



Corporate Services Scrutiny Panel Medium Term Financial Plan - Phase 1

MONDAY, 2nd FEBRUARY 2015

Panel:

Deputy J.A.N. Le Fondré of St. Lawrence (Chairman)
Deputy K.C. Lewis of St. Saviour
Deputy S.M. Brée of St. Clement
Connétable C.H. Taylor of St. John

Witnesses:

Senator I.J. Gorst (The Chief Minister)
Senator P.F. Routier (Assistant Chief Minister)
Director, Corporate Policy
States Economic Adviser
Head of Financial Planning
Executive Support

[11:03]

Deputy J.A.N. Le Fondré (Chairman):

Welcome to the hearing of the Corporate Services Scrutiny Panel. It is our first quarter hearing full stop, and it is also our first quarter hearing with the Chief Minister in front of us. For those obviously who have been here previously if you can look at the signs on the wall about code of

behaviour, et cetera. Hopefully everyone knows to make sure your mobile phones are switched off, photographs by members of the public are not allowed, eating and drinking and all that type of stuff. I think you are also aware, having been in these hearings many more times than myself, about the notice that is on your left elbow. I would draw that to your attention as well. For the purposes of the recording, can we go around and identify ourselves? I will start with me as chairman, Deputy John Le Fondré.

Deputy J.A.N. Le Fondré:

Very well, we will kick off. Just as an initial starter, as it were, for 10 shall we say, Chief Minister, the M.T.F.P. (Medium Term Financial Plan) is a Council of Ministers document ultimately, therefore you have the overall responsibility over and above certain other things that might come directly out of any one department. So therefore one would expect you have a greater degree of involvement than, for example, just normal discussions at the Council of Ministers. Could you just clarify your involvement, for example, in the economic forecast and associated assumptions which are being used to develop the M.T.F.P. for 2016 to 2019?

The Chief Minister:

You will be aware, if I can take the economic forecasts or economic assumptions, that the role of the independent Fiscal Policy Panel was put on a statutory footing last time round and therefore they are independent, and rightly should be, delivered in an independent manner so that we can then take them and plug them into the actual forecasting. So as you will know from talking to them they might meet with Ministers once during that process but they are gathering information from right across the economy. That is as it should be so they are not influenced by what Ministers think of those economic assumptions but they are influenced by what they see as happening in the economy. We then will take what they say and hopefully ... the intention is that that is then used to inform the decisions of the income tax forecasting group but also to inform what the Council of Ministers put forward in the M.T.F.P. and in any other policy documents that they bring forward. So from a Chief Minister's perspective, I am not directly involved in that because that is rightly independent but when that comes to then setting the M.T.F.P., as you would rightly say and expect, the Minister for Treasury and I have a number of meetings in understanding and agreeing what the approach is going to be and what the M.T.F.P. document looks like. It is one of those areas where really decisions are made jointly.

Deputy J.A.N. Le Fondré:

So up until now, over the last few months, have you had many meetings or discussions about the economic forecast that are likely to be used in the M.T.F.P. or has it just been a case you have been waiting for the F.P.P. (Fiscal Policy Panel) to present their report on Friday?

The Chief Minister:

We know that we had the information that was in the long-term revenue planning, we know that we had the information in Budget 2015, so we have been giving thoughts about that but we knew that the actual process that will give rise to the actual numbers follows the process that I have just been discussing there.

Deputy S.M. Bree:

On the F.P.P.'s report, there are some - how can I put it - discrepancies between their report and the Statistics Unit's report, the Jersey Business Tendency Survey as at December 2014, particularly in the area of employment which is obviously quite fundