



Corporate Services Scrutiny Panel

Medium Term Financial Plan 2016-2019

MONDAY, 7th SEPTEMBER 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

Deputy K.C. Lewis of St. Saviour

Witnesses:

The Chief Minister

Assistant Minister to the Chief Minister

Chief Executive Officer of the States:

Head of Financial Planning

[14:05]

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

Sitting comfortably?

The Chief Minister:

Yes, thank you.

Deputy J.A.N. Le Fondré:

So welcome to the hearing into the Medium Term Financial Plan and obviously this time we have the Chief Minister in front of us. For the purposes of the recording my name is Deputy John Le Fondré, I am the Chairman of the panel.

Deputy J.A.N. Le Fondré:

Great. Well, Minister, you are obviously aware of the notice that is on your left. If you can obviously remind yourself for the nth time and acknowledge it and obviously for people sitting in public seating there are notices around about turning your mobile phone off and conduct during the hearing. Chief Minister, we have got you for about an hour and an half because we have got a few questions to cover. One or 2 of your entourage may have heard a number of them previously but we obviously want to just clarify a few points and obviously if we think you have given us sufficient information we will seek to move on and succinct answers obviously would be appreciated. Just to kick off we are obviously working our way through the proposition that has been brought to the Assembly for approval and starting with A1 and summary table A. Again, just for the record can you just confirm you are asking States Members to approve the entire income for the years 2016, 2017, 2018 and 2019 as set out in summary table A totalling just under £3 billion?

The Chief Minister:

Yes, that is my reading of the proposition.

Deputy J.A.N. Le Fondré:

Good, and can you confirm as well that this total income figure includes, and this is a cumulative figure, £50 million of a proposed funding mechanism for Health and £3 million to offset the States payments of rates?

The Chief Minister:

Yes.

Deputy J.A.N. Le Fondré:

If you look on the bottom right of page 138, Minister, hopefully you can see the numbers we are talking about as well and hopefully you have looked at that table before now.

The Chief Minister:

Yes.

Deputy J.A.N. Le Fondré:

A variety of times. Right, so you do confirm that figure, yes?

The Chief Minister:

Yes.

Deputy J.A.N. Le Fondré:

Good. Can you confirm that this proposition is requesting the States Assembly to approve in principle an additional £53 million of income without being provided with any details as to exactly how this will be raised?

The Chief Minister:

Are you referring to the charge; yes, that is right.

Deputy J.A.N. Le Fondré:

Yes. Okay. So that is the figure you just confirmed previously which is the £50 million of proposed funding mechanism for Health and £3 million to offset the States payment of rates, yes. Could you enlighten us, Minister, as to what feasibility studies have been carried out to arrive at the figure of £50 million for the proposed funding mechanism for Health?

The Chief Minister:

Well, I think we touched on this at our last hearing and there I said that obviously in whatever the proposition was before the States, P82/2012, the changes to the way that we would deliver healthcare required extra funding so we put extra money into healthcare into M.T.F.P.1 (Medium Term Financial Plan 1). We need to put extra money into healthcare in M.T.F.P.2; all that is backed up by the work that KPMG did looking at a changed health service. Some of those streams are in advance of this so the acute service stream is well advanced, the primary care service stream is not as advanced as we would like, so we spent some extra money. We know we are going to need to spend further extra money but at the same time we have this issue of making sure our books balance by the end of 2019. So it is based on needing to spend extra money but also on a balancing equation between savings, efficiencies and the charge.

Deputy J.A.N. Le Fondré:

But the foundation, as far as you are concerned, for this £15 million in the first year and £35 million in 2019, a total of £50 million for the moment, is P.82, I think it is, and ...

The Chief Minister:

That is the foundation for needing to spend the extra money; that is right.

Deputy J.A.N. Le Fondré:

And that forms the basis of the calculation of that sum of money?

The Chief Minister:

The calculation of the money that is needed to be spent, yes.

Deputy J.A.N. Le Fondré:

Yes, okay. Therefore, the £35 million a year occurring from 2019 ...

The Chief Minister:

Is part of that?

Deputy J.A.N. Le Fondré:

... and is effectively a balance of any other income you can get from somewhere else and this is what we need to raise extra to cover those costs, is that correct?

The Chief Minister:

Yes. So savings, efficiencies, making sure we do not have a structural deficit by 2019 having calculated all the extra expenditure that we need to do of which Health is a big chunk, then you have got a balance.

Deputy J.A.N. Le Fondré:

Yes, okay. How do we know that that cumulative £50 million is going to be spent only on Health?

The Chief Minister:

Only on Health?

Deputy J.A.N. Le Fondré:

Yes. It is a healthcare charge.

The Chief Minister:

Well, because we will have to make sure that the charge, and I know Treasury do not like this, hypothecate the money for that service in the same way that we do with long-term care or the Health Insurance Fund.

Deputy J.A.N. Le Fondré:

So in other words, if, for any reason, that, so I use the cumulative figure of £50 million, was not all spent on health in one year it would be carried forward for health in the following year, it would not be put into the general pot of carried forwards which could then basically be spent somewhere else?

The Chief Minister:

I suspect that that has not been decided, or the detail of it has not been decided, but I would, from a personal perspective, expect that to be the case.

Deputy J.A.N. Le Fondré:

Okay. Just moving around again in the theme of the extra charges and fundraising measures on summary table A, why is the taxpayer being asked to fund £1 million a year for the States payment of rates?

The Chief Minister:

We were, I think, clear when we accepted the amendment, or the Minister for Treasury and Resources was, when we accepted the amendment to the strategic plan that if the States were going to pay rates we would need to develop a compensating income to offset the payment of rates. I know that Treasury are working on that mechanism but they have not yet finalised what that mechanism will be but for the purpose of this chart it has to show as an in and an out. I think that is ...

Deputy J.A.N. Le Fondré:

So in short ...

The Chief Minister:

It is an accounting issue.

Deputy J.A.N. Le Fondré:

Have there been any other funding options considered to fund the £1 million?

The Chief Minister:

Other than?

Deputy J.A.N. Le Fondré:

Raising taxes.

The Chief Minister:

No, but it is not raising taxes. No mechanism has been decided on how it will be delivered, simply that there has to be an offset compensating mechanism to deliver it and it might be that some of the proposals in the Property Review work are able to provide that offsetting mechanism.

Deputy J.A.N. Le Fondré:

So are you suggesting perhaps ...

The Chief Minister:

But you have to show it here as coming in, even though we do not know at this point, have the detail of where it is coming in from, because you are showing it going to be paid over to the parishes.

Deputy J.A.N. Le Fondré:

But this is an extra income?

The Chief Minister:

Yes.

Deputy J.A.N. Le Fondré:

So it is going to be something that is going to have be raised from somewhere?

The Chief Minister:

That is correct.

Deputy J.A.N. Le Fondré:

As opposed to if it was a disposal of a property asset you would show it elsewhere as money coming to the consolidated fund and you would show the expenditure in 2016? So your ...

The Chief Minister:

The problem with that illustration is that the property asset is a capital amount which should then be spent on capital projects ...

Deputy J.A.N. Le Fondré:

Yes, I agree.

The Chief Minister:

... not revenue so you have to ...

Deputy J.A.N. Le Fondré:

What I am trying to say is the fact it is in summary table A is it not the case that this an extra income raising measure and therefore it is a charge?

The Chief Minister:

Yes. No, my point is you ... to comply with the ... is in the Finance Law you have to show money coming so, so it is shown here as income. So you are asking me, is it going to be raised? Yes, it is. What I am saying is that Treasury have not yet worked out the detail of how it will be raised but you have to show it as being raised and then you have to show it as an expenditure on the other side as well and that is simply to comply with the Finance Law.

Deputy J.A.N. Le Fondré:

So in short, that a taxpayer somewhere, or a group of taxpayers somewhere, is likely to be asked to pay or fund for the States paying rates?

