



# Corporate Services Scrutiny Panel

## Medium Term Financial Plan

**WEDNESDAY, 5th AUGUST 2015**

**Panel:**

Deputy J.A.N. Le Fondré of St. Lawrence (Chairman)

Deputy S.M. Brée of St. Clement

Connétable C.H. Taylor of St. John

**Witnesses:**

The Chief Minister

Assistant Chief Minister

Head of Financial Planning

Director of Corporate Policy

[14:00]

**Deputy J.A.N. Le Fondré of St. Lawrence (Chairman):**

Good afternoon. Thank you for coming to the hearing on the Scrutiny Panel's review of the Medium Term Financial Plan. Today we have the Chief Minister in front of us. Chief Minister, I draw your attention to the notice in front of you, which I am not going to read out today because I am sure you are fully aware of it. There is a notice on the walls to which I draw the attention of members of the public and the media in the public seating, which is basically that we expect all members of the public and the media to remain quiet at all times while the hearing carries on. The purpose of the public hearing, Chief Minister, is for you to assist us in the performance of our review and in the gathering of evidence to contribute to our findings. We do have quite a lot to go through today, as I am sure you will appreciate, and therefore we may stop you if we feel you have answered the question sufficiently, because we do need you to try to be as concise as possible. That can be the challenge.

**The Chief Minister:**

I shall try.

**Deputy J.A.N. Le Fondré:**

Good. For the benefit of the tapes, if we could go round stating our name and position. Deputy John Le Fondré, Chairman of the panel.

**Deputy J.A.N. Le Fondré:**

Great. Thank you very much. Without further ado, shall we commence? Simon?

**Deputy S.M. Brée:**

Some slightly more general questions to start with, if I may. Will you, Chief Minister, confirm that the structure and content contained within the draft Medium Term Financial Plan are based upon the presumption that the draft transfer of functions legislation, as recently lodged by yourself and due for debate on 6th October, will take effect unaltered and in its entirety?

**The Chief Minister:**

No, the M.T.F.P. (Medium Term Financial Plan) makes no assumption about the transfer of functions. There would need to be an amendment to give effect to those changes should the States approve them.

**Deputy S.M. Brée:**

So in the event that the States approve the transfer of functions, will the Medium Term Financial Plan need to be rewritten?

**The Chief Minister:**

I am not sure whether it is rewritten or a transfer of heads of expenditure.

**Head of Financial Planning:**

We would intend to reflect the transfers in the heads of expenditure on the basis that they are effective from 1st January 2016, if that were the decision.

**Deputy S.M. Brée:**

Thank you. In the Strategic Plan, a lot of emphasis was placed on the regeneration of St. Helier and the socioeconomic benefits that would bring to the Island as a whole. In the draft M.T.F.P. there appears to be no direct expenditure nor capital costs allocated to achieving this vision. How do you, Chief Minister, plan to deliver this keystone of the Strategic Plan?

**The Chief Minister:**

You said there appears not to be. There is a proposal for the States to pay rates. The greatest benefactor of that payment would be the parish of St. Helier. That is currently in the year 2017 but I know the Minister for Treasury has been in conversation with the Connétable of St. Helier about the timing of those payments. But, as you rightly say, if you take into effect capital, and there will be capital investment into St. Helier, the Minister for Planning and Environment will tell you that one of the aims that he has is to start delivering regeneration schemes in St. Helier, not through taxpayer funding but by using planning obligations, and that is why he is doing a lot of work on planning obligations which will be attached to planning approvals. So, you are right to say there is no chunk of money sitting over here that is earmarked for that, but there is the revenue from the States paying rates, there is the capital and there is the work that Planning and Environment would do. The Chairman was wondering about the capital, I think. Obviously a lot of what Andium is doing is going to be capital investment in St. Helier.

**The Connétable of St. John:**

A very quick query. You made reference to the timing of the payment of rates and discussions. Is that an inference that in 2017 it might go further later to 2018 or 2019 or bring it forward to 2016?

**The Chief Minister:**

No. I think St. Helier would like it to be brought forward.

**The Connétable of St. John:**

Yes, I am sure they would.

**The Chief Minister:**

The question is whether you can deliver an offsetting mechanism in that timescale or not.

**Deputy J.A.N. Le Fondré:**

Okay, moving on. Would you, Chief Minister, agree that in the absence of any real detail beyond 2016, the draft M.T.F.P. is in effect simply a one-year budget as opposed to a meaningful and realistic Medium Term Financial Plan?

**The Chief Minister:**

I would. On purpose, it set the total overall spending limits for 2017, 2018 and 2019 but in order to deliver a balanced budget over that period, time has to be given to make those proposals firm and provide further details about how that is going to be undertaken. So, that is right, there is only detail for one year, so you could look at it as a one-year plan and I think that view has legitimacy.

The Greffier would always remind us, as he did the Council of Ministers, that the total figures for the other 3 years would require amendment to the M.T.F.P. if they were to change.

**Deputy J.A.N. Le Fondré:**

I think that probably helps but can you, therefore, confirm for clarity that as the proposition is lodged, the M.T.F.P. for 2016 to 2019, the proposition is to agree now the total amount of States net expenditure for that period in its entirety?

**The Chief Minister:**

That is correct.

**Deputy J.A.N. Le Fondré:**

But basically without the opportunity for further debate?

**The Chief Minister:**

No, because the detail of the remaining 3 years will be brought back before June next year.

**Deputy J.A.N. Le Fondré:**

As a question then: is that the detail is going to be brought back but the totals ...

**The Chief Minister:**

Yes.

**Deputy J.A.N. Le Fondré:**

In other words, is the States going to have the opportunity in June next year to change those totals or are the totals fixed?

**The Chief Minister:**

As I understand it, it is a 2-stage thing. We will be fixing the totals in the M.T.F.P. in October. There is always a possibility for the changes to be made to those totals but, as I understand it, the finance law is quite strict about how and what conditions would have to apply in order to change those totals. So it would be about changes to income, I think - Chris is much closer to the finance law than I am - and I think there is one or 2 other criteria as well. Is that right?

**Head of Financial Planning:**

That is right. There are some exceptional circumstances where the totals can be changed but it would be by an amendment to the M.T.F.P. What cannot happen is for those totals in normal practice to be exceeded. It would be possible for the Council of Ministers to bring an M.T.F.P.

addition next year which was less than the expenditures that are agreed in the MTFP in October but they are not able to exceed those without a formal amendment or without a change in the finance law.

**Deputy J.A.N. Le Fondré:**

So, in essence, now in October we are agreeing the total expenditure for the full period?

**The Chief Minister:**

Yes.

**Deputy J.A.N. Le Fondré:**

In June next year it will be the analysis of that expenditure?

**The Chief Minister:**

That is right.

**Deputy J.A.N. Le Fondré:**

This October is the full plan in total expenditure terms?

**The Chief Minister:**

In total expenditure terms it is, yes.

**Deputy J.A.N. Le Fondré:**

Right. Thank you.

**The Chief Minister:**

Outwith those exceptional circumstances.

**Deputy J.A.N. Le Fondré:**

But in the normal course of events, this October is the full plan. Okay. Page 24 of the M.T.F.P. states that: "Expenditure totals for departments in 2016 are minimum departmental spending limits and that the M.T.F.P. addendum will also set minimum department spend limits for 2017 to 2019." Why did the Council of Ministers not set these as a maximum?

**The Chief Minister:**

I think there is a technical reason, which Chris will explain.

**Head of Financial Planning:**

There is. The finance law requires the minimum department spending levels to be set. The process during any financial year is that, as you will be aware, there are contingency expenditures approved as part of the M.T.F.P. process. You cannot spend contingency expenditure. Contingency expenditure has to be allocated to a department which would increase the department's expenditure. Therefore, we define them as the minimum spending limits with any contingency amounts being an addition to that minimum during the course of a year.

**Deputy J.A.N. Le Fondré:**

So it is a technical reason, basically, due to the phrasing of the law?

**The Chief Minister:**

The wording in the law.

**Head of Financial Planning:**

That is absolutely right.

**Deputy J.A.N. Le Fondré:**

Is there not a risk that it gives departments wriggle room, basically?

**The Chief Minister:**

Will what, sorry?

