at 10 per cent." There does not seem to be an understanding among some people that somehow there is a whole amount of free money that can continue to flow into Jersey and to pay for everything so that we do not have to pay anything ourselves. We do need to take, as a society and as a community, responsibility for the things that we want. We did have a charmed existence for the period until Zero/Ten came in. We had an even greater amount of corporate tax in Jersey, just like the Isle of Man had free V.A.T. (Value Added Tax) that they had, our corporate tax was their V.A.T. and it paid for our services. We as a community have had to make that adjustment in Zero/Ten but we have had a strong economy on the back of it and we have got a vast amount of people who are in well paid productive jobs, both in financial services and all of the ancillary activities that flow from it. My job is to ensure that there is economic landscape, that there is the tax landscape, architecture, which continues to have that high level of corporate activity in Jersey that pays for the services that we all enjoy.

**Senator S.C. Ferguson:**

Yes, well now what would be the cost to the Island of failure to achieve your 10 per cent savings?

**The Minister for Treasury and Resources:**

As I said a moment ago the fact that if we look forward 2 or 3 years, if we look to the expected recurring deficit that has arisen as a result of the economic downturn having checked our income and public spending having risen faster than, in hindsight, it ought to have done, there is a recurring structural deficit of £50 million of income versus expenditure. That is the first issue. The second issue is that there are a number of expenses which I am arguing need to be properly accounted for and properly budgeted for in the future, putting in place proper contingencies, properly accounting for court in case costs, and there is going to be some growth required in areas such as health care. So the £100 million is almost my mid case, slightly pessimistic scenario that I have got to raise within £2-3 million. So therefore there is £50 million worth of savings and there is a proposal which will be in the form of the fiscal strategy review paper published next Monday, there is going to be consultation on tax rises of between £50-60 million. Now, if I fail to deliver the £50 million cuts then invariably the tax rises that are going to be necessary will be higher.

**Senator S.C. Ferguson:**

Given that the experience of other economies is that the balance between cuts and tax rises should be 80/20 not 50/50, how are you going to square that circle?

**The Minister for Treasury and Resources:**

You are not comparing, if I may say, apples and apples because in the U.K. the public is already taxed to a much higher extent than they are here, with V.A.T. probably rising to 20 per cent, maybe the bands of V.A.T. being looked at, national insurance twice and a bit more what it is in Jersey, a higher rate of tax of 50 per cent, a higher basic rate of tax, much higher duties. There is limited scope, it is going to be necessary but there is more limited scope for tax rises in the United Kingdom than there would be here on an economic comparison. Also there has been almost largesse imprudence in terms of public spending in the U.K. in the last 10-15 years.

[10:15]

We have seen increases in public spending but we have not been as profligate as some other countries. So the extent to which our problems ... we are not comparing like with like. So it would be unwise to compare the Canadian experience with their big deficit that they saw when they required to do their fiscal consolidation or the U.K. experience or anything like the sort of Greece or Spain ...

**Senator S.C. Ferguson:**

The Australian one was quite interesting though.

**The Minister for Treasury and Resources:**

I do not recall exactly what that is but Australia also has ... it is a more highly taxed society than we are. There is a debate to be had about the split, and you can look at it in a number of different ways. I think that £50 million is going to be about as much as we are going to achieve in terms of savings and efficiencies. Maybe this will be a longer term desire of the States consulted upon by the public. We have got an election next year; maybe the community is going to say: "Look, we want you to go further than that. That is the line in the sand, we are prepared to take the kind of society that does not have a strong welfare system that does mean that we are having to pay more for our health services, that we are going to accept a lower standard of living in terms of the services that we receive." I think that £50 million over 3 years is manageable, I think it is deliverable, I think it is about as ... in our system of politics, which you do not have strong government with a Treasury Minister that has collective responsibility within a Council of Ministers that can put forward a proposal and guarantee to get it through the States, we are a coalition of independents in a minority, that is going to be extremely difficult. It is not me that has agreed, or my predecessors that have agreed, spending increases, it is the States who on numerous have overridden the recommendations of the Treasury Minister and spent more money and deprived the Treasury of income that it wished to save. I do not want to rub salt in any wounds but I asked the States to agree duty increases last year because I was worried about the deficit. The deficit is too high this year, we are expecting a deficit, no surprises, no news, but I would remind States Members that the deficit this year is going to run in the region of £92 million a year. That is too high, and it is too high because spending was too high and because we did not get the income. Now, I am prepared to accept one year of deficit at that level but I am not prepared to accept a second one.

**Senator S.C. Ferguson:**

Yes, we could have an interesting talk on the law of diminishing returns but we will not.

**Connétable D.J. Murphy of Grouville:**

Chairman, can I just ask a question. How do you come to £92 million, we have been working on a forecast deficit of about £50 million?

**The Minister for Treasury and Resources:**

Can I just be assisted with the numbers here? That is in the forecast deficit for 2010, none of this is new. I think the difference is, Connétable, the stabilisation fund allocation. We agreed an allocation from the stabilisation fund of £58 million in 2010 and we have pencilled in obviously about another £50 million for 2011. So some of it ... there is a structural deficit element of £50 million in there and there is a £50 million because of the sharp decrease in revenue on the back of the low interest rate environment.

**The Connétable of Grouville:**

So if we did not have the stabilisation fund this deficit would be £92 million?

**The Minister for Treasury and Resources:**

It quacks and it waddles and it is a duck, it is £92 million. We are funding half of it from the stabilisation fund. We are funding the other half of it from the consolidated fund. That is clearly laid out that that includes, for the avoidance of any doubt, £10 million additional money for the town park, £4.5 million lost revenue from gin and tonic and ... cheaper gin and tonics or at least the gin bit of it, and other spending increases that the States have put through. Now that is too high. I have made it very clear it is too high and I am not happy about it but it is manageable for one year, it is not going to happen for a second year.

**The Connétable of Grouville:**

Do you not think you ought to really make that a headline figure the £92 million rather than the £50 million, the perspective outside there is that £50 million is our deficit figure?

**The Minister for Treasury and Resources:**

No, let us be clear, I would not want any headlines to be written on the basis of just a few exchanges of words. Let us be clear, we have a structural expected deficit of £50 million recurring in 2012 and beyond, that is because income was checked because of the downturn and spending went up. So forecast there is a £50 million recurring deficit. That is different from the deficit from 2010. All governments around the world are seeing deficits in their public finances in 2009, 2010 and 2011. These are large numbers for us but they are manageable and they are funded by cash. I would remind you that we have just published a £72 million surplus in 2009. So we need to be very careful, these are not new numbers, they are already set out very clearly. I have warned that those are the numbers that we are going to be incurring but I am determined that we check them, and I am determined to put forward a business plan which reduces that deficit down next year. I do not want to see a deficit greater than £50 million next year.

**The Connétable of Grouville:**

I think we would all agree with that one but I think it is a bit misleading to say that you are drawing £50 million out of the stabilisation fund in order to keep the deficit at £50 million, which is what you are saying.

**The Minister for Treasury and Resources:**

No, I have never said that. I have never said I was funding it ...

**The Connétable of Grouville:**

Sorry, it is a perception.

**The Minister for Treasury and Resources:**

Yes, these are clearly numbers. Caroline, do have the published business plan?

**Team Leader, Comprehensive Spending Review:**

Yes, I was just looking at the business plan and they are exactly the numbers that were in the business plan it as always ... the use of the stabilisation fund was exactly for that, to counter for the economic downturn.

**The Connétable of Grouville:**

Okay, but the fact is we are spending £92 million more than we are getting in in our income. That is the end of the day, is it not?

**The Minister for Treasury and Resources:**

That figure there, that is a well used chart so there no ... and that figure there was decreased because of the town park, decreased again because of the duty increases and decreased again because of the numbers. It is clearly set out in the schedule of the income there which set out exactly what we were doing. 50 of it is due to the exceptional write-downs that commercial entities had in 2009 because of the savage cut in interest rates which killed their income. That is going to return so that is not a problem. You would not make a knee jerk Treasury decision on the back of a one year figure because of the worst financial crisis we have seen since the Second World War.

**Senator S.C. Ferguson:**

Right, now pensions and terms of reference for current or future employees are an area for long term savings. What changes can we be expecting there? What would happen if wages were pulled back to 2005 rates?

**The Minister for Treasury and Resources:**

Okay, first of all there are 4 major reviews to deal with the detail of the Comprehensive Spending Review and one of the most important reviews is the terms and conditions review which is going to look at the pay and rations of every single public sector group from the top to the bottom. We are going to be looking at grading structures, pay, the way that jobs are evaluated, overtime allowances, pay supplements, standby allowances, all allowances, sick pay, the whole lot is going to be looked at in addition to the ...

**Senator S.C. Ferguson:**

Restrictive purchases?

**The Minister for Treasury and Resources:**

This is the remuneration so it is going to include to the extent that restrictive practices are there, but it is going to effectively look at how the public sector in Jersey are paid and what the competitive comparison benchmarking is of that. With an organisation that is employing so many people and such a very significant amount of our money is spent on wages and salaries, this obviously is going to be something that is being looked at and has to form a very large part of the Comprehensive Spending Review and the target to reduce £50 million. There will be changes on manpower levels and I await the outcome of the review on terms and conditions which should inform what our policies for pay should be in the longer term. I know that this is a subject of public concern and the Chief Minister and I published last week high level salaries and that is a good thing. That is something we planned to do, it was not on the back of the U.K. announcing it the week before, we had been planning on doing it for months. The Treasury Minister had signed that off months ago. I can say in relation to what we would do if we pulled back wages to 2005 rates, I have got a very interesting table here, wages and salary costs have increased by 10.6 per cent in 2005, in other words if we reduced the pay awards back to 2005 that would be effectively a 10 per cent pay cut for public sector workers. I think that for the avoidance of doubt, you have asked me the question, that would be acceptable in terms of a policy that we could put in place or should put in place at this stage. I want to be informed about the pay and rations review that is going to be carried out in order to help us put public sector pay on a sustainable basis. I have to say that looking at the comparison of pay against earnings and inflation, the real very generous pay settlements for some pay groups were not in recent years, they are not in the year 2000s, they go back to the 1990s.

**Senator S.C. Ferguson:**

Yes, why have you been so late in getting this review in process, because it was in the business plan for 2009?

**The Minister for Treasury and Resources:**

I am not going to defend that, it is simply a factor that we have paced ourselves in relation to running ... Treasury is a very small team, this is also a small team really in the Chief Minister's Department, we have spent most of last year dealing with the consequences of the economic downturn and we turned our attention to the Comprehensive Spending Review towards the end of last year. The team has been put in place. We have found it quite difficult to deal with the 2 per cent. I think we have spent too long on dealing with the 2 per cent and we still have not heard the end of the 2 per cent yet. We are now turning our attention to the delivery of the 3 and 5 per cent of which this is ... it is on track, we have now the independent spending commissioners who I wanted to bring in. It feels a bit like Mr. Osborne and Mr. Alexander have been copying some of what we have been planning because we have got concepts of bringing in independents, we have been learning from the experience of Canada, you will recall the I.M.F. (International Monetary Fund) Deloitte's presentation that we did back in October where we set a lot of the planning for the Comprehensive Spending Review, and really we are just going through the process now. So it is not really late, it is on track and it will be delivered in time for the important decisions later on this year.

**Senator S.C. Ferguson:**

Some of the submissions we have had from members of the public have suggested a 15 per cent cut in salaries of the top few per cent. Has that come into your calculations?

**The Minister for Treasury and Resources:**

Chairman, it would be wrong for me to conclude on my views of public sector pay before the review has been done. That would be to forecast. What I will say is that I am acutely aware of the need for public sector pay restraint at all levels and there are issues at pay levels which are of concern to me at various different levels of which some are at the high level too.

**Senator S.C. Ferguson:**

Fair enough.

**The Minister for Treasury and Resources:**

What I would want to do is that I want ... I do not think that ... I am not against high salaries for performance. What the public do not like is high salaries for poor performance and high wage settlements for some pay groups when there is services that the public receive which are less than what they would expect them for the price that they are paying. So I have always been of the view that a public sector settlement, a good one that delivers high levels of productivity is a good deal for the employer and the public. So I am not wedded to a slavish issue about pay, I want to see value for money and productivity.

**Senator S.C. Ferguson:**

Yes. What appetite is there for the abolition of individual programs rather than attempts to slim from the top across the board? Is there a will to act structurally?

**The Minister for Treasury and Resources:**

There has got to be and we have obviously been spending a lot of time in the last few days and weeks on how we can persuade, encourage departments, Ministers, States Members into getting on board with the Comprehensive Spending Review. I think the Comprehensive Spending Review is an opportunity that you do not do every year. It is not an opportunity that you can look at spending like in this level of detail every year; you only do this once every 10 years and there should be some healthy constructive discussions within departments for changing the way that they do things.

[10.30]

I do not know whether you have any particular programmes in mind but we want to empower to allow individual departments to think of all sorts of ways that they are going to reduce their budget. My objective, I do not want to be as brutal as the Canadian Treasury Minister that basically just went around banking every single contribution to his 10 per cent cut in a brutal way, I think that we have got time and we have got a way of doing things in Jersey which reaches, hopefully, some consensus. But I have to be serious to people, there is a carrot and a stick approach to this and departments have got to deliver ways to deliver their services for less and

they have got to deliver their 10 per cent. If we somehow say that there is a no go area we are not going to deliver.

**Senator S.C. Ferguson:**

If one department is dragging its feet then the rest are going to drag theirs too, surely? What appetite is there for ...

