



## **Corporate Services Scrutiny Panel**

### **Draft 2015 Budget Statement**

### **Public Hearing with Minister for Treasury and Resources**

**THURSDAY, 31st JULY 2014**

**Panel:**

Senator S.C. Ferguson (Chairman)

Deputy J.G. Reed of St. Ouen (Vice-Chairman)

Deputy R.J. Rondel of St. Helier

Mr. S. Fair, Chartered Institute of Public Finance and Accounting (Panel Advisor)

**Witnesses:**

Senator P.F.C. Ozouf (The Minister for Treasury and Resources)

Deputy E.J. Noel (Assistant Minister for Treasury and Resources)

Ms. L. Rowley (Treasurer of the States)

[11.06]

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

Welcome to the public meeting of the Corporate Services Scrutiny Panel on the Budget. We are delighted to have you with us, Minister. We appreciate that it is taking time out of your holiday and it is much appreciated. We would like to welcome most of the Treasury team, by the look of it, and obviously your Assistant Minister. I believe you have all read the health warning many times over. So let us crack on and start with the income forecasts. When did it first become apparent that income forecasts were not as good as were previously expected or as in the M.T.F.P. (Medium-Term Financial Plan)?

**The Minister for Treasury and Resources:**

Thank you for that question. I think it is worth just going through very briefly all of the updates that have happened since the M.T.F.P.

**Senator S.C. Ferguson:**

Yes, can I...sorry, if you will excuse me a moment, Minister. Can we keep...we have got quite a lot to go through, can we keep it precise, yes.

**The Minister for Treasury and Resources:**

I know, yes. What I was going to do is I was going to say that I have got a timeline of everything that has happened with the forecasts that we could just tidy up as a briefing note for me, which I could give you, but I will canter through it because it has some detail. Just if we recall the M.T.F.P. forecasts were originally done...forecasts were done by the Income Tax Forecasting Group, they are not done by Deputy Noel or myself, they are done...have always been done by a specialist group so the original forecast that is in the M.T.F.P. was done in March 2012, the M.T.F.P. was then lodged in July 2012. There have been lots of debates about it. I was noting that one of your advisors at the time...your economic advisor, I think, Professor Oliver did his own scrutiny of the forecasts and did some variance analysis and we have always been clear that they were forecasts and they were likely to change. Clearly what happens even as the M.T.F.P. debate emerged in terms of the original forecast and then the lodging and then the debate, and it was becoming clear that the recession was going to be longer and deeper. We saw no reason to change the forecast because obviously there had been a lot of debate about the M.T.F.P. forecasts themselves. We then have published on...there have obviously been two Budgets since then and there has been a full transparency of all of the information from the Income Tax Forecasting Group right the way up to this Budget. I am almost a little surprised that people are surprised that the numbers are low. There seems to be almost a missing out of what has happened since October 2012 and now. The M.T.F.P. numbers are the M.T.F.P. numbers, they are the forecast from the Income Tax Forecasting Group and they are obviously explained in lots of granular detail all the assumptions back in March 2012 and we then have published updates of that all the way through. So we have

known that the income line was going to be less than expected all the way through almost from the beginning of 2013 and it has become clearer and clearer what the numbers are. You as a Panel have had the detailed breakdown of last year's income tax forecast in group outturn as well.

**The Deputy of St. Ouen:**

Can you just remind us, Minister, when these updates were received? You spoke about March 2012, when was the next update?

**The Minister for Treasury and Resources:**

I think the next forecast was done in May 2013, then that was included in the 2014 Budget and you had the information of that. There was summary which was actually published in the Budget but States Members got a confidential note of all the granular detail. So there was some information published, then there was a States question in February...

**The Deputy of St. Ouen:**

February when?

**The Minister for Treasury and Resources:**

February 2014 and then we have got the latest forecast in March, and April was the latest forecast and we will, as we did last year, provide the confidential note to States Members. Sorry, May.

**Deputy R.J. Rondel:**

That was May 2014 was the latest?

**The Minister for Treasury and Resources:**

Yes, and we will provide you with a timeline of all of that just to perhaps jog people's memory.

**Deputy R.J. Rondel:**

How often do you measure income forecasts? I know you have mentioned before that they are pretty robust when you do look at that.

**The Minister for Treasury and Resources:**

I will hand over to the Treasurer in a second because I think the political dilemma has been that the forecasts, while the underlying assumptions have clearly changed, inflation is a lot lower than the forecast, because you can see how the numbers have changed since 2012. R.P.I. (Retail Price Index), earnings, house price index, business tax, personal tax. So we have known that there have been some changes, and you can see them, you can see how those individual assumptions have moved right the way through and you will see them again in this one. I suppose

the challenge has been that notwithstanding the fact that the world has looked worse for longer and there has been low interest rates at this point of the cycle in 2012 we thought that interest rates would be about 1 per cent, we thought that inflation would have been higher. I have got all the numbers, but you see all of them. The problem is that the Treasurer has said on many occasions, if you look at the outturn for last year, we were within a whisker of the overall income number being achieved. That has been the consistent theme. We do not know what the outturn number is going to be for this year, there has been an experience of the last 2 years...I am nearly finished. There has been an experience of the last 2 years of some one-off items which come in. Business tax performance much better, the Comptroller is here, and the additional resources and some settlements have been reached, I do not know the detail of that but there are some big settlements that have been received. The Treasurer has been extremely successful in getting more income from money invested on the Consolidated Fund. That helped bolster the position from an overall position. So we came last year within, notwithstanding the downgraded information, a whisker of the overall income figure.

**Senator S.C. Ferguson:**

Yes, but part of that was £10 million special payment into corporate and the personal tax was down quite a bit.

**Treasurer of the States:**

Shall I comment on that?

**The Minister for Treasury and Resources:**

Yes, sure.

**Treasurer of the States:**

What I would say, Chairman, is that during the course of last year we did feel some pressure on the tax and we took steps to improve our income from other sources, not least, as the Minister has just mentioned, by taking steps to invest the Currency Fund which had previously been held in cash and also to invest the Consolidated Fund which had previously been held in cash.

[11:15]

That has been part, as you know, of our overall process of moving more and more of our investments into the Common Investment Fund to generate better returns on those. But the direct answer to your question is that when we close the accounts in May 2014 as we did a couple of weeks earlier than usual to help with the bond issuance, we were £20 million under from personal tax and we were £18 million over on business tax. So, as the Minister has said, we were within a

whisker, we were £450 million for tax against a budget of £452 million, so we were only £2 million under. For the accounts overall for 2013, we were £9 million under because we then had the problem of stamp duty of £7 million. You will recall that from our previous discussions. We were doing work in the Income Tax Forecasting Group. I was concerned about where we were with those forecasts and we produced a report in May, and that May report I think we have provided the Panel with the income tax forecasting.

**Senator S.C. Ferguson:**

So if you were concerned and the report was in May, when did you start getting the heebie-jeebies about the tax position?

**Treasurer of the States:**

I will rely upon your sign there, Chairman, at this point, and say that I do not have as great a concern as others do about that dotted line. I do think we will end up in a better position than that. Nonetheless, I also think that it is the right thing to do to plan for...you know the dotted line I am referring to, which is our May forecast. I do think it is the right thing to do, to plan, in case we are in that position at the end of 2014 and 2015. I do think that is the right thing to do. I do not however think we will end up there, not least because the measures that we have identified within the Budget report will help us to manage that position. A couple of those measures that will help us to manage that are the additional returns that we have generated already on the investment of the Consolidated Fund and the investment of the Currency Fund. Now, I appreciate...I do not know if we have brought the extra graphs?

**Deputy R.J. Rondel:**

Sorry to interrupt. Is it not the concern now that we are relying on stock market performance for those funds?

**Treasurer of the States:**

No, it is already delivered.

**Deputy R.J. Rondel:**

So far, but going forward.

**Treasurer of the States:**

Yes, we have already delivered additional returns on our Consolidated Fund investment and on our Currency Fund investment.

**Deputy R.J. Rondel:**

They did perform exceptionally well last year.

**Treasurer of the States:**

Yes. Although we have only got part year effect of that, those investments will now continue for a full year in 2014 and for our forecast for 2014 we have taken a modest assumption, as you would expect me to, as to what those returns might be.

**Deputy R.J. Rondel:**

But is the concern really on personal income tax, that we are not generating the amount of income that we thought?

**Treasurer of the States:**

Yes, on a personal income tax, without doubt, it is under pressure and the Taxes Office have been doing their utmost to try and satisfy me in relation to where we are on the actuals because I am so concerned about the forecast and the implications of these forecasts that the Taxes Office have been doing a lot of extra work to try and assess the actual position for us so that we are in a better position to plan. The difficulty for us is, as ever, that, as you know, the timing of the tax returns, and of course it is the ordinary mortals that have to do their tax returns early and those with the higher levels of the income do not have to do their returns until the end of July. Thereafter it is not until September that we have the business tax returns. So, at the moment, the best thing to do, I think, is to continue to be patient until such time as we see what those actual returns are looking like because it is the agents, the people who use agents, who are able to return their tax returns later and needless to say they are using agents because they have got a position to manage and they therefore have a hefty bill to manage. You are quite right, Chairman, during 2013 we did have, thanks to the good efforts again of the Taxes Office, a £10 million settlement but while they are different people and for different purposes, if you look back we have those sorts of settlements every year, virtually every year.

**Deputy R.J. Rondel:**

So if personal income tax continues to fall or be of concern, how will we fill that hole going forward?

**Treasurer of the States:**

There are a number of things to take into account in that regard. The first is what will the position be on business tax and, as you know, the banks are by far and away the biggest payers of business tax, by a country mile. Banks profits, and therefore their taxes are driven, as you know, by interest rates and the income tax forecast includes fairly modest assumptions about interest

rates. So it assumes that in 2014 the interest rates stay at 0.5 per cent and it assumes an average only of 0.9 in 2015. My personal view, informed by advice from our investment managers, such as PIMCO, and also informed by advice only last week from HSBC. HSBC's view, and PIMCO's, is that by 2015 the interest rates will rise to 1.5 per cent and possibly more than that.

**Senator S.C. Ferguson:**

Yes, right.

**Treasurer of the States:**

So to answer Deputy Rondel, those higher rates of interest will drive up returns for banks and they will in turn drive up business tax.