**Deputy J.A.N. Le Fondré:**

Is there not a risk that this gives departments wriggle room in terms of the issues around controlling expenditure?

**The Chief Minister:**

I do not think it does. I think it is just that technical reason that Chris has outlined. I think you might have been able to argue that in the past but I think with the reprioritisation and savings that we are asking departments to make, I do not think that is a fair argument going forward.

**Deputy J.A.N. Le Fondré:**

Moving on, on pages 138 and 139 of the M.T.F.P., which is summary table A, proposed States income targets 2016 to 2019, and summary table B, proposed total States net expenditure for 2016 to 2019, both of which I am sure you are intimately familiar with, it clearly shows an overall deficit of £165 million. Is this correct? You might wish to look to your right, Chief Minister?

**The Chief Minister:**

Yes. I know it is something like that but without going and adding them up I could not ...

**Head of Financial Planning:**

If you take the total revenue and total capital expenditure allocations which are in summary table B and the total proposed States income in Summary Table A, the total of the 4 years shortfall after the proposed measures is £165 million.

**The Chief Minister:**

Why then, Chief Minister, has the public been told the deficit is £145 million?

**The Chief Minister:**

Because when you are talking about the annual position you do not add up each year together. You talk about what would be the annual position, because that is the annual position. You need to deal with the position every year, not just one year. So you cannot just add them up and calculate it like that, as you well know. You have to deal with the position on an ongoing annual basis. £145 million is the annual amount in change that we have to have delivered by 2019.

**Deputy J.A.N. Le Fondré:**

I am just going to move forward slightly. Do you want to come in at all at this point or shall I keep going? States income forecasts, on page 46 of the M.T.F.P., highlight the variation between the forecasts and the budget 2015. Would you, Chief Minister, not agree that these are significant enough to be a cause of concern and for the sake of prudence would it not be wiser for this draft M.T.F.P. to take, for example, the mid-point between the central and lower income forecasts as a more realistic working assumption?

**The Chief Minister:**

Forecasts are a difficult area. What is the only thing we know about the forecasts, that we are choosing as the central assumption? It is that, aside a miracle, it will not be achieved because that is the nature of forecasting. You apply assumptions to what might happen over time and then you put in what is the most reasonable outcome and you develop into your plan actions for, in this case, trying to deliver a stronger income line and plans for if the central assumption is not delivered as well. So we sit here, we are looking at 4 years out.

[14:15]

You look at the work that the F.P.P. (Fiscal Policy Panel) have undertaken and the Income Forecasting Group and the further you have to forecast for the less likely you can be or sure you

can be about the outcome, which is why you have to have a fan of a range which broadens out the further in time that you go. I, together with the Minister for Treasury and other Ministers, have challenged those who sit on the Income Forecasting Group because your central assumption has to be, in my view, very clearly, the most likely outcome. There is no point me layering a “I am a glass half full or I am a glass half empty person” layman’s view over the top of that. The professionals have to advise us and we have to challenge them that in their professional opinion, having regard to the economic assumptions endorsed by the economists, looking at the most recent receipts, what is the most likely outcome. We have to plan on that and then as part of that plan, as I say, look to deliver a better income line, without factoring that in because that would not be prudent, and at the same time look at contingencies on expenditure if that central assumption does not work. I think those 2 things we learned quite clearly from the first M.T.F.P.

**Deputy J.A.N. Le Fondré:**

On page 62 of the draft M.T.F.P. it is stated, and I quote: “If either savings or income forecasts fail to reach the proposed targets [quite a convenient follow-on, Chief Minister] the level of additional funding will need to be revisited.” That is 5 paragraphs down on that page. Will you, Chief Minister, kindly explain what is meant by that statement and what mechanisms are envisaged to raise this additional funding if required?

**The Chief Minister:**

If you look at that entire paragraph, and I think you have to start from the level of additional funding and growth, so this is the extra money that we are proposing to spend in education, in health and elsewhere, we are saying we will only agree it as we go down the line in 2017, 2018 and 2019 on the basis that those departments themselves, and right across the States, are making the savings that we have requested of them, or the reprioritisation, and that the income is in fact meeting that central line that we have just talked about. If those 2 things are not happening, this is part of our downside risk mitigation, then we will have to say to departments: “Well, you are not making the savings. Income is projected to change. Then we have to look at, first of all, your growth monies again, then we have to look at changing savings targets.” So we have to have a process that we will go through if we are not meeting those targets that we have set, is what we are saying there.

**Deputy J.A.N. Le Fondré:**

Okay. If you turn over the page, Chief Minister, figure 25, which is on page 63 of the M.T.F.P. as lodged, the Council of Ministers is asking the States Assembly to approve a growth figure of roughly £22 million for 2016. Will you just confirm that is correct?

**The Chief Minister:**

It appears to be from that graph. I will just check. Yes, that is right.

**Deputy J.A.N. Le Fondré:**

Can you also confirm, Chief Minister, this growth figure of £22 million is a recurring figure for each of the following years, namely 2017, 2018 and 2019?

**The Chief Minister:**

That is correct. That bottom line grows from the 21 a year ...

**Deputy J.A.N. Le Fondré:**

21.9, but, yes.

**The Chief Minister:**

... to the 61, is it not?

**Deputy J.A.N. Le Fondré:**

Is it £22 million recurring for each year, for 2016 ...

**The Chief Minister:**

Yes, because if you look at the wording, cumulative total, annual total.

**Deputy J.A.N. Le Fondré:**

That is £88 million for those 4 years as resolved for 2016?

**The Chief Minister:**

We are coming back to this you are adding up each year. It is what is happening in the year that is the important thing. So, in 2016 we are saying growth is 21. That will go into the base budget, bearing in mind the caveats I have just given you, for the following years as well and it grows over those following years from the 21 to 61, and if you look at that annual total they are in addition to the 21, which is the very bottom line.

**Deputy J.A.N. Le Fondré:**

What we just want to confirm is that the growth figure for 2016 is £22 million?

**The Chief Minister:**

Correct.

**Deputy J.A.N. Le Fondré:**

Therefore, that growth figure will then be bedded in for 2017, 2018 and 2019?

**The Chief Minister:**

That is correct, yes.

**Deputy J.A.N. Le Fondré:**

Therefore, for those 4 years the growth, relative to 2016, will be £88 million in total?

**Head of Financial Planning:**

Chief Minister, I think effectively we are both saying the same thing.

**The Chief Minister:**

We are saying the same thing but it is quite ...

**Head of Financial Planning:**

In effect, it is the £22 million that is effectively proposed for departments at this juncture for 2016 and for the future years. What the Chief Minister is saying is that the additional growth is available within the total expenditure limits to be allocated to departments if those conditions that we have just discussed are in place and will be allocated as part of the process over the MTFP period..

**Deputy J.A.N. Le Fondré:**

That is the additional growth for 2017, 2018, 2019?

**The Chief Minister:**

That is right, yes.

**Head of Financial Planning:**

That is absolutely right.

**Deputy J.A.N. Le Fondré:**

If we go back to page 62, it is split between 2016, £22 million, and 2017, 2018 and 2019 for additional growth over and above that.

**The Chief Minister:**

Absolutely. That is right. But if we start saying it is £80 million then when we are saying we are going to spend £40 million on health by 2019, during this plan we are talking about over £100 million on health over the plan. So we just have to be careful that we are not apples and pears-ing, which I know you are because you are ...

**Deputy J.A.N. Le Fondré:**

We are just trying to establish that ...

**The Chief Minister:**

But we do just ...

**Deputy J.A.N. Le Fondré:**

But we are splitting, particularly when we go on to the next question, because it is the way it is phrased in the M.T.F.P. on page 62. The next question is: what contingency plans do you have in place to fund that additional recurring expenditure, the 2016 recurring expenditure, in the event the income forecasts for 2016 do not meet reality? The plan splits it. The plan says: "The Council of Ministers are proposing that only the 2016 level of additional funding is agreed on a recurring basis." The 2017 to 2019, which we quoted to you, talks about if you do not achieve the targets, that level of additional funding will need to be revisited. There is a split between the treatment.

**The Chief Minister:**

That is correct. No, that is absolutely right. I can see why you are asking the question.