**The Minister for Treasury and Resources:**

What is quite clear is that all Ministers want to be treated equally and certainly I can say - I am not going to reveal the individual discussions and name names within the Council of Ministers - what I have been quite struck with is that most Ministers want to deliver the 10 per cent but they want all Ministers to be treated fairly. What they do not want is they do not want some departments effectively to be let off, not having to deliver or try to deliver their 10 per cent. We are all in this together, we all think that it has got to be done. You have got to start from those ... the Canadian experience meant that the Treasury set out and got acceptance of an overall budget spending envelope which you have then got to stick to. So one way or the other if you do not deliver the 10 per cent in one area or they have brought forward proposals that are unacceptable, they have either got to go back to do them again or you have got to find somebody that is going to deliver them.

**The Connétable of Grouville:**

Please contribute in if you ... you are smiling, Assistant Minister for Health.

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

Minister, the other issue of course is that 2 per cent, from an economic perspective, across the board might make sense but 10 per cent across the board might not make sense therefore some departments might have 20 per cent, Health for example or Education, whereas other departments, T.T.S. (Transport and Technical Services), might only have 3 per cent for the bigger cuts. So what, from an economic basis, made you think 10 per cent across the board for all departments rather than higher cuts in some and not in others?

**The Minister for Treasury and Resources:**

You use the word “economic”, from an economic point of view I am not sure I understood the use of the word “economic” but maybe ...

**Mr. M. Oliver:**

With politics you mentioned earlier in terms of fairness.

**The Minister for Treasury and Resources:**

Right, okay. The starting point has to be what would you do, department, honestly as your 10 per cent proposal? I suppose the difficulty is that 10 per cent equals £50 million or thereabouts, we are targeting £50 million worth of savings and we are asking departments to come forward with proposals for delivering their £50 million. Unless you know what they would do how do you know that you do not want to do it? The second phase is, if we have for example, let us take the mythical Department for Administrative Affairs which does not exist but I will just name it Department X that is coming forward with proposals, they have got £100 million budget, for their £10 million worth of cuts and 6 are not deliverable, Ministers are not prepared to take

them, what you have to do with that department is to first of all have a discussion to say ultimately if you are not going to deliver that 6 what 6 are you going to be delivering? If you carry on down that road that you just simply cannot find 6 then you have got to go back to the Council of Ministers table and say: "You are going to have to take another 6." That is going to be the iterative process. I do accept that at the end of the day it might not be 10 per cent across all departments in the final decision but that is going to be a decision of the States Assembly, that is going to be a decision of the Council of Ministers to propose to the States Assembly and I cannot prejudge the outcomes of the reviews. I think there are some departments that could take bigger than 10 per cent but until we have done the work I cannot do that. We are now on that work and that is going to be the detailed examination together with the independent reviewers, together benefiting from the substantially reviews that are going to be carried out on these departments. They have never seen anything like this and it is not done just by then, it is going to be done with external central scrutiny, with some help from some brought in expertise that know how these things are done in other places. Once we know that then there will be an intensive amount of work, which will be effectively the September and October time. The other thing that we are going to do, which we have had some very healthy discussions within the Treasury and C.S.R. team, is how do we engage the public in a constructive debate? We are going to try and publish some sort of outline idea of how we would deliver 10 per cent in terms of some big ticket items. I do not want death by 1,000 cuts, I do not want just sort of a bit here and a bit there, ending up with the kind of ... I think we did make some cuts in the spending rounds in 2005 which we have lived to regret, if I am honest. I was not part of that as the Treasury Minister and I am not criticising anybody but with the benefit of hindsight you might not have done some of the things that you would have done. We want to avoid effectively taking out resources that end up costing more problems than they solved. Hugh, do you want to say anything. We have spoken at long length about some of these issues.

**Interim Treasurer of the States:**

I think the way we are recommending departments to look at this is ... most of them have found efficiencies savings around 2 per cent in 2011, not in all cases. It is a good discipline to continue to look for efficiency savings so we are encouraging them to look for further 2 per cent in 2012 and 2013 which, if it is achieved, would give us 6 per cent and that leaves 4 per cent to find from the strategic initiatives. I think the view generally among those involved in this process is you cannot expect every department to contribute equally because some are providing very high priority services, some perhaps less so. So the other 4 per cent is likely to be weighted towards certain services, certain departments that can make the savings more readily than others.

**Senator S.C. Ferguson:**

Yes, because what we have noticed on the 2 per cent is that some departments have just said: "Yes, it is part of normal business" and some appear to be taking the easy route and cutting in the front line. This does seem to be a problem that you are going to have to deal with and then further on to that it is how far ... you talk about engaging the public but what about engaging the workforce at the front line, have you managed to do that?

**The Minister for Treasury and Resources:**

The Treasury is not sort of command and control of every department. Managers are appointed and each department has an accounting officer, a finance director, some with very large managements. Because Eddie is Assistant Minister for Health as well, I have been very impressed to walk around when I have visited people in the hospital in recent weeks to see every staff notice board that I have seen with: "Bring forward your ideas for the Comprehensive Spending Review." Our number one priority is clinical - I cannot remember exactly what the words are.

**The Assistant Minister for Treasury and Resources:**

Yes, there is 2 things we are asking staff, one is for ideas to make the hospital a safer place and the second one is can we do what we do cheaper?

**The Minister for Treasury and Resources:**

A real engagement, a really impressive engagement with staff and workers across the board. Having spoken to some nurses, having spoken to some porters, I went to a modern manager presentation where the brightest things in the States of Jersey are trained for the future manager programme, saw some presentations for some health managers coming forward with some proposals. Yesterday I was in the H.R. (Human Resources) Department talking to one of the outside people that comes and judges the modern manager programme. She told me of a gynaecological - not that I know much about these things - lady who works as a nurse, a degree level lady who works in the gynaecological section coming forward with an idea of changing the way that the booking process for the way that you come and take pictures of babies when they are in their ... forgive me.

**Senator S.C. Ferguson:**

Ultrasound.

**The Minister for Treasury and Resources:**

Ultrasound, yes. She had come up with a proposal to completely reorganise the way that that was done. I did not ask to see her, I was just popping up to go and see the head of H.R. and suddenly I had 5 minutes of what she had seen today and how impressed she was. So clearly that is some impressive engagement within the Health Department where staff are going around caring about money and thinking about how they can deliver their services more efficiently and better. That is exactly what we want to see. Having known T.T.S. for a long time I know that there is some very good work going on in T.T.S., some engagement with some managers there as they move to their new facilities in the energy from waste plant, there is some really good ideas coming from the engineering level upwards in terms of engagement. That is really encouraging. I have also sat with some of the non executive departments concerned with the court service. Law officers, all of them, are coming up with constructive ideas about how to deliver their services for less.

**Senator S.C. Ferguson:**

What sort of percentage of the ideas are you getting from the front line people then?

**The Minister for Treasury and Resources:**

Well, it is impossible to say, you would really need to ask the individual ...

**Team Leader, Comprehensive Spending Review:**

I agree, it is very difficult to say. We are talking with all of the departments and the management teams are compiling their responses but what of comes all the way up. I would hope maybe not so much on the 2 per cent again. I would again stress that the 3 and the 5 are the biggest ones but ...

**The Minister for Treasury and Resources:**

But that is what they are talking about at the moment, is it not? They are planning. Departments have to now ... they are working on their submissions of how they are to deliver 3 and 5 per cent. You can sense the departments that are taking this really seriously. Some departments are taking this as an opportunity to say: "Look, we have got this opportunity to change the way we deal with things, we have been frustrated in not being able to make change in the past." I was struck that people are also understanding that to change the way we do things is going to require some upfront restructuring investment and we for the first time said we are going to make that investment possible if you can save £3 million in 3 years' time and you require an investment of £1 million next year to do it, we will help you do it. We will put strict rules around it, there will be tough oversight and governance and all the rest of it but we will help you do it. That is the kind of unlocking of the potential.

**Senator S.C. Ferguson:**

Are you getting support, for instance, in fields like procurement? Is there a real incentive for that?

**The Minister for Treasury and Resources:**

Procurement is a very good example whereby that is within the Treasury home patch because procurement is now ... we are creating under John Richardson the new Proper Resources Department which consists of H.R., I.S. (Information Systems) procurement, property. There is a lot to do in these areas. In procurement we spend, we think - well we do not think, we know because we have excellent accounts - we spend just over £100 million a year on non staff costs, not including capital. We think there are big savings that can be delivered in relation to the way the States buys things and uses the buying power of the States of Jersey much more effectively. That is why I am asking the States to put in now ... I was so clear that this is a part of the C.S.R. that is going to be delivered, the 3 and the 5 per cent: "I do not want you waiting until 2011 and 2012 to do that, if you think you can buy smarter and buy better and we can put in place better professional buying, let us do it straight away."

**Senator S.C. Ferguson:**

But there has been a reluctance to buy into that basic proposal, has there not? The 600 purchasing cards they have in Health.

**Interim Treasurer of the States:**

I think there is as number of issues really. Until you offer those doing the procuring an alternative and better way they are going to carry on doing it the way they have always done it. You have to resource a central team to establish things like framework agreements with better prices, better deals, which they can then use. I am afraid it is a case of spending money to save money and is basically what is now being proposed and a proposal is being put forward precisely to do that. To create a larger central team that can then starting building the process that will save money.

[10:45]

Purchase cards in themselves are not necessarily a problem as long as they are used to buy things from the right sources rather than the wrong sources. It would be better to have purchase orders and all these things and better controls but you can achieve a lot just by making people buy from the better value sources. That is what we really need to achieve initially.

**Team Leader, Comprehensive Spending Review:**

On top of the money that is being requested in the 118 there is a scheme in Health in the savings within an invest to save and a saving ... a pay back of £750,000 in procure to pay. That is one of the pilot projects that procurement are launching and going ahead with so there are 2 phases there.

**The Assistant Minister for Treasury and Resources:**

The idea if you can get it to work in H.S.S. (Health and Social Services) you can roll it out elsewhere. Because it is the most complex department. You cannot do it the other way around, you cannot make it work in a similar department and translate that to Health and Social Services, if you can make it work in Health and Social Services you can transfer it to other departments.

**Senator S.C. Ferguson:**

Yes, although there are 2 sorts of purchasing, is there not, in Health? There is the bog standard stuff and the specialised stuff.

**The Assistant Minister for Treasury and Resources:**

Yes.

**Senator S.C. Ferguson:**

So it is almost a 2-tier system.

**The Minister for Treasury and Resources:**

There is significant opportunities to piggyback on relation to N.H.S. (National Health Service) and contract. N.H.S. has become a much more efficient organisation in the last 10 years. It has had a lot more money spent on it but in terms of having better buying and better procurement we can learn a lot.

**Deputy N.J. Noel:**

At H.S.S. we had the N.H.S. over last week as part of that process and it is ongoing, so we can tap into their buying power.

**Senator S.C. Ferguson:**

Right. The C.S.R. has been a very important piece of work but it is also very complex to achieve, do you feel that your timescales are appropriate? For the 2 per cent, it is a bit of a push and then the overall 10 per cent.

**The Minister for Treasury and Resources:**

I think it is tough but it has got to be delivered. You asked me earlier about the consequences of failure. I am not prepared - and I am happy to go on record - to put a business plan to the States with a deficit which has a greater deficit than £50 million

for 2011. I am not prepared to do it and I will do everything I can in order to close that gap. I am confident about Jersey's future, I think there is a lot of work to be done in relation to our business tax, which we are also going to be publishing on Monday, I am confident that we are going to find a way through the challenges that we face but we have to live within our means and drawing down more than £50 million from the consolidated fund or the stabilisation fund, it does not matter which fund we take it from, I am not prepared to see a deficit greater than £50 million next year and I want a plan to eliminate it within 3 years because that is the prudent approach that we have done in the past. If I am to do that then the 2 per cent has to be delivered next year and I will be looking for some more in terms of potentially some user pays charges, where there are services which are not justified in terms of being funded by the taxpayers and I will be looking at some tax rises in order to deal with bringing down the deficit to £50 million next year. So we have got to deliver and 2 per cent should be ... I will repeat again, a 2 per cent efficiency saving for one year should be something that there really is not that much debate around. This is about good managers running their organisations properly. So I do not accept the shroud waving accusations that have been put forward that 2 per cent is the end of the world and axing frontline services. Run badly by departments it will result in that, but run properly it would not. The 3 and the 5 have got to be delivered over the 3 year period in order to eliminate that deficit. The alternative is to start drawing down on our non-stabilisation fund and non-current account savings and I am not prepared to do that.

**Mr. M. Oliver:**

There is another alternative, of course, which is to borrow. Intellectually what is your problem with borrowing over the economic cycle?

**The Minister for Treasury and Resources:**

We are a small place and small places that have a single focus of their economy are more vulnerable in the event that that economic activity falls into difficulty. We will have drawn down, over this period of economic uncertainty, probably in the order of £150 million from our reserves once the crisis is over. That is borrowing from our savings. I want to see those borrowings repaid in our stabilisation fund and a plan to put money back into the stabilisation fund. I doubt that the crisis that we have seen in the last few years is the last financial crisis we will see. It will be different the next time but as certainly as night follows day there will be contraction in the global economy in the next few years and we need to prepare ourselves for it. What we can do is we will end the economic downturn with no debt. What would be the position if I would be sitting before you today dealing with a situation of needing to fund £2 million worth of debt? That is not a situation that I think our community would accept. We have never done it in the past and I do not believe that we should start doing it now. What I am not against is I am not against States borrowing for investment which provides a return. That has always been my position. If the energy from waste plant would have been an income generating asset I would have had no difficulty in borrowing, but it is not. It was a necessary spend of which there is history attempting to be rewritten about the value for money for it and all the rest of it, it still was required in my view and is required, and is meaning that as of the start of the energy from waste plant the capital has been written off and been paid in one year. Taxpayers in Jersey get no bin tax, the Conservatives have just abolished that one in the U.K., they get their disposal for free.