**Senator S.C. Ferguson:**

Yes, right, but in the view of all this, why were the more realistic Income Tax Forecasting Group figures not used within the previous budget exercise last year.

**Treasurer of the States:**

They were, Chairman. We have consistently used...all 3 lines on our graph, this graph, are lines from the Income Tax Forecast Group. So the blue line is an Income Tax Forecast Group estimate projection. The red line is the same. The dotted line is the same. So all those 3 lines are from the same people in the same group.

**The Minister for Treasury and Resources:**

So just to be clear, this is a photograph of the note that you had last year on exactly what the Treasury were saying. Just to reinforce all of what has just been said. That is the line of where the forecasting group, and as the Treasurer has also said, the Income Tax Forecasting Group is a group of people of which there is a colour of views. The challenge is that notwithstanding these downgraded numbers, the actual outturn has effectively always exceeded the income tax forecasting and the other income, and the Treasurer has, herself, generated, extra income from where we thought in 2012 by the judicious and much better returns on investments. So all of this information, there has been no period where you as the Corporate Services Scrutiny Panel or States Members have not known what the Income Tax Forecasting Group consensus, of which obviously there is a palette and a colour of views has been. The challenge, I suppose, for Ministers is that the Income Tax Forecasting Group do all their detailed assessment based upon granular information of earnings, house price indexes, inflation, et cetera. But when the results have come in they have been within whisker, although there have been these big movements between them.

**The Deputy of St. Ouen:**

Can I just interrupt you?

**The Minister for Treasury and Resources:**

Would you say it is any other way, Treasurer?

**Treasurer of the States:**

I think the difficulty for us, Chairman, is that we cannot get these forecasts reliable enough to the extent that we might wish and we have done huge amounts of work to try and maximise the...

**Senator S.C. Ferguson:**

No, it is not always terribly clear which figure is being used for which purpose. Did the F.P.P. (Fiscal Policy Panel), for instance, have the latest income forecasts?

**Treasurer of the States:**

Yes.

**The Minister for Treasury and Resources:**

F.P.P. have everything. You have...

**Senator S.C. Ferguson:**

Sorry, James, you were saying something?

**The Minister for Treasury and Resources:**

Sorry, can I just say, you have everything, the F.P.P. have everything, but I think there is one thing that we need to move on from here is the M.T.F.P., we have moved uniquely and robustly and better than other places to a 3-year budgeting situation where we have fixed expenditure for 2013, 2014 and 2015. I make no criticism to the *J.E.P. (Jersey Evening Post)* at all, and the media, but the media have in the past said: "Oh, Treasury got it wrong, their forecast was wrong." Well, of course the forecast is going to be wrong. It is like predicting the weather, things change. It is like predicting the weather in two weeks' time. The reality is we monitor what the actual is likely to be and the Treasurer has performed stellarly in terms of the income line. By the way, the balance sheet has swollen to a huge extent at the same time as these income forecasts have been down. The key question is: do you make any adjustments because of that income forecast? If the income forecast is down, that is because the economy is under more pressure. If the economy is under more pressure, do you pull back on projects and go on an austerity right-wing Republican tea party tax-withdrawing policy or do you, based upon good economic advice, put more money in in order to generate and keep people in work, do capital spending, et cetera. What we have done,



and the F.P.P. again, and there has been almost a misinterpretation, I think, in terms of the F.P.P. comment on this Budget, they have said no criticism about the Budget. They have said: "You are doing the right thing." Previously we...

**The Deputy of St. Ouen:**

I accept that the Fiscal Policy Panel may have made comments but I am not sure if they say: "We agree with everything you are doing."

**The Minister for Treasury and Resources:**

Well, they pretty well are.

**The Deputy of St. Ouen:**

But, anyway, that is another issue.

**The Minister for Treasury and Resources:**

They have said everything...

**The Deputy of St. Ouen:**

What we want to understand is not a case of whether we have had updated forecast information, we want to understand from you and your team what you have done - you personally - with that information, the Treasury Department, to inform the Budget proposals put to the States for the States to approve.

**The Minister for Treasury and Resources:**

Let me give you a couple of examples.

**The Deputy of St. Ouen:**

For instance, and in particular, we would like you to explain to us that if you knew that the forecasts were going to be lower than anticipated, and included in the M.T.F.P., why did you follow a particular route of reducing personal income tax by promoting the reduction in marginal tax relief which you knew would have a long-term effect? So if you can specifically answer those questions, it would be great.

**Treasurer of the States:**

Chairman, I can honestly say to you we did not know when we advised the Minister on the 27 per cent to 26 per cent reduction in the last Budget, that we would be £18 million under on personal tax at the end of 2013. We did not know that.

**The Deputy of St. Ouen:**

Sorry, can you just explain to me because we have just heard from the Minister that there are regular updates on the forecast and that equally we know that with a budget that there is the ability to amend the budget at the very last moment if and when information or improved information becomes available. So can you just explain that to us?

**Treasurer of the States:**

Certainly, Deputy Reed. If I had thought, Chairman, that we were going to be £18 million under on personal tax, £20 million under on personal tax, at the end of 2013 when we constructed the Budget and advised the Minister on the Budget for 2014, I would not have stood behind a reduction in the marginal rate from 27 to 26 per cent.

[11:30]

So that is the position on that. We did not think we were going to be £20 million under on personal tax and £18 million up on business tax. We did not think that. We are fortunate that those two numbers have moved in opposite directions. One has gone up and one has gone down and that has brought us to broadly a balanced position. But our forecasts have not been reliable enough. We have been fortunate in getting to that 450 against the 452, because in accounting terms, by any measure, plus 18 and minus 20 is a substantial variation when you look at those two variations individually.

**The Deputy of St. Ouen:**

Can you just confirm then that following the update in May 2013 there was no other updated forecast until February in 2014?

**Treasurer of the States:**

Can you ask that again, please?

**The Deputy of St. Ouen:**

Right, the Minister has told us that there was an updated forecast undertaken in May 2013. We are then told that the next update was received in February 2014. Can you confirm that that is the case and that there is no other update that took place between May 2013 and February 2014?

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

Just to correct you there, Deputy, the revised forecast was not done in February 2014, the work was carried out during March and April and was reported on at the end of May 2014. What was

issued in February 2014 was similar information to a question that was asked in the States that was backup information to data that was...

**The Deputy of St. Ouen:**

So are you saying that forecast was updated annually? Sorry, that is good enough. Are you saying that the forecasts are only updated on an annual basis? Is that what you are saying?

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

That is correct.

**The Deputy of St. Ouen:**

Yes, right, thank you. That is it.

**Senator S.C. Ferguson:**

Who is ultimately responsible for agreeing and accepting the income budget components within the overall budget process?

**Treasurer of the States:**

Me, Chairman. I have to advise the Minister on the best information and advice that I have available and I have always done that.

**Senator S.C. Ferguson:**

Super. Right. Richard?

**Deputy R.J. Rondel:**

Let us move on to the economy and...

**The Minister for Treasury and Resources:**

That is fine, but I just want to deal with this issue, the income forecasts are different but it does not mean that there is some sort of forecasting issue or there is some sort of forecast...sorry, this does not say to me that there is an underlying problem in our income that we should be starting to...people are extremely worried about this difference in forecasts. We have to understand that.

**Deputy R.J. Rondel:**

If you are £20 million out of...

**The Minister for Treasury and Resources:**

Pardon.

**Deputy R.J. Rondel:**

If you are £20 million out on personal tax...

**The Minister for Treasury and Resources:**

Yes, but if you understand what is going on and what to do it about it the reason why the income forecasts are down is because earnings growth has been less. It is because there have been less people in employment. Now, we can do some granular explanation of where this is and we have got the first pick up of this effectively in Guernsey because of the Guernsey situation, their number went...their income forecast went down earlier and that is where we started thinking: "That is interesting, that is an indication of where we should be perhaps thinking about these things." Would you do anything different? I get advice by the Treasurer on the financials. There is also an economic issue and there are political implications of what you should be doing in order to secure Jersey's long-term future. I still stand by the cut in the marginal rate of tax. I want to see that marginal rate of tax come down to 25 per cent and restructure the whole system by looking at exemptions and moving to a current year basis, and moving to a much more sensible and clarified role. So while the finances have been lower, as Laura has rightly explained, there has been all this other work done to bolster the income line at the same time, what is the policy response in this Budget and last Budget to a downgraded income? That is the real debate we should be having. I know there is debate about balancing the books, I am worried about that, deficits and all the rest of it, but you have to look at the whole picture now, income and expenditure, what you are doing to get the economy going, what you are going to do to support people that would otherwise be more hurt by a recession and a downgraded situation? What business growth opportunities do you do and what do you think the long-term position is and how are you best to get there?

**Panel Advisor:**

Is it not a matter of fact on page 55 of the Budget that the 2014 Budget said last year the income tax figures were roughly £475 million but before that was set the Income Tax Forecasting Group had produced a provisional estimate of £462 million, which is £13 million shy of that figure? That was produced in March 2013 as far as we are aware but yet the Budget was set at an M.T.F.P. figure of £475 million.

**The Minister for Treasury and Resources:**

But you do not change the M.T.F.P. number, do you?

**Panel Advisor:**

But I take it that the revised figure or the figure that I.T.F.G. (Income Tax Forecasting Group) has produced for this year is going in rather than the M.T.F.P. figure?

**The Minister for Treasury and Resources:**

No, this is where there is, I think, a lack of understanding. The M.T.F.P. 2012 numbers are the M.T.F.P. 2012 numbers. They cannot be changed.

**Panel Advisor:**

No, I appreciate that.

**The Minister for Treasury and Resources:**

You can produce an update of where you think the outturn is going to be and you might then think of what your policy responses are going to be.

**Panel Advisor:**

Absolutely, but the I.T.F.G. put forward a £462 million figure for income tax, that has now been revised for the same year 2014 to £445 million, which is as good £30 million adrift from that original M.T.F.P., that is a good 6.3 per cent of a difference so that creates ...

**The Minister for Treasury and Resources:**

Let us also factor in, if I may say, you are comparing cash numbers and we also need to look at real numbers because, of course, inflation has been ... one of the reasons why the forecast numbers are down is because there was an expectation in the original M.T.F.P., if you want to look at real economic performance, then you need to consider what the real number is. We expected in 2014 inflation R.P.I., R.P.I.X. (Retail Price Index excluding mortgage interest payments) to be between 2.9 and 3 per cent. Now, what has happened with R.P.I. is the R.P.I. for the 12 months was effectively 1.6. So you need to put the numbers into real terms as opposed to cash terms. Do you see what I am saying?