**Deputy J.A.N. Le Fondré:**

What contingency plans have you got if in 2016 the income forecasts do not match reality?

**The Chief Minister:**

Well, we will see that as we go through the year, will we not?

**Deputy J.A.N. Le Fondré:**

Yes.

**The Chief Minister:**

So the same process will apply.

**Deputy J.A.N. Le Fondré:**

Right. That is the key thing.

**The Chief Minister:**

It has to.

**Deputy J.A.N. Le Fondré:**

We are saying that effectively everything is up for grabs if income forecasts do not match reality, not just the growth for 2017, 2018 and 2019?

**The Chief Minister:**

We have to take the same prudent approach that this is what is agreed. We will see as we go through the year what the income is doing, we will see how savings are going and we will be monitoring, very closely, expenditure.

**Deputy J.A.N. Le Fondré:**

Even though the States Assembly has agreed that level of recurring expenditure, if the income forecasts do not match reality that expenditure will be addressed?

**The Chief Minister:**

Then we will make adjustments accordingly, will we not?

**Deputy J.A.N. Le Fondré:**

Yes, which the public finances law requires.

**The Chief Minister:**

Yes.

**Head of Financial Planning:**

Just to be clear, this is where the public finances law is only approving the minimum spending limits for 2016, so the spending limits by department are not agreed for 2017, 2018 and 2019 at this stage at any level.

**Deputy J.A.N. Le Fondré:**

But the totals are being agreed, that is the point.

**Head of Financial Planning:**

Absolutely, yes.

**Deputy J.A.N. Le Fondré:**

To an extent, in a way we are only worried about the totals because if social security get more money and health get less, at the end of the day from the overall financial position of the States it does not really matter, simplistically.

**The Chief Minister:**

No. It depends which bits of social security, but that is another matter.

**Deputy J.A.N. Le Fondré:**

Right, moving on. Do we have any questions on that area?

**Deputy S.M. Brée:**

We note that the change in accounting policy towards income tax, as detailed on page 41 of the M.T.F.P., will generate an additional £60 million. Is that correct, Chief Minister?

**The Chief Minister:**

That is what I am advised but again Chris will have the detail of that.

**Head of Financial Planning:**

Yes, that is the correct figure.

**Deputy S.M. Brée:**

That is the correct figure? So, Chief Minister, will you confirm that without making this change in accounting policy the consolidated fund would have been taken into deficit, thereby making it illegal under the Public Finance (Jersey) Law for you and the Council of Ministers to lodge either an M.T.F.P. or a budget?

**The Chief Minister:**

We would have had to have found another measure; that is correct. We cannot present an M.T.F.P. that allows the consolidated fund to go into an overdrawn position on an allocated basis.

**Deputy S.M. Brée:**

That is all we wanted confirmation of, just purely that without this change it would have prevented you from being able to lodge either an M.T.F.P. or a budget.

**The Chief Minister:**

No, it would not have prevented us from lodging it.

**Deputy S.M. Brée:**

Unless you had found another measure.

**The Chief Minister:**

We would have had to have found another measure, yes.

**Deputy S.M. Brée:**

Thank you. At this panel's recent public hearing with the Minister for Treasury and Resources, we were advised by the Minister that borrowing in the external debt markets had been discussed with reference to the funding of certain capital projects and in particular with regards to the new hospital. Will you, Chief Minister, confirm that this is correct?

**The Chief Minister:**

I think "discussed" is a strong word. There is no doubt that if we are to have a new hospital we will have to find a funding mechanism. You will see from the cash flow proposals in the M.T.F.P. that we are proposing to draw down some of the income on the strategic reserve, which previously had been considered for the funding of the hospital, which means that we would then have some funding from that basis. So we would have to look at other methodologies of funding and, of course, one of those methodologies that we would look at, although we have not yet looked at, would be a loan to do that.

**Deputy S.M. Brée:**

Will you, Chief Minister, kindly advise this panel which other capital projects, aside from the new hospital, have been reviewed or discussed with the option of their capital costs being funded by such external borrowing?

**The Chief Minister:**

I am not aware of any of them.

**Deputy S.M. Brée:**

So you can confirm that no other major capital projects, other than the hospital, have been discussed with that particular option being looked at?

**The Chief Minister:**

Well, I am not sure that they have at ministerial level and I do not think that at Treasury departmental level they have either.

**Head of Financial Planning:**

Borrowing is an option that could always be considered for funding capital. It is not considered, under this Council of Ministers, a policy that they would look at to follow to fund revenue, but if appropriate it could be considered for capital projects.

**Deputy S.M. Brée:**

Thank you for that clarification.

**The Connétable of St. John:**

If I can move on to savings and user pays. Are you, Chief Minister, confident that the States Assembly will approve all the additional user pays charges, including the health charge, as proposed in the draft M.T.F.P.?

**The Chief Minister:**

Are you asking me the way that 48 other people are going to vote? The 3 of you there can speak for yourselves; you do not need me to speak on your behalf. Of course I am confident that the Council of Ministers support the proposals in the M.T.F.P. I know that there are some difficult proposals but I hope that on balance the package which has been given a lot of thought, based on advice from economists, and we will see what their detailed advice is on the whole package, and of course they consider the amount of money that might be being taken out of the economy with those charges that you are highlighting, that Members will support the generality of the approach that the M.T.F.P. proposes. Do I think that we will have a good number of amendments of Members thinking they do not like this particular bit but they have some other proposal that they might prefer? Yes, I think we will have that and the Council of Ministers will go away and consider those alternative proposals, as you would expect them to do.

**The Connétable of St. John:**

What plan does the Council of Ministers have to address the deficit should these user pay charges not be approved by the Assembly?

**The Chief Minister:**

We have got to look at the plan as a whole, have we not, and as a complete package?

[14:30]

What is it actually trying to do? It is trying to make sure that we can allocate money for health, for education, start to or continue to deal with the ageing population, think about the effect of technology on the delivery of government, think about the size of government that we can afford and the way that we deliver that government. We have been criticised for this plan. I understand that, but if you take it as a whole it is starting to address and carrying on addressing the global trends that are affecting the rest of Europe. Of course there will be individual bits that particular Members do not like, particular sections of our community do not like, but when you take it as a whole, we think that it sets a good direction for dealing with those issues and for Jersey's future. If we take the health charge, and I know in the list of subjects you wanted to discuss I think that is one of them ...

**Deputy J.A.N. Le Fondré:**

We will deal with that slightly later.

**The Chief Minister:**

If you take that health charge, does the community think that we should be investing more in health to deal with the changing way health is provided, to deal with the increased cost of drugs, to deal with the new procedures, then the answer is yes. The questions will be about the details of it. So, is it right that we ask people to pay a bit more for health? I think the answer has to be yes. I think the arguments will be about the detail and who it affects and how it affects them.

**The Connétable of St. John:**

We will deal with that later. What I am concerned about is you will not meet your targets unless that revenue is coming because ...

**The Chief Minister:**

No, that is quite clear because it is all part of the package.

**The Connétable of St. John:**

But as part of a package, if there are pieces missing the package falls apart. That is the solution we are trying to get to.

**The Chief Minister:**

No, the package does not fall apart. We then have to think of other ways of delivering those changes or we then have to have a conversation about do States Members not want to invest in health into the future, do we not? So there is no easy answers here.

**The Connétable of St. John:**

Can I just put it to you, Chief Minister, that the Council of Ministers' position of adding this financial burden to Islanders through a series of user pay charges is all but in name a tax rise?

**The Chief Minister:**

Well, it is asking people to pay more for an improved and changing service. That I accept. We are going to come on and talk about what methodology we might use, so perhaps I will address that when we get there. Some people will say it is a tax; some people will say these are stealth taxes; some people will call it a charge. I, of course, think that what we are looking at is a charge and, as I have said in the States, I do not think there is anything stealthy about any of this. We have been quite clear about the big, high level of what we are going to be considering and asking Members and ultimately the public to support.

**The Connétable of St. John:**

So what consideration has been given by the Council of Ministers to using the strategic reserve fund to help address the deficit?