**Mr. M. Oliver:**

So if you do not make the 10 per cent of cuts ...

**The Minister for Treasury and Resources:**

Apart from collection ... I did not say collection I said disposal.

**Mr. M. Oliver:**

Can I just probe a little bit more? If you do not make the 10 per cent of cuts, you do not want to borrow any more from the strategic reserve, you do not go to the money markets, the only other alternative is to put up taxes further if you cannot reduce ...

**The Minister for Treasury and Resources:**

That is clear. So if I am not successful, which I think we should be successful, in delivering the £50 million then tax rises will be higher than otherwise they would already be.

**Mr. M. Oliver:**

The implications of that?

**The Minister for Treasury and Resources:**

I do not think that is sensible economically. I think that we are going to be asking for potentially £40-60 million worth of taxes. I do not know the full extent of the outcome of the business tax review. For the avoidance of any doubt, if we can find a way of getting more corporate tax back, if we can find a way of taxing foreign corporations here, not dealing with the issue of the underlying financial services activity which we offer tax neutrality, then taxes will go up, it is as simple as that. States Members should not be surprised by that. They have elected me to do the job of the Treasury Minister, I set out what my store was and that is my store. That is what I think the public would want us to do. I think the public do not want to pay more taxes because the States cannot find £50 million worth of savings.

**The Connétable of Grouville:**

You made a big play about not borrowing, and I quite agree with you on that, however there are anomalies cropping which we have picked up during our course of interviewing various people. For instance, in the Social Security Department there is a £1.4 million saving which the description of is funding of the invalid care allowance benefit to be transferred to the Social Security fund. Okay, fine. The impact is the Social Security fund will eventually require an increase of contributions to fund the increased expenditure of the fund arising. That is, whether you like it or not, a form of saying: "Right, put it off and we will defer it and pay for it tomorrow."

**The Minister for Treasury and Resources:**

It is a good question. I would first of all like to say that would be a contribution at the margin, it is insignificant. What there is - and this is quite a proper approach in relation to Social Security and central taxation - is we are looking at ... Social Security is effectively part of government. We keep it as a separate fund and we have kept the sanctity of the separate fund unlike other places that have effectively merged Social Security into central spending. When you look at some of the benefits that are paid, as contributory benefits versus non-contributory benefits, there are some which you can rightly say should be charged to all of the social security contributions which we

pay. That is an example. It is an anomaly that it was not funded from Social Security. But there is no hiding it; it is a benefit that is a perfectly appropriate benefit. It is a benefit that helps people with invalid care issues and that should be paid for and funded by Social Security.

**The Connétable of Grouville:**

Yes, I am not talking about the justification for it, what I am saying is that it seems to me from the description and the impact that we are saying that we are going to use this as part of the 2 per cent, which to me is very odd.

**Team Leader, Comprehensive Spending Review:**

Can I just say there was a late change by the Minister for Social Security for exactly the reason that ... I think he felt that this is a different funding route, not necessarily wrong and something that you will look at. In fact there are other opportunities or possibilities of different funding routes being raised. Whether it is user pays or whatever, I think ...

**The Minister for Treasury and Resources:**

But that is the draft proposal and it was superseded. I have been totally transparent with you. You have seen all of the iterations. You have seen some of the angst that has gone on with Ministers putting something in and taking it out and finally with a set of draft proposals. That is an earlier draft.

**Team Leader, Comprehensive Spending Review:**

I think, in fact, that was the last change by the Minister for Social Security.

**The Minister for Treasury and Resources:**

So that has been moved out.

**Team Leader, Comprehensive Spending Review:**

So that has now ... I have to say it is something that I think that they will look at for the 3 and 5 but for the 2 per cent they have now moved that out.

**The Connétable of Grouville:**

Okay, my impression of it is that if they are resorting to doing this on the 2 per cent how far will they have go on the 3 and the 5 per cent? It is going to be a lot more difficult, is it not?

**The Minister for Treasury and Resources:**

What I would urge you not to do, which I do not think you are, is just because a department is coming up with the cutting of an extremely sensitive public liked service, I do not think we should just then be saying: "Oh well that means that they cannot deliver anything else." Or an indication. There is always going to be some game playing. I am going to say something quite controversial, I think that the issue of the lifeguards at Havre des Pas swimming pool - I understand that one of the lifeguards saved a young kid from getting into difficulty at the weekend - I think is very difficult for Education to continue to propose the cutting of the lifeguards as a lower priority service at Havre des Pas swimming pool. Maybe they can be better employed, maybe they can be better deployed in working as part of the Fort Regent gym facilities or whatever they do in their spare time but I think we should not then

say: “Oh, just because you propose that then you cannot do more than 2 per cent.” I do not accept that.

**The Connétable of Grouville:**

No, I am not saying that. What I am saying is that to me it stuck out has a huge anomaly where you are claiming 1.4 per cent and it is not a saving at all, it is in fact a transfer from one area to another area.

**The Minister for Treasury and Resources:**

Some States Members will and what I would say is that these are not proposals. They are not the final adjudications. They are probably likely to be looking very similar to the final ones that are proposed but we genuinely have put them in the public domain in order to get feedback from them, and if they are wrong and if they are not deliverable then departments need to go back and find an alternative way. What they are not going to get is: “Oh well, you are going to be let off.” That is not on the table. That cannot be achieved otherwise if we start that we will not deliver anything.

**Senator S.C. Ferguson:**

How are going to enforce it? You have said there is no collective responsibility, how are you going to enforce it?

**The Minister for Treasury and Resources:**

By charm and persuasion, Chairman, and by the never-ending questions that will come from the Treasury to say: “Come on, do you really think I will hold ...” I have held one-to-one meetings with most Ministers about their savings, I am certainly going to spend a lot of time on this in the next few weeks. I am going to sit down with each individual Minister with his or her proposals, see how they are doing in terms of public reaction, see whether we can get an agreed consensus on the way forward, but there is no flexibility on the 2 per cent. It has got to be across the board. I am going to argue pretty fiercely for that. There is a debate, as we have said, about the 3 and the 5.

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

But these proposals are coming from the Council of Ministers, is that not right?

**The Minister for Treasury and Resources:**

The business plan is proposed by the Chief Minister, yes. But effectively it is always the Treasury that does the number bits and certainly the way that the Chief Minister and I work there is no silo between us, we work very closely together and I have to say Ministers have been incredibly co-operative. Nobody likes having your budget cut, let us be honest.

[11:00]

But there is a sense that we are going to find our way through this and the vast majority of Ministers have been very co-operative and understanding and are committed to the overall process. Because they also know the tax issue.

**Deputy T.A. Vallois:**

That is the Ministers that we have at the moment. We have an election next year and what you may propose for the 3 and the 5 per cent may change drastically.

**The Minister for Treasury and Resources:**

Does not mean to say we should not do it, though.

**Deputy T.A. Vallois:**

No, I know.

**The Minister for Treasury and Resources:**

There will be calls, and I heard election candidate at the hustings last night saying they cannot possibly decide on the 2 per cent until he knows what the 10 per cent is. I do not quite know how that logic works. We know we have got to deliver the 2 percent and we have got to deliver 10 per cent. We do not know how we are going to deliver the 10 per cent yet, that is part of the political debate which will happen over the next few months. There should be widespread political debate about this. There should be detailed examination of the proposals by you, by scrutiny, we are going to be doing some public meetings, we will be doing some issues about C.S.R. overall. As the Interim Treasurer said, one way of approaching this is to deliver 3 years of 2 per cent and then 4 per cent of the big political issues where we will have to make some big decisions about some big areas of public spending. Those will be live engagement. Osborne has said he wants to engage the public, we have said the same.

**Senator S.C. Ferguson:**

We have certainly had a number of submissions from the public which we will obviously publish with our review and you can have them to look at.

**The Minister for Treasury and Resources:**

They are public services so it is the public's view we want. I was quite amused with the U.K. publishing all their coins data online and all the rest of it. Sort of all this indigestible information. We have a much higher level of engagement with our community here and a much higher level of information of what we spend in Jersey so the public can have their say and that is a good thing.

**Senator S.C. Ferguson:**

Right. Now I am going to call a 10 minute break. We will reassemble at 11.17 a.m. There is coffee.

[11:02]

[11:12]

**Senator S.C. Ferguson:**

If we could resume, that is super. Are you ready to roll, Rebecca? Super. Right. Now we are talking about the C.S.R. What is the allocation of responsibility? Who is politically responsible for the delivery of this policy?

**The Minister for Treasury and Resources:**

The Chief Minister is responsible for putting a business plan but effectively all of the work ever since Ministerial government has come in effectively is done by the

Treasury. In a sense there is no sort of silo between the Chief Minister's Department and Treasury at all. The Comprehensive Spending Review team is based within the Chief Minister's Department and obviously the Treasury in its new strengthened form is now a Treasury Department. I mean I lead most of the sort of Ministerial discussions on C.S.R. but effectively the Chief Minister and I do the job together. Ultimately he has got to agree and I can assume that is the reason why Deputy Southern has put a vote of no confidence in him, because he is effectively putting ... it is his policy which I am getting on and delivering. I do not know, obviously I agree with it and I have been part of the formation of it. From a responsibility point of view, from an officer point of view, effectively the co-chairs, if you like, of the C.S.R. process are the Interim Treasurer and the Chief Executive of the States.

**Senator S.C. Ferguson:**

Yes, so what is going to be the cost of failure to implement the agreed savings, for politicians and officers in positions of responsibility?

**The Minister for Treasury and Resources:**

Well, I am asking the Corporate Management Board and I am asking Hugh and the Chief Executive to deliver proposals for delivering 10 per cent. That is part of the objectives and ultimately this is an issue for the Chief Executive of the States. The political policy as instructed by the Council of Ministers is to deliver 10 per cent. Now there are political ... I do not want to say that they are responsible for political policy issues because they are not, that has to be a matter for Ministers, but obviously as far as putting the right resources, the right team together, that is a matter for the Interim Treasurer and the Chief Executive. Do you want to say anything?

[11:15]

**Interim Treasurer of the States:**

Once the savings are agreed we will obviously be monitoring very carefully the delivery of those savings. Our improved reporting process will ensure that it is properly monitored.

**Senator S.C. Ferguson:**

How are you going to measure the savings if you have got departments which do not know what things cost?

**Interim Treasurer of the States:**

Well, they are simply going to have the budgets taken away from them so that will ...

**Senator S.C. Ferguson:**

I mean we talked about Health earlier. Now there is evidence that Health really do not know what anything costs. They have to do a bespoke piece of work to estimate the cost of any particular service so, you know, you are starting from a sort of negative position, surely, there?

**Interim Treasurer of the States:**

I think it is a bit strong to say Health do not know what things cost.

**Senator S.C. Ferguson:**

Well, this is the evidence that we have seen. There is the evidence of the Auditor General who did a report on structure when the report said that we cannot evaluate the value of ... the extent or the percentage of management costs because there is insufficient data, and the evidence that we have had in previous hearings is that if they want to know what a particular service costs then they do a bespoke piece of costing. There is no standard costing anywhere, so how are you going to measure the savings?

**Interim Treasurer of the States:**

I think the finance function within the Health Department is providing the management of the department with the information it needs. The financial information is correct and accurate so far as I have seen. The difficulty seems to be the ability of management to then use that information to manage their costs. That seems to me the problem, that they are knowingly allowing costs to exceed their budget in a number of areas, then offsetting that by not spending money on other areas. I think that the new management in Health will need to address that.

**The Minister for Treasury and Resources:**

This goes to the heart of some of the changes that Hugh has been putting into the Treasury, is to improve the in-year financial monitoring of States spending, essentially. Because I think that it is fair to say that in years past once departments effectively got their allocation of cash in the business plan they were then given that cash and apart from a Ministerial quarterly expected versus actual and a concentration simply on the bottom line as to whether or not the department was going to be in an overspend or an underspend, there was not a lot in some departments, not all, of in-year financial control. Now some departments like T.T.S. and I am not saying that just because Caroline is here, but they are a good example of where T.T.S. have developed over the years extremely strong financial controls. I am afraid that was not the case in a lot of departments, and what we are doing in the Treasury, or what Hugh is doing as one of the key parts of the Treasury strengthening, is to put in place much stronger financial monitoring, reporting, controlling with every department. It is fundamental to improving financial management, improving the information which Ministers and the Council of Ministers and the States will get. It is not happening overnight, because this is a big change in culture for some departments, but it is fair to say that in some departments, it would be wrong to name any names today, but some departments we have seen poor financial management.

**Senator S.C. Ferguson:**

Well, this was something that the Auditor General and my Public Accounts Committee have been sort of screaming about since 2005.

**The Minister for Treasury and Resources:**

Well, we recognise that and we are doing something about it and that is ... do you want to?

**Interim Treasurer of the States:**

I think there are departments that if you like are unknowingly overspending.

**The Minister for Treasury and Resources:**

Can you say that again? Are ...?

**Interim Treasurer of the States:**

Unknowingly overspending. I do not think Health is one of them. Health knows, the managers know they are overspending and the management culture in Health has accepted that and has allowed for it by stopping spending in other areas.

**Senator S.C. Ferguson:**

Or retaining unfilled posts, that is a good way of getting a bit more money.