The Chief Minister:

Well, we will have to raise the extra revenue, yes.

Deputy J.A.N. Le Fondré:

So if it is charge or a tax, it is a taxpayer ...

The Chief Minister:

The money will have to be raised, yes.

Deputy J.A.N. Le Fondré:

It has not being caught up in the efficiency savings that you are going to achieve?

The Chief Minister:

That is not the proposal, no.

Deputy J.A.N. Le Fondré:

Okay. Can you or will you confirm that compared to the budget for 2015, that was approved by the States Assembly in September of last year, that the income forecast for 2015 is approximately £18 million lower this year?

The Chief Minister:

Yes, I think £17.9 or something, was it?

Deputy J.A.N. Le Fondré:

Yes. That is the difference between what was in the budget last year and what is in the M.T.F.P. figure for this year.

The Chief Minister:

Yes, and that is obviously what is shown in here and they are the assumptions that the F.P.P. (Fiscal Policy Panel) have worked on and the Income Tax Forecasting Group or Income Forecasting Group, worked into their assumptions as well.

[14:15]

Deputy J.A.N. Le Fondré:

Okay.

The Connétable of St. John:

Sorry, can I just ...

Deputy J.A.N. Le Fondré:

Yes, you go.

The Connétable of St. John:

... clarify that? These assumptions were made prior to the publication of the reduction of £18 million in income tax because ... so you have the ...

The Chief Minister:

No, that is my ... my understanding is the reverse.

The Connétable of St. John:

So you are aware ...

The Chief Minister:

So these assumptions ... that is correct, yes.

The Connétable of St. John:

... that there was an £18 million shortfall, likely shortfall, in this year's income?

The Chief Minister:

That the position had worsened, yes, to that level and that was put into the assumptions going forward to feed through into this M.T.F.P.

Head of Financial Planning:

So there has been a chain of events since the forecast in July 2014, which produced the budget forecasts for 2015. We had an initial revision in November 2014. We then had a set of assumptions produced by the FPP in their pre-M.T.F.P. report in January and at those 2 occasions revised estimates were made. The pre-M.T.F.P. report was used to provide the forecasts that we used for the Resource Statement to the Strategic Plan and the most up to date assumptions that we had in lodging the M.T.F.P. were the ones produced in April 2015 where the F.P.P. endorsed a further set of economic assumptions and those are the June 2015 forecasts which you have in the M.T.F.P. and the £18 million, as the Minister accurately says the £17.9 million, difference is between the forecast now produced in the M.T.F.P. based on the April 2015 assumptions and those that were produced in July 2014.

Deputy J.A.N. Le Fondré:

Yes. Can we touch on the overall income forecasts and particularly the estimates for personal income tax, or the announced forecast for income tax, for the period of the plan? I will not do the percentages but obviously there are some quite, what would seem to be, high increases in projected income tax particularly 2016 to 2017, 2017 to 2018 and 2018 to 2019. Are you comfortable with those forecasts, Minister?

The Chief Minister:

Yes.

Deputy J.A.N. Le Fondré:

Could you clarify why you consider that personal income tax is going to be increasing by, I think it is, 4 per cent and 5 per cent in those years?

The Chief Minister:

Well, it is not that I ... firstly, I should say, is not that "I" consider it. If I had made those calculations then I would not be comfortable with it but I do not do that, do I, as you well know? The economic assumptions are confirmed, shall we say, by the Fiscal Policy Panel. The Income Forecasting Group go away and look at underlying data and make calculations based on that. I, of course, challenge them. When we come to use the projected outcome forecast line, that line is the most likely outcome, and they have confirmed to Ministers that that is the case. There remain, as we said last time, downside risks, but there is also an upside facility within the plan, which we have not taken account of, to try and balance out the downside risks with the upside potential so that the likely outcome is along the central line but as I said to you last time, if the outcome is as forecast that would indeed be a miracle because forecasts, and the further they go out the more uncertain the actual activity around what that forecast might be is, which is one of the reasons, I think, for the

F.P.P. talk about zero growth in 2018 and 2019, or real growth in 2018 and 2019, one of the reasons we are looking at productivity, but I am not the person that does these things.

Deputy J.A.N. Le Fondré:

Perhaps we will hand over to Dougie and ...

The Chief Minister:

So you have got the person over there who can give you further chapter and verse.

Deputy J.A.N. Le Fondré:

Just before you dive in, I would just ask ... but I had a very quick scan of the addendum, which is the I.F.G. (Income Forecasting Group) update report. The only positive thing I could find was: "That there are, however, potential benefits which could offset these downside influences arising out of a general recovery of the economy supported by the Jobs and Growth Policy." There are a lot of cautionary notes in here as well towards the downside. So I suppose the question is, and again succinctly because we have got to move on, but hopefully in English, is that, how do you justify income tax forecasts, particularly accepting they are a forecast, going up by 4 per cent and 5 per cent and I cannot remember what that other number is but it is around that number, for those years? You have got 2 minutes.

Economic Adviser:

Okay. I can probably do it in less than that.

Deputy J.A.N. Le Fondré:

Good.

Economic Adviser:

The personal income tax is being driven by growth in employment and earnings. If you look at the combination of growth in employment and earnings together that is in the region of 3.5 per cent to 4.5 per cent over the 2015 to 2017 period so you have got a combination of employment and earnings growing in real term in excess of inflation. F.P.P. saying that the economy will return to real growth over that period so what you are looking at is the nominal growth in those tax returns which is being driven by nominal growth in earnings and employment and real growth as well over that period.

Deputy J.A.N. Le Fondré:

Thanks. We will move on. What I would just flag up is I would be interested in identifying particularly in there where that data is identified, if it is. Right, anyway let us keep going forward.

The Chief Minister:

Just say that while you are there then we do not need to come back to it.

Head of Financial Planning:

It is actually in figure 19 of the M.T.F.P. on page 49.

Deputy J.A.N. Le Fondré:

I think I have probably looked at that. On page 49?

Head of Financial Planning:

Yes.

Deputy J.A.N. Le Fondré:

Yes, okay. We will come back. Right, I think I meant, was there anything further in greater detail than that in the I.F.G. reports. Okay. Now, on that basis, Minister, I am assuming you will know what the answer to this is, which is the Council of Ministers, therefore, are not going to be doing any revisions to P.72 to the M.T.F.P. to reflect any perceived downward trend in income forecasting along those line. You are sticking with the central forecast, you are sticking with what is in summary table A as at the moment?

The Chief Minister:

As we sit here we are. Of course, we know that Treasury are working on collating and looking through this year's returns. We are not exactly sure when they are going to be available. I think the latest indication was it might be ... unfortunately there might be some numbers coming out of that something like a week before we are due to debate the M.T.F.P. so we have still got to have a conversation together to see what that timeline is, whether there will be any more information available about trends prior to the debate. So they are working on that and we have yet to have further information about it. Is that correct?

Deputy J.A.N. Le Fondré:

Okay. Thank you.

Head of Financial Planning:

I can clarify that if that helps in that you will remember that the I.F.G. have been set up under specific terms of reference which requires them to do 2 forecasts a year. One in the early part of the year and one to inform the budget., As you know, now that the M.T.F.P. has slipped a couple of weeks, and the debate is going to take place in October, the early part of October. The budget

will be lodged towards the end of October. So towards the end of October is when we are targeting to produce those figures. It just depends on the progress between now and then in terms of how that goes through the I.F.G. and other factors.

Deputy J.A.N. Le Fondré:

Okay. Thanks very much. Chris.

The Connétable of St. John:

Okay. How has the recent instability in the global stock markets, particularly China, changed the rate of return in any States investments?

The Chief Minister:

I have not had the latest rates of return so I will ask whether Chris has been advised of ...

Head of Financial Planning:

That would be part of the update that we are currently going through now. I do not have that information myself.

The Connétable of St. John:

Because this affects the level of income from States investments as well?