**The Chief Minister:**

We are already proposing in here, are we not, to use elements of the strategic reserve for cash flowing, for some of the capital projects, some to be paid back, some not, and of course that then has knock-on effects to other things that we want to do, not least of which is the hospital.

**The Connétable of St. John:**

Do you, Chief Minister, believe the arbitrary top slicing of department budgets is logical or equitable considering that some departments' spending should be considered more essential than others, for example teachers versus potholes in the road?

**The Chief Minister:**

We hit back on the why is it that we have taken the approach that we have about one year and 3 years, because you can deliver those changes over a short period of time like that but if you want to do the cross-departmental approach, which we need to do, recognising the difference of the services that each department provides, then it takes longer to develop those programmes and to see those changes, which is why we have done the one year and the 3 years so we can get it right. There is no point just cutting an amount out of a department, which is what we had to do in 2015 and 2016, which is why we have not allocated cross-departmental amounts for 2017, 2018 and 2019. That does not make it easier but it does and should mean that the changes are much more sustainable in the longer term. Do not forget this plan proposes extra money for education ... and I will not go and add up every year like the Chairman was doing about the 2016 number, giving me a wry smile, and in page 63, we are talking about potentially an extra 73 people in education, which would be in teaching and those areas. So we acknowledge the basis of what you are saying, and in health we have got a rough figure of about 185 people as part of that extra spend that we are going to allocate to them.

**The Connétable of St. John:**

What, if any, other saving measures were considered, if you have not considered top slicing?

**The Chief Minister:**

In 2016, as I said, that is the approach that we have largely had to take and for the other remaining 3 years we are looking across departmental silos to deliver savings. There are all sorts of areas that could be considered and worked on to deliver savings in a sustainable way.

**Deputy J.A.N. Le Fondré:**

We will keep going. We are doing quite well on timing at the moment so we will take advantage of it at this stage and keep going.

**The Chief Minister:**

Every time I come you tell me to be quiet, so I am trying my best.

**Deputy J.A.N. Le Fondré:**

Concise. Good. You are doing well, Chief Minister, on that front.

**The Chief Minister:**

Thank you.

**Deputy J.A.N. Le Fondré:**

You must have been having training. Health charge, which is why we were not too specific about the health charge earlier. It has been determined there is a figure of £35 million included in the draft M.T.F.P. which the Council of Ministers is planning to introduce by 2019. What expert independent advice was obtained in reaching this figure of £35 million?

**The Chief Minister:**

It was advice from the individual departments and we were looking at how much could we save, how much could we deliver from reprioritisation, roughly how much are we going to be investing ... well, how much did we invest in health over M.T.F.P. 1, which I think is what the figure is, the £35 million. So it was more that sort of approach.

**Deputy J.A.N. Le Fondré:**

Is that backed up by independent advice?

**The Chief Minister:**

With regard to ...?

**Deputy J.A.N. Le Fondré:**

The quantum of the figure, has it come from the departments or has it been assessed?

**The Chief Minister:**

No, it has come currently from the departments, based on, as I say, I think the extra spend in M.T.F.P. 1.

**Deputy J.A.N. Le Fondré:**

There is not an external validation of that figure, effectively?

**The Chief Minister:**

No, as and part of that, F.P.P. will look to see what effect taking that money out might have on the economy.

**Deputy J.A.N. Le Fondré:**

Yes, but the F.P.P. are not going to assess whether it should be 35, 50 or 25. They cannot do; they are not health experts.

**The Chief Minister:**

No. Well, if you are talking about the amount of money that is needed to be spent then that comes out of the redesign of health and social services, P.82 and the work that KPMG did about the extra money that would be needed, but that is not directly the extra charge that we are proposing. The amount of money has got independent expert advice behind it that we are going to spend on health but not a quantum of what the charge would be, so the balance is just normal taxpayer money.

**Deputy J.A.N. Le Fondré:**

Right. So the quantum of the charge is the balance over and above the sum that was required as identified through KPMG, effectively?

**The Chief Minister:**

Yes.

**Deputy J.A.N. Le Fondré:**

KPMG have identified, for the sake of argument, £100 million or whatever it is. We have got £65 million in the normal funding. The difference is £35 million. That is what we have got to spend. I am talking in principle.

**The Chief Minister:**

I am not sure it is quite that exact but it is that sort of ... yes.

**Deputy J.A.N. Le Fondré:**

Right. The health charge we are assuming has to come as a separate proposition to the States.

**The Chief Minister:**

It does.

**Deputy J.A.N. Le Fondré:**

When will that be?

**The Chief Minister:**

That is a good question. You will see that it is currently proposed to start in 2018. I think you said 2019 but it is 2018 and 2019. We have had some discussion about whether it would be possible to do that work and start a charge at a lower rate in 2017 but that depends on the amount of work that is required. I think the timetable that I last saw was that they are working on having something ready for June of next year but personally I think that is quite optimistic. But if it were going to be brought forward and start at a lower rate in 2017 then it would need to meet that timetable, so there is a balance there between consultation, mechanism and when you could start a charge.

**Deputy J.A.N. Le Fondré:**

I think the point was that the £35 million is the full amount which hits in 2019.

**The Chief Minister:**

That is correct, yes.

**Deputy J.A.N. Le Fondré:**

Obviously there is a small amount that comes in in 2018.

**The Chief Minister:**

Yes.

**Deputy J.A.N. Le Fondré:**

So, essentially, June or the second half of next year is the timeframe?

**The Chief Minister:**

Yes. I know they have started on it. Social Security and Health are working very closely on it already.

**Deputy J.A.N. Le Fondré:**

If the States Assembly happen to vote against the health charge, what is the alternative plan for the Council of Ministers to fund health going on?

**The Chief Minister:**

We would have to go away and ask ourselves that question, would we not? Any government has the option of cutting back government expenditure to a greater extent than we are proposing, but as I sit here looking at what we are currently proposing I think that would be extremely difficult. To some extent, it is for Ministers ultimately to make the case for why funding for health is so important and why we are all going to have to pay a bit more for it.

**Deputy J.A.N. Le Fondré:**

Okay. What provision, if any, has been made to accommodate those households who cannot afford such a health charge?

**The Chief Minister:**

That all comes down to the mechanism that we use. Chris has just kindly pointed out to me and reminded me that in P.82 a previous States, granted not this one, agreed that there would need to be a sustainable funding mechanism for health anyway, albeit I absolutely accept that that does not mean to say that the States will agree the quantum that is being proposed or, ultimately, the methodology. I have said before from my own personal point of view - and this is not one that we have discussed at Council of Ministers, so it has to be taken in the spirit that I offer it - that I would think that an amalgamation, potentially, of current mechanisms that we have got, a cross perhaps between the way that we collect the health insurance fund and the way that we collect long-term care benefit. One of those, of course, is much more generous to lower incomes than the other, the long-term care scheme, and one of them captures much higher earners than the other as well. I think we have to be absolutely careful about hitting low earners so that we do not and we also have to be absolutely careful about capturing as much of high earnings as we can as well. If you have an amalgam of those 2 schemes, you could potentially achieve that. I have got to say again, that is my personal ... there is a lot of ...

**Deputy J.A.N. Le Fondré:**

At this stage it is not clear whether it would be mandatory or whether it is going to be means tested or whatever? The jury is out on the whole detail?

**The Chief Minister:**

Yes. There is a lot of water to flow under that bridge before decisions are made or even consulted upon. If you used either of those 2 mechanisms, you would not necessarily need to have a separate means testing mechanism because it is already inbuilt. That is about simplicity as well.

[14:45]

**Deputy J.A.N. Le Fondré:**

Probably then asking you from a personal perspective, given lack of detail at this stage, would you think there would be any opt-out provision, for example for those people already funding their own private healthcare or those who are members of private corporate healthcare schemes by virtue of their employment benefits package?

**The Chief Minister:**

They do not currently have an opt-out from paying their tax, which is part of the £200 million that we currently spend on health, so I think a strong argument would have to be made for why they would be opting out of this charge as well. On the one hand, I can see why you might make that argument. On the other, we know that private healthcare does not cover the full range of services and does not cover some of the most expensive necessary services that the health service has to provide for.

**Deputy J.A.N. Le Fondré:**

So, although we are calling it a healthcare charge, it would effectively be a tax?