**Panel Advisor:**

Yes.

**The Minister for Treasury and Resources:**

That in itself is almost a double digit number. We made an extant decision; we made a positive decision to cut the marginal rate, why? Because we want to put money into people's pockets. We want to put money into the people's pockets to generate confidence and stimulate the economy. So there is this dilemma always, of course, that you have to have the financial advice, you have to have the economic advice and then you have to make political considerations because you could chose...the Chief Minister, Deputy Noel and I have discussed this year whether or not we should, notwithstanding these numbers, go to the 25 per cent margin rate. Now, we have taken advice

that would not be prudent to do so with the numbers, but you could make a political decision if you so wanted to say we are going to take £8 million out of the savings.

**Treasurer of the States:**

Your advisor's numbers are right. Here is one reason, and you have seen this graph many times before, why a reaction to a revised forecast would not necessarily be to drive in the direction that your advisor has rightly pointed. The graph I have here is the extent to which the income tax forecasts have been overachieved in the last 10 years or so. So that is one factor. The other factor is the Income Tax Forecasting Group only has one job and that is, in one sense, a strength but Treasury has more than one job. So the Income Tax Forecasting Group can say: "Well, we think this is where the income tax levels are going to be" but in terms of our Medium-Term Financial Plan, the Treasury has to think about a great deal more than that. Not least the impact on service delivery of a knee-jerk action to revise the forecasts. So our approach has been not to ignore the prospect of lower levels of personal tax but to take steps to try and increase income in other areas. I have mentioned two already, the steps that we took during the course of 2013, which were to invest the Consolidated Fund and the Currency Fund to generate additional income. I have brought with me an additional graph which shows the effect on our income if we take the measures which are described in the Budget report. As you know from our last discussion, if we take the measures that we have identified we end up with a surplus in 2014 on a little over £13 million. That surplus can then be carried forward to offset and to balance the budget in 2015.

**Senator S.C. Ferguson:**

Okay, fine. Thank you.

**Treasurer of the States:**

So our response has been not to respond to a possible reduction in personal tax by increasing taxation but by identifying other measures that can be taken in the short term, not least because of the fear of disturbing the economic recovery that we hope...

**Deputy R.J. Rondel:**

Are there other measures?

**Treasurer of the States:**

If I may give that to your advisor, Chairman.

**The Minister for Treasury and Resources:**

Do you have any concerns about any more that we can take off line?

**Panel Advisor:**

No, that is fine.

**The Minister for Treasury and Resources:**

Because your question was have we done something wrong?

**Panel Advisor:**

No, it was basically on your statement, Minister, that you did not think that there was a problem in income tax forecasting. The point I was making was that the shift in the numbers is quite significant.

**The Minister for Treasury and Resources:**

But it is because the economic situation is deteriorating.

**Panel Advisor:**

Yes, exactly.

**The Minister for Treasury and Resources:**

But we understand it. We can always do better on forecasting of course but would be the policy response...knowing what we know, even if we knew then what we know now, what would you do differently?

**Senator S.C. Ferguson:**

I do not think it is for you to ask questions of us.

**The Minister for Treasury and Resources:**

No, but that is the question we are asking ourselves, okay? That is the point I want to make.

**Deputy R.J. Rondel:**

Just before I move on, you did mention that your forecasts are not reliable enough. Do you think they are as reliable as they can possibly be?

**Treasurer of the States:**

We need to do more work on the forecast, Chairman, and it will be easier...in recent years, of course, we have been seeing the gradual implementation of the effects of 20 means 20 and Zero/Ten, that has taken some years to feed through. So that has made the forecasts more difficult to do than might otherwise be the case. We have then had other significant changes on deemed distribution for instance, where it was very difficult to assess the impact of that. Now that

we are in a more stable position, perhaps it would be easier, but if you can tell me exactly how much profit companies are going to make in the next 12 months, exactly how much people are going to earn, exactly what sort of allowances they are going to be entitled to, then I will give you a better forecast.

**The Deputy of St. Ouen:**

With that knowledge, knowing that, what actions did you propose in the M.T.F.P. to allow for that variability that we all know exists?

**Treasurer of the States:**

Contingencies, Chairman. We provided substantial contingencies for each of the 3 years of the Medium-Term Financial Plan, we provided contingencies for growth and contingencies for unforeseen circumstances. Unfortunately we have had some unforeseen circumstances arise and the contingencies have been called upon but that is the measure, Deputy Reed, that we took was to provide an allocation to contingency.

[11:45]

**The Deputy of St. Ouen:**

Could you confirm that actually although the idea is absolutely right that you allowed for certain significant levels of contingency and growth contingency, that the Council of Ministers put forward a proposal to use and make use of all those contingencies from the word go and that that removed any ability to adjust the plan to meet any shortfall that would arise from it through income?

**Treasurer of the States:**

I think Deputy Reed's point is fair, Chairman, in relation to the allocation to growth because, as you will recall, we had a clear set of proposals around how the allocation to growth might be applied in each of the 3 years, but it would not be the case in relation to the much larger allocation for contingencies because although we knew that we had some pressures that we needed to plan for, we nonetheless still have a significant amount of unallocated resource within those contingencies. We have been under pressure from things like the States decision, for instance, to fund the inquiry into the child abuse matters. So that has consumed a considerable amount of those contingencies.

**Senator S.C. Ferguson:**

Right, okay, can we move on now, please.



**The Minister for Treasury and Resources:**

Nine we think, now moving to 7.

**Treasurer of the States:**

Initially 6.

**Senator S.C. Ferguson:**

Yes, can we move on, please?

**The Minister for Treasury and Resources:**

Okay, so £6 million to £9 million we funded out of contingency, who else could do that if we did not have contingencies. So, we can talk...

**Senator S.C. Ferguson:**

Okay, fine, Minister, thank you.

**Deputy R.J. Rondel:**

We are going to move on to the capital programme.

**Senator S.C. Ferguson:**

We have exhausted that.

**The Minister for Treasury and Resources:**

Absolutely.

**Deputy R.J. Rondel:**

Where will Jersey get the labour required to deliver the anticipated capital infrastructure projects over the next 5 years?

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

That is going to come from a number of sources. There is existing labour currently in the industry, we have got a skills initiative to help some of those people that are actively seeking work to train or retrain and we are working closely with the Construction Council to make sure that we have got as much spare capacity out of that cohort of individuals to join the construction industry.

**Deputy R.J. Rondel:**

If the anticipated projects come to fruition, how much labour would you need?

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

Well, for example, from the States point of view we are trying to manage the timetable for those and we meet regularly with the Construction Council to make sure that we programme those tenders to come into contract in a timely manner to try and manage the situation. Undoubtedly there will be some requirement to bring in some external labour force designated by individuals for a fixed period of time for particular contracts.

**Deputy R.J. Rondel:**

Have you done a timeline and an estimated amount that you will have to bring in?

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

Some work has been done, I will have to come back to you on the granular detail of that. But it is ongoing and it is work with the Skills programme. We have 200, I think, individuals going through an exercise to make sure that we provide as many locals to the industry with the appropriate skills to fulfil those contracts.

**Deputy R.J. Rondel:**

Are you saying that some capital projects may well be staggered more due to the shortfall of labour availability?

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

No, we are trying to manage the expectations of the industry to our own level but there are some projects that cannot be delayed, for example, and it is probably the biggest one that is going to happen in the next 10 years, is the completion of our hospital facilities. We cannot delay that because of labour issues. There is a service requirement for that and it is similar with other...government does not just do capital projects to supply the construction industry in a timely manner. We do capital projects, we build buildings and facilities because there is that operational need for them. That has to come first.

**Deputy R.J. Rondel:**

Absolutely, and I am trying to understand whether you feel the labour is available and, if not, how many we have to bring in. Would you have a timeline that you would be able to give us of the potential projects over the next couple of years?

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

We will have more detail on that by the end of the summer.

**The Minister for Treasury and Resources:**

May I just make an additional point? I think we have got a very good handle on the future capital requirements. We know we have got to do these capital projects, as the Assistant Minister has said, we have to make sure the F.P.P....and we discussed that last time. We have got the Back to Work team now formally responsible for this. As the Assistant Minister has said, it is not a question of not doing these capital projects. I started in politics at a time when there was not a Competition Law and where building costs were too expensive and we must not allow us to be putting construction projects into the construction industry without having a good idea of what the effect on prices is going to be. We need to improve the productivity of the construction industry, we need to improve its capacity, we need to get some mid-sized firms being capable of taking big projects, that is why we are talking with Andium about their procurement strategy for...they are identifying 3 or 4 new firms that can be brought up. Training people on the Back to Work thing, getting young people...I met a young lady two days ago that said she wanted to become an engineer. Fantastic. We have got an A-level student now going and doing summer work experience learning to be an engineer in a building firm. All this construction needs to have a real focus and we need to deliver these capital projects, provide the accommodation in hotels, for example, some outgoing hotels for workers. We will not ensure that construction projects go up as a result of these additional requirements and we will continue to invest in infrastructure that the Island needs without cost inflation. It is well under control.

**Deputy R.J. Rondel:**

Thank you. Given the criticism of the management of various projects, what recommendations will you make in order to improve this area of States operations, especially given that we do have 3 very large building projects planned?

**Treasurer of the States:**

Chairman, may I ask, does Deputy Rondel have any particular schemes in mind?

**Deputy R.J. Rondel:**

An example would be the integrated care records that P.A.C. (Public Accounts Committee) recently produced.

**Treasurer of the States:**

If that is the example, Chairman, the integrated care records issue was misreported in the press.

**The Deputy of St. Ouen:**

There is also criticism that...maybe criticism is too harsh a word but the Fiscal Policy Panel comments in their recommendation 6 makes a statement...

**The Minister for Treasury and Resources:**

What page are you on, James?

**The Deputy of St. Ouen:**

Page 8. "The Treasury should look at how budgeting for capital projects and the use of capital allocated can be improved." So obviously there is a view that the Fiscal Policy Panel have that there are improvements that can be made, therefore the current system is not perhaps...

**The Minister for Treasury and Resources:**

No, hold on, that is a completely different thing, if I may say. Deputy Rondel, you were asking about the actual operation of capital projects and making sure that they are delivered on time and what we are trying to do is get...