Head of Financial Planning:

It would be one of the components but the portfolio is fairly wide so the idea is that you are going to be protected from one-off changes through the breadth and scope of your portfolio but if there are such changes they will be reflected in the budget forecast.

Deputy S.M. Brée:

Chief Minister, excuse me, following the public hearing on 5th August 2015 where you stated that you could not remember if you had met union representatives, can you now advise the panel what subsequent meetings you have held with union representatives?

The Chief Minister:

Well, I think as I said at the time, I sit as chairman of the States Employment Board representing the employer. The majority of functions of that board are delegated to officers and officers, I think, have met ... I know the Chief Executive Officer has met at least once and the Head of Industrial Relations will have met the unions on at least 2 or 3 occasions since.

Deputy S.M. Brée:

Yes. It was merely a question directed at you, Chief Minister, whether you had personally met with any union representatives about the proposed changes?

The Chief Minister:

No, for the very reasons that I outlined to you, that I am chairman of the States Employment Board, the States Employment Board delegates its functions to officers. The relationship is one of employer and employee.

Deputy S.M. Brée:

Okay. So what do you believe the impact will be of the possible industrial actions proposed by the unions on the proposed people savings of £70 million?

The Chief Minister:

Well, the first thing to say is I hope that there will not be industrial action. As I have said, officers have been meeting with unions and will continue to do so. As I said last time when you asked me, I accept absolutely that some of the measures included in the M.T.F.P. are difficult and some of the measures around staff and people savings perhaps might fall into the most difficult areas but we will continue to discuss and consult with unions and we hope that we will not reach the point of industrial action.

Deputy S.M. Brée:

So you do consider possible industrial action as a major risk to being able to deliver the draft Medium Term Financial Plan, particularly with respect to the people savings element?

The Chief Minister:

Well, I recognise that there are challenges with delivering that quantum of savings and I hope that there will not be industrial action. Of course, there is always a risk of industrial action and Ministers will deal with that should it arise but, as I said last time and continue to say, it is a package of measures which I believe hold together. Even from the first phase of the voluntary redundancies we have seen a number of hundred people put their names forward. We have not been able accept all of them for a number of reasons because it has got to be done carefully and thought through so that the savings are maintained and you are not just taking people out of a post having to reemploy somebody down the line. I think there is a recognition that the way that we deliver government needs to change and this is part of that process but there is, as you rightly say, risks.

Deputy S.M. Brée:

Okay. Thank you.

Deputy K.C. Lewis:

Within its latest reports the Fiscal Policy Panel have stated: "That the implementation of the £145 million of savings looks challenging and is a key risk to the delivery of the proposed plan. If a significant number of these measures are not achieved by 2019 the States will then have a bigger structural deficit." How confident are you that these savings will be achieved?

The Chief Minister:

Well, the Fiscal Policy Panel have not said anything in their report about the measures that I do not think Ministers themselves have said and I have just answered Deputy Brée and acknowledged that there are risks. There are challenges where you are talking about changing an organisation, limiting growth in that organisation in a way which has not been done before. So there are, of course, challenges. We accept that and we are in a good place for 2016. We continue to work in detail on the 2017, 2018 and 2019 because we absolutely acknowledge that getting those details right and that programme right is important in helping to mitigate that risk. If the particular measures that we are proposing in the first part are not delivered then we will need to look for other measures to deliver them but the important thing is that we are committed to ensuring that we do not have a structural deficit by 2019.

[14:30]

So if any one particular measure is not delivered then we will have to look at other measures to make up the difference. So it is not about the structural deficit potentially getting any bigger, it is if we do not have sufficient measures in place for that quantum then there will be a structural deficit but this plan is based upon the premise that we put measures in place to make sure there is not a structural deficit.

Deputy J.A.N. Le Fondré:

If we stand back and say that, from the perspective of the public, there have been a lot of promises about savings that will be achieved and I would say there is certainly a perception that not necessarily all the savings that have been held out have been achieved in the past and certainly I can remember, this is going back few years mind you, where what was held out to be savings included rent increases and things like that from when, for example, Housing was still a department. So how much confidence can you give to the public that the structural changes, that certainly elements of the public think should be made within the States, which will therefore result

in efficiency and proportionately less money being spent in theory, are going to be achieved based on the perception from the past?

The Chief Minister:

I do not underestimate the size of the task at all and I do not underestimate the context in which we are having to make these changes but I think we are already starting to see positive change in the organisation, even if it is only in small ways. So we talk about the voluntary redundancy programme, talk about the recruitment management that HR (Human Resources) are doing and seeing fewer people in posts compared to only last year and they need to continue to deliver that and we have got the technology programmes and all those issues as well. This is an opportunity for us to reform the public service in the way that we have now started to do, albeit we know it is challenging and Simon rightly raises risk, in a way that we have not been able to do before because we are looking at, if we do not change, if we do not try and deliver the services that we are currently delivering for less so that we can invest into the future, then we will have this structural deficit that the F.P.P. have warned us that we need to put measures in place to avoid. So it is one of those cases where sometimes failure is an option because you have got other money and other positions to take. In this instance failure is not an option because of needing to deal with the potential structural deficit.

Deputy K.C. Lewis:

Will you confirm that as stated in A2 of the proposition P.72 you are asking States Members to approve the entire expenditure for the years 2016, 2017, 2018 and 2019 as set out in summary table B totalling just over £3.1 billion?

The Chief Minister:

Can you just remind me where summary table B is again in ...

Deputy J.A.N. Le Fondré:

Page 139.

The Chief Minister:

Thank you.

Deputy J.A.N. Le Fondré:

After summary table A.

The Chief Minister:

I have changed to followed you on a different page. I have not got my calculator with me but that is indeed the table. I cannot add up the totals for you. Chris might have a figure

Head of Financial Planning:

I think it is the correct figure.

The Chief Minister:

Okay.

Deputy J.A.N. Le Fondré:

Is that a yes then?

The Chief Minister:

That is a yes.

Deputy J.A.N. Le Fondré:

Good.

Deputy K.C. Lewis:

Thank you. Just to clarify, the Council of Ministers is requesting the States Assembly to approve just over £3.1 billion of expenditure without providing any detail for these years other than 2016.

The Chief Minister:

That is correct.

Deputy K.C. Lewis:

Do you think it reasonable to request the States Assembly to approve this level of expenditure without providing any detailed breakdown of where or how these funds are to be spent?

The Chief Minister:

Yes, because the detail will be provided in the addendum as we agreed when we amended the Finance Law prior to the summer recess.

Deputy J.A.N. Le Fondré:

It is the case that, just to reiterate, States Members are being asked to approve that bottom line on summary table B, which adds up to the £3 billion?

The Chief Minister:

Yes.

Deputy J.A.N. Le Fondré:

While there is obviously a legal argument that says it cannot be spent until you provide the details of the following years, it is an approval?

The Chief Minister:

We discussed this in-depth with the Greffier and Treasury officials about what the legal position was but, as I understand it, your description is the correct one. So we are approving the bottom line basically and there are only a number of limited conditions upon which we can come back and ask for a change to that bottom line but all the detail will be approved in the future. Chris might have the details of the ... is it 2 or 3 conditions?

Head of Financial Planning:

Yes, Article ...

The Chief Minister:

If those conditions have changed then we can come back and ask for an amendment to that bottom line. Other than that the bottom line sticks.

Head of Financial Planning:

That is correct. There is a specific provision in the Finance Law for where the M.T.F.P. can be amended, or proposed to be amended, by the Council of Ministers but they are very limited.

Deputy J.A.N. Le Fondré:

Just to say ...

The Chief Minister:

I think it is something to do with worsening of income or it is quite ...

Deputy J.A.N. Le Fondré:

Just to save me looking it up, which Article is it?

Head of Financial Planning:

Article 9A.

Deputy J.A.N. Le Fondré:

Article 9A. Okay. So to clarify, because we touched on this this morning, if income forecasts drop that would obviously be a reason for bringing the stuff back. What happens if you wish to increase expenditure?