**The Chief Minister:**

There is no point us arguing about the wording. I would call it a charge. If you wanted to achieve that sort of approach, you would be far better revisiting the way that tax relief is given on those premiums I think, although that, of course, gets you from the marginal rate to the standard rate and other unintended consequences about giving a benefit to those who are earning a lot more rather than those lower earners.

**Deputy J.A.N. Le Fondré:**

Do you envisage at this stage the collection mechanism to be similar to that for long-term care, for example, taken at source of income utilising the income tax system? Would that be the best methodology, do you think?

**The Chief Minister:**

I think it is quite a fair methodology. It captures income that is not just earned income, which I think is important. But, as I say, I think I have said probably as much as I can about what my personal thoughts are at this stage, because there is a lot of work being done and I do not want to second guess what the outcome of that might be.

**Deputy J.A.N. Le Fondré:**

Will you agree that the introduction of such a health charge, together with the other user pays charges as envisaged in the draft M.T.F.P., subsequently increases the financial burden on

Islanders, particularly middle to lower income households, and effectively it increases the overall cost of living in Jersey?

**The Chief Minister:**

The big charge or the larger of those 2 is the health charge, and I have just spoken about how you can mitigate some of those and how I would have thought were sensible ways of mitigating those issues, because we recognise that they are there. That is not necessarily the case for liquid or solid waste charges, but again they are only in their early stages of development. So those issues would need to be considered in that development.

**Deputy J.A.N. Le Fondré:**

Final question on this area: what profiling has been done as to the present total tax burden on individuals against the impact of what is being proposed, including user pays charges?

**The Chief Minister:**

That work is starting to be done, I think. Treasury and Social Security are working on that.

**Deputy J.A.N. Le Fondré:**

When will the results of that be available?

**Head of Financial Planning:**

At the same time as the proposals in June or the latter part of next year.

**Deputy J.A.N. Le Fondré:**

I was just trying to work through on the mechanisms there. Effectively we are agreeing in principle those sums of money but we do not know the detail, therefore at the moment we are not being bound by anything at this stage. We will see the profiling that will come out on this, I presume, in detailed terms?

**The Chief Minister:**

You cannot be bound by any detail because there is not any.

**Deputy J.A.N. Le Fondré:**

There is none, no.

**The Chief Minister:**

This is a high level plan for the next ... let us just take the 3-year bit, M.T.F.P. 2(b), that says in order to deliver a balanced budget and in order to deliver growth in these areas, we have got a plan that does this with savings, does this with user pays, does this with benefits.

**The Connétable of St. John:**

The only thing I would comment on that is essentially the personal income tax which is budgeted to increase by £75 million over the period, the user pays at another £35 million, means that the average taxpayer is going to have an increase northward of 30 per cent, which is an enormous burden on middle Jersey.

**The Chief Minister:**

You know it does not work like that. You have to do the piece of work. You have to look at certain family groups and taxpayer groups and work out what the effect would be, so you cannot just pick an overall number and say it is going to affect everybody by 30 per cent. It is a much more ... I would say scientific but ...

**The Connétable of St. John:**

I look forward to the study and the report on that.

**Head of Financial Planning:**

As a technicality, the personal income tax is not being increased. There is no increase to the 20 per cent rate being proposed over the period. The increase in personal income tax that is forecast is due to the increases in assumptions for the increases in wages and the increases in the number of people employed, not in the rate of tax, just to be absolutely clear.

**The Connétable of St. John:**

Yes.

**Deputy J.A.N. Le Fondré:**

I will come back to you on one phrase you used, your penultimate response, which was balanced budget. Do you accept, just to reiterate, that over the period, if you take now as a point in time and the end of the M.T.F.P., we are going to be £165 million worse off?

**The Chief Minister:**

I cannot say because what I am looking at is each year we have to work towards the figure in 2019. There is no value in adding up what each year is because it does not ...

**Deputy J.A.N. Le Fondré:**

We are just taking where we are now and where we are going to be in 4 years' time.

**The Chief Minister:**

Yes, but it does not bear any relationship to the issue that we have got to deal with by 2019, which is the £145 million.

**Deputy J.A.N. Le Fondré:**

But at the end of the day, yes, on the figures you have got at the moment, in 2019 you are back into some form of surplus if all your assumptions work and if everything is approved, but the financial position we are in, say we were at zero today, are we not in the position that we will have spent or we will be worse off by £165 million at the end of that period?

**The Chief Minister:**

We have been quite clear about the cash flow that we have to have over the period.

**Deputy J.A.N. Le Fondré:**

Yes.

**The Chief Minister:**

Cash flow is important, we all know that. Without cash flow a business fails. Cash flow is important, so the figure that you are quoting is important.

**Deputy J.A.N. Le Fondré:**

And is correct.

**The Chief Minister:**

Yes. But by far the most important figure is the measures that we are making to our budgets by 2019 to deal with a £145 million number. We are saying the same thing.

**Deputy J.A.N. Le Fondré:**

I think we are saying the same thing, but it is just the thing about balanced budgets can mean all sorts of things to different people.

**The Chief Minister:**

Yes, but the balanced budget, I am not an economist but the economists would tell us you have got to do the cycle. F.P.P. were very clear that what the economy is doing, you cannot balance that budget too soon. Although they might come back and say: "Well, actually the economy is

doing a bit better now, Treasury Minister and Chief Minister, so you have to balance earlier”, we will deal with that if and when they say that. The cash flow is important, but by far the most important thing is that by the end of this period, 2019, we have got that balanced budget and we have put in place sustainable measures to deliver the size of government (a) that we need, (b) that we can afford, and (c) that is dealing with those global issues that Jersey faces, in common with the rest of Europe, about healthcare, about investment in education, about technology and about infrastructure investment.

**Deputy J.A.N. Le Fondré:**

Thank you for that explanation, Chief Minister. I think that is an apposite time to pass over to the Vice Chairman.

**Deputy S.M. Brée:**

One of the areas underpinning the draft M.T.F.P. is the cost savings projected to be achieved in, and I quote, “people savings”. Will you, Chief Minister, advise this panel of what consultations have taken place with the various unions regarding their and their members’ views on this area of cost savings, including V.R. (voluntary redundancy) and pay restraint conditions?

**The Chief Minister:**

In what regard, sorry?

**Deputy S.M. Brée:**

What consultations have taken place with the unions about the cost savings?

**The Chief Minister:**

Yes, consultation in what regard?

**Deputy S.M. Brée:**

Well, I think that is a fairly obvious question, surely. You are intending to reduce the number of staff potentially in certain areas and certain departments by a large amount. A large number of those staff are members of unions. We are merely asking the question: what consultations have taken place with the unions, if any?

**The Chief Minister:**

We have had a long process of consultation with the unions over the last probably 18 months to 2 years. We have signed up a framework agreement with them about modernisation and workforce redesign. Of course, we did not consult I think in the way that you are suggesting, which is why I was trying to probe what it was you were actually driving at, about the number that we would be

targeting for staff savings or reprioritisation. I think what happens and what normally happens is that the States Ministers make decisions, which has happened in the past. You might enter into a period of negotiation or consultation to deliver the outcomes that you are looking for. But it would be no surprise to you that the unions have got concerns about what we are proposing.

**Deputy S.M. Brée:**

If you will allow me to ask the next question, you might understand where we are going with this line of questioning. Have you, Chief Minister, personally met with any union representatives to discuss with them the possible impacts of this draft M.T.F.P.?

**The Chief Minister:**

That is a good question and I am just trying to think. The States Employment Board did have a meeting with union representatives but ... I am just looking to Paul, and he probably does not know and I cannot recall but we will find out for you. It was initially about pay restraint and I cannot recall whether we had published the M.T.F.P. prior to that meeting or just after, but we will find that out for you.

**Deputy S.M. Brée:**

Okay. So would you say then that the unions are generally supportive of the Council of Ministers' plans as contained within the draft M.T.F.P.?

**The Chief Minister:**

I think I have just said to you that it will not surprise you to hear that unions are concerned about what the implications might be for their members.