**Interim Treasurer of the States:**

That is another solution, but in terms of financial control I do not think Health are the worst. There are other departments where the information is so poor that managers do not know they are overspending and we are certainly addressing those as a high priority at the moment.

**Senator S.C. Ferguson:**

But if you have got departments like that how are you going to measure the savings?

**Interim Treasurer of the States:**

Well, this is why we are improving our financial performance reporting to make sure that we do have that information. It is not ...

**The Connétable of Grouville:**

Having said that, I know you have said it yourselves but it might be better coming from our side of the table, that we have been impressed with at least 2 departments who have, to use your words, looked upon it as a challenge, an opportunity. So we have got bad ones and we have got very good ones as well.

**The Minister for Treasury and Resources:**

But I mean that is looking forward and I agree with that. I think the point we are making here is that we are ... I have been very clear that if we are going to put the States finances on to a long-term, sustainable footing, then we are not just going to start the Comprehensive Spending Review on 1st January next year. The Comprehensive Spending Review and worrying about money and worrying about where money is spent started months ago and we are not there, there will still be problems and there still is a long way to go in some departments, and one of the reasons why ... and some people have criticised this, that we are putting more resources into the Treasury and strengthening it, having a Financial Performance Team that now the Treasurer sits down, the Interim Treasurer, sits down with every single accounting officer on a monthly basis with a financial report and says: "What is all this about? What is that?" and if he does not get answers to the questions then I know about it and the Chief Executive knows about it. But this is what financial control is about. It is a healthy thing. We want departments to know where the money is being spent and we want them to know, we do not want it as a surprise for them to find in September the fact that they have overspent their budgets.

**Interim Treasurer of the States:**

I think the point to make to address your concern is that the information is going into the system. It is a question of getting it out and making it available to managers and that is what there has been a lack of, so we are making sure that every manager in every department will have the reports they need to understand the budgets they are

managing. As I said, Health is not the worst department by any means in that sense and I could name other departments but that might be unfair. But when I arrived I started these monthly meetings with each department and I found that some departments did not produce reports at all. Their management teams were not receiving financial reports. Numbers, yes, but nothing to explain the numbers, to explain the balances so they could manage what they were doing. I have had some difficult sessions with some departments to try and make sure they do produce those reports and on the whole they are now.

**The Minister for Treasury and Resources:**

There are some good ones. I mean, you know, and again I am not saying it just because I was the previous E.D. (Economic Development) Minister but if you go and ask for a financial report for E.D. they jolly well know where their money is going. They jolly well know and there are intelligent decisions made by the Chief Executive and the management board of whether their discretionary spending should be re-allocated to spend. They know. They are in touch with their numbers. They know what they are spending. That is not the case for all.

**Mr. M. Oliver:**

Given your point you made earlier which was absolutely fundamental, but this is a once in a lifetime sort of thing, once in a generation, a comprehensive spending review, which does in this instance require a huge cultural change in Jersey, given what you have said, a lot of what has been said in the evidence that we have heard seems to be much more of an accounting exercise, while that is a good thing, than a cultural change exercise. So are you driving it by the numbers, the accounting numbers, or are you driving it by another angle?

**The Minister for Treasury and Resources:**

We are doing both. Unless you have the numbers on which you can make intelligent decisions and informed decisions you cannot make any other decisions, so the numbers drive the debate, the numbers drive where you are spending certain amounts of money on different areas versus others. So it is absolutely ... it is critical, improving and strengthening financial management is absolutely critical in having the intelligent debate about why you are going to change services, and it was the thing that did not exist in some large areas. I mean Health have improved in recent months, but that was not the case last year. We had all sorts of crisis discussions with Health last year about the fact that I started the year, last year, being told that Health was going to overspend their budget by £3 million or £4 million. I mean a lot has changed with Health, there is a lot that has happened in the last 12 months, perhaps of necessity. But certainly information drives decision making and the big questions about: “Why are we doing this? Why are we spending £7 million on running a public sewer network and can we run this other gambling service? Why are we spending money on giving farmers a subsidy, improving their land, £50 a vergée”, information drives those questions and should drive the line-by-line questioning that should happen with Ministers sitting down with their departments and saying: “Why are we doing this?”

**Mr. M. Oliver:**

I suppose what underlines that question is what is the difference this time with the C.S.R. compared to the 2005 savings? Because we went through this 5 or 6 years ago.

**The Minister for Treasury and Resources:**

I was part of the 2005 thing and what happened is that you had a committee president that effectively ... we asked departments ... I cannot remember what the target was. Do you remember?

**Senator S.C. Ferguson:**

I cannot remember.

**The Minister for Treasury and Resources:**

It was some percentage.

**Deputy T.A. Vallois:**

Was it £33 million?

**Senator S.C. Ferguson:**

I think that was the outcome. I do not think ...

**Deputy T.A. Vallois:**

£35.8 million was the savings.

**Senator S.C. Ferguson:**

I cannot think what the percentage was.

**The Minister for Treasury and Resources:**

We asked the departments to come up with their proposals and we just sort of said: "Departments, please tell us what you are going to do if you are going to deliver this amount of savings" and then there was a decision conference which was held at the R.J.A.(?) where big spreadsheets were put up on big screens and there was basically like a sort of a Roman style debate where he who shouted loudest got their savings proposals pushed down the list and others who did not argue got them pushed up. Then a decision was made, and then we went to the States and said that was what it was going to be and that was it. Now what we are doing this time is that we are doing a 9 month ... first of all we have got a team, for the first time, we have a Comprehensive Spending Review team whose job and role and responsibility is to run a process and to check that process constantly, setting out clear rules. The amount of work that Caroline and Chris Hawes and Loretta and Janet Marshall have been doing in setting out the rules, not allowing ... from the basics of not allowing naughty savings to be proposed that are user pays, they have to do that separately. So there is a team, there are rules and it is not just a one-off. It is a grinding process over 9 months which is not just a meeting of the Council of Ministers discussing the savings and how they are axed. The initial proposals for the 2 per cent are going to be proposed, they will then be decided upon and then the 3 per cent and 5 per cent will be published. Ministers know that if they are going to publish something silly they are going to get found out because the public is going to say: "Hold on, you are having a laugh proposing that cut there when why have you not done all this in other areas?" so the fact that public ... there is a public light being shone on the proposals

over a sustained period of time I think is going to mean that we are going to save. I also think we did not have Scrutiny in 2005. There was a Public Accounts Committee and there was virtual scrutiny. The process this time should be the executive being held to account by Scrutiny in a proper way, which is what you are doing. This never happened in 2005 that said: "Hold on a minute. Why have you proposed £5 million worth of property sales that you are then putting that as terms of income? That is not right, is it?" So it is ... and also I think we have genuinely learnt from comprehensive spending reviews in other places. We really have. We brought in the I.M.F. (International Monetary Fund) and the Deloitte's chap that told us how the Comprehensive Spending Review worked in the U.K., the la Revue Générale des Politiques Publiques in France, the Canadian experience, the Korean experience, the Australian experience. We have learnt, we have kind of done the work about how what works and what does not. What does not work is zero-based ... what does not work is South Africa, zero-based budgets, start again: "What would you like to spend?" You end up with 400 per cent versus more than you have got. The experience, tough as it is, is set an envelope and drill it down.

**Mr. M. Oliver:**

But you have put your economist, your economic adviser, to work on the F.S.R. rather than get involved in the C.S.R. One question that struck me is why are you doing the F.S.R. now? Is not the F.S.R. a residual after all this has been done? We now know what we can cut and what we cannot cut and therefore we need to raise tax.

[11:30]

**The Minister for Treasury and Resources:**

I am absolutely clear that there will not be a proposal from me to put a business plan with a deficit of more than £50 million. I will not do it and I will argue fiercely for that ... anything greater than £50 million not to happen. If I am going to do £50 million maximum deficit I am afraid there are going to be some tax changes, and so I am not prepared to borrow for the reasons I have said previously, in fact I want to refill the stabilisation fund as soon as the economic conditions allow us to do so, so therefore we have to do a proposal of tax incentive. George Osborne and Chancellor Merkel and Sarkozy, they are not saying: "Oh, we are going to try this spending stuff before we do taxes." Everybody is doing tax and spending. That is what you do. You cannot do both. The job of the Treasury is to balance both of them.

**Senator S.C. Ferguson:**

Yes, but in the 1980s the Swedes tried sort of 20 per cent spending caps, 80 per cent taxes and it did not work. When they came to it again in the 1990s they did 80 per cent spending cuts, 20 per cent tax increases and put the economy on a much sounder footing.

**The Minister for Treasury and Resources:**

Our economy is incredibly strong. You must not I think with respect compare economies that have had to go through fiscal consolidations on the back of massive amounts of debt. We are not in that position. We are in a position where we are running a relatively small structural deficit but still unacceptable and we are forecasting the fact that we are going to need some new money. If the problem is £100 million then what do you want to do? £80 million cuts and £20 million taxes?

You know, we can have a debate about it but there is no hiding place that ... I do not think that more than £50 million is achievable within 3 years. It does not mean to say efficiencies stop after 3 years, they continue, but I think also there is going to be £50 million worth of tax rises, which over a period of 2 or 3 years are going to be necessary. Now they are going to be my proposals and we will see what the States have got to say about it. We will certainly see what the public has got to say when we also tell them on Monday that we are going to be at least thinking about some tax rises and the economists are not involved in C.S.R. I took some advice early on about whether or not taking £50 million worth of savings was unwise. The indication was that that was not over a 3 year period and I would also respectfully remind you that we have the independent F.P.P. which told me to go and find a solution for putting our public finances on a sustainable footing that will be reviewing the business plan proposals in September and reviewing the budget proposals at the end of the year. So I am going to be well supported by independent advice from some of Europe's leading economists on whether or not we have got it right or not. If I have not got it right they will tell me.

**Interim Treasurer of the States:**

Should we just say that the Economic Adviser is being involved in C.S.R. and will be involved in this discussion paper that you mentioned, that it is intending to publish in due course?

**The Minister for Treasury and Resources:**

Yes.

**Senator S.C. Ferguson:**

Who is going to measure these savings?

**The Minister for Treasury and Resources:**

Do you want to just make the point about Social Security, by the way? You made quite an important point which I did not say.

**Interim Treasurer of the States:**

That was on the point about moving costs from what is paid out of the consolidated fund to the Social Security fund. It is a fact that the £50 million can be achieved without involving Social Security, and if other departments contribute 10 per cent that would give £50 million, so anything on Social Security would be in effect on top of that.

**Team Leader, Comprehensive Spending Review:**

The 10 per cent was predicated on 10 per cent of gross expenditure excluding Social Security in the knowledge that Social Security has a huge budget, albeit that there is a huge chunk of supplementation and a huge chunk of income support, so the £50 million was predicated on £10 million of gross expenditure excluding Social Security. However Social Security contribute and we have had discussions with Social Security as to contributing to the C.S.R. and obviously that gives some flexibility on 10 per cent elsewhere, as does the use of user pays, which again we have encouraged. We have been quite disappointed in a way that more user pays has not come forward in the 2 per cent but we fully understand that the departments concentrated on finding the 2 per cent and we set some very clear rules and guidelines here that the 2 per cent

had to be an expenditure reduction, because we know from past experience that if they have a choice, if a department has a choice between putting extra charges on or reducing expenditure they tend to go the other way. So we said: “No, it has to be a fiscal reduction but we will look at user pays.” Not many came through, about £1 million did, of which we have taken about £500,000, something like that, but we are really hoping that for the 3 and 5 some realistic proper user pays could come forward and it picks up your point as to whether services should necessarily be provided by the public sector. If you recall the briefing we did had a really good slide that came from those original I.M.F. or Deloitte slides about the questions each should be asked. It comes down as to whether it should be provided by the public sector, including should it be provided elsewhere, and if it is then yes, the answer is yes it should be provided by the public sector, it then asks the question: “Okay, who should pay for it? Can it be done differently?” and that has been our mantra to departments. So picking up on your point about is this figures-led, as in finance-led, no, although it is important but we are trying to get departments to look at non-financial indicators to show us whether in fact they are doing things properly, efficiently, effectively or whether they could be done better or whether, going back to your point, they in fact should be done in the public sector at all. So all those questions are being asked, although less so in 2 per cent, we will stress that was meant to be a fairly simple exercise, but the 3 and the 5 must pick up on checking that those questions are being asked.

**The Connétable of Grouville:**

What worries me is these are not going to be ... hopefully they are but the fact is you are going to have these reductions in expenditure that are not going to be permanent. In other words they will creep back.

**Team Leader, Comprehensive Spending Review:**

If I can just say, we did acknowledge that the 2 per cent might include the deferment of some programmes. Dare I say it, it might even be maintenance, but only with the knowledge that when the 3 and the 5 came in that were permanent sustainable reductions that 2 per cent might go back in. Because we knew in order to do it within a 9 month period, in order to be achievable from 1st January or maybe even a part-year effect some way through 2011, it might mean: “Well, hang on a moment, this is difficult but we have got some longer term savings that we can do. We could just defer doing something next year and then bring it back in.”

**The Connétable of Grouville:**

What you are talking about there is a one-off plan. You are talking about almost a capital expenditure and not an ongoing expenditure from year-to-year.

**Team Leader, Comprehensive Spending Review:**

It is either the stopping or the delayed start of something.

**Senator S.C. Ferguson:**

Has the difficulty that some departments have had with the 2 per cent surprised you?