The Chief Minister:

I do not think we can. I do not think that is one of the conditions.

Deputy J.A.N. Le Fondré:

Okay. In essence, the States is being asked to approve £3 billion of expenditure for all of the years in question?

The Chief Minister:

Yes.

Deputy J.A.N. Le Fondré:

Without the detail attached?

The Chief Minister:

At this point, yes.

Deputy J.A.N. Le Fondré:

For 2017. As at the date of the proposition in the debate?

The Chief Minister:

That is correct. As at the date of the decision, yes, but they will be able to agree the detail when the addendum comes next year.

Deputy J.A.N. Le Fondré:

But the point is, as at the date of the debate, in October of this year, they will not have the detail?

The Chief Minister:

Yes. That is not a change from the amendment to the Public Finances (Jersey) Law that the States agreed before the summer recess.

Deputy J.A.N. Le Fondré:

But that is the position?

The Chief Minister:

That is the position.

Deputy J.A.N. Le Fondré:

Okay, good.

The Chief Minister:

That position has not changed.

Deputy J.A.N. Le Fondré:

Quickly, just again, final confirmation, the figures, and accepting the point that we are agreeing the bottom line, the figures further up, which are the net revenue expenditure which is £734 million roughly each year, those figures will therefore include any planned savings, any growth, any inflation; that is it, you did not seek the amendment?

The Chief Minister:

Yes, because below that line you have got capital allocations.

Deputy J.A.N. Le Fondré:

So yes. Okay, good. Chris.

The Connétable of St. John:

Do you think the States are doing all they can to curb expenditure?

The Chief Minister:

At this moment in time?

The Connétable of St. John:

Yes.

The Chief Minister:

No, because we have not started to deliver fully on our programme but will they be doing in future, I think the answer is yes.

The Connétable of St. John:

If the total spending amounts are agreed in the M.T.F.P. for 2017, 2018 and 2019 what incentive is there for the departments to make the savings?

The Chief Minister:

Because the bottom line figures will have to be, over the course of the next few months before we get to the addendum or addition debate, allocated across departments. So the whole point is, as the Chairman has just been saying, we are asking for the detail of 2016, the bottom line for 2017, 2018 and 2019. The Addition will include those bottom lines allocated throughout departments. So when you see the Addition you will see an allocation across departments and we have to do that and we have to work like that because that is what the Public Finances Law means, you have hold departments to account for what they are spending within their budget and accounting officers for spending within their budget. So your point is well made currently but once you get to the Addition then those budgets will be allocated out.

The Connétable of St. John:

So we will look at that in greater detail next year, is what you are saying?

The Chief Minister:

Yes.

The Connétable of St. John:

But it does not rule out that certain departments may have to make bigger savings than others regardless of their levels of efficiency?

The Chief Minister:

Well, I would have thought that the levels of efficiency was a good indicator with regard to savings that they can make into the future because the savings in the first phase are all about efficiency.

The Connétable of St. John:

Yes and no. Certain departments may have to reduce services, which some people may regard essential, because other departments cannot make the efficiency savings they should be.

The Chief Minister:

All departments are being asked to make efficiencies, even those departments that are getting extra money.

The Connétable of St. John:

Well, I await the figures next year and we will have a look.

The Chief Minister:

Yes. No, that is fine.

The Connétable of St. John:

Do you think the States are still overspending based on the current deficit of £145 million?

The Chief Minister:

Well, we are and we just started this conversation discussing the worsened income position for 2015, so we are having to make adjustments right now as we go through 2015 to reduce expenditure. It is a difficult question because from an accounting perspective you could say yes but from an economic perspective then I think you have got to say no. It was interesting to hear what the F.P.P. had to say about whether we would have done things different, whether we would have put more money into the economy or less money into the economy or not. As I say, it was interesting to hear their suggestion that we would have done the same thing had we had the benefit of hindsight as well, albeit we might have spent a bit more in the economy on capital projects and that was the biggest challenge that they gave to us. But, are we going to need to reprioritise spending over the next 4 years, then the answer is absolutely, yes, we are.

The Connétable of St. John:

So how difficult is it to change budget behaviours within States departments?

The Chief Minister:

That is like asking me, how long is a length of string, is it not? I mean we have got to remember this is a big multi-faceted organisation doing the full panoply of governmental work from employing lollypop people outside schools to providing complicated medical procedures. It is a massive organisation and it is always going to take a long time to turn a ship round, like some people refer to it as the ship of State. It just takes time to turn it round. We are, I think, at a critical turning point now. We have got this plan. We have got the details for 2016. We are working really solidly on the details for 2017, 2018 and 2019 if we can get those agreed as well. Officers are working hard to start now to get in place to deliver savings for 2016. They are starting now in 2015 on top of the savings that they have already made but we are at a critical juncture but I think that we can do it from what I see.

The Connétable of St. John:

Thank you.

Deputy S.M. Brée:

Chief Minister, within the draft Medium Term Financial Plan the Council of Ministers is proposing that £5 million worth of funding provision be created in each year of the Medium Term Financial Plan for new economic growth and productivity initiatives. The F.P.P. have welcomed this idea of

additional funding but stresses that, and to quote their report: “Strong governance measures should be put in place to control how the £20 million is allocated.” Could you explain to us how or will the Ministerial Oversight Group put in place such strong governance measures and how will they assess the performance of that spend before releasing each tranche of funding?

[14:45]

The Chief Minister:

Okay, we will do the first bit and then the second bit later. I think the last time that I came before you I suggested that our initial thoughts had been putting in a governance procedure similar to that which was used for the Fiscal Stimulus Funding and I think it is a work in progress between Treasury and, oddly enough, the Economic Adviser. So they, perhaps, can tell you a little more about where we are but I still suspect that it is a similar mechanism to that and I understand that there is a commitment to publish that mechanism prior to the M.T.F.P. debate. Dougie, I do not know if you want to say anything further.

Economic Adviser:

There is a slight danger of repeating what I said this morning but the intention is to really have a governance procedure in place that will assess bids to the fund to make sure they have got clear objectives, they have got performance measures that can be assessed on a regular basis, on a quarterly basis, and also that before any money is allocated we assess how the money is being spent in that area already and there is some demonstration of monies being spent effectively. So it is making sure we have got clear objectives, performance measures, and that it is reviewed on a regular basis and that we have got that governance procedure in place. We have had experience of doing this in the past with the Fiscal Stimulus money. That was something that the F.P.P. felt was a good procedure. My interpretation is that from that recommendation they are looking for something like that to be in place and that is certainly what the intention is and to make it clear ahead of the debate.

Deputy J.A.N. Le Fondré:

Obviously because you have had a chance to consider the response you gave this morning and no doubt can give some greater detail hopefully. I am glad that caused some humour in the Chief Minister. You made reference to performance measures which is obviously in the good news areas because that is what we are asking you about. What sort of performance measures do you think such a group might seek to have on such a fund of money, as you are going to be advising on it, so one presumes you have got something in mind?

Economic Adviser:

Yes. I mean any initiative has got to be able to demonstrate that it is contributing towards the area of raising productivity and economic growth. Then within that there has got to be a clear rationale, economic argument that that is the case, certainly from my perspective, before money can be allocated but then it has got to break down exactly what it is going to achieve over the period of time. Again, without being able to comment on a particular measure, that it would have targets in place. So if it was on the skill side, to raise skills in a number of areas, you would expect to see justification that that money is being allocated properly to deliver that and you monitor and see if those skills improvements are delivered. Similarly if it was in an area of innovation and there was a clear need for policy action and it had clear targets you would monitor that and make sure that those targets were achieved and if they are not you would obviously investigate why that is not the case, whether it is a problem with the policy or with delivery.