**Deputy S.M. Brée:**

If I move on then, figure 46 on page 126 of the draft M.T.F.P., if you want to turn to that, just so you can refer to it, illustrates a net downward reduction on staffing of 0.21 per cent, that is less than one quarter of one per cent, from the overall 2015 staffing structure to the indicative 2016 full-time employee position. Bearing in mind this figure and in the absence of any detailed plans for 2017 to 2019, are you, Chief Minister, totally confident that the projected £70 million of people savings will be delivered over the life of this draft M.T.F.P.?

**The Chief Minister:**

If you look at that number there, including a growth of 97 F.T.E.s (full-time equivalents), so you have got some reductions, you have got some changes. This is for the start of 2016. I think actually we will see an indicative start in 2016 of lower than this number because we have already started a V.R. programme and we are already seeing departments preparing themselves, thinking

about their services for what they are being called upon to do in 2016, 2017, 2018 and 2019. The plan that we propose is not an easy plan. We absolutely accept that because it requires change: it requires change in the way that we deliver government; it requires the removal of duplication; it requires cross-departmental working; it requires a different approach from the central H.R. (human relations) department of managing vacancies, thinking about temporary and interim staff.

[15:00]

**Deputy S.M. Brée:**

That was not actually the question we were asking you, Chief Minister. We are merely asking, based on what is contained within the draft M.T.F.P., based on the fact that for 2016 the draft M.T.F.P. clearly states a reduction of only 0.21 per cent, are you confident that you will be able to deliver the projected £70 million worth of savings in the area known as people savings over the life of the draft M.T.F.P. That is all we are asking.

**The Chief Minister:**

Well, the reason I was saying what I was saying was in order to answer your question, to be able to say to you why it is that I think it is a difficult, challenging task but I believe that it is achievable. That is why we have brought it forward. There is no point me just saying yes or no to you because I have to give you the basis for why I think it is achievable, but I would say - and you would say: "Well, you would say this, Chief Minister, because you are an accountant" - for me, and it has always been the most important thing, is the amount of money that we actually spend. I know budgets are important, I know F.T.E.s and headcounts are important, but ultimately what we do is ask the taxpayer to fund the bottom line spend. So that is the most important thing that we are getting that growth in expenditure under control.

**Deputy S.M. Brée:**

Okay. If we could just move on to the next question then, again looking at staffing levels, what impact will the staff savings have on frontline services?

**The Chief Minister:**

Well, this is why we have proposed the plan in the way that we have, which is one year and then the 3 years, so that we can as much as possible mitigate the effect on frontline services, deal with, as I said, the cross-departmental duplication, and challenge proposals that departments have brought forward to deliver savings and deliver efficiencies.

**Deputy S.M. Brée:**

Okay. So are you, Chief Minister, fully supportive of the plans as recently announced by the Minister for Treasury and Resources and the Minister for Transport and Technical Services to potentially transfer certain public sector services to the private sector?

**The Chief Minister:**

Well, if ... and if you had asked them this question I am sure they would have given you the same answer. There is no silver bullet. We are not ideological about public sector or private sector. The important thing is that we act in the best interests of taxpayers and in the best interests of the Islanders that we serve. So it is about getting the best service for the best value to the taxpayer overlaid with the effects that it might have on those individuals concerned. So there could be some areas which could be outsourced. There could be some areas where people that we currently employ want themselves to, in effect, have a type of management buyout and they themselves can see where services can be delivered more efficiently but to their advantage as well as to the advantage of the taxpayer.

**Deputy S.M. Brée:**

So what impact studies or analysis have been carried out on the social and economic impacts of the proposed people savings on the wider economy? For example, if people are out of work they can legally claim benefits, so in effect the States are still paying.

**The Chief Minister:**

But the States is not a job creation scheme. The Government is about providing the services that the public, as I said, want and can afford and it is about thinking about economic issues and there is this overlay ...

**Deputy S.M. Brée:**

I am sorry, Chief Minister, if you would not mind answering the question that I asked you ...

**The Chief Minister:**

No, but you answered your ... well ...

**Deputy S.M. Brée:**

What impact studies or analysis have been done?

**The Chief Minister:**

Are you asking me ... you seem to be asking me ... well, that is a slightly different question to the one that you just asked me.

**Deputy S.M. Brée:**

No, the question I asked you ... no, the question I asked you ...

**The Chief Minister:**

Yes, it is.

**Deputy S.M. Brée:**

... was what impact studies or analysis have been carried out on the social and economic impacts of the proposed people savings on the wider economy. That is the question I asked you. With the greatest of respect, I would ask you to answer the questions we ask you.

**The Chief Minister:**

Yes, and indeed I am. Okay. The economic effect of this plan will be considered by the F.P.P. The effect on individuals concerned is considered in the process that the departments are undertaking so there are some areas that you might look at and think, well, some individuals in those areas could quite easily get employment elsewhere, and there are other areas where you have to consider those individuals and would they be able to find work elsewhere. But I go back to the fundamental point which your question seems to be indicating, even though you say you are not. That is that the Government in some way should be an employment creation agency, and it should not.

**Deputy S.M. Brée:**

No, that is not in the slightest anywhere near what I was asking.

**The Chief Minister:**

So if we have duplication in our system, if our system is not working in the best interests of taxpayers, if increasing headcount is driving growth in Government, then you would rightly expect us to address those issues, to drive out that duplication, make sure we have the right structures, and that we have the right amount of people.

**Deputy S.M. Brée:**

Obviously, Chief Minister, you are not prepared to answer the question I actually asked you so I will move on to the next one.

**The Chief Minister:**

I think you will find I did answer the question and then I went on to say other things as well.

**Deputy S.M. Brée:**

Well, okay, what impact studies or analysis has been done?

**The Chief Minister:**

I said they had not in the way that you have been ...

**Deputy S.M. Brée:**

They have not, okay, fine. We will move on then if we may.

**The Chief Minister:**

In the way that you have indicated but, as I said, the F.P.P. will be looking at the impact of these ...

**Deputy S.M. Brée:**

No, if we may move on, Chief Minister, we understand what you are saying.

**The Chief Minister:**

... the impact of these changes on the economy in the way that you were just asking me. They are independent and that is what their job is to do.

**Deputy S.M. Brée:**

Okay. In the event that the £70 million worth of people savings is not achieved and the income forecasts fail to meet with reality, as was the case with the first Medium Term Financial Plan, what contingency plans are in place to deal with what will then be a structural deficit?

**The Chief Minister:**

I think we discussed those issues right at the start of the hearing.

**Deputy S.M. Brée:**

Would you like to reiterate them, please, Chief Minister? What contingency plans are in place should the savings not be achieved and the income forecasts not meet with reality?

**The Chief Minister:**

Well, I will give the same answer that I did. So you have the central assumption on the income tax forecast. We have the work that we will be doing on delivering economic growth to increase the income line, and then we have the money that is allocated for growth. If the income line does not hold up to that central assumption then, first of all, we will look at the growth monies and not allocating those. Again, if the savings are not ... well, the savings have to be achieved. They are a fundamental part of the plan.

**Deputy S.M. Brée:**

Thank you.

**Deputy J.A.N. Le Fondré:**

I have just 2 questions. One is just to confirm, so it is going back to ... I think we have touched on it; I just want to make sure I am absolutely clear. I raised the query earlier on, and Simon has touched on it again, about the profiling on the present total tax burden on individuals against the impact of what is being proposed. Can I just confirm you said that there is some profiling being done or going to be done and that we will have that before June or by June next year?

**The Chief Minister:**

Yes.

**Deputy J.A.N. Le Fondré:**

That is on the total tax burden including user pays charges?

**The Chief Minister:**

Yes, it is the charges, is it not?

**Head of Financial Planning:**

Just the charges.

**Deputy J.A.N. Le Fondré:**

And any other tax measures?

**The Chief Minister:**

Yes, you placed the detail of this ... but it is involving Social Security as well, so I think it is the implications of their changes as well.

**Deputy J.A.N. Le Fondré:**

Yes. Basically, what I am looking at is what, if you like, an individual presently pays the state, if you like, and what they will be paying the state, whether it is tax, user pays, whatever, that that work is going to happen. Okay. That is a yes? Sorry, the microphone cannot hear the nod.

**The Chief Minister:**

Yes, it is, yes.