**Team Leader, Comprehensive Spending Review:**

Yes, is the right answer. Yes, some have really struggled. Others have ... you know, it was bread and butter to them and they knew where to look. But yes, I think it is

right. It has taken more of our time which has meant that our time has been diverted off from looking at what we see as the more fundamental and not just looking at budget reductions, looking fundamentally as to how we provide our services, whether we could be providing them in a more efficient and effective manner for hopefully less cost.

**The Minister for Treasury and Resources:**

One thing that I am really very surprised that nobody has asked yet is Education's proposals for ... they are delivering their 2 per cent but they have not shown how they are going to deliver £1.2 million worth of spending cuts. You know, questions are going to have to be asked. I mean the Education Minister has been extremely, extremely difficult.

**The Connétable of Grouville:**

We are looking forward to interviewing him.

**The Minister for Treasury and Resources:**

Well, he needs to be asked where he is going to deliver his 2 per cent. I do not accept that 2 per cent cannot be delivered on the Education, Sport and Culture budget.

**Mr. M. Oliver:**

Of those £12.2 million savings there is then £3.0-something million growth for 2011. Of those £12.2 million some might not be long term savings, going back to the Auditor General's report of 2005 where he said: "Well, there is 5 different ways of looking at this", you know, permanent savings. In other words of the £12 million, and taking off the £3 million of growth, supposing that leaves us £9 million, take off say £4 million or £5 million that will be unachievable, we have got about £4 million or £5 million of savings, something like that.

**The Minister for Treasury and Resources:**

Well, I do not accept that £4 million or £5 million will not be delivered. I think there are going to be some that will be delivered, but I could tell you where I think the ones are that will not be politically acceptable. But it is not £3 million or £4 million, and let me be clear, if they cannot deliver these £3 million or £4 million in the next 2 or 3 weeks then we are going to go back and say: "Well, when will you deliver them?" and I will ultimately have to get up and be a little tougher and say, and argue, and get States Members support, ultimately do we really believe that departments, if they are given a budget of 2 per cent less after we have increased it for staff and non-staff ... you know, this is not 2 per cent off the cash limit from this year, this is 2 per cent of the re-based taking non-staff and inflation and they cannot deliver it? I do not believe it. I mean we have got the wrong people running these places and the wrong Ministers giving instructions to say: "Do not do it."

**Mr. M. Oliver:**

In which case if they cannot do that and you might be right or might not be right, but then what about the 8 per cent? I still struggle to see how they are going to do 8 per cent if you say they cannot do 2.

**The Minister for Treasury and Resources:**

You have got to deliver ... well, this is where it is really important that we deliver the 2 per cent otherwise you are not going to get the change in culture. I do not accept that 2 per cent cannot be delivered by relatively ... it might not be delivered simply by efficiency. It might be delivered by some cuts in lower services, if they are really cut to the bone, but I cannot see it. I have been in the States for 12 years and I know that there has been very generous settlements for virtually every single department for years. We say we cannot deliver 2 per cent? I just think it is ridiculous. If we say that we cannot deliver the 2 per cent then yes, you have sunk the 10 per cent and there are some people that want to sink the 10 per cent and their prime objective is to kill off the 2, so we have got votes of no confidence, we have got every single trick being pulled in the book politically in order to kill off the 2 per cent. I do not believe it.

**Senator S.C. Ferguson:**

But the elephant in the room is the fact that something around 50 per cent of our expenditure is on staff.

**The Minister for Treasury and Resources:**

That is why we are doing staff pay reviews.

**Senator S.C. Ferguson:**

That is going to be the only area where you can get ... or one of the main areas.

**The Minister for Treasury and Resources:**

Yes, but there are 2 issues with staff. There is level of remuneration and the attendant pension costs and all the rest of it, and there is the numbers of staff.

**Senator S.C. Ferguson:**

There is also the absentee problems.

**The Minister for Treasury and Resources:**

Yes, and I have got some information on that, because I think that that also should be ... I mean I have got some quite interesting figures on this. Average sickness rate for States published data, April 2010, all departments, average rate of sickness 3.8 per cent. C.I.P.D. (Chartered Institute of Personnel and Development) survey on all sectors, public sector, 4.3 per cent.

**Senator S.C. Ferguson:**

Well, we reckoned when I was on Tim Dunningham's P.A.C. (Public Accounts Committee) it was costing us about £11 million a year.

**The Minister for Treasury and Resources:**

Okay, well it may be costing £11 million but benchmarked, and it may well be different in different departments, but the data that I have is that we are in terms of average days lost per F.T.E. (Full-time Equivalent) C.P.I.D. public sector 2009 9.7, States of Jersey until April 2010 8.3. Now of course absenteeism and all this sort of stuff needs to be constantly worked at and I do not accept the fact that it should be that high, but the fact is there is not that much of a bad track record for Jersey compared with other places. Now I want to get it improved but we must not give the impression that we have got a massive problem here in Jersey compared to other places, because not according to the figures we have got.

**Team Leader, Comprehensive Spending Review:**

There is definitely work to be done in managing that and dare I say it some departments again are better than others. It is the ones that have got managers who are managing their finances and managing their people are the ones that are being really good. So these policies are difficult. Managing absence policy is a difficult one and I am quite certain that the Director of H.R. is probably looking at seeing if there is any way of improving that, for both sides, because there are 2 sides to that equation. But the fact that we have got figures that are properly recorded so that we can measure that absence is really important. But there is work to be done.

[11:45]

**The Minister for Treasury and Resources:**

There is also work to be done on improving the H.R. function. If we are going to deliver changes in manning levels and we are going to deal with difficult issues like voluntary redundancy schemes and working through what I suspect in some areas of the pay and rations review is going to be some difficult political questions about some pay groups, and why we pay these pay groups so astronomically compared to their counterparts in the U.K. or here there is going to be needing to be a very well functioning, well resourced H.R. department to deal with some of the consequences of that and dealing with the political policy decisions that will flow from that, for some pay groups. Some pay groups are, and you know the numbers and I am not going to name any, eye watering expensive and that is going to have to change.

**Senator S.C. Ferguson:**

Yes, I think we have dealt with that one.

**The Minister for Treasury and Resources:**

You asked one question and I just want to be very clear about this. How are savings going to be measured? Well, we are dealing with improving the financial performance of the Treasury function and oversight but what is going to happen is that the savings offered are going to be taken out of the cash limit, so the money is taken out. End of, it is not there. So if departments want to reinstate that service or reinstate that cut they are going to have to find it from within their budget. Now we will know about that because the improved financial reporting that is being put in place means that there is going to be much more detail of exactly ... there will be decisions. Managers need to manage their budgets. Chief Executives do need to make in-year reallocations. That is about good management. But at least it should be properly known about and recorded.

**Team Leader, Comprehensive Spending Review:**

I suppose the other point is that the process is not going to stop when the States approves that business plan. If a Minister, if a management team come up with a saving that is better than the one they put forward, for a number of different reasons, it is more achievable, it is more sensible, does not involve staff, then I think we would say: "Well, great stuff." Good. It might mean that that saving comes forward again. So it is not to say that that thought process is going to stop and that they cannot then sort of say: "Well, I think there is something else." We want to keep track of that because clearly you could say that there might have been some shroud waving at the

time, maybe. So the increased financial reporting should be we know what the savings are. Any invest to save has to be shown to produce the saving. There has to be a payback on that, so there is all link(?) and whether that is a V.R. (Voluntary Redundancy) or whether it is a computer system or payment for that, we need to track all that. So we would certainly be keeping tabs on that and particularly if they then come forward in 3 or 5 we would want to say: "Okay, well how did you do the 2, then, because you said you were going to do it in 2. What did you do in 2?" Just so we can keep track of that.

**Interim Treasurer of the States:**

I think there is a comment worth making on the 2 per cent and 10 per cent that the departments that came through easily with the 2 per cent were the ones that pretty well knew how they were going to deliver the 10 per cent. Or definitely knew. The ones that struggled with the 2 per cent were the ones that were struggling at the time with the 10 per cent and I think they are seeing 2011 as stage one of delivering the 10 per cent but it does ... there does seem to be a process that is beginning to work quite well to get those departments to a landing on their 10 per cents, so I am perhaps more confident than Philip about getting to a landing on all of this.

**The Connétable of Grouville:**

A couple of the departments came to us and said they were looking at it in a different way, they are going to start with cutting 10 per cent and work backwards. That is a very good idea.

**Team Leader, Comprehensive Spending Review:**

That was our advice from the word go to anyone. If you can possibly do it that has got to be the best way to do it, because you will then make the right 2 per cent, as opposed to what might not be in the future.

**The Minister for Treasury and Resources:**

That is why we have done the H.R. redundancy scheme, is that we also want the department, if they know how to deliver their 10 per cent, if they can deliver their 10 per cent quickly, more quickly, and it is a case that they need to make some changes in manpower level, that is why I am asking the States to do the V.R. scheme. Let us just get on with it. Of course we will put in place the care and the issues about putting people into the workplace and there is a lot of work to be done about helping those people who are unemployed for whatever reason, getting into the workplace. That is not economically sensible just to move people from the public sector into income support. That is not what we are going to do. I signed off and am continuing to sign off work programmes which help people get back into work and I had a very interesting report yesterday, not published yet, from the Skills Board, which is helping very, very much in this whole area, looking at non-qualified, looking at (j)s, all this kind of stuff. A lot of very good work and we are determined not to allow, if there is labour shed in the public sector, to just be on income support. We want people in productive, positive lives and I think we can deliver that.

**Senator S.C. Ferguson:**

Right. Is spending £93 million on income support sustainable for an Island with a population of 91,000 considering that as I say of people who pay tax it is costing each of those £2,000 a year?

**The Minister for Treasury and Resources:**

Well, I mean what I draw your attention to is the fact that there is a review on income support which is being conducted by the Minister and there is a scrutiny panel and that is going to be important in telling us, politicians, what the policy options are about the future income support. I think I should also say that residential care costs of the £93 million, £18 million of that is residential care costs and that is being addressed by the Social Security Minister's long term care strategy. The £93 million also includes £5 million for transition which obviously has been taken out as a result of the grandfathering or grandmothering of the previous arrangements. So it is £93 million that does need to be explained, but of course you are right, there does need to be a debate about the extent to which we can and should be affording that level ... sorry, that is the wrong word. It is not that we should be affording, the fact that we should be putting that kind of level of transport into a payment. I am ... I mean I have been having quite a lot of discussions one-to-one with the Social Security Minister and we have used the Advance to Work scheme almost as a pilot study in order to work out what can you do to encourage people who are out of work and stickily out of work, how can you get them back into productive lives? Work is good for you. Everybody would agree with that, but you have got to give some people a higher degree of encouragement, motivation, training, confidence, in order to get back into the workplace. That also includes, as difficult as it is to say, people that have previously been almost written off as not being able to be productive members of society because of ill health, whether that is because of physical disability, because of mental health issues. You can help people and Government, I think, needs to provide opportunities for people to work part-time and income support is supposed to have those controls in place where you encourage people into work. Just because you have got a bad back does not mean to say that you cannot work, but we have got to find the right opportunities. That, however, Advance to Work programmes for a whole range of people that are out of work, do require investment and you can spend an awful lot of money on these kind of programmes and not get the desired result. So we are testing the water in the 16 to 19 year-old group, which is working, it is expensive and we think certainly the States has a bigger role in taking people on work programmes rather than ... I had an interesting discussion with Hugh yesterday about that and we think the States as an employer can do more in encouraging people back into work providing training opportunities, work placements, all sorts of things. We are a big employer ourselves, so that is the kind of positive debate. I also philosophically am troubled by the Scrutiny Panel's approach to this. They are asking: "How much money do you need to afford to live in Jersey?" Well, they need to be asking how much Jersey can afford to put into income support, which is the question that you are asking. Because I cannot help but notice the fact that ill-judged, well-intentioned political policies of paying people more and putting lots of money in income support just ends up making you have to run faster to stand still. It is the inflation issue. You spend more money and you just boost inflation, which certainly happened in Jersey in the 1990s. What good was that? What good was all the agricultural subsidies that we poured into the tomato and dairy and other areas? It did not achieve anything. It was just money wasted and I think that is the kind of approach that we need to take in relation to ... as tough as it sounds, to income support and transfer payments.

**Senator S.C. Ferguson:**

And rental subsidies and rent rebate and so forth. I mean one of the things we were going to ask ...

**The Minister for Treasury and Resources:**

Which comes on to your next question ...

**Senator S.C. Ferguson:**

... was what happens if you start cutting welfare spending, cutting funding for business, hold the line on health, hold the line on education and reduce taxes?

**The Minister for Treasury and Resources:**

Okay. These are the fundamental big political questions that we almost started with. I have a very strong view. I do not believe in providing Government subsidy to subsidised housing to the extent that we were in the private sector rent rebate system. It does not work. All it ends up doing is getting the money that you put into the housing market ends up being capitalised in asset prices. It is foolish. But it is difficult to withdraw it when it is there and you have got to withdraw it over a long period of time, and the housing component of income support is effectively rent rebate, relabelled, and that is one of the ... I have not got the answers to this. I know it is wrong, but I know you cannot withdraw it overnight, and there are ... there is the issue about the fact that the growth in the economy which is great for everybody in Jersey, which everybody benefits from, has one or 2 unintended consequences. One of the unintended consequences, it pushes up house prices. It means that you have a society in which you have some people that cannot aspire to the goal of home ownership and that is one of the things that is the offset. The States of Jersey supports the financial services industry and we, in Government, recognise that because that has a driving effect on house prices unfortunately accompanied by imprudent lending in the 2000s by some lenders, you do have house prices that go higher than otherwise some people will achieve. So you have got to provide ways of getting young people on to the housing ladder and subsidising housing to those people who are not part of the locomotive of success of financial services.