**Senator S.C. Ferguson:**

Well, the overall management is budget as well as actual operation, Minister.

**The Minister for Treasury and Resources:**

I have looked at the transcript, and it is very difficult when I am interrupted when trying to answer a question.

**Senator S.C. Ferguson:**

Well, we are trying to have concise answers, Minister, please.

**The Minister for Treasury and Resources:**

Yes, but...

**Senator S.C. Ferguson:**

We have a lot to get through.

**The Minister for Treasury and Resources:**

We wish to answer your questions and we have been asked two completely different questions. I will address Deputy Rondel, if I may, through you, Chairman. On project management we have been doing under the Treasurer and the Corporate Management Board, a lot of work to make sure projects are delivered on time and within the timetable. The improved reporting of it, the rag-rating of things that are late, what we can do to improve the timing of projects. An enormous amount has been achieved so I do not recognise what those projects are. The care issue, the care records thing, I do not know anything about that care records thing, I have not heard anything about that

for 2 years. I am going to get a briefing on it because I do not know about this capital £11 million overspend. I do not recognise it...

**Treasurer of the States:**

No, there is not, it is misreported, Chairman.

**The Minister for Treasury and Resources:**

If there would have been I would have known about it, I think, but we will come back to that. So capital in terms of building things, Richard, in terms of building things and infrastructure things, we have an excellent Property Holdings, we have good capital oversight, we know what is going to happen when and we know we have to spend. The Treasury cannot be held responsible for paying every bill...well, we pay every bill, but in terms of running every project. What we need to do is ensure that departments that are running projects are making sure that they are delivering those projects early, as early as they possibly can. We want to give good value for projects now and that is what we have been doing for the last 3 years. We will provide some summary numbers. We have delivered £222 million over 3 year of capital projects in this plan. We will expect to spend £274 million in the period until 2015. Unspent...we have got all these figures. Tell me what has gone wrong with capital projects, apart from some projects, like the police station, being delayed.

**Treasurer of the States:**

The other thing I would say, Chairman, is that I think we have had some very robust discussions at C.M.B (Corporate Management Board), at our C.M.B. subgroup about this very issue and I do think that departments have done their best to pursue their capital projects as quickly as they can. We might not, I accept, have achieved that entirely, and I know that has been a frustration for the Minister and the Assistant Minister but I have no doubt that the departments have been doing their best to pursue the projects with the resources that they had available to them. It is easy to criticise but our departments, despite what people think, are not that well-resourced for taking these projects forward and they have been working hard to do it. So it would be nice if there was a little bit more...I am speaking out of turn here, but it would be nice if there was a little bit more patience sometimes with the departments when they are doing their best to progress. I am not directing that at anyone in particular or at anyone at all but it would be nice if there were a bit more patience at the times of these difficult projects.

**Deputy R.J. Rondel:**

What do you do about projects such as the J.C.G. (Jersey College for Girls) site, which I am sure you have become frustrated about as well, but people are awaiting for homes, and families are waiting for homes...

**The Minister for Treasury and Resources:**

That is right, and I am grateful for what the Treasurer says because the Treasury is also not responsible for delivering all capital projects. We are happy to take a lead in encouraging people and we have done so but to say that we can just direct people to spend capital projects and do them...departments work very hard. There are lots of good people working extremely hard and we have a blame, accusation, aggressive culture towards all sorts of things, and what the Treasurer says is right. Now, to Deputy Reed's question, that is a completely separate question, it is recommendation 6 of the Fiscal Policy Panel report and they say, in the second half of the recommendation: "Treasury should look at budgeting" so that is not the delivery it is the budgeting "of capital projects and the way that capital allocations are." One of the difficulties is that we have always have lots of unspent capital because we budget for capital projects right up until they have to be delivered and that is why we have this large amount of cash sitting there which is not being spent because of the way we are budgeting. Now, what the recommendation says, Deputy Reed, it says: "During our fact-finding visit, the Treasury confirmed that work is already underway and it will be important that this is finalised in time for the next Medium-Term Financial Plan." So we are looking...

**The Deputy of St. Ouen:**

Yes, underway to prove the information that is already provided.

**The Minister for Treasury and Resources:**

No, not information. No, no.

**The Deputy of St. Ouen:**

That is what it says.

**The Minister for Treasury and Resources:**

No, no, no, James, it does not say improve the information, it says improve the budgeting process, which we know about and we are going to do something about it. But even if we had this new arrangement in place for this M.T.F.P., would we or could we have done anything different? That answer to that is no, because we already did two additional pieces of capital spending. One, fiscal stimulus and, secondly, the £27 million for housing. So we have already done this, we recognise this is an opportunity of doing things better and work is already underway, which we have already said. So the F.P.P. are just confirming what we have already said we want to do and that we have already got work in progress, and the Treasurer has been doing that.

**The Deputy of St. Ouen:**

Thank you for the explanation.

**The Minister for Treasury and Resources:**

Deputy, that is not the same as spending the money or planning it, it is about the budgeting of it.

**The Deputy of St. Ouen:**

We will seek clarification from the F.P.P. Thank you.

**The Minister for Treasury and Resources:**

Okay. Well, no, you do not need clarification from the F.P.P., I have just given it to you.

**Deputy R.J. Rondel:**

When that money is not spent, could you just confirm where that is invested or how it is invested?

**Treasurer of the States:**

It is held in the Consolidated Fund, Deputy Rondel, and that is why the Consolidated Fund has had so much cash in it. It is also why we think it is sensible to be investing that through the Common Investment Fund in order to generate returns.

[12:00]

**Deputy R.J. Rondel:**

Thank you. How will the F.P.P's requirement to put money into the construction industry affect immigration?

**The Minister for Treasury and Resources:**

That is a different question to me. If you want to ask me Budget questions...that is a question for the Chief Minister and for the Population Office. Suffice it to say, we have good communication with them and the Back to Work Group is looking at all the numbers. Just like we have done with the finance industry, we are looking at full projections of numbers of people in construction. There are lots of people unemployed. I will answer that question but that is not a question to the Minister for Treasury and Resources.

**Senator S.C. Ferguson:**

Okay. Let us crack on, shall we?

**The Minister for Treasury and Resources:**

I already know the answer but I do not want to take up time.

**Deputy R.J. Rondel:**

The draft Budget provides capital programmes that if targeted properly should assist the construction industry. Is there assistance for other industries within the Budget?

**The Minister for Treasury and Resources:**

First of all, I was very grateful to see Peter Body's article last night in the *J.E.P.* because I am surprised...I am going to be addressing the Chamber of Commerce on 4th September. To say that this is not a growth Budget, I think first of all there needs to be a recognition that the Minister for Treasury and Resources and the Treasurer and the Assistant Minister for Treasury and Resources are not responsible for growth and the difference between 1 per cent of G.V.A. (gross value added) and 3 or...for job creation. Goodness me, we do a lot to try and achieve that and support them, but we do not make business. Business makes business. I am surprised to hear the Chamber of Commerce president be so condemning of the Budget, it seems. I am very surprised. The last 6 years of which I have been Minister for Treasury and Resources we have done an enormous amount to support the department that is responsible for economic development. We have given Economic Development virtually every single bit of support they needed. I do not think we have turned one financial request down from them. We have done the Innovation Fund. I did the legislation for the Innovation Fund and I am disappointed that after having handed it over we have only just...I am pleased it is now being used, but effectively it was the economic advisor's original recommendation in June 2011. We did all the work to get it done and now it is only working. That is not fast enough. I offer no criticism. I know there have been some issues around that.

**Treasurer of the States of Jersey:**

Chairman, may I just add something to what the Minister has said? You were asking me earlier about would we have implemented the 27 to 26 per cent reduction in the marginal rate if we had known at the time about the pressure on personal tax, and I said no. I said I would not have advised the Minister to make that 27 to 26 per cent cut if we had known that. That is from an accounting point of view and that is from just looking at income and expenditure. Even in that circumstance, even then, if we had known, the Minister might have still decided to reduce the marginal rate from 27 to 26 because of the other implications for the economy. You do not need me to explain that that has obviously left more money in the economy rather than taking it out and that might have been the entirely proper thing to do even if we had been clear at that point about...

**The Minister for Treasury and Resources:**

Yes, so what are we doing for...thank you.



**Treasurer of the States of Jersey:**

So that means that another thing we are doing for business is leaving money in the economy by not taking money out.

**The Minister for Treasury and Resources:**

What else did we do? We used the underspend in Social Security not to take out of people's wage packets the long-term care charge. Now, it is not for me to say the long-term care charge is right or wrong in this forum. I understand the political requirement to do it. I entirely support the Chief Minister and the Minister for Social Security's decision to implement the charge and I would do the same. But what has the Treasury done? The Treasury worked with Social Security to introduce the benefit, which was introduced this July for all our senior citizens, at zero cost to anybody, at a reduced rate of half a percent next year, at a cost of £8 million to the Treasury, and another cost...well, it has been out today, we have done £16 million of assistance. So what are we doing for business? We are putting more money in people's pockets. We have not implemented a charge for a benefit. This is not just taking money for nothing. This is about protecting people to allow elderly people to keep their own homes and be looked after in them. The Chief Minister and I have taken responsibility for financial services and I have spent...in addition to my day job of working with my Treasury team, I have a second job to put the financial services industry, with the Chief Minister, on a completely new platform because it is the finance industry that drives our growth and will continue to drive our growth notwithstanding. We have supported J.T. (Jersey Telecom) to build a digital economy, Digital Jersey. We have done everything that we possibly could do and we have asked the tax professionals. They have said: "We want a business incentive scheme" because they do lots of these elsewhere. When you have complicated and high taxes of 75 per cent or whatever, you need to do things to stimulate particular sectors. We have defended Zero/Ten. Business has zero tax in Jersey, so what more can we give business in terms of zero tax? We have published an economic growth strategy. We have done everything we can and we have asked the accountants: "Is there a scheme that we could have put in place in order to drive more growth into the economy?" and every scheme that we have been given effectively would have had unacceptable, unintended consequences in terms of avoidance, K2-style avoidance that would have been in Jersey. So I am afraid we have said no...

**Deputy R.J. Rondel:**

Okay, thank you. That is comprehensive enough.

**The Minister for Treasury and Resources:**

But if they come to us with a scheme, we will do it. The economic advisor...