**Deputy J.A.N. Le Fondré:**

The second point: you have made reference a couple of times, Chief Minister, to the F.P.P. and the work they are going to do and the comments they are going to make.

**The Chief Minister:**

Yes.

**Deputy J.A.N. Le Fondré:**

They only report on 4th September.

**The Chief Minister:**

That is right.

**Deputy J.A.N. Le Fondré:**

The last date for lodging amendments for Back-Benchers is the 22nd. I will use that date because I know it is for Back-Benchers; I think the Council of Ministers can lodge closer to the date if I remember correctly.

**The Chief Minister:**

Amendments to amendments, I think.

**Deputy J.A.N. Le Fondré:**

Anyway, but the point is that basically you have a window of 3 or 4 weeks, whatever the position is, to react to any comments that the F.P.P. make. Are you not cutting it a bit fine?

**The Chief Minister:**

No, I mean, I cannot recall last time but I would have thought that that was more generous than previously.

**Deputy J.A.N. Le Fondré:**

I was not talking about the Back-Benchers. I am coming back to the point that if the F.P.P. come back and make some observations ...

**The Chief Minister:**

No, that is right, yes.

**Deputy J.A.N. Le Fondré:**

Yes, okay, that is fine.

**The Chief Minister:**

Because, of course, Ministers will want to consider what F.P.P. have to say as well, as well as Back-Benchers.

**Deputy J.A.N. Le Fondré:**

No, I was using the Back-Bencher date. That is just the date I know in my mind, but for everybody it is quite tight. Right, Chris?

**The Connétable of St. John:**

All right. If we could move on to economic growth, the draft M.T.F.P. on page 58 contains a proposal that £5 million a year, equating to £20 million over the life of the plan, will be made available to the central contingency allocation under the title "Economic and productivity growth drawdown provision". What is this funding actually for?

**The Chief Minister:**

Well, we will not know until bids are made that would meet the criteria. So productivity, we could be talking about training; economic growth, we would be talking about things which are going to stimulate that, so could be things that fall in my area for financial services, digital and innovation. It could be things that fall in Lyndon's area about tourism and agriculture. So it is a combination of those things about economic growth, about projects that will deliver jobs, and about improving productivity in the economy as well because we know that the F.P.P. are rightly concerned about productivity in 2018 and 2019.

**The Connétable of St. John:**

So, in other words, it is for departments as well as for the private sector?

**The Chief Minister:**

I am not sure it is ...

**The Connétable of St. John:**

It is on the tender basis?

**The Chief Minister:**

I am not sure it is for the private sector. The initial thoughts were that it would use a similar governance model to the spending of the stabilisation fund. I am not sure what that was called.

**Head of Financial Planning:**

Fiscal stimulus.

**The Chief Minister:**

Fiscal stimulus governance model.

**The Connétable of St. John:**

Okay. So who will decide how and where it is allocated?

**The Chief Minister:**

Well, I have just said it will be the fiscal stimulus governance model. They will oversee it. The Minister for Treasury and Resources would then need to make a recommendation to the Council of Ministers on specific projects, which was what happened ...

**The Connétable of St. John:**

So it is the Council of Ministers that would be controlling the pot of money, if I can use that term?

**The Chief Minister:**

You basically have 3 different keys. You have the political oversight group, you have the Minister for Treasury and Resources, and then you have the Council of Ministers.

**Deputy J.A.N. Le Fondré:**

Sorry to interrupt. The political oversight group is who?

**The Chief Minister:**

Well, I have seen in papers it would either be somebody from my department or me, a Minister ...

**Deputy J.A.N. Le Fondré:**

From your department as a ...

**The Chief Minister:**

A Minister, yes.

**Deputy J.A.N. Le Fondré:**

A Minister or an Assistant Minister?

**The Chief Minister:**

Well, I only have one Minister so it would have to be an Assistant Minister if it was not me. I think the Minister for Treasury and Resources and the Minister for Economic Development.

**The Connétable of St. John:**

So why is it under central contingencies as if these monies are essential to promote economic growth then surely such funds should be directly allocated to the budgets of the departments rather than a central development contingency?

**The Chief Minister:**

Because at the heart of this plan is trying to - and you are not going to like what I have to say - invest in health, invest in education, invest in infrastructure, get us ready for the digital revolution, and control the growth in Government expenditure.

[15:15]

So we know that we have to try and put more work into delivering the upside. You have rightly questioned me quite a lot about the central line of income. Part of the plan is not just dealing with savings and the downside, but it is also allocating resources to specific projects that are going to help to deliver the upside. But we do not want to go putting it into everybody's base budget because that is how Government expenditures continue to grow over many, many years. So we are trying to find methodologies that deal with the issues that we face and yet at the same time limit that growth in overall base expenditure.

**The Connétable of St. John:**

Because this is where I am getting confused is how money, capital, being given to a department can result in economic growth.

**The Chief Minister:**

Well, it would depend ...

**The Connétable of St. John:**

It can result in growth in the department but does it result in growth in the economy which will generate more income tax?

**The Chief Minister:**

If we were putting it into departmental base budgets then I would accept the point that you are making. The whole point is that we are not. Departments will have to say: "Here is a project that is going to deliver this, this and this" and then Ministers will have to consider if it is going to deliver that, the metrics that they have used. So it is one-off. It is not going into base budgets for reoccurring. That is the whole point of it.

**The Connétable of St. John:**

So what plans have already been discussed or are already agreed upon for how this funding will be utilised?

**The Chief Minister:**

There has been no plans brought forward, no.

**The Connétable of St. John:**

No plans, thank you. Page 83 of the M.T.F.P. states that there is an intention to: "Reduce expenditure to the rural sector and route development with prioritisation towards economic growth and employment opportunities." Does this mean in reality the Council of Ministers is solely concentrating on and looking to the financial services sector for economic growth?

**The Chief Minister:**

No, it does not. If you had the Minister for Economic Development in front of you, he would talk about the plans that they are developing with the new rural economy strategy and the money that is allocated and how it is going to be spent much more in partnership with the agricultural sector rather than just dictated to on high from the department.

**The Connétable of St. John:**

I shall watch that with interest being a former farmer. What other areas of economic activity is the Council of Ministers willing to invest into?

**The Chief Minister:**

Well, I think what we are proposing ... areas of the economy that we have supported are, of course, financial services, the digital sector, thinking about innovation, we have a growing mining sector, and continued support for agriculture, continued support or even renewed support for tourism as well.

**The Connétable of St. John:**

Does the Council of Ministers have any contingency plans in place should there be another global economic crisis, bearing in mind the current Eurozone crisis and the inherent market volatility this has caused?

**The Chief Minister:**

The income forecasting group have considered these issues when they have been bringing forward their forecasts for what might happen over the course of the next 4 years. So they are extremely mindful of them. We have challenged them in that regard and I say and have always

said the only certain thing, particularly for small island economies like our own, is continued uncertainty. We have to respond. We have to meet those challenges, which is what this plan is all about.

**The Connétable of St. John:**

All right. Thank you.

**Deputy J.A.N. Le Fondré:**

I think we want to be moving on.

**Deputy S.M. Brée:**

Yes, okay. Just very quickly, if I may, the panel has noted that apparently a lot of policymaking and funding decision processes are appearing to migrate to the Chief Minister's Department if the draft M.T.F.P. is approved in its entirety by the States Assembly. Just for the record, Chief Minister, would you outline what changes to your current responsibilities will come into effect should the M.T.F.P. be approved in its entirety?

**The Chief Minister:**

Perhaps you could indicate which areas it is that you are ...

**Deputy S.M. Brée:**

Well, we noticed that the formation of a new department, the Community and Constitutional Affairs Department, for example, the funding ...

**The Chief Minister:**

That is leaving my department.

**Deputy S.M. Brée:**

Yes, I am just saying that you are actually taking on more people in your department as a result, so there is a growth in employees estimated in your department, apparently, over the period. It was just to understand whether or not the draft M.T.F.P. does increase your responsibilities in the areas of, for example, funding decision processes.