Deputy J.A.N. Le Fondré:

For the sake of argument, if you had a proposal that says we need to spend some more money on something educational, shall we say, to improve skill sets for 15 years' time, given that this pot of money only goes on, in theory, for the period of this plan and in fact gets refunded at the end, presumably we are looking for speedier measures of performance measurement and proposals coming out of this pot. It is for relatively short and medium term measures to improve matters, is it?

Economic Adviser:

Absolutely, yes. So it would have to be something that you could monitor over the period which ...

Deputy J.A.N. Le Fondré:

Of the plan.

Economic Adviser:

... the money was allocated for, yes.

Deputy J.A.N. Le Fondré:

Yes. So it will be over the period of 2016 to 2019. It is not a pot to fund something that is 10 years out there which we will never know delivers until we have all retired or something?

Economic Adviser:

No. That is correct.

Deputy J.A.N. Le Fondré:

Okay, good.

The Chief Minister:

But just using your example you could, therefore, use some sort of Highlands course about upskilling and training because that would fit within the period.

Deputy J.A.N. Le Fondré:

Okay.

Deputy S.M. Brée:

Well, just to confirm for the point of clarity, we are talking about a total of £20 million over the life of the Medium Term Financial Plan for the economic and productivity growth provision, is that correct?

Economic Adviser:

Yes.

Deputy S.M. Brée:

Just for clarity's sake. Thank you.

Deputy J.A.N. Le Fondré:

Okay. Right. That was a yes, was it not?

The Chief Minister:

Yes, it was.

Deputy J.A.N. Le Fondré:

Yes, I know I heard a yes, but it is whether the microphone picked it up. Continuing in the same sort of area, back to summary table B, summary table B shows the States being asked to approve the bottom line. As we have said, included in those figures are £734 million roughly each year but 2016 is £734.417 million and obviously within that figure that includes in excess of £37 million of savings and contingency allocations. Can you just confirm that is the case?

The Chief Minister:

Within 2016 figures?

Deputy J.A.N. Le Fondré:

Yes.

The Chief Minister:

Yes.

Deputy J.A.N. Le Fondré:

And as we have said, can you confirm that the States are being asked to approve the full figures against total net expenditure? Sorry, they are improving the bottom line but within those figures as I have said they are including roughly £734 million for each and every year 2016, 2017, 2018 and 2019 in respect of total net revenue expenditure?

The Chief Minister:

Yes.

Deputy J.A.N. Le Fondré:

Right. If the figure for 2016 includes £37 million of contingency, does that mean the contingency has been carried over in the subsequent years?

The Chief Minister:

That we do not know yet. That is part of the planning into the future. We can make an assumption that there would be some contingencies.

Deputy J.A.N. Le Fondré:

So are you suggesting that the level of growth might be higher than anticipated, and therefore the level of contingency might be lower?

The Chief Minister:

One would hope not, and that is not what our initial work has been, but I just have to be ... because those figures are not agreed yet, I cannot tell you that they are agreed, if you know what I mean.

Deputy J.A.N. Le Fondré:

Can I ask then, just to be careful on that, because you have obviously got the amendments that the Council of Ministers have lodged, which essentially refers to the funding for a redundancy provision in 2017 being removed, of £10 million, which happens to be equal to the redundancy provision that you have got in 2016 in summary table D.

The Chief Minister:

Yes.

Deputy J.A.N. Le Fondré:

So therefore is it not reasonable to assume that there is contingency of £37 million roughly in those years? In other words ...

The Chief Minister:

It is not unreasonable to assume that either, but I cannot tell you because ...

Deputy J.A.N. Le Fondré:

I accept it could be £34 million or £38 million.

The Chief Minister:

Yes, exactly. Because we have not agreed it I cannot ...

Deputy J.A.N. Le Fondré:

You cannot tell me ...

The Chief Minister:

It is reasonable to assume what you are assuming, but I cannot say yes or no because we have not agreed it.

Deputy J.A.N. Le Fondré:

Okay, but in magnitude it is going to be of that order? It is not going to be a £5 million contingency?

The Chief Minister:

That would be unreasonable.

Deputy J.A.N. Le Fondré:

Okay. In this kind of area, because we are on to summary table B as well, that is probably a question for Chris, we touched on that obviously the Assembly is being asked to approve total States net expenditure allocations, which is the bottom line figure, £761 million, £799 million, £777 million, £767 million. That is made up of the revenue expenditure and the capital allocation. Just for the record, effectively, could you clarify what there is to stop essentially capital expenditure being delayed, or whatever, because revenue expenditure needs to be funded, because we are

approving the overall envelope and not on the summary table B split? Is it the relationship with one of the other tables?

Head of Financial Planning:

The answer to your question is that you are just approving the total. What is shown is an indicative allocation of what the split between revenue and capital would be, but it is based on an indicative capital programme that the Council of Ministers has proposed, so the proposal of the Council of Ministers as we stand at the moment is that the capital as proposed would stand.

Deputy J.A.N. Le Fondré:

That is obviously what is outlined in summary table H?

Head of Financial Planning:

Correct, yes. That is right.

Deputy J.A.N. Le Fondré:

No, sorry. F, sorry.

Head of Financial Planning:

H is for the traders.

Deputy J.A.N. Le Fondré:

Summary table F.

Head of Financial Planning:

Yes.

Deputy J.A.N. Le Fondré:

But what is the relationship of F to the proposition that we are approving?

Head of Financial Planning:

F provides an indicative capital programme and it provides the explanation of why that sum of capital is specifically required in 2016.

Deputy J.A.N. Le Fondré:

But for 2017 onwards we are not actually approving those capital amounts and saying: "That is what you are going to spend on capital"?

Head of Financial Planning:

No, the Council of Ministers has chosen to give you an indicative programme between revenue and capital, but it would be part of the political proposals, as part of the Addition to provide that split next time.

Deputy J.A.N. Le Fondré:

So in 2017, arguably, you could cancel, I do not know, pick a project in 2017, knock off a few million quid or so by deferring it or for some other reason, and allocating it to a revenue expenditure plan if one wanted to?

Head of Financial Planning:

Technically that would be possible. I am sure that the Chief Minister will answer as to whether that is the intention or not.

Deputy J.A.N. Le Fondré:

I am talking about technically rather than politically.

Head of Financial Planning:

Indeed. You are approving the total and no more. I think that is the point that was being made this morning, in that the limits that you are approving give you no authority to spend. The authority to spend is only when it is allocated to heads of expenditure, which is the detailed allocations that we are only doing for 2016 at this time in the M.T.F.P.

Deputy J.A.N. Le Fondré:

Okay, thank you.

The Chief Minister:

I am sure the Minister for Treasury and Resources would have said to you, had you asked him, that he has got no intention of recycling capital into revenue.

Deputy J.A.N. Le Fondré:

I think that might have been mentioned. Unless anyone else has got anything at this stage, I shall pass ... Simon, do you have anything? No? Thanks. Kevin?

Deputy K.C. Lewis:

Depreciation. Will you clarify how the figure of £44,800,000 was arrived at in summary table C for depreciation?

The Chief Minister:

I would like to be able to do that, but I will ask Chris, if that is all right.

Deputy K.C. Lewis:

That is page 114.

Head of Financial Planning:

Depreciation is a technical calculation. It is done on the basis of accounting policy. The States has a clear accounting policy in its JFREM. It is affected by the estimates of the capital expenditure and the capital approvals each year. It is also affected by revaluations, and as you will see over the course of the M.T.F.P. the figure does vary, depending on those factors.

Deputy S.M. Brée:

Chief Minister, will you kindly explain what the asset disposals as detailed in summary table I and again in summary table J totalling £40 million relate to?

The Chief Minister:

I would like to be able to, but I do not think the details of those have been agreed yet, and I think they will be coming in the second stage, unless Treasury is further advanced than we are aware of.

Head of Financial Planning:

That is correct. I believe that is what was said this morning.

Deputy S.M. Brée:

So while you are asking the States Assembly to approve the draft M.T.F.P. once again you cannot give us details on what assets are being looked at for disposal. Is that correct?