**Deputy R.J. Rondel:**

Thank you. You mentioned the Chamber of Commerce. Now, they have described the Budget to us as a “wake-up” Budget and indicated that the time had come for a debate on cutting expenditure or raising taxes. Would you agree with them?

**Treasurer of the States of Jersey:**

We have never been asleep, Chairman. **[Laughter]**

**The Minister for Treasury and Resources:**

That is absolutely right. I was criticised earlier this year for saying that we would be looking in the next M.T.F.P. for £50 million to £75 million of savings. I was criticised. People said: “Why are you saying that?” I was awake at Christmas. I was awake during last summer and the Christmas before and we were awake at the start of my term of office when I said if we would not have taken corrective action we would have had £100 million deficit in 2013. What did we have in 2013? Balanced budgets. So if anybody wants to come and ask me or the team what they want to do to help business, I am right behind them. I will do everything. I spend double time, double working time, on that issue. I am apparently too business friendly. So I am disappointed. We have not been asleep. We have been awake for 5 years and we are in a rather better position in Jersey notwithstanding the most savage recession affecting financial services. We are better in Jersey than most other places. Yes, there will continue to be bad news from some banks; RBS, I am briefed on their numbers. I was expecting more job losses in RBS but the robustness of the business in Jersey and the way that it has been managed - congratulations to the local team - the way that it has been regulated means that RBS is going to be doing more business in Jersey but with less people. That is what happens with technology.

**Senator S.C. Ferguson:**

That is productivity, actually.

**The Minister for Treasury and Resources:**

That is right and that is why we care about it so much and that is why we are doing so much about it. But we also have two new hedge funds coming, unnamed yet. You know that there is a hedge fund on the Waterfront that is now employing 70 people as a direct result of the work that we have been doing, and we have news coming down the track shortly of another two exciting businesses.

**Senator S.C. Ferguson:**

Right. Can we move on, Minister?

**The Minister for Treasury and Resources:**

Yes, but there is a disconnect. If people have criticisms, could they please tell us what they are and could they tell us from a granular point of view what actual decisions you would want made differently?

**Senator S.C. Ferguson:**

Okay, that is super. We will. Go on, Richard.

**The Minister for Treasury and Resources:**

I am delighted your advisor is smiling and nodding.

**Deputy R.J. Rondel:**

How certain is it that the measures described on pages 54 and 55...

**The Minister for Treasury and Resources:**

Are you on the Budget, Richard?

**Deputy R.J. Rondel:**

...in your Budget statement will be delivered?

**Treasurer of the States of Jersey:**

Chairman, as I reported to you last time, we know that we are more likely to generate £2 million from Jersey Post than £5 million. Other than that, those numbers are still the best we have.

**Senator S.C. Ferguson:**

Yes. I perhaps should declare a conflict because I do have some shares in Jersey Water, which is one of the areas where you intend to get some money out of the Budget.

**Treasurer of the States of Jersey:**

Yes, Chairman. We propose, subject to States approval, for Jersey Water to repay a preference share to us in order for that to be invested in the capital programme, so we replace one asset on our balance sheet with another.

**The Minister for Treasury and Resources:**

Which is exactly in line...

**Senator S.C. Ferguson:**

But in actual fact, if I can quote you...

**Deputy R.J. Rondel:**

Perhaps I should just declare an interest as well.

**Senator S.C. Ferguson:**

Yes, you have not negotiated with Jersey Water at this point in time. The board has only just begun considering whether a redemption would be beneficial.

**Treasurer of the States of Jersey:**

No, Chairman, that is not right. We have had a very positive email from the finance...I have had a very positive email from the finance...well, he is now the Chief Executive of Jersey Water, or will be.

**Senator S.C. Ferguson:**

What was the date?

**Treasurer of the States of Jersey:**

I cannot remember exactly but I will send it to you by all means.

**Senator S.C. Ferguson:**

Yes, please, because this is dated 22nd July telling us that they have had: "...no involvement in the selection of values used by the States in their Budget proposals and we have not yet held any formal negotiations with the States."

**Treasurer of the States of Jersey:**

You have had that from Jersey Water?

**Senator S.C. Ferguson:**

Yes.

**Treasurer of the States of Jersey:**

Well, I am very, very surprised.

**Deputy R.J. Rondel:**

That has been sent to all shareholders.

**Senator S.C. Ferguson:**

Yes.

**Treasurer of the States of Jersey:**

Okay. Well, I will...

**The Deputy of St. Ouen:**

Have you not received the same letter as a shareholder?

**Treasurer of the States of Jersey:**

I will show you, Chairman, now the...

**Senator S.C. Ferguson:**

Well, no, you can send it on to us, that is fine.

**Treasurer of the States of Jersey:**

Okay, I will send that to you.

**Senator S.C. Ferguson:**

But as a large shareholder in Jersey Water, I am surprised you have not had the letter.

**The Minister for Treasury and Resources:**

Well, we are the largest shareholder and we control the controlling interest in it. Effectively, we have an 83 per cent voting consideration and the Treasurer...I think there is just probably a miscommunication here. There is, of course, a process and...

**Senator S.C. Ferguson:**

Well, we will be delighted to let you have a copy.

**The Minister for Treasury and Resources:**

Sarah, would you just not interrupt me. I cannot finish...

**Senator S.C. Ferguson:**

I am trying to move on, Minister, and you do tend to expand things a little.

**The Minister for Treasury and Resources:**

Yes, I try to give you the information rather than misinformation. We are asking for the in-principle decision to redeem those shares. There will, of course, be a final negotiation and a proper negotiation. We are then authorised to go and formalise that discussion in relation to the value of the par value because, of course, we will not accept receiving the par value because we get a 10 per cent return on it. So it is in the company's interests not to have a financial instrument at 10 per

cent so they will want to replace that with another financial instrument at a lower interest rate and we will have to come to an agreement on a price. There is no issue here. That is probably the formal legal position. I am asking in the Budget for permission to redeem the shares and then there will be a negotiation, which I will take advice. But to say that there has not been communication between Jersey Water, I have spoken to the chairman myself.

**Senator S.C. Ferguson:**

No, no, that was not what it said. It had said there was no...

**Treasurer of the States of Jersey:**

Chairman, with the magic of the iPad, I will read to you the response I had, which was obviously very informal and not meant for this setting. This is from Helier Smith to myself, copied to various people including the Chairman of Jersey Water and the current Chief Executive, Howard Snowden: "Dear Laura, thank you for your email and for moving things around. We are genuinely very interested in taking this forward and would like to make it work for the benefit of the States, our remaining shareholders and the company. We will have a good look at this and get back to you with our thoughts." That is what he sent to me on 9th July. On 22nd July he sent me another email saying: "We have prepared a letter to our shareholders explaining that you have included the possibility of redemption of the 10 per cent preference shares in your Budget proposals for 2015. We felt this was necessary as some of the media coverage of the Budget could be misconstrued as suggesting that all of the States shareholding is being disposed of."

[12:15]

So it goes on. Then he has copied to me the letter that I think you are referring to.

**The Minister for Treasury and Resources:**

There is no issue here.

**Treasurer of the States of Jersey:**

So that is the position, Chairman.

**Senator S.C. Ferguson:**

Okay, fine.

**The Minister for Treasury and Resources:**

I am asking for permission and then there will be a negotiation of a value.

**Senator S.C. Ferguson:**

Right, okay.

**Deputy R.J. Rondel:**

What would happen in the event you cannot deliver on the measures set out? Is there a plan B?

**The Minister for Treasury and Resources:**

Well, we would work with...as the Treasurer has repeatedly said, these are contingent measures because we are prudent and because we have obligations under the Public Finances Law to do a balance of Consolidated Fund. The Consolidated Fund will always balance. We will find other mechanisms to deploy, but in the back of my mind constantly, almost tattooed on my economic principles, is the advice of the F.P.P. that you should take all necessary action to continue to support the economy and not use just simply only the availability of cash on the Consolidated Fund. So we have used all the other things possible because to do anything differently would mean pulling back on projects and that is not the right thing to do at this time.

**Deputy R.J. Rondel:**

What would your approach be to possibly utilising reserves?

**The Minister for Treasury and Resources:**

Well, effectively, we would look at some others, but we have not included these things. We are not going to use all of them. There will be a reprofiling inevitably as there are delays in some capital projects, but we will continue to monitor things. We would not make any different proposals in the Budget because the Budget is...the economy, while people are more optimistic in some areas only, the economy continues to need support. Islanders need support and we can afford to give them support in relation to things like the long-term care charge, putting that on hold, and the marginal tax situation. If the Panel have other proposals that they would do and if you think that we should be not doing things or doing other things, then please tell us. I know that there is a debate about next year's M.T.F.P. That is very early and we are already apparently starting to...people apparently start being surprised about the fact that there are some challenges in the next M.T.F.P. Well, we have been saying that all the way along. We will be publishing our issues paper on the next M.T.F.P., but that is an issue for next year. The key question before us is what we would do differently now knowing what we now know.

**Senator S.C. Ferguson:**

Which takes us neatly on...

**The Minister for Treasury and Resources:**

Excellent.

**Senator S.C. Ferguson:**

...to my next question, which is: is the expected - I think it is £60 million savings you have been talking about, is it not - savings fully built into departmental base estimates for 2015?

**Treasurer of the States of Jersey:**

Yes, Chairman.

**Senator S.C. Ferguson:**

Thank you, right.

**The Minister for Treasury and Resources:**

This is the last £60 million or the...?

**Treasurer of the States of Jersey:**

You mean the C.S.R. (Comprehensive Spending Review)?

**The Minister for Treasury and Resources:**

You mean the Comprehensive Spending Review?

**Senator S.C. Ferguson:**

Well, you have been talking about more savings. Is that...

**Treasurer of the States of Jersey:**

Oh, sorry, Chairman...

**Senator S.C. Ferguson:**

Sorry, is the expected savings from the consolidated...wherever it is, in the consolidated account there is a savings figure, but are the...

**Treasurer of the States of Jersey:**

Sorry, Chairman, when you were talking about the £60 million I thought you were talking about the C.S.R. savings.

**The Minister for Treasury and Resources:**

Yes, we have already delivered 60.



**Treasurer of the States of Jersey:**

If you mean the original target was 65...

**The Minister for Treasury and Resources:**

Is that what you mean?

**Senator S.C. Ferguson:**

Yes, made 60 and that is firmly into all the base budgets?

**Treasurer of the States of Jersey:**

Yes, Chairman.