**Senator S.C. Ferguson:**

But you have got to surely acknowledge that there is a section of the population who will by the very nature of their employment never be able to afford a house.

**The Minister for Treasury and Resources:**

No, so then they should be able to aspire to long term quality rental accommodation, or you find alternative ways of having shared equity and affordable homes. There is a lot to do. There is a tremendous amount to do in relation to housing in Jersey. Quite apart from the fact that we, as a States of Jersey, not we corporately on behalf of the people of Jersey, the States of Jersey, owns 4,400 units of rental accommodation which has been badly maintained because it has been starved of the necessary maintenance costs but also has some very exciting opportunities for regenerating some worn and tired estates that require capital funding, and we need to find different ways of finding that capital funding in the future, which is not simply putting it in the current year-to-year annual business cycle where Le Squez regeneration or Wellington Park or wherever it is has to bid against buying a new M.R.I. (Magnetic Resonance Imaging) scanner. These are income-generating assets. But cut welfare payment, I think we have said that. Cut funding for schools and other capital projects.

The capital programme is not sufficiently funded at the moment. The capital programme funding of £38 million, £35 million for the next couple of years, the officeholder of Interim Treasurer of the States has made it absolutely clear to me that he does not think there is enough money going into capital for adequate replacement of the capital base and he is right. When I say that we have got to find a £100 million gap, some of that is going to have to be to increasing capital programme. Not to have nice to haves and new golden palaces and other things, but just to keep and maintain the capital base. I do not know if you want to say anything on that?

[12:00]

**Senator S.C. Ferguson:**

Well, I do not know. Should maintenance be a capital budget item? Surely it is a revenue item?

**Interim Treasurer of the States:**

It is a crossover item and we will be looking at the capital programme as part of the next stage of the C.S.R. process to make sure that that gets addressed properly and does not sort of fall down a crack which it is possibly in danger of. I did wonder before you move on, Philip, if you wanted to make comment about the balance between Social Security contributions and Social Security benefits.

**The Minister for Treasury and Resources:**

Yes, okay. Sorry, just give me a hint.

**Interim Treasurer of the States:**

Well, the question was can the cost of Social Security benefits be afforded?

**The Minister for Treasury and Resources:**

Right, okay.

**Interim Treasurer of the States:**

So there is the question of the balance and how much is funded from Social Security contributions and how much from taxes.

**The Minister for Treasury and Resources:**

Yes, that is fair. That is something that we are looking at. I think that Social Security has been not probably very well incorporated into the overall economic decisions of the Island and financial decisions and one of the big things that we have got to achieve in the next 6 months is really to understand how Social Security works from, (a) a supplementation point of view, because taxpayers are currently paying for people who are not paying enough contributions to get the benefits that they are entitled to, (b) the competitive issue about Social Security charges on business and I think that we have got a number of challenges in Social Security. We have got to get a better understanding and make some decisions about supplementation; we have got to have a good debate publicly about whether or not it is right that Social Security contributions are currently capped the way they are, and we have got to separate out from Social Security the Health Insurance Fund. The Social Security, the Constable has no doubt picked up the fact that we are allocating some health spending to the current Health Insurance Fund. Now the Health Insurance Fund has been running at a

massive surplus for years, almost below the radar. It has been locked away from Social Security inaccessible when the health service has been providing primary healthcare and been running out of money, and yet it has been building up a cash mountain of £72 million. That cannot be right, especially when it has happened below the radar and without any express political decision to do that. If that is what we are doing and there is a justified reason to do it, I think that that just makes the point that we have got to incorporate Social Security, we are not annexing it by the Treasury but we are wanting to bring the Social Security decision-making, income, what is paid for out of those funds, contribution rates, into the wider debate on C.S.R. and F.S.R. Is that the point you wanted me to make?

**Interim Treasurer of the States:**

Yes, absolutely.

**Senator S.C. Ferguson:**

Yes, because basically at the end of this session the public, and we have had a lot of submissions about this, believe there is significant rampant waste throughout the States set-up. What are you going to do to make people understand how things are?

**The Minister for Treasury and Resources:**

Well, there is not rampant waste, but there is some waste.

**Senator S.C. Ferguson:**

No, I am not saying there is. What I am saying is how are you going to get it across to Joe Public, Joe the Plumber or Josephine ...

**The Minister for Treasury and Resources:**

By showing that we are serious about delivering C.S.R. and we are serious about following through on C.S.R. and I need to get higher levels of public confidence about efficiency of States spending, value for States spending, because I am going to be asking the public to pay more taxes. Not dramatically more, you know, no doubt Osborne will propose next Tuesday a 2.5 per cent increase in V.A.T. and it will be done just like that. We have a national crisis when we bring in G.S.T. (Goods and Services Tax) at 3 per cent. I mean most people that come here think: "What are you complaining about, residents, when you are paying 3 per cent G.S.T. and you are getting this amount of services on the back of it?" We as politicians also have a responsibility to sometimes remind our community just how fortunate we are in Jersey in terms of what we get for the amount we pay, and I have certainly got to improve confidence in value for money and one of the levels of confidence is delivering 2 per cent and sticking to it. Then being determined and deliver 5 per cent. Once I show that we are determined to do it and can deliver it I think I have got a better chance of encouraging States Members to support the unfortunate necessary but small tax raising changes that we are going to be proposing. But everything is magnified here. Everything is magnified. There is a complete crisis with a 3 per cent G.S.T. We will see what the reaction to the U.K. is when they put overnight probably a 2.5 per cent increase on their V.A.T.

**Senator S.C. Ferguson:**

Well, they have just put it up, back up to 17.5 per cent.

**The Minister for Treasury and Resources:**

Yes, exactly. But we magnify the issues. We have a responsibility to tell people what the effect is. I know what the effect of 3 per cent G.S.T. was. It is a bad year's inflation. But ...

**Senator S.C. Ferguson:**

Right. Turning to the Treasury ...

**The Minister for Treasury and Resources:**

By the way, cutting to business, there are some difficult issues for E.D. (Economic Development) to deliver. What I would say I do sort of have responsibility for some of the aspects of financial services, and we have got to keep the economy performing and businesses paying tax and employing people. Sometimes there is a case for government to make that happen or to encourage that to happen faster and I have got no doubt that what we are doing in terms of the representative officers in the Middle East and China and India are going to secure Jersey's economic future. I met yesterday a trade delegation from Tan Xin(?) which is the third regional development area in Northern China who are developing a financial services expertise who have got massive amounts of structuring of aircraft funding and ship transportation funding who are using Cayman and B.V.I. (British Virgin Islands) as their preferred offshore centre. We want that business here and we have got to go out and get it. If the vote of no confidence next week goes hopefully the right way, that is rejected, I am going to be getting on a plane and going to Shanghai next Thursday. I have been invited with John Harris to attend a financial forum and the only offshore centre that has been invited to attend this financial forum. It is a kind of mini Davos for financial services and we are getting our name around and we are building business. It does not happen by accident. It requires some dedicated time politically in order to achieve that, and so cutting off our nose to spite our face in some areas, I am not saying all spending on business is right, but some of the promotion stuff we do, it does not happen by accident. The Middle East business that we now have in Jersey that contributes enormously to our cash deposits, which is good quality, very regulated business, that did not happen by accident. There were criticisms with predecessors going out and raising awareness of Jersey in the Middle East. Well, it worked, because we now have significant amounts of good quality, oil-based wealth by the high net worth families around the world based in Jersey, and we want to do the same with the economic miracle that is happening in China and in other developing parts of the world. So it is easy to criticise and it is easy to say: "That extra cancer drug or Jersey Finance?" It is not really a debate like that.

**Senator S.C. Ferguson:**

You will no doubt be looking at the £40 million or so that goes out in grants?

**The Minister for Treasury and Resources:**

With great interest, Chairman.

**Senator S.C. Ferguson:**

I was surprised. I thought it was about £20 million.

**The Minister for Treasury and Resources:**

Yes, transparency is good.

**Senator S.C. Ferguson:**

Absolutely. Right. How do the 2 per cent cuts suggested for 2011 dovetail into your 10 per cent savings required?

**The Minister for Treasury and Resources:**

Right. Well, after having said that the best departments are the ones who have worked out their 10 per cent, I think the first thing to say is that you know that as far as Treasury is concerned as opposed to Resources there is a massive change going on at the moment in terms of strengthening the Treasury, but we are not pleading any special treatment. We have to be part of it and we are thinking of innovative ways of where to do so. The 2 per cent is achieved by reducing lower priority services, various schemes to increase the efficiency of the Treasury, no loss of service, no ... some reduction in the level of service but without an overall impact. We are working on the 8 per cent and this is being very much worked. I think there are significant opportunities and I think Hugh believes there are significant opportunities to do some things that we do in the Treasury more efficiently with the investment in technology et cetera. We are under enormous pressure at the moment. Not any special treatment but we are running a C.S.R. with the Chief Minister's Department. We are doing an F.S.R., we are looking at business tax and we are strengthening the Treasury at the same time. There is a massive agenda, but we will deliver our 8 per cent.

**Senator S.C. Ferguson:**

Have you thought about any processes that you should outsource?

**The Minister for Treasury and Resources:**

Outsourcing is very sensitive but is something that has been a discussion between John Richardson and I. I do not want to raise any sort of hares running here, but when I was in India last year I did visit 2 outsourcing centres that run government services for 2 local authorities in the U.K. I do not think that is the right thing to do for Jersey but just so that you know, there are no sacred cows, there are no things that we should not be looking at. We should be genuinely thinking about how we provide services to other departments, to taxpayers and where we can have low cost solutions for basic administrative functions. You know, Lloyds TSB runs their call centre in the Isle of Man because it is a lower cost place. If we can provide lower cost ways of providing basic administrative services, if we cannot I.T. (Information Technology) it, then we should be looking at it. It is not something I am ruling out.

**Senator S.C. Ferguson:**

I was not thinking about call centres because I find the foreign ones really most inconvenient, but I did notice a few months ago that for example BP have outsourced effectively their creditors' and debtors' ledger, their invoicing. That has been outsourced.

**Interim Treasurer of the States:**

I worked for BP 20 years ago and they had outsourced most of that then. They have had a lot of problems as well but I think there are certainly areas like payroll, accounts payable, accounts receivable, that kind of thing that work often very well if they are outsourced and we are certainly going to be looking at it. The thing I have learnt about outsourcing is you do not do it until you have got the process working well,

because if you outsource it before then you have huge problems. So we do need to sort out our processes first and that will take a year or 2. But I think outsourcing opportunities will be after that.

**Senator S.C. Ferguson:**

Super. Now the insurance fund, we talked about it the other day, but do you keep the insurance fund as a sort of ring-fenced fund? Are you putting it in the common investment fund?

**The Assistant Minister for Treasury and Resources:**

Okay, this is a point for me.

**The Minister for Treasury and Resources:**

You are handling some of the Treasury stuff.

**The Assistant Minister for Treasury and Resources:**

The Insurance Deductible Fund is held within the consolidated fund.

**Senator S.C. Ferguson:**

It is just a sub-account?

**The Assistant Minister for Treasury and Resources:**

As such that will be part of the common investment fund.

**Senator S.C. Ferguson:**

Right. Super, and one thing that intrigued us, how does the reduction in the funding, the £97,000 I think it was that is being paid ... that is the saving on the funding into the insurance fund, is that being passed on to other departments? How is it affecting the other departments?

**The Assistant Minister for Treasury and Resources:**

It has no real impact because effectively the Insurance Deductible Fund is effectively like a captive insurance product for the States of Jersey. If we reduce effectively our premiums, therefore we are reducing the premiums that we are charging to the other underlying departments.

**Senator S.C. Ferguson:**

It is being passed on? Is that really a saving?

**Team Leader, Comprehensive Spending Review:**

I was led to believe that ... Eddie would be better answering this than I but I thought that was just a reduction into the fund that bears the excess under ... I did not think there was an impact, either positive or negative, on any of the other departments.

**The Minister for Treasury and Resources:**

No. I think that is what Eddie is saying.

**Senator S.C. Ferguson:**

So you are still collecting the same amount from the other departments?

**The Minister for Treasury and Resources:**

Their premiums, yes.

**Senator S.C. Ferguson:**

The premiums. So they are paying the same, you are putting less into the fund, so where is your £97,000 going?

**Interim Treasurer of the States:**

Some of the ... well, probably a large part of the premiums are corporate so they are providing corporate cover across ...

**The Minister for Treasury and Resources:**

Which the Treasury pay.

**Interim Treasurer of the States:**

Which is paid by the Treasury, so the £97,000 is coming out of the Treasury's insurance premiums, not out of other departments. The reason we can do it is the fund has reached the level recommended by the external ...

[12:15]

**Senator S.C. Ferguson:**

That is not very ecumenical, is it? You are paying your premium into it but everybody else is paying the same.

**The Minister for Treasury and Resources:**

The Treasury pays, though. The budget for central insurance is held ... we can get you the detailed numbers, but it is Treasury that pays the insurance.

**Senator S.C. Ferguson:**

Yes, but they are collecting from the other departments, as we understood it.

**The Minister for Treasury and Resources:**

Not very much, I have not got the numbers here, we have not got the numbers here, but it is not very much. We will give you those.

**The Assistant Minister for Treasury and Resources:**

The individual departments still purchase insurance from areas of their activity.

**Senator S.C. Ferguson:**

Yes, so they are all paying into your pot. Anyway, we would ... without the numbers ...