The Chief Minister:

It is, and that has been the process that we have adopted all along, that the only detail is for 2016 and the detail for 2017, 2018 and 2019 will come in the second phase. I understand that that is difficult, but we think it is far more sensible to do it in that way rather than propose plans which might be undeliverable.

Deputy S.M. Brée:

So would you agree that in asking the States Assembly to approve the draft M.T.F.P. as lodged you are asking the States Assembly to approve the principle of disposal of assets?

The Chief Minister:

Now, that is a good question, because what we are doing is asking the States to agree the bottom lines. What we are saying is, and trying to give as much indication as we can, that we currently are going to propose that there is disposal of assets, but I do not think as a matter of law, and I would have to check with the Greffe that we are committing you to anything in principle other than the bottom line. Chris might clarify that legal position for me.

Head of Financial Planning:

It is the measures identified in summary table J.

Deputy S.M. Brée:

I think you will find in the proposal, the proposition sorry I should say rather than proposal, you will see under F ...

The Chief Minister:

Yes, the measures identified.

Deputy S.M. Brée:

... the measures identified in summary table J, and summary table J quite clearly talks about the disposal of assets, so that is a measure, as opposed to a figure. So what I am asking is are you requesting States Assembly to approve in principle the disposal of assets without providing details of what those assets may be?

[15:00]

Head of Financial Planning:

I think the proposal is that it is in principle, and that they are the intended transfers, and that the detail of the transfers is able to be confirmed in each annual budget which I think, again, to avoid repeating myself too much from this morning, but that is the way that the process would work. So this is a bit like the capital programme, giving an indication of what is expected to happen from a political perspective. These are the intended transfers from the strategic reserve. Once we come round to that year, if it proved that they needed to be slightly different in terms of the way that things are funded, then that amendment would be brought forward as part of the budget process. If we know better by the time we do the M.T.F.P. addition we will be able to provide that information then for the years 2017 to 2019 as well.

Deputy S.M. Brée:

However, there is a very important, I think, political principle involved here, irrespective of the technical side of things, which is that the States will start disposing of assets in order to fund the Medium Term Financial Plan. The point I am trying to get to, Chief Minister, is whether or not you believe, or whether or not you agree, that the disposal of assets is one measure that the States are being asked to entertain?

The Chief Minister:

We have been quite clear about that, and that is why it is in the plan. The only disagreement I have with your last comment was that while it is in the M.T.F.P. it is not to fund the M.T.F.P. if you are trying to think about the potential structure of deficit. It is to fund other capital, and primarily I think the £40 million was reached because of Les Quennevais, so we are recycling assets for other capital programmes.

Deputy S.M. Brée:

Okay, thank you.

The Connétable of St. John:

On page 92, figure 37, it shows the estimated balances on the strategic reserve for 2013 to 2019. Will you explain how these are calculated on a year-by-year basis and why there is such a decrease in 2017?

Head of Financial Planning:

The strategic reserve balances are in line with the strategic reserve policy, so the first part of the policy is to protect the capital value at 2012 levels in real terms, which is the first line of that table figure 37, and you will see that you are quite right in that the total reduces in 2017, but within that total the protected capital value continues to increase at its real value as according to the policy. You then have the remaining balance of the strategic reserve return, from which in that year there are significant withdrawals as part of the transfers proposed to fund the measures in the short term.

The Chief Minister:

Which is the chart above, or the table above.

The Connétable of St. John:

So what measures have you in place in case the fund does not grow and you are not able to withdraw the £60 million forecast for 2017?

Head of Financial Planning:

Perhaps it would be helpful for me to add that the calculations are based on fairly prudent assessments of investment returns, and in the accumulated excess return in 2014 we do already have an accumulated reserve of £114 million to draw on.

The Connétable of St. John:

Yes, but as with all investments, they go up just as much as they go down.

Head of Financial Planning:

Possibly.

The Connétable of St. John:

My concern is that if there was a market realignment very similar to 2008, which is quite a high risk at the moment with the world economics as they are, especially with China faltering, that that £740 million in 2017 could well be south of £700 million, in which case you will not have any money to withdraw from the strategic reserve, so how are you going to fund the expenditure within the States?

The Chief Minister:

Well, if you go down that list there you have already raised yourself one issue of the £10 million brought forward for the redundancy provisions, so that is moved out from 2017. You have got Les Quennevais School, you have got funding for annual capital programmes. In that year we have got the point that Simon just raised about the asset disposals, so those things would have to change. If we have not got the money to spend then we have to realign our priorities. We have been quite clear about that, that there is flexibility in this plan. This is what we would like to do, but if things change, which inevitably they will, then we will have to adjust our spending accordingly.

Deputy J.A.N. Le Fondré:

So at the extreme Les Quennevais School will be deferred?

The Chief Minister:

Well, that would be one thing that we would really try not to do, because we are absolutely committed to doing it. We might, at an absolute extreme, but I would prefer before we ever got to that point that we would look for other asset disposals.

The Connétable of St. John:

The Council of Ministers is requesting the States Assembly through P.72 to approve a forecasted income of £2,940,692,000 and a budgeted expenditure of £3,105,818,000. In other words, you

are proposing to spend £165 million more. You are spending £165 million more than the level of income that is forecast to receive. How does this balance the books?

The Chief Minister:

With respect, we know how it balances the books, because we are talking about the cycle of 4 years, and the £165 million, we did not have an argument but we had a discussion about the difference between the £145 million and the £165 million last time that I appeared before your panel, the one being cash flow and the other being the annual projected deficit if we did not take measures to eliminate it. I come back to the words of the F.P.P. supporting the approach that we are taking, not taking reactionary measures in the early years but using the years of the cycle in order to address any projected structural deficit. That is why we arrive at those figures that you have just outlined.

The Connétable of St. John:

But the Island will still be financially £165 million worse off, because the money was spent and the income has not arrived.

The Chief Minister:

No. The problem is that if we take purely accounting numbers one might give an answer yes to that question, but if we look at the economics the Island being better off is not just simply arrived at by Government expenditure. There is all sorts of other things: the state of the economy generally, people in work, profitability in the economy and I will not ask the Economic Adviser to comment, but I think if the F.P.P. were here they would say, as they say in their report, that the approach that we are taking is the right one, and they might argue that if we did not take this approach ultimately the Island would be worse off, albeit Government spending would be different.

The Connétable of St. John:

Can I just take you back to something you said earlier with regards to income? We spoke of whether you were confident that with this year's income showing a reduction of nearly £18 million against budget the Income Forecasting Group and the F.P.P. in 2013 over-estimated the income. In 2014 the Income Forecasting Group again over-estimated the level of income. In 2015 they again have over-estimated the level of income. What confidence do you have that they are going to be correct?

The Chief Minister:

No, they have not over-estimated the income in 2015. In 2014 they estimated the 2015 income, so in 2015 they are estimating 2016, 2017, 2018, and 2019.

Head of Financial Planning:

So effectively the previous forecasting group.

The Chief Minister:

Okay, sorry, the July forecast, yes.

The Connétable of St. John:

Yes, the July forecast. So what confidence do you have that the 2016, 2017, 2018 and 2019 income forecasts are going to be correct, and have you taken any prudence measures?

The Chief Minister:

What do you mean by “correct”? I have been quite clear with you that both ...

The Connétable of St. John:

Accurate.

The Chief Minister:

But what do you mean by “accurate”? I have been quite clear with you, not only at this hearing but at the previous one, the only certain thing is that barring a miracle they will not be what they are forecast, because that is the nature of forecasting. You are trying to predict the future on current and past activity, and the challenge for us is what is the most reasonable or likely expected outcome? You could argue the reverse, that because of the recent history of an under-estimation or of an over-estimation with under-performance, that potentially the Income Forecasting Group is now being too pessimistic because of the more recent past activity. We have challenged them on both those grounds, that it has to be that the forecast, the central line, is the most likely outcome, but with risks on the downside, and you have outlined some of them in your question there but also there is upside potential, because of the nature of some of the numbers in that forecasting because of the nature of work to deliver economic growth, which we have not factored in. We have been, and I do not like using this word because it has got all sorts of other connotations, prudent in these assumptions.