**Senator S.C. Ferguson:**

Right, super.

**Treasurer of the States of Jersey:**

Plus a bit still to come from Education.

**Senator S.C. Ferguson:**

Excellent, right.

**The Minister for Treasury and Resources:**

But you know that.

**Senator S.C. Ferguson:**

So what are going to be the implications...sorry, if we can just move on, Minister. We have an answer to our question; that is fine.

**The Minister for Treasury and Resources:**

Okay, but you know that. It cannot change. It is the law.

**Senator S.C. Ferguson:**

Good, excellent. So what are going to be the implications of adopting part 1 of the Budget proposition which relates to the Strategic Reserve?

**The Minister for Treasury and Resources:**

Sorry, which one are you talking about now?

**Senator S.C. Ferguson:**

If you look at the proposition: "To approve, in accordance with the provisions ..."

**The Minister for Treasury and Resources:**

Are you talking about "(i)" as opposed to "one"?

**Deputy R.J. Rondel:**

"(i)."

**Senator S.C. Ferguson:**

"(i)."

**The Minister for Treasury and Resources:**

Right. You said "one." I did not understand what you said. Well, (i) is as it is. I cannot be any clearer what...

**Senator S.C. Ferguson:**

No, it is not...

**Treasurer of the States of Jersey:**

Can I help you with that, Chairman?

**Senator S.C. Ferguson:**

There are two things. Yes, basically you are talking about the Strategic Reserve balance should be defined as the capital value. What are going to be the implications of that?

**Treasurer of the States of Jersey:**

Chairman, what we are trying to do there, we had an outstanding recommendation from the Fiscal Policy Panel that there should be clarity as to the capital value within the Strategic Reserve. The reason for that was because there was a lack of clarity going back all the way to 2006 and because we had a decision in the 2014 Budget to use investment returns from the Strategic Reserve to fund the hospital, we thought it was necessary to address that particular point that the F.P.P. had raised. We settled largely as a result of the prudent approach particularly from the Assistant Minister, who was always very cautious on these matters, quite rightly so, with a decision to settle on the value as at 2012 and to provide for inflation based on R.P.I.Y. (Retail Price Index excluding mortgage interest payments and indirect taxes) for future years. So just to illustrate what that would mean, because you asked about the implications, for 2013 the value of the Strategic Reserve increased by £92 million from £651 million to £743 million. If we allow for

R.P.I.Y., that is about £12 million for that year. So that would mean that the investment returns over and above the capital value inflated for R.P.I.Y. to maintain it in real terms would be £80 million. So that £80 million then becomes available for the hospital project. So those would be the implications, Chairman, of that decision.

**The Minister for Treasury and Resources:**

So lower investment returns than is currently forecast and higher inflation would effectively mean that anything above that black line is locked up. You would have to change the rules of the Strategic Reserve again if you wanted to use it for anything else. We are very strict on that. We are very tough on that, but there seems to be a doubt about what the capital number was and we accept that because there is a last-minute change under Senator Le Sueur, which I think had...yes, there was some pressure on Senator Le Sueur at the time that there should be some wiggle room on the Strategic Reserve. What we have done then is now we have confirmed the additional number and so what effectively you have, that black line that is in the Budget, that is the only thing that is available for the hospital. If the investment returns were lower or inflation was to be higher, then effectively until that black line and the top of the blue line were to meet you could not change anything else. But we like that. We want the Strategic Reserve with tough rules and that is what we have done. While the Treasurer was right to say the Assistant Minister is the tough guy on this, I entirely agree with him and so does the Chief Minister.

**The Deputy of St. Ouen:**

Then what has changed, Minister? Because previously the States have been told that the hospital would be funded over the next 10 years from the income generated from the Strategic Reserve and at the end of it we would have a Strategic Reserve worth in excess of £800 million. Suddenly you are saying forget about...

**The Minister for Treasury and Resources:**

No, no, no, no, no.

**The Deputy of St. Ouen:**

...forget about that value, we are now wanting to cap the value at £651 million.

**Assistant Minister for Treasury and Resources:**

No, that is not what is being said at all, James.

**Treasurer of the States of Jersey:**

No, that is a misunderstanding.

**Assistant Minister for Treasury and Resources:**

What we are saying is that you have to draw a baseline somewhere. A baseline was chosen as 31st December 2012. That baseline is £651 million. You add inflation to that every year and that is the minimum that you have to keep in the Strategic Reserve.

**Deputy R.J. Rondel:**

By law.

**Assistant Minister for Treasury and Resources:**

By law. Returns above that can be utilised to fund the new hospital.

**The Deputy of St. Ouen:**

Sorry, my question is - maybe I will make it clearer - before or earlier when we were talking about...

**The Minister for Treasury and Resources:**

When earlier?

**The Deputy of St. Ouen:**

In the last 6 or 7 months. I will confirm the time and day because we have it on record. We were told that the hospital would be funded from the Strategic Reserve and after 10 years that value of the Strategic Reserve would still be at or around £800-and-something million. Now, if that was the case then, why are you suggesting that we set our target at a much lower level?

**Assistant Minister for Treasury and Resources:**

We are not.

**The Minister for Treasury and Resources:**

We are not.

**The Deputy of St. Ouen:**

Well, why not set it...

**Treasurer of the States of Jersey:**

We are not doing that, James.

**The Deputy of St. Ouen:**

Well, £651 million plus R.P.I. does not equal £800 million in 10 years.

**Assistant Minister for Treasury and Resources:**

James, please, you have a copy of the Budget paper in front of you. Please go to page 113. Please look at that graph.

**The Deputy of St. Ouen:**

Yes, I have looked at the graph before.

**Assistant Minister for Treasury and Resources:**

That is what we are saying. By 2024...

**The Deputy of St. Ouen:**

Yes, go on, keep going.

**Assistant Minister for Treasury and Resources:**

...the Strategic Reserve, after we have taken the money out for the hospital, will be in excess of £800 million in real terms.

**Treasurer of the States of Jersey:**

Based on these assumptions.

**The Deputy of St. Ouen:**

But you are going to want to limit it to £651 million?

**Assistant Minister for Treasury and Resources:**

No, that is...

**Treasurer of the States of Jersey:**

No, we are not. That is like a floor.

**The Deputy of St. Ouen:**

Yes, you are because even the Fiscal Policy Panel comment on it. Why limit it to 15 per cent when it could be 20?

**Treasurer of the States of Jersey:**

No, we are not doing that, James. Obviously, there is some misunderstanding.

**Assistant Minister for Treasury and Resources:**

You are completely misunderstanding it.

**Senator S.C. Ferguson:**

That is a different question.

**Assistant Minister for Treasury and Resources:**

We are saying that you have to have a baseline. The baseline is £651 million as at 31st December 2012. That is your baseline. That is what you benchmark against. You add inflation to that every year. You will end up by 2024 with in excess of £800 million in the Strategic Reserve and a new hospital.

**Treasurer of the States of Jersey:**

If I could...

**Senator S.C. Ferguson:**

No, I do not quite understand why you would just fix it then. Surely, why do you not fix your capital value each year?

**Treasurer of the States of Jersey:**

We will, Chairman, that is the point.

**The Minister for Treasury and Resources:**

We will.

**Treasurer of the States of Jersey:**

So the £651 million becomes...so the softy Treasurer rather than the tough Minister on my right...

**Senator S.C. Ferguson:**

No, I am not talking about the inflation, I am talking genuine value at the end of each year.

**Treasurer of the States of Jersey:**

Yes, absolutely, that is what we are doing. By taking...

**Senator S.C. Ferguson:**

That is your capital value then?

**Treasurer of the States of Jersey:**

Yes, so by taking that £651 million as our starting point and then inflating it, so we will do that inflation each year.

**The Minister for Treasury and Resources:**

Of course. This is just...

**Senator S.C. Ferguson:**

Well, I have one small question, though, because the F.P.P. said that...at the moment I think they said that the Strategic Reserve was something like 15 per cent of G.V.A. and they thought that perhaps it ought to be higher at 20 per cent.

**Treasurer of the States of Jersey:**

I do not remember that, Chairman.

**The Minister for Treasury and Resources:**

First of all, can I just nail this issue? This is a scenario. It will be populated by the actual numbers year on year. Okay, that is to answer the last question, which I do not think you have understood. It is a scenario...

**Senator S.C. Ferguson:**

No, I am just trying to make sure my understanding was correct.

**The Minister for Treasury and Resources:**

Right. The rule is that the Strategic Reserve availability, the capital balance is fixed at that year, which is the tough year. That means we have already banked £125 million since the Assistant Minister and I took office, so we are then going to be maintaining that value in real terms and it is only the numbers above that, after taking each year's R.P.I. figure, that would be available over the term to take for the hospital, although what we will do is we will allow earlier drawdowns to accelerate the plan so the number, the actual value, may be below that black line that ultimately they have to reach before you can take any money out. Because it may well be that we may well want to accelerate the hospital rather than doing it over a period of time, but we will explain that. I will come back to this other issue, but that is the principle of it.

**Senator S.C. Ferguson:**

Yes, but what happens if we have a deflationary period.

**The Minister for Treasury and Resources:**

We are running out of time. If you want to start talking about deflation...

**Senator S.C. Ferguson:**

Yes, we are but...

**The Minister for Treasury and Resources:**

If you have deflation, Sarah, then there will be more money available on the Strategic Reserve because the investments go up. So it is the difference between...

**Senator S.C. Ferguson:**

It does not necessarily follow, Minister.

**The Minister for Treasury and Resources:**

Okay. Well, I do not think we are going to be having deflation, Sarah. You can talk to the economists that think that. I do not think that is a...that is not in my central scenario for the Jersey economy or to the European economy or for sterling. In relation to the G.V.A. thing, then I think that is a very interesting discussion from the F.P.P. I do think it is worth noting that the F.P.P., of course, do rightly and we have asked them for unvarnished triple A advice. Jersey has 100 per cent of G.D.P. in assets on its balance sheet compared to most countries that have about 80 per cent of debt. So if I would be the U.K. (United Kingdom) Chancellor here, I would be having £2.5 billion of debt mountain to deal with, so let us just put the context. Do we want to build the Strategic Reserve? Yes. Do we want to rebuild the stabilisation fund? Absolutely. Of course, we want to. We are on the side of the ultra prudent treasuries here.