**The Minister for Treasury and Resources:**

Sure, but I think the £97,000 is genuinely a saving that we are making, that is putting into the central pot. It will mean that we can pay for the individual claims for departments, but it does not mean the departments ... this is not we are whipping other department's premiums money to that extent. We will give you the detail on it, but it is a real saving, because we do not need to put the money in the pot in our own captive. That is as I understand it.

**Interim Treasurer of the States:**

I think it is the Treasury that has been overpaying, not the departments.

**The Minister for Treasury and Resources:**

Yes, but we will give you the numbers to prove it.

**Senator S.C. Ferguson:**

Right. Now, given the current austerity how do you justify the cost of introducing the 5 priorities which you identified the other day?

**The Minister for Treasury and Resources:**

Well, financial management has been criticised by the C. & A.G. (Comptroller and Auditor General), P.A.C., Corporate Affairs in various reports and in audit reports over the last 2 years. The situation has been formally reviewed and an action plan which you referred to has been set to address the deficiencies. The aim is to create a more effective structure reviewing all financial processes and building capacity to build proper financial control. The net impact to all of these changes is to increase manpower resources in the Treasury by 6 posts. So this is doing exactly what people have asked us to do. If it was not in the business plans previously it now is and is at the heart of delivering better information and our ability to deliver the C.S.R.

**Senator S.C. Ferguson:**

As one of the people who has really moaned about financial management ...

**The Minister for Treasury and Resources:**

Yes, and we will change. We will find more problems and deploy more resources. There has been a tremendous amount achieved in the last 6 months. I am very happy with the progress that Hugh has made. Hugh was brought in to be Finance Director for the States of Jersey, effectively. He has stepped up to discharging the whole of those functions and I can formally record the fact that it has not been easy for any of us, and it has not been easy for Hugh, and it has not been easy for the staff involved, because change is difficult. But we are getting there, we are substantially getting there.

**Senator S.C. Ferguson:**

Yes. Now the head of Shared Services is ... sorry.

**Interim Treasurer of the States:**

I think without Treasury working effectively a lot of the other C.S.R. savings really will not be achieved. We need to be part of the procurement process improvements, we need to be part of many of the other cross-cutting type initiatives. If Treasury is not part of that working effectively then that simply will not happen.

**Senator S.C. Ferguson:**

Yes, but I mean we have been slightly ahead of Shared Services. He is cutting back on training and then he is requesting additional money for training. I mean ...

**The Assistant Minister for Treasury and Resources:**

He has identified £25,000 growth bid, but part of that will be used on specific training at a specific level. Some of it is to enhance 2 new sections and 60 new posts. There was going to be some ...

**Senator S.C. Ferguson:**

So he is really moving his training budget from one area to another.

**The Assistant Minister for Treasury and Resources:**

No, this is a growth area.

**Senator S.C. Ferguson:**

This is an accounting transaction.

**The Assistant Minister for Treasury and Resources:**

Part of that growth, that £25,000 growth, is going to be used for specific training for departmental staff so that they can do their new roles. So that is one side. On the other side overall training budgets can be reduced because they are simplifying processes and the way they are going to be doing the work so they will not need as much ongoing training to do their roles.

**Deputy T.A. Vallois:**

Yet the impact can be seen as less ability to respond to unexpected and one-off requests, potential reduction of staff knowledge and possible impact on community without the ability to offer formal qualifications.

**The Assistant Minister for Treasury and Resources:**

The latter part is probably the bigger impact. It is not being able to provide an extensive training package for career enhancement. That is probably the biggest negativity of it, but in most organisations in the finance sector training is a ... not an easier thing to cut but is a realistic thing to cut.

**Interim Treasurer of the States:**

If I could come in on this. Essentially what we are doing is we are scaling back training on the old processes because there is no point and within the extra growth money we have requested includes training on the new processes. So you could see it as moving it from one pot to another but ...

**Senator S.C. Ferguson:**

But you are reducing career training, career enhancement training according to the ...

**The Assistant Minister for Treasury and Resources:**

Where it is not appropriate.

**Senator S.C. Ferguson:**

Does this mean you are getting a different category of staff to do that particular job?

**Interim Treasurer of the States:**

The saving in training was within Shared Services, which is where we have run the heavy duty processes like accounts payable, receivable, payroll and so on. These are the areas that will be most affected by the process changes, so I do not think it is

particularly career-related training, it is process-related training. It is not ... in terms of the number of staff involved in that area you are looking at somewhere around 50 staff, 60 staff perhaps so per head it is not ...

**Senator S.C. Ferguson:**

So is the impact that is the sort of narrative on the various forms, is that shroud waving?

**The Minister for Treasury and Resources:**

Can I just step in here? At the end of the day Treasury has got to deliver its 2 per cent. So it is no different, it has got to deliver efficiency savings. Now if they are going to deliver that by cutting a training budget then that may well not end up being the way they deliver it, to be totally candid with you. I am not going to get into an ... I am not going to start getting into the micro of spending my time working out whether or not Treasury is right on spending £25,000. I will be absolutely honest with you. Treasury is no different to every other department, it must deliver its 2 per cent. It can deliver its 2 per cent and if there is a better way that the Interim Treasurer with his management team want to deliver it, that is fine. It sounds to me the argument has been put to me quite candidly that this is training for old things that we should not be doing, but there is going to be requirement for training for things that we should be doing and that is why there is a growth bid, but the old spending is no longer required and can be cut.

**Senator S.C. Ferguson:**

But I am just saying that the caveat sounds a bit like shroud waving. Is that something you should be doing? By setting an example.

**The Minister for Treasury and Resources:**

That is not published, and we have not published. It may well be sort of carelessly or strongly written. The fact is I am not going to get involved in this level of detail. I am going to require them to deliver the 2 per cent.

**Interim Treasurer of the States:**

Caroline has just pointed out that within that figure only £8,000 is for training. The rest is temporary staff and so on.

**The Minister for Treasury and Resources:**

Right. A good point, Caroline.

**Senator S.C. Ferguson:**

Okey dokey. Right, the savings within the personal tax assessing section. Again this is another of these where, you know, it is a net of the costs. I am sorry, we are not trying to micro ...

**The Minister for Treasury and Resources:**

No, not at all. I want to be ...

**Senator S.C. Ferguson:**

We do need to ...

**The Minister for Treasury and Resources:**

Yes. Let me be absolutely clear about tax generally before we get into the sort of detail of the tax thing. It is becoming increasingly clear that there are significant opportunities to change the way the Tax Office operates for it to become in the longer term much more efficient in terms of self assessment, doing away with an awful lot of processes that currently exist. The Tax Office of Jersey is very efficient in terms of the cost of collection for the amount of income it collects, but it is a traditional tax collection office that you would not necessarily find in H.M.R.C. (Her Majesty's Revenue and Customs) or the New Zealand authority or other places. Tax collection has moved on dramatically. We also think that as we have put on more complexity in terms of the tax collection, as we have brought in I.T.I.S. (Income Tax Instalment Scheme) 20 Means 20, as we have increased tax collection we have probably not stepped up to the extent that we might have done in terms of the collection arrangements. My objective with income tax is to improve the net number and we are engaged in a fairly extensive review over the next few months of exactly how we do this. So I just want to say that in terms of the overall picture that one is saying we are meeting the 2 per cent, because we are doing, but we are focusing very much on the 10 per cent. We are determined to deliver more tax, tax that is not collected and to collect it in a less burdensome paper-based way in the future and reviews of our tax department are underway and it is commanding quite a lot of Hugh's attention. I just want to say that by way of ...

**Senator S.C. Ferguson:**

They have got a sort of bespoke system, have they not?

**The Minister for Treasury and Resources:**

They have, Chairman.

**Senator S.C. Ferguson:**

Which cannot be the most efficient way to run things.

**The Minister for Treasury and Resources:**

We might want to go into private session to discuss tax, otherwise there are some things that I do not want to say, but if you want to just ... if you would not mind just agreeing that what we are about to say may well be confidential, because there may well be issues on tax.

**Senator S.C. Ferguson:**

Shall we leave it until the end?

**The Minister for Treasury and Resources:**

If you want. Do you mind on that?

**Interim Treasurer of the States:**

That is fine. I mean I can say something that would not be confidential, if it would be helpful. But we can discuss it later.

**Senator S.C. Ferguson:**

We will just stick it at the end.

**The Connétable of Grouville:**

I can see another hand in my pocket. [Laughter]

**The Minister for Treasury and Resources:**

Painlessly, Connétable, painlessly.

**Senator S.C. Ferguson:**

What was it they said? It is the art of plucking the goose just to the point where it does not quite scream.

**The Minister for Treasury and Resources:**

Hiss. Okay.

**Senator S.C. Ferguson:**

Whatever geese do. Where should the C.S.R. team call home?

**The Minister for Treasury and Resources:**

We hope the C.S.R. team feel very at home in Treasury and very at home at the Chief Minister's Department. They sit, and I think that is the right decision, in ... Caroline and her troops sit in the Chief Minister's Department and that is good because it shows that the Chief Minister's Department and the Chief Executive have strong ownership and strong owner oversight of the C.S.R. team, but in reality, as I said earlier, there is no silos between us. We see a lot of Caroline; Caroline sees a lot of us. We are all part of the same team; we meet weekly with the Chief Minister and Treasury, with you and Bill and John Richardson and you would have to ask Caroline where she thinks home is.

**Team Leader, Comprehensive Spending Review:**

I think I would probably turn it around the other way and say it really does not matter where we sit. I think it was absolutely right that we were placed in C.M.D. (Chief Minister's Department). I think that this meant that this was not going to be a figures of Treasury-led initiative, however we are 6 months down the road now; there is a Treasury reorganisation. The core of the C.S.R. team will become the financial planning team within the new Treasury structure and every 3 years, if C.S.R. continues, and I am quite certain if it is not C.S.R. it will be something else, we will take on that role. I am quite certain as and when that happens that we will be able to straddle where we need to straddle between C.M.D. We will still have a responsibility to Chief Ministers for the production of the strategic plan because we will take on that responsibility and I really do not see that there is an issue whatsoever. I think it was right put where it was, but I can see that in the future it is equally right that Treasury strengthens its financial planning side which it is doing and that that is the right place to have fiscal, both F.S.R. and C.S.R.

**Senator S.C. Ferguson:**

Super.

**Team Leader, Comprehensive Spending Review:**

Of course for the Constable I would have to say that my home is Grouville!

**Senator S.C. Ferguson:**

Oh, dear. Poor thing. My sympathies. What is the connection and the differences between the invest to save and the growth costs? Because going through the detail some of them could have been in either column.

[12:30]

**Team Leader, Comprehensive Spending Review:**

I would have to say that I think on the first submissions there was some confusion between the 2. I am very clear and I think the C.S.R. team is very clear on the difference and invest to save is an upfront investment. It is a one off. It does not necessarily mean it is one year and it is finite and it finishes at some point in time and it predicates a saving, possibly later on and we have a timescale of a 3-year payback and that is invest to save and that is what we are hoping to have. In fact the funds we are asking for in 118 is part of an invest to save pot and we will be asking for funds in the business plan to cover restructuring, to cover the means of moving from where we are now to 3 years down the road with £50 million off the budget. All the evidence we had showed that you cannot achieve those sort of savings without some investment and that is the invest to save. Growth is ongoing growth. It is in the budget and it is ongoing. I think there is a very clear difference between the 2.

**The Connétable of Grouville:**

Can I just say that I did not see anything in here about the 3 new tax inspectors that were going to clean up the ... in the growth ...

**Deputy T.A. Vallois:**

That was for this year, was it not?

**Team Leader, Comprehensive Spending Review:**

Yes, that was for 2010.

**Senator S.C. Ferguson:**

Yes, 2 are there already.

**Team Leader, Comprehensive Spending Review:**

There are 2 in there already. I think it covers one of your other questions, but the way we treated the additional tax inspector to bringing in £250,000 as a net saving, I have to say in hindsight that was the wrong treatment in there and I think what we should have done was to put that 57 in growth and say: "We want another tax inspector. A prudent estimate says we can bring in £250,000" so it would go in growth and a little bit like the joint financial crimes unit where we are saying it would be funded from company fees. We would say at the bottom of the growth list it would be covered by increased income. The problem we have is the tax is not departmental income. Tax is above the line, along with A.M.P.O. (Average Mandatory Provisional Contribution) but I do not see what, if that is a sensible business solution to a problem, it is not beyond the wit of C.S.R. team and elsewhere to find a way to get this into the proposals. So, that I think in hindsight is how we should have showed it and that would in fact still show that Treasury made their 2 per cent, so it was not an issue.

**The Connétable of Grouville:**

I have no argument at all about hiring somebody at £50,000 a year to earn £250,000; I think it is brilliant.

**Team Leader, Comprehensive Spending Review:**

Yes, it is good business sense.

**The Connétable of Grouville:**

A bit more of it.

**Senator S.C. Ferguson:**

Yes, although I suppose if you look at the net position of the department by the time you have added invest to save and growth the saving of 2 per cent has kind of disappeared below the waterline.

**The Minister for Treasury and Resources:**

Yes, I think that is understood and accepted and Treasury has been criticised, regarded as a high-risk area. Do not want to open up the euro problems and all the rest of it, getting financial decisions wrong, has consequences to taxpayers, and so for all the reasons we think we have rehearsed very well during the course of the morning you need a strong functioning Treasury in order to deliver. Deliver (a) C.S.R. and also to deliver corporate savings, procurement savings in future when there is the resources department generally put under the Treasury and Resources Department that Clothier set out, we are going to be a key unified department at delivering significant corporate savings across the piece. There is a lot to do and unless we equip ourselves to do it we are not going to help the organisation to do it.