**The Chief Minister:**

No, as far as I am concerned. It does the reverse. The Community and Constitutional Affairs area is leaving my department, so those individuals are leaving. The Population Office is moved to Social Security; that is 17 people. I think it is from the annex, page 27 of the annex, that you see from 2015 I have people supporting the committee of inquiry. We have the e-government people

and workforce modernisation and project management, which is dealing with all the change. We have a change ... rather than information systems for tax sitting solely in Treasury and Resources they are moving to the centralised information systems in the Chief Minister's Department, so there is no actual change in authority. Then you have the transfers out.

**Deputy S.M. Brée:**

Okay, fine, thank you. We will move on then.

**The Connétable of St. John:**

Population. If you turn to page 10 of the M.T.F.P. it states that the population of over-65s will increase by 70 per cent - that is improving health and wellbeing, halfway down the page - in other words, from the current 14,000 to 23,800 people over the age of 65. But if you turn to page 16, it shows 28,000. Can you explain the discrepancy between 23,800 and 28,000?

**The Chief Minister:**

Yes. So, the 2010 number was the 14,000. If you apply the 70 per cent, it takes you to 23,800, but at ... so that was a projected. At 2015 the estimate from the population model - so if you wanted more information you could ask the Statistics Unit - is already 16,700, so not the 14,000. So they recently did an update, did they not, and the estimate there was 16,700. If you apply the 70 per cent, which again comes from the Statistics Unit, the change, then you get to the 28,000.

**The Connétable of St. John:**

Okay. The phrase "ageing population" is a socioeconomic term universally accepted to mean persons over the age of 65. As the retirement age is increasing from 65 to 67, what consideration is being made to take into account this change?

**The Chief Minister:**

In ...?

**The Connétable of St. John:**

I can give you more detail: when calculating the projected overall States expenditure such as health and care benefits but balanced against the continuing 2 years of income derived from both direct and indirect taxation.

**The Chief Minister:**

It comes in population, which I do not know if Paul wants to talk about, but it is about maintaining the working age population. So rather than letting it decline, maintaining it and trying to maintain, although you cannot do this, the ratio between. Do not forget the pensionable age will not have

reached ... on the current proposal that the States have agreed it does not start to change until 2020 anyway because that is the year that you get the equalisation between male and female retirements. Then it works out, and I should remember this number, but I do not think you get to 67 until 2030 or 2035. So it is not directly within the scope of these M.T.F.P. numbers because you will not see that change until later on.

**The Connétable of St. John:**

Okay.

**Deputy J.A.N. Le Fondré:**

Simon?

**Deputy S.M. Brée:**

Talking about savings, are you, Chief Minister, totally supportive of the plans to cease the Christmas bonus for pensioners and to close the free television licence scheme for the over-75s to new entrants?

**The Chief Minister:**

I am well aware that there are some proposals in this plan, the 2 which you have just mentioned, which are difficult and which people feel quite passionately about. But if we are going to respond and make sure that we are responding to the ageing demographic that the Constable has just been speaking about, then we do need to make changes to benefit provision which is purely based on age related rather than other important means testing benefits. So, Social Security have looked at the benefits that they provide and these 2 are not means tested and they are simply age related, and although it is ...

**Deputy S.M. Brée:**

I think you will find that the television licence is means tested. Anyhow, do carry on.

**The Chief Minister:**

Okay. But if you look at the ...

**Deputy S.M. Brée:**

Having just done an application for my mother-in-law, I think it is means tested, but please carry on.

**The Chief Minister:**

I can see your amendment coming now. So as the number increases they become more and more unaffordable, so as difficult as they are we need to start making provision for those changes which are happening. As we have just said, the 2010 figure for where we would be at at 2015 was 14,000 over-65s, but we are actually, statistics estimate, at 16,700 already. So we are seeing it happening right now.

**Deputy S.M. Brée:**

So basically the answer to the question was yes, you are supportive of these plans for the reasons as you have outlined?

**The Chief Minister:**

Yes.

**Deputy S.M. Brée:**

Chief Minister, are you again totally supportive of the recent initiative announced by the Minister for Transport and Technical Services to seek to find further cost savings by restricting the use of pensioner bus passes to outside of peak times?

**The Chief Minister:**

I am supportive of this M.T.F.P. so the plans that are included within it. Again, I know some of them are difficult and that is another one of those which is difficult, but it is a package of measures that tries to prepare us for the ageing demographic and the challenges that we face in the future. So my answer has to be yes.

**Deputy S.M. Brée:**

Okay, thank you very much.

**The Connétable of St. John:**

If I could just clarify on page 16 the age demographics, could you send through what detail and workings you have on that? Because according to my arithmetic, which is usually correct, we see an increase in the number of people in each year after the age of 65. Normally, when somebody is born, the number of people born, that number can only go down because people die. People do not get born at the age of 20.

[15:30]

Now, I know that in the middle we have a ballooning effect because of immigration, but we also have a ballooning effect over the age of 65, which means that we either have immigrants coming in over the age of 65 or these calculations are perhaps a little skewed. So I would be grateful if we could have the workings from your department.

**The Chief Minister:**

Of course you can. I would say that not often are my maths incorrect either, but these are not even my maths. These are the Statistics Department's maths, which I lay great store by because they act in an independent manner and only provide robust statistics. So we will take that back to them.

**The Connétable of St. John:**

Yes, thank you.

**The Chief Minister:**

It might be that you want to have a hearing and conversation with them.

**The Connétable of St. John:**

Have a chat with them.

**Deputy J.A.N. Le Fondré:**

Okay. We are 2 questions behind the schedule so it is not too bad where we are given that we have done 45 questions, you will be delighted to know, Chief Minister, 2 more to go. So it is up to you how long we take as to how concise your response is. It is on to public sector reform. Question 1 - and I would really quite like a high-level response to this - is what real monetary savings have been delivered in the first phase of the public sector reform programme?

**The Chief Minister:**

Well, that is easy because I do not have those numbers with me so we will have to provide them to you.

**Deputy J.A.N. Le Fondré:**

Okay. Yes, if you could send a highish level of analysis at this stage, I think. I think, therefore, there is relatively little detail contained within the draft M.T.F.P. on phase 2 of the public sector reform programme and what it will actually save. Now, I think particularly in the context that this has been coming for a while and that the Council of Ministers have been in place for - I am going to say - not far off a year by the time we debate this, 11 months, whatever it is, could you, Chief Minister, explain to the panel why that is the case?

**The Chief Minister:**

Because the changes that, as we said, you will see ... and we have the voluntary redundancy programme running now that we will see savings and changes there, but do not underestimate the amount of work that it has been to put forward a plan that fits together in the way that we believe that the M.T.F.P. does. There are not many places in the world that are dealing with the issues that this M.T.F.P. deals with: talking clearly and openly and honestly about the rising cost of healthcare and how we need to provide money for it, talking about the competitive element of improving educational standards, talking about the need to invest in our infrastructure and to prepare for our future, so it has taken a lot of work to bring together the plan in this way. But you will start now in the ... we are about to enter the final quarter of the year. You will start to see changes and greater levels of savings delivered.

**Deputy J.A.N. Le Fondré:**

So by June of next year on the detail that is going to be lodged for the 2017, 2018 and 2019 growth, we are going to have a lot clearer picture as to the savings that have been achieved, for example, at that point before we debate that plan?

**The Chief Minister:**

Yes, (a) the savings that have been achieved; and (b) the proposals to deliver the savings during the course of the remaining 3 years.

**Deputy J.A.N. Le Fondré:**

Okay. I have a couple of questions that have come out of some of the responses but I think I shall reserve those for another time.

**The Chief Minister:**

Okay.

**Deputy J.A.N. Le Fondré:**

Chris, do you have anything?

**The Connétable of St. John:**

No.

**Deputy J.A.N. Le Fondré:**

Simon?

**Deputy S.M. Brée:**

No.

**Deputy J.A.N. Le Fondré:**

Right. Thank you very much for your time today. There have been quite a lot of questions in there. A lot of it has just been getting facts down or clarifying matters and obviously, therefore, we do reserve the right, hopefully with your full co-operation, to call you back, either later in this month or the very beginning of September.

**The Chief Minister:**

Hopefully not later this month, but certainly in September.

**Deputy J.A.N. Le Fondré:**

Thank you very much.

**The Chief Minister:**

Thank you very much.

**Deputy S.M. Brée:**

Thank you very much for your time.

[15:34]