**Senator S.C. Ferguson:**

Okay, Minister, then will the States Assembly retain authority over all withdrawals from the Strategic Reserve if the Budget is adopted as it stands?

[12:30]

**The Minister for Treasury and Resources:**

Yes.

**Senator S.C. Ferguson:**

Good.

**The Minister for Treasury and Resources:**

Must be. That is the law. You know that.

**Senator S.C. Ferguson:**

Well, one just likes to make sure. Would it not be more appropriate to debate the use of the Strategic Reserve alongside the spending plans of the next M.T.F.P.?



**The Minister for Treasury and Resources:**

No, I want to lock up...absolutely not. The Assistant Minister and I want to confirm and make sure that the Strategic Reserve rules are crystal clear for the new States Assembly. It is a result of the prudence approach and I think that we have consistently in our period of office strengthened the Public Finances Law.

**Assistant Minister for Treasury and Resources:**

Senator, I am shocked and surprised you would even suggest that. It would make the Strategic Reserve to some of our colleagues a self-service buffet. I am shocked that you in particular would suggest that.

**The Deputy of St. Ouen:**

We are not suggesting it. We are asking you a question.

**Senator S.C. Ferguson:**

We are not suggesting it, we are just asking.

**The Minister for Treasury and Resources:**

Excellent. We look forward to you...

**The Deputy of St. Ouen:**

We are pleased with your response.

**Assistant Minister for Treasury and Resources:**

You got a very colourful response.

**The Deputy of St. Ouen:**

Thank you.

**Senator S.C. Ferguson:**

Now, we understand there has been a commitment to maintain the corporate tax system. Fine. Does that mean no consideration will be given to moving away from Zero/Ten or adapting this regime?

**The Minister for Treasury and Resources:**

I have nothing further to add to the considerable debates that we have had over the last 3 years about Zero/Ten. We are committed to Zero/Ten. It is at the heart of our economic policy. We note with interest and I speak regularly to my counterparts in both the Isle of Man and Guernsey in

relation to Zero/Ten. Remember again that we were told that we would not get the Zero/Ten approval through the European Commission. I was told through my term of office that I would be wrong and I would not get Zero/Ten approved. We, of course, did and with the support of the U.K. Government, of which our relations are, of course, at a historically good position because of our good co-operative positioning. We are maintaining absolutely the commitment to Zero/Ten. What we always do is we look at the margins of the definition of the 10 per cent. I note with interest that Guernsey has adopted our wider definition of 10 per cent tax on financial services, so they have now moved to our definition of 10 per cent in financial services. We watch with interest the developments in the Isle of Man on the so-called Tesco tax. We think, however, that the make-up of the Jersey taxation system might lead to a different conclusion. I do not know whether the code of conduct is going to improve it. Of course, we are constantly looking at the margins of how we can collect more tax from activities here and that would be one of the options, of course, that we are looking at in the property tax review. I look forward to the Panel commenting on the Green Paper on Property Tax, which is an excellent piece of work and we look forward to a very constructive and good debate on property taxes and the opportunity to make sure the property market is working, that we are collecting the right amount of tax, that all of these important issues such as interest and other things are maintained, and I think I am even more resolved to deal with the unfairnesses that exist in the rates system because of the lack of the evolution of the valuation approach in quarters where shopkeepers are paying more rates than they would be if their properties had undergone a quintennial review. I do not support the attributes valuation approach for commercial property, but that is a debate for another day. The Constables, which I am very supportive of and have a great relationship with, I have to convince them of the merits of moving to a reassessment. Business rates are very low in Jersey, very, very low, but nevertheless shopkeepers are paying more rates than office renters, and I think that is wrong.

**Senator S.C. Ferguson:**

Okay, right. Thank you, Minister. Do you believe that taxing all people as individuals should be accompanied by the provision of an extra allowance for married couples or those in a civil partnership?

**The Minister for Treasury and Resources:**

We currently have a partnership approach to tax but there has been a strong call and we have committed to moving to independent taxation. If you move to independent taxation, which we should so that women are no longer chattels of their husbands and you have this crazy partner one and partner two in civil...I hope, of course, we are going to move to civil marriages, as you would expect, but I think there is a debate to be had about how society and how the States would recognise couples. Personally, I think it is not the issue of couples. I think it is the tax system needs to be used to help couples that rear children. I think whether or not they are same sex or

heterosexual, the tax system must assist parental cost of bringing up children and giving mothers the choice to look after their child or provide the necessary support for appropriate, exciting, stimulating childcare. I absolutely support the 1,001-day manifesto, which is a cross-party initiative in the U.K. led by a Conservative. I have held discussions at all the party conferences that I went to last year about I want to see Jersey sign up to the 1,001-day manifesto, which is a manifesto of childrearing and bringing up children. I am not a dad myself, of course, unfortunately, but I have 5 godchildren and a niece and I see the stress of parents and what happens if you do not do the early intervention. The 1,001-day manifesto is not until the age of 3, it is until the age of 2.

**Senator S.C. Ferguson:**

So it is one of these policies where you would approve of the taxation being used for social benefit?

**The Minister for Treasury and Resources:**

That is what we are here to do, Senator, but we are here to give people freedom and to give those people in society that need help and support...and as a single person, should I pay more tax than a single person that is bringing up a child? Well, the answer is absolutely yes because children are...and my Assistant Minister is a...

**Senator S.C. Ferguson:**

An expensive liability. [Laughter]

**The Minister for Treasury and Resources:**

It is, but they are an asset.

**Assistant Minister for Treasury and Resources:**

They are an expensive asset.

**The Minister for Treasury and Resources:**

The tax system should reflect that, but I do not think the tax system should be judgmental about people's choice about whether or not they marry or not.

**Senator S.C. Ferguson:**

Well, yes, we had this discussion...

**The Minister for Treasury and Resources:**

So my comments are about children.

**Senator S.C. Ferguson:**

...with your Assistant Minister last year, who did not think that taxation should be used as part of social policy I think you said. Or was it the other way round?

**The Minister for Treasury and Resources:**

That would not be right. At the heart of our whole taxation system, Senator, is our social issues and that is where the Chief Minister, Assistant Minister and I have been, I think, very pleased about how in this term of office we have been able to deliver not only a focus on economy and business but our social policy agenda. This Budget, of course, continues the increased allowances for, as we have said, bringing up young children, the university changes, all the rest of it. I am very proud of all of it.

**Senator S.C. Ferguson:**

Okay.

**Assistant Minister for Treasury and Resources:**

Senator, what I said last year was that the tax system should not be used to encourage people to marry or to look to marry. We should not be interfering in how people have their lives. What the Minister has just said I agree with. The tax system should be used to help people bring children into this world and to nurture those assets for the benefit of all.

**Deputy R.J. Rondel:**

Does that 1,001-day manifesto have a sliding scale on tax?

**The Minister for Treasury and Resources:**

It has all sorts of things that we should do and I think we should adopt it in Jersey. The Chief Minister agrees.

**Senator S.C. Ferguson:**

Okay. Now, in its recent report on retail policy, the Economic Affairs Scrutiny Panel recommended that you investigate the appropriateness of the G.S.T. (Goods and Services Tax) *de minimis* level. What work on that matter has been undertaken during the preparation of this Budget?

**The Minister for Treasury and Resources:**

I have already circulated the letter that I have sent to Gerald Voisin and I have his response, so I refer you to that answer for speed. I have already said what I am going to do on that.

**Senator S.C. Ferguson:**

The long-term tax policy and the long-term revenue plan, can we as a Panel have draft copies of that, please, Minister?

**The Minister for Treasury and Resources:**

Well, I am happy to talk to you about it - we have been talking to you about it right the way through - but it will not be ready until the beginning of September. These are not documents which are decision documents. They are designed to be helpful to form a backdrop of the next M.T.F.P. It is unprecedented that we have been able to do such amount of long-term planning already, but I am afraid you are going to have to wait a little longer for our conclusions as I do not want to publish something that is not complete. Certainly, you can see the draft long-term tax policy and you can see the issues on the M.T.F.P. or the long-term revenue plan, but the conclusions...90 per cent of the work has been done. It is how you get it over the wire. The work is always in the last 10 per cent of how you bring it together and how it hangs together, and that work is going to be our endeavour over August.

**The Deputy of St. Ouen:**

We understand that. It is just that obviously if we could have sight, even at a confidential level, of the long-term revenue plan, for instance, it will help us determine whether or not the proposals included in the 2015 Budget, for argument's sake, are appropriate or not.

**The Minister for Treasury and Resources:**

Right. Let me caution you about that. I understand what you are saying and it is a very good question, James, but I think it is really important to consider this Budget in the light of the economic information and the financial information that we have. So I would say that we certainly think those documents are going to be helpful. The long-term tax policy is really about tax and where it should go. I do not think that will really inform this year's Budget. It will certainly inform political choices in the next strategic plan and the next M.T.F.P., but I do not really think, James, it is going to help you much in the Budget. But we can show you a draft of that. The long-term revenue plan, I caution you about believing that there is going to be anything in...first of all, there are going to be no surprises in the long-term revenue plan. It is all the big issues that you already know, the challenge about health spending, the challenge about how much savings to deliver, the challenge about the productivity agenda, the challenge about whether or not...how much money you really do put into economic development and economic growth and financial services. It is all about those big issues. You should not think about the next M.T.F.P. and make decisions in the 2012 Budget solely based on that, or to any great extent, because...

**The Deputy of St. Ouen:**

No, but it is the information that allows us to make sure that you are taking all things into account as we move forward. Because we have moved away from the short-termism, as you quite rightly say, to a much better long-term, medium-term plan and so on and so forth.

**The Minister for Treasury and Resources:**

What we have done, James, you are absolutely right and thank you for that positive comment because that is exactly what we have done. We are no longer being short-termists. Now, a short-termist approach would be a reaction which a lot of people have not understood. They have not understood the reality of what the numbers were and there is a lot of short-term...this call from the Chamber of Commerce. Well, what more do they want us to do or are they saying that everything they already have is not working, in which case E.D. (Economic Development) needs to tell us what is not working so we can re-jig things. The right medium and long-term approach, which you rightly say...and I must say your Panel has helped us and fortified us. I know we disagree and argue sometimes, but we are all committed to much better medium and long-term planning. Now, what we are doing is we have now changed the law to allow the next M.T.F.P. to be another medium-term financial plan. It is going to be slightly longer so it will be 4 years in its evolution, but that does not start until 2016. So we are going to be having a debate about what to do in 2016, 2017, 2018 and 2019. Now, we are providing you in the middle or the back end of 2014 what will be a plan that will start from the beginning of 2016. Now, that has never happened before, so please give us...cut us a little bit of slack on giving us some time on the most busy agenda of any ministerial department of getting that right for your consumption.