**Senator S.C. Ferguson:**

When you do the final public presentation of all this, are you going to set it out so that people can see that for the whole States there has been a reduction in expenditure and show how it is accounted for?

**The Minister for Treasury and Resources:**

That is a very good question because we met yesterday to discuss exactly how we propose ...

**Senator S.C. Ferguson:**

The presentation will be very important.

**The Minister for Treasury and Resources:**

Yes. We spent a useful hour yesterday on discussing that of how we are going to propose it and any thoughts on how that is best explained we welcome the panel's views on it. Certainly happy to show some thinking that we have had in relation to how we propose it because it is critical that people understand what the numbers are, what the savings are, what the growth is, where it is going.

**Senator S.C. Ferguson:**

Yes, because, with respect, how are you going to show how growth is calculated? At the moment we have departments where we are getting growth. Some departments, well, how do they calculate their growth? Where do they pull the figure from?

**The Minister for Treasury and Resources:**

They have to get it agreed by ...

**Senator S.C. Ferguson:**

Well, yes. It is not so much the amount, but how do you get to the amount?

**Team Leader, Comprehensive Spending Review:**

The C.S.R. team has obviously worked with departments to come up and they provide, if you like, the challenge on figures that have been put forward.

**Senator S.C. Ferguson:**

I think a bit of explanation of that would be worthwhile because as far as the public goes, they just see a growth figure and say: "Well, where on earth has that come from?"

**Interim Treasurer of the States:**

I think we do need to improve the presentation so that it is very clear that savings are being achieved and if there is growth for invest to save the business case for that should be made very clear to justify it as a separate issue.

**The Minister for Treasury and Resources:**

I do not like the word "invest to save" because I think it is restructuring costs probably more than anything and the other thing that is going to be quite difficult presentation-wise is the contingencies because we are putting in a reserve so that we do not go to the States with a 118 request and that is part of the 100 million problem, being completely transparent, and so we have some labelling and we have some presentation. The good news is that hopefully we are going to have a reformed business plan debate which is going to concentrate on numbers as opposed to dealing with wishy-washy objectives which none of us want to have another ... how many days did it take last time to talk about?

**The Connétable of Grouville:**

Too many.

**The Minister for Treasury and Resources:**

Well, all gone, and there is a proposal coming forward to completely change all that, so we are going to concentrate on the real thing which is where the money goes.

**Senator S.C. Ferguson:**

I do not know. I think some of the proposals that were put into the business plans, having put some of them in, were things that affected the numbers but were essential.

**The Minister for Treasury and Resources:**

I do not disagree with that.

**Senator S.C. Ferguson:**

The fact that the Council of Ministers have taken themselves on to do them is another matter entirely, but it is one way of getting the ...

**The Minister for Treasury and Resources:**

Yes, but nobody wants to go through the torture of the debate on that. There does need to be the ability for Members to influence and to bring forward a proposal of putting grants in, or something like that. That's fine, but not the torture that we went through. I think we all agree on that. I hope so.

**Senator S.C. Ferguson:**

When we go back to talking about presentation, invest to save, all this sort of thing, should we really be talking about a growth? Is it appropriate at this point in time?

**The Minister for Treasury and Resources:**

That we should not have any growth at all, are you saying?

**Senator S.C. Ferguson:**

I am saying, is it appropriate? Yes, should we have it in there?

**The Minister for Treasury and Resources:**

If you take Treasury, if we do not get the growth, if we had not had the growth last year and if we did not get the growth this year, then you will not get the Treasury functioning department to do the C.S.R.

**Senator S.C. Ferguson:**

Surely it is invest to save. I am talking about mainly the other departments where they have growth.

**The Minister for Treasury and Resources:**

You just have to look at the growth that has been asked for and you have to make an individual assessment about whether or not you want to spend it. Health will be getting, out of the proposals that have been put forward, if they are followed through, £5 million worth of new money in 2011 for stuff that is all justified and no doubt you will be examining all the respective ... if you do not believe it is necessary then the scrutiny panel needs to say so. Home Affairs ...

**Senator S.C. Ferguson:**

Well, the Home Affairs one is an interesting one. Obviously the health one appears mainly to be dealing with the terms and conditions of middle grade doctors and junior doctors. The Home Affairs one it seemed to us to be just dealing with the problem that they are having with the fact that everybody is getting an automatic increment and it is just a way around it. Frankly, is that really the way we should be doing it?

**Team Leader, Comprehensive Spending Review:**

It came under intense scrutiny, did it not, at the Council of Ministers? I think that will be one of the things that is looked at in the terms and conditions because the cost of it is exceptional.

**Senator S.C. Ferguson:**

Significant. Well, health was very similar with the junior doctors.

**The Minister for Treasury and Resources:**

The real issue there is that we are not paying the market rate for junior doctors. We are relying on locums which ends up costing far more money. We are not recruiting

and it takes a lot to get me to accept that salaries are too low for recruitment and it takes a lot to persuade me that, but I am persuaded for middle doctors. It is quite clear and we are wasting money on having to just bring in locums. Health are having to use money that was given for other things in order to plug that hole. Not sensible at all.

**Interim Treasurer of the States:**

The U.K. has put its rates up, has it not?

**The Minister for Treasury and Resources:**

Yes.

**Interim Treasurer of the States:**

They cannot get them to cover over if they do not match it.

**The Minister for Treasury and Resources:**

No. Of course £1 million is for increasing social inclusion and reducing social deprivation. That is growth.

**Team Leader, Comprehensive Spending Review:**

That is in 2010. Just look at the right-hand column.

**The Minister for Treasury and Resources:**

Sorry, I am just looking at 11. It is still in there.

**Team Leader, Comprehensive Spending Review:**

Yes, it is still in there, but it is already in the base.

**The Minister for Treasury and Resources:**

It is in the base for 11?

**Team Leader, Comprehensive Spending Review:**

Correct.

**The Minister for Treasury and Resources:**

Right. Okay.

**Team Leader, Comprehensive Spending Review:**

Already approved.

**The Minister for Treasury and Resources:**

Right. Then obviously we have £500,000 for restructuring finance and that is it. The Chief Minister's Department is proposing setting up further E.U. (European Union) engagement. From everything that I see, one of the biggest risks for the Island is market excess in the E.U. for financial services. We are absolutely kidding ourselves if we do not think we have some pretty important engagement to be done in awareness raising of what Jersey does. Quite apart from the issues I have, which are being funded from carry forwards and some fiscal stimulus money is to deal with the issue of Zero/Ten. We have a big issue about Zero/Ten and engaging with Berlin, Paris, Brussels.

**Senator S.C. Ferguson:**

Will the euro zone still be there though? Who knows?

**The Minister for Treasury and Resources:**

Even if it is not there there is an E.U. protectionist agenda of which we have to get market access. I do not like at all Jersey using lobby firms in Brussels. I think that is absolutely the wrong thing to do for a self-governing Island community.

**Senator S.C. Ferguson:**

That is one of the areas where ... were we not looking at a joint ...

**The Minister for Treasury and Resources:**

We are, yes, that is what this is. We are doing a joint office with Brussels. That is exactly the right thing we should be doing; working closely with our colleagues in the Isle of Man. You have to allow some flexibility, is my view, on growth. This is pretty small but I accept that there has to be some.

**Senator S.C. Ferguson:**

Yes, I think very often in the past in the F.S.R.s we have seen a tendency to wave a shroud and say: "I must have more money" and there has been no evidence supporting that.

**The Minister for Treasury and Resources:**

Well, that is for you to examine the Ministers to say that. I have no doubt that there are issues at Health. I have absolutely no doubt at all.

**Senator S.C. Ferguson:**

It is not just Health, it is all of them, nearly all of them.

**The Minister for Treasury and Resources:**

No, but there are real issues at Health which are going to require some pretty hard long-term ... I mean, the rudderless Health Department, which I believe was in existence for 10 years meant that there is an awful lot of catching up in terms of our understanding and awareness of what is going on and I do not underestimate the problems that the Health Department have in the next few years. We have to be tough with them but fair.

**Senator S.C. Ferguson:**

Well, it is not just Health obviously.

**The Minister for Treasury and Resources:**

But Health is the biggest consumer of money.

**Senator S.C. Ferguson:**

Yes. Do you consider that the C.S.R. has fitted in nicely to the resourcing objectives in the strategic plan?

**The Minister for Treasury and Resources:**

Hope so. The C.S.R. is compatible with the schedule that was set out under section B of the resources plan, under Section C of the resources framework identified how

savings should be delivered and also the framework of the C.S.R. process itself. The financial forecast set out in the strategic plan has been updated and forms the basis of the C.S.R. target and so C.S.R. has updated the baseline expenditure to improve stability and control volatility by building in contingencies for the first time, realistically reflecting actual trends and expenditure. So, I would say it was absolutely in line.

[12:45]

**Senator S.C. Ferguson:**

The other thing is the accounts show a surplus of £20 million.

**The Minister for Treasury and Resources:**

An increased surplus of £20 million?

**Senator S.C. Ferguson:**

Yes.

**The Minister for Treasury and Resources:**

Yes.

**Senator S.C. Ferguson:**

How are you going to stop people going out to spend it?

**The Minister for Treasury and Resources:**

Well, they cannot spend it unless it is the States but obviously I am asking the States to spend some of it and I was aware of that, over and above surplus, earlier than some people and that gave me the confidence to bring forward the 118 request for bringing forward the voluntary redundancy scheme; the fact that it would not make our financial position worse than it is. So, I did not say that I had to lodge it and the timing of it was a bit unfortunate. I am not saying I am spending the £20 million, but it certainly means that we can put the up-front ...

**Senator S.C. Ferguson:**

You are spending 12 of it.

**The Minister for Treasury and Resources:**

Well, we can certainly put the up-front investment required to restructure and start the restructuring of the manpower levels.

**Deputy T.A. Vallois:**

So, where is the remaining money going?

**The Minister for Treasury and Resources:**

It is sat nicely in the consolidated fund, untouched by anybody, because it is only the States that can spend it and I would just politely remind people that they should not be under any illusion that because we ran a surplus of £72 million in 2009 that that is likely to reoccur. That was the last year of the corporate tax regime prior to Zero/Ten. There are statistics and statistics and damn lies is what you can do when you are explaining them but effectively it does not take an O Level student, G.C.S.E. (General

Certificate of Secondary Education), whatever you call them these days, to work out that we had £72 million surplus last year. We know that Zero/Ten is losing £100 million, so just on that basic analysis, and that is not the right analysis, there is a structural problem. That is a far too simplistic way of explaining it.

**Interim Treasurer of the States:**

In reality the 118 request has been lodged and will use up most of that surplus.

**The Minister for Treasury and Resources:**

Yes.

**Deputy T.A. Vallois:**

Where would the money have come from if you had not had the surplus?

**The Minister for Treasury and Resources:**

We would have drawn down a consolidated fund balance quicker but that is the reason why I have a line in the sand that I am not prepared to put a deficit of more than £50 million next year. I have some forward projections on the balance of the consolidated fund and the difficult thing I have to say to Members is that unless we make these decisions the money runs out. It is as simple as that. The money on the consolidated fund, if we do not deliver the £50 million within 3 years we have exhausted all of the stabilisation fund and the balance of the consolidated fund goes into deficit in 2013 and we cannot allow that to happen. So, something has to break. I will not take an allocation from the strategic reserve, which is my decision, and I will not do it in order to plug a structural deficit. I will not do it. You will not have me as Treasury Minister.

**The Connétable of Grouville:**

Why have you chosen the consolidated fund to be unfunded rather than stabilisation?

**The Minister for Treasury and Resources:**

Well, the stabilisation fund is all allocated. It is all allocated this year and next year. It is gone.

**The Connétable of Grouville:**

So, we should start building that again surely?

**The Minister for Treasury and Resources:**

Absolutely.

**The Connétable of Grouville:**

Why does £6 million not go to stabilisation instead of consolidated?

**The Minister for Treasury and Resources:**

Well, you could do some accounting stuff like that but effectively if you know the consolidated fund is likely to be zero by 2013, or unallocated zero ... there is a balance in the consolidated fund. Hugh is not sitting there in the Treasury thinking: "There is no more money in it." There is a substantial balance.

**Senator S.C. Ferguson:**

I think on the page you have there it has the opening balance on 2010.

**The Minister for Treasury and Resources:**

Yes, the opening balance in 2010 is 53.

**The Connétable of Grouville:**

Consolidated fund?

**The Minister for Treasury and Resources:**

Yes. It does not really matter, to be honest.

**The Connétable of Grouville:**

I know. I was on Patrick's committee when we started up the fund and we dipped(?) in everywhere and dragged all the money out.

**The Minister for Treasury and Resources:**

Yes, I like the idea and intellectually it is the right thing to do and I went to the hustings last night and heard former Deputy Ryan taking complete responsibility for everything that has been put into the economy and he is responsible for the fiscal stimulus and all the rest of it.

**The Connétable of Grouville:**

He is also responsible for the College for Girls.

**The Minister for Treasury and Resources:**

Okay, fine, that is interesting. The fact is it is good accounting. I do not descent from it. It is the right thing to do, pigeonholing an account which you use in bad times is a good thing to do. He did not create it. He did not put money in it.

**Senator S.C. Ferguson:**

The final question, and we are going private now, Linda.

**The Minister for Treasury and Resources:**

Is there anything else you wanted to say about the C.S.R. or F.S.R.? No? Okay.

[End of Public Session]

[12:51]