The Connétable of St. John:

So you have complete confidence that the Income Forecasting Group is reasonable in their forecasting and their assumptions?

The Chief Minister:

I have complete confidence in the Income Forecasting Group, but I think they would say, and maybe Dougie wishes to comment on it, that the likelihood of the number delivering on the line is very slim, because they are forecasts.

Deputy J.A.N. Le Fondré:

I think we all accept that, but it is the magnitude of any deviation.

The Chief Minister:

Dougie might talk about the extra work that they have done. These are more scrutinised, more pored over, I think, than any income tax forecasting numbers that Jersey has ever seen, because of the very issues that you have just outlined. That could give rise ultimately to a more pessimistic view because of that past history.

Economic Adviser:

Yes. I mean, the group, and I am speaking as part of the group, always emphasised the uncertainty around the forecast, which I think the Chief Minister has probably done quite well, but there is uncertainty in terms of assessing how the economy is going to perform in the future, which I think is what you are referring to. There is uncertainty as to how that will translate through into growth in the tax base, so taxable income. Then there is uncertainty around the yield that we will get from that taxable income, so there are still lots of uncertainties anyway and then, of course, you are right in pointing out the uncertainties around the global economy. That is something that has caught us out in the past, but has caught out many forecasters in many governments, in fact that the global downturn is more severe and lasted longer than people were anticipating. That meant that revenues did not grow in line with previous trends, and of course expenditure continued to increase. What confidence have we got going forward? There are all those uncertainties, but the one thing that we are seeing now, which we had not seen in the past, is clear evidence that the economy is growing in real terms already. We have seen the F.P.P.'s estimate of what the growth was last year, potentially 5 per cent in real terms last year. We have seen average earnings growth, again growing in real terms. We have seen very strong employment growth at the end of last year and in fact some of the analysis we did, which is in the published report as well, looked at the income tax base and how that was performing relative to what the model might suggest that we were using. So all those things, and I am not trying to explain away the uncertainties ... you should all be aware that those uncertainties remain, but there are indications there in terms of future performance which mean that the assumptions are probably sensible ones to use, and that is what the F.P.P. has said.

[15:15]

Deputy J.A.N. Le Fondré:

That is going right over the top of my head. You have pointed me in the direction of page 49 on the economic assumptions on the table, and you have just made reference to what the F.P.P. has said about average earnings growth and so on. There are 2 observations and then just try to keep it relatively short because there are some other questions that are coming out of it at the moment. Number 1, the growth that obviously occurred in 2014 particularly in the finance industry seems to be a lot of reference from the F.P.P. that they consider that to be mainly a one-off for indeterminate reasons, which gives me the impression that it is unlikely to significantly reoccur going forward. The second point is that using average earnings particularly, and obviously there are some changes generally in those tables, although in ... sorry, I just want to make sure I am comparing like-with-like, average earnings for 2014 is the same at 2.6; they have reduced average earnings to 1.8 in 2015, as against 2.5. Now, I do accept that there are some other measures which slightly increase, but I think it just goes back to the point that, yes, there is uncertainty. In average earnings terms it looks like F.P.P. have downgraded it slightly. That is my interpretation, but perhaps you can comment in a second, and therefore this just goes back to the query about the justification on the personal income tax increases and furthermore in the other documentation that we have got where is there a wider analysis of the justification behind the ultimate outcome that income tax is forecast to go up by 4 per cent and 5 per cent in the relevant years? Fairly short, though, please.

Economic Adviser:

Starting with the first of those 4 questions, I think there was 4.

Deputy J.A.N. Le Fondré:

Well, the one was obviously we have confirmed the significant improvement for 2014 for the finance industry is considered to be a significant one-off. Can we just agree on that and move away from that one?

Economic Adviser:

You know economists never like to just agree. If you look at the economic assumptions that the F.P.P. have published you have got 22 per cent growth in financial services profits, and that is not repeated in 2015, 2016 and 2017. In fact, the growth in financial services profits is exactly the same, I think, as to what it was in the previous forecasts. Now, of course ...

The Chief Minister:

Can I just say that is a cautious approach, because they have not carried it on?

Economic Adviser:

We would explore that data point, and there are one-off factors in there, but from what we can understand from the Statistics Unit there are a number of potentially one-off large variations. Also certainly when I discussed it with Duncan if you get behind those one-off variations there is still probably stronger growth in financial services profits in 2014 than we would probably be expecting. Now, at the moment we are not factoring that in going forward, but there is a potential question there both in terms of what the trend is going to be going forward. I was aware I think when we published this that Geoff Cook at J.F.L. (Jersey Finance Limited) stood up and said he thought we were being very cautious about financial services but obviously going forward in fact too pessimistic, so there is a remaining question as to is there some upside there, what are the implications for tax revenue, and what are the implications for future growth? At the moment we are not building anything in and if we use these economic assumptions, which we will, that will not be building anything in, but we are going to explore that and try to understand that better. In terms of your question around average earnings growth, yes, that is the published number now for June 2015, and, yes, you are picking up one number that has been revised down slightly. Why? Well, because inflation has probably been lower than expected over that period, so you still have got average earnings growth in excess of inflation going forward. As inflation is anticipated to increase we expect the increase in average earnings to still be above inflation, and that is why you get the 3 per cent or 4 per cent growth in average earnings going forward. Employment growth was very strong towards the end of 2014 and you did not pick up on the fact that they had revised up employment growth for 2015. In fact, again, you could say that if employment was growing at 4 per cent at the end of 2014 is 2 per cent cautious? I do not know. I think it looks to me like a sensible assumption to use at this point in time, but you must look at the combination of employment and earnings growth and overall performance of the economy, which is slightly stronger growth in real terms in 2015 than was anticipated before. Have I answered all the questions?

Deputy J.A.N. Le Fondré:

The only final one was if you can point us in the direction where, in this document, there is a greater analysis outlining what you have done. Not necessarily now, but in an email to Janice would be fine.

Economic Adviser:

I think if you look at annex 2 in the income forecasting paper.

Deputy J.A.N. Le Fondré:

Page number?

Economic Adviser:

Page 48.

The Chief Minister:

Did you mention the downward rating there of inflation as well?

Economic Adviser:

I did. I said inflation was lower.

Deputy J.A.N. Le Fondré:

Yes. Chief Minister, I would like to move on to, if I may, the F.P.P.'s annual report, issued by them in September 2015, and just talk about a couple of the risks to achieving the Medium Term Financial Plan that they have highlighted. The first one that really I want to ask about is the fact that one of the risks is the proposed changes may not be sustainable. They are talking here about the distributional consequences. Can you advise us what studies have been done on the distributional consequences of the M.T.F.P.?

The Chief Minister:

I cannot add anything to the answer that I gave last time I came before you. Those studies are being undertaken. Of course the details of everything that might be done are still being worked on but we have certainly started analysing with regard to benefit changes. You have got the health charge to come in on the other side of things as well, so that work is being done, but it is not complete at this time.

Deputy S.M. Brée:

Can you give us any timeframe as to when it will be completed?

The Chief Minister:

I am going to look to Chris because I am not sure which ... I think Treasury and Resources and Social Security are undertaking it, is that right?

Head of Financial Planning:

I think it will be overseen by Economics.

Economic Adviser:

We need to know the detail in terms to assess distributional impacts but certainly the intention is to provide that information ahead of the ... in an additional addendum next year. So further distributional ...

Deputy S.M. Brée:

So the studies on the distributional consequences will not be available until the additions in June 2016. Is that correct?

The Chief Minister:

Yes.

Deputy S.M. Brée:

And yet you are asking the States Assembly to approve the draft M.T.F.P. without knowing what the distributional consequences may be. Is that correct?