**The Deputy of St. Ouen:**

In fairness, the Medium-Term Financial Plan will be developed in the first half of 2015.

**The Minister for Treasury and Resources:**

I know.

**The Deputy of St. Ouen:**

So that is not necessarily the case that there is a load of time between now and then.

**The Minister for Treasury and Resources:**

I know, but what you should also consider is that the F.P.P. is saying: "The focus in 2014 and 2015 should be on supporting the economy by running deficits while there is spare capacity; (2) this focus should not be deflected in the light of lower tax receipts, outturns or forecasts, especially where this is a result of a weaker than expected economic performance.

[12:45]

The panel supports the Budget proposal's approach to use mainly savings and reserves to fund the potential shortfall in income because it limits the negative impact on the economy in the short term."

**The Deputy of St. Ouen:**

It also says deal with structural deficits if they are known.

**The Minister for Treasury and Resources:**

Next time round. No, it says the third thing, James, is if - and the questions we have been through - there is a structural deficit in the public finances, the States plan should address it once the economy has recovered.

**Senator S.C. Ferguson:**

Which does not mean we leave it until then.

**The Deputy of St. Ouen:**

Ignore it.

**Senator S.C. Ferguson:**

We start planning now.

**The Minister for Treasury and Resources:**

No, no, what do you do about it?

**Senator S.C. Ferguson:**

Because Joly on the radio was quite clear that we should be looking at income and expenditure. I am just quoting him.

**The Minister for Treasury and Resources:**

But do not take it out of context, Sarah. That is exactly what we are doing. What I want to know is...what you do is you do exactly this. You concentrate on getting the economic performance right. Now, all we have been talking about is all about getting the economy right, putting more money in people's pockets, not incurring a charge that people have a benefit of, pouring money, rightly so, into the job creation endeavours that we have been doing and that we have been successful of. If we would not have done the investments in back to work and fiscal stimulus and the extra money for housing, how many more people would be unemployed in the Island now? So

now what we need to be doing and the right question is maybe you should get the Minister for Economic Development here to say: "What more do you think we should be doing to get economic growth moving?" I know what I have done in financial services and I stand ready to support Alan in anything that he says for me to do, but I do not have any other proposals from him. I have funded every proposal that E.D. has asked for, everything. Now, if he has more...and, of course, he is a good friend of mine and a good political colleague. He was my Assistant Minister so he knows just how supportive we are of economic growth and the pursuit of it. But I think people have to be realistic. The world is changing and we need to change with it. If we can provide at the Treasury any support to help people through that change, we stand ready. If there is an amendment of some fantastic proposal from some tax expert of doing something that would get economic growth in, I would be looking at it and I would be talking to the Treasurer and talking to the Comptroller of Taxes, but what I will not do is put tax proposals which would be abused, that have been at the heart of all these scandals in the U.K., these well-intentioned, short-term business incentive schemes which end up by being abused. I will not do it. But if I have a project that works, I stand ready to do it and I think the Assistant Minister would say...

**Senator S.C. Ferguson:**

Thank you, Minister. Have you anything else?

**Panel Advisor**

Just on that last point, the Fiscal Policy Panel, it is a classic conflict between accountants and economists, economists recommending running deficits, whereas accountants in terms of prudent financial management would realign and recalibrate spend.

**The Minister for Treasury and Resources:**

We were very pleased with your report and I think you have very well summarised exactly the Treasury...

**Treasurer of the States of Jersey:**

I was so tempted to answer that. **[Laughter]**

**The Minister for Treasury and Resources:**

Treasurer, please, it will be the last time that you are before this Panel, I think, because of the timing of the thing so, Treasurer, please, do not hold back, tell us exactly what you think.

**[Laughter]** You have never not done so, so if you want to say what accounting versus economics...



**Treasurer of the States of Jersey:**

Do not tempt me. [Laughter] I promised to behave until I go.

**The Minister for Treasury and Resources:**

No, but you raise an interesting point there. The Treasurer is there to advise us on the finances and to have regard to the economics. I think we have been served by a Treasurer that has been extremely helpful in delivering the economic agenda but, of course, there is a difference between accounting and economics.

**Treasurer of the States of Jersey:**

Seriously for a minute, Chairman, I think the only way to reconcile those two things is to have some money in the Stabilisation Fund to enable both things to work together because, accountant or not, it is very unwise to spend money that you do not have. I am looking at the Assistant Minister on that point because he reminds me on a regular basis.

**Assistant Minister for Treasury and Resources:**

Only because we are both accountants.

**Treasurer of the States of Jersey:**

The best way to deal with that is to get some money back into the Stabilisation Fund at the earliest opportunity without disturbing the economic growth that the Minister has just earlier referred to. That is the best thing to do, so if in due course the assumptions that we have now worked to on the income on that dotted line prove to be too prudent, which I sincerely hope they will, then a sensible thing to do at that point would be to put that money into the Stabilisation Fund. Then that would avoid a conflict between those two positions, both of which are valid.

**The Minister for Treasury and Resources:**

That word "conflict" is exactly right. There is a conflict that we face at the Treasury between the spending departments that want to do extra services, what is right for the economy at the procyclical or countercyclical time and the accounting of it. Our job, myself as Minister with my Assistant Minister, is to reconcile the irreconcilable position on that. I would add one thing. What we do need to do is the numbers need to work, and I do believe that in this Budget the numbers work. The numbers clearly work and we have done a heck of a job in trying to make them work, to not compromise the resources that are required to the economy and making the Island better. We are improving services. We are delivering economic improvements. Our infrastructure in Jersey is going to be massively better than when we started this economic crisis. We have not wasted the crisis but what we do need to do is we need to be much more focused on getting growth. That I am absolutely clear about and I need urgent discussions with the Chief Minister and the Minister

for Economic Development to work out, yes, we are not achieving our growth targets, we know why, but is there...and a lot of those are exogenous factors, but is there anything more we can do to get economic growth? We are getting jobs...

**Senator S.C. Ferguson:**

Well, surely your part is to look for the expenditure curtailment?

**The Minister for Treasury and Resources:**

No, Sarah, that is not what I am talking about. I am talking about there is...

**Senator S.C. Ferguson:**

Well, no, it is for the Minister for Economic Development to do the growth.

**The Minister for Treasury and Resources:**

Well, hold on, no. You have misunderstood the fundamental of what we are doing here, which is why we are so joined up: Chief Minister, Minister for Economic Development and myself. I believe we are completely joined up, even to the extent that we are role swapping in terms of some of the bits and pieces that we are doing. Ian and I are doing financial services, economic development. Alan is doing all the other economic growth stuff. I am doing some cost savings. He is doing some of the modernisation. We are interchangeable. It is a team of people that are working together. What you have just said, when I started this job I said we would have a £100 million deficit by 2013 if we did not take corrective action. You do 3 things to solve a projected deficit. You grow the economy first. That is how you pay for things. By making the economy more productive and getting more economic growth you pay for more things for nothing. It is free services. You have to control expenditure to the maximum effort you can, and I think we have done a lot but there is always more to do. That is what we are doing and I am as committed to anybody as that. You need to do the procyclical and countercyclical things in good times. You put money away, which is exactly what Senator Le Sueur and I did.

**Senator S.C. Ferguson:**

Yes, but productivity has been falling.

**The Minister for Treasury and Resources:**

But that is why we are tackling it and we are looking at it. These other comments that we are not looking at anything to do in productivity, that is another sort of myth that has been going around. I will address a lot of these things in the Budget speech. I clearly have a lot of work to do to communicate what is already being done and I am happy to receive more suggestions of what we should be doing. You support the economy in a downturn through countercyclical fiscal policy,

which is what we have done. You continue to invest in infrastructure. We have put more money in infrastructure than any Council of Ministers in 3 years. Then you support it by doing things like the Enterprise Plan, which has been published: improving productivity, assistance with business. Why is Jersey Business there? What is Digital Jersey doing? What is Jersey Finance doing? They are doing all these things. Focusing on high-value growth areas, delighted to see the amount of 1(1)(k)s coming in and bringing business, attracting inward investment. That is why we have our London office. That is why we did an event in London 2 or 3 weeks ago. That is why I am in London half the time growing issues, getting business into Jersey. You effectively reduce barriers to entry by promoting competition. Businesses do not like that sometimes but that is what you have to do.

**Deputy R.J. Rondel:**

One quick thing from earlier, you were speaking about your graph on page 113 about the hospital allocation. Did you say that you want that to come forward?

**The Minister for Treasury and Resources:**

I think we have a debate to be had. I have just got a copy of the Ministerial Oversight Group report on the health plan and one of the things that they are saying is that you should be doing it over a shorter period of time, and we agree with that. We have some measures, which I do not really want to discuss in public because they are commercially sensitive matters, of things to do with that, which you know about.

**Deputy R.J. Rondel:**

Yes, okay.

**The Minister for Treasury and Resources:**

Okay.

**Senator S.C. Ferguson:**

Okay, thank you very much, Minister.

**The Minister for Treasury and Resources:**

Okay. Can I take this opportunity...this will be, I think, the last time the Treasurer is here. The Treasurer has I think been as co-operative as she possibly could have been to a Panel that has been tough but was also helpful, and I would just like to say to the Treasurer that I am very grateful for her assistance in supporting my attending of the Corporate Services Scrutiny Panel. You have always had, I hope, the information. Of course, I do not write all this. I ask for it and we get it in

abundance and I would just like to say to the Treasurer - and I hope the Panel will endorse this - that we are extremely grateful for all of the work that she has done.

**Senator S.C. Ferguson:**

We always appreciate the splendid co-operation that we have had from the Treasurer and the reams of information, which has been incredibly useful. We thank you and we wish you well in your future career.

**Treasurer of the States of Jersey:**

Thank you very much.

**Deputy R.J. Rondel:**

I would like to add my thanks to the rest of the Panel as well. Thank you.

**Treasurer of the States of Jersey:**

Thank you.

**Senator S.C. Ferguson:**

Right, the meeting is over.

**The Minister for Treasury and Resources:**

Thank you.

[12:56]