The Chief Minister:

Well, because we are not asking the States to decide on all the individual measures. We are asking the States to agree on the bottom line, so I would expect the States when they are looking at the individual measures for 2017, 2018 and 2019 to have due regard to the distributional analysis, and that will be part of informing the decision-making process whether the States think the individual measures are appropriate or not.

Deputy S.M. Brée:

Another risk that the F.P.P. have highlighted is population policy and immigration, and how this may be implemented and decided upon. In fact, to use their words: "It is very important to the success of the draft M.T.F.P." I was wondering, Chief Minister, if you could advise us how your population policy is intended to be formulated to take into account the risks that the F.P.P. have identified?

The Chief Minister:

Well, I think it is already doing that, but Senator Routier can confirm that to us.

Senator P.F. Routier:

I think as we started out the other day when we met informally we met with the Statistics Unit who gave us some brief outline of how the current population is made up, which I found very useful, but we are going to meet again to have the benefit of Dougie's appraisal of how the population and the economy works together. It is being developed at the current time, and after that we are going to have a look at the long-term strategy as well, and Ian Skinner is going to help us get a plan for the future. It is work in progress at the present time and we know it is a piece of work that needs to be carried out and we are going to be working on it.

Deputy S.M. Brée:

So can you please confirm what your current population policy net target figure is?

Senator P.F. Routier:

Well, we have a planning assumption that all departments are working to, which is 325. That has not changed, but as we know from experience that in the recent numbers that have been published that number has been overtaken in the last published figures, but we do know that the departments have flex within their budgets and are coping with that at the current time.

Deputy S.M. Brée:

So the current figure, and just correct me if I get it wrong, of net migration is in excess of 600 people. Is that correct?

Senator P.F. Routier:

I believe that was the number, yes, 600.

Deputy S.M. Brée:

Another area that the F.P.P. highlight as a potential risk and I know we have spoken about it already, they are saying a risk to the delivery of the M.T.F.P. is the uncertainty around future States income growth. If the income tax revenue decreases in reality as opposed to forecast is there any intention by the Council of Ministers to review the current income tax structure?

The Chief Minister:

Well, it is not our intention at this point to do that. The Income Tax Forecasting Group has been itself restructured to we hope refresh it and improve its outcomes, but there is no plan currently to look at the income tax structure per se as a big review. Treasury and the income tax department are constantly in each budget looking at refinements and changes that can be made to the current structure to improve it.

Deputy S.M. Brée:

So can you say now, today, that there will be no change to the income tax structure over the life of this M.T.F.P.?

The Chief Minister:

Can I ask what you mean by income tax structure? Obviously we are looking at measures now for the budget that will change it. We are on record as saying it needs to change for the implementation of equal marriage, and we need to equalise out things there. So there are always changes of that magnitude, but I am not sure that is quite what you are asking.

Deputy S.M. Brée:

That is not what I mean. I am not meaning the finer details. I am talking about the income tax structure in relation to the banding of tax, or the removal of any ... how can I put it? Changes to the basic tax structure that we currently are experiencing.

The Chief Minister:

I think we are saying the same thing, if I say no, there is not, but there will be the types of changes that I have just talked about, as there always is. We look at thresholds every year, we look at allowances every year. All those sorts of things are constantly looked at as we go through the budget process, so they continue to be looked at and there might be changes, but the overall structure which I think you are asking about is not, as far as I am aware, up for change.

Deputy S.M. Brée:

Okay. Thank you.

Deputy J.A.N. Le Fondré:

I suppose a couple of wrap-up questions, effectively. One is just going back to the general contingency area that we were talking about, the £37 million, and the reasonable assumption that there will be a contingency allocation for 2017, 2018 and 2019 of a magnitude of let us say between £30 million and £37 million each year. There is a lot of nodding going on, but if you can just say yes to that for the microphone.

The Chief Minister:

Well, I am saying it is a reasonable assumption, but you know why I cannot say yes or no because we have not ...

Deputy J.A.N. Le Fondré:

You cannot tell us it is £32 million, or £33.5 million, or £29 million?

The Chief Minister:

Or £28 million or £26 million. I cannot.

Deputy J.A.N. Le Fondré:

But it is something of that sort of order. Does that not give you a great deal of flexibility if those contingent central allocation amounts are not properly identified? Because the amounts identified in summary table D at the moment, hopefully a number of them are relative one-offs. The

historical child abuse hopefully is not going to carry on needing to be funded for the next 4 years. Restructuring provisions might be different, I do not know, but is there not a degree of flexibility?

The Chief Minister:

It does give flexibility, and that is the whole purpose of them. I think I am on record as saying previously I think one of the things that we all agree we would change with M.T.F.P. 1 was ... I think we would rightly say that perhaps we allocated those too far in advance so that there was not the flexibility that we needed in the later years.

[15:30]

So we are certainly not going to make that mistake again. There should be rightly flexibility in-year for all sorts of unforeseen elements that might happen, and for changes that need to take place. But by its very nature there is flexibility. That is the whole point of having a longer-term plan. You need that in-year flexibility.

Deputy J.A.N. Le Fondré:

So as a consummate politician, in the presence of a slightly less senior in terms of experience politician, Chief Minister, what is to stop you, if the savings are not achieved or the structural savings are not achieved that we all expect as we are coming into this process, turning around and saying: "Well, we saved lots of money because we have not spent the contingency"? In other words, you do not make the structural savings and contingency in theory should not be spent and you hold that up as a great thing and that is the success?

The Chief Minister:

No, because if we are going to have the contingencies left at the end we will have to have made the structural savings.

Deputy J.A.N. Le Fondré:

Yes. I am suggesting that ... oh, so you are saying that unless you make the structural savings you will have to dip into the contingencies?

The Chief Minister:

Well, of course. If you do not make the savings then you will not have the contingencies remaining for the one-off elements that you need in-year, and that is what I think I was saying about what we learned from the first M.T.F.P.'s, it was too easy to allocate those rather than thinking about underlying spending and issues.

Deputy J.A.N. Le Fondré:

So what safeguards are in place to ensure that people do not think: “Oh, well, the expenditure cuts that we are talking about, or the efficiencies that we are talking about, are far too difficult to achieve in this year. I will fund it with contingency and just defer it for another year and keep kicking it down the road”?

The Chief Minister:

I am pretty sure that the first safeguard is the Minister for Treasury and Resources. Is that not correct? They have to get agreement from the Minister for Treasury and Resources before they can be allocated an approval by the Council of Ministers?

Head of Financial Planning:

Yes, contingencies are allocated on the advice of the Minister for Treasury and Resources. But really the principle is around that you would not find yourself in a sustainable recurring position if you used contingencies to balance the books during the whole of the period. It might be something that could be considered in terms of the detail of any particular year, but by 2019 the objective is to be balanced on a recurring and sustainable position and contingencies is not the answer to that.

Deputy J.A.N. Le Fondré:

I am agreeing with you. The last comment, absolutely I think that is the concern, to make sure that the strength is there to protect that view.

Head of Financial Planning:

Just the makeup of the individual detail in each of the years is what will be worked up.

Deputy J.A.N. Le Fondré:

Does anybody else have any points? I think on the basis that we are bang on time, allowing for the slight delay in you coming into the room, we have stuck to the hour and a half, so thank you very much for your time. I shall draw the hearing to a close.

The Chief Minister:

Thank you. Could I ask when are you thinking of completing your report by? I know we are still another month to the debate.

Deputy J.A.N. Le Fondré:

The key thing will be the reporting advisers coming to us. I think there was a delay in getting some of the information to them, so I am not sure where they are at this stage on that.

The Chief Minister:

Okay, that is fine.

Deputy J.A.N. Le Fondré:

Then we will go from there.

The Chief Minister:

Okay, great. Thank you very much indeed.

Deputy J.A.N. Le Fondré:

Thank you very much.

[15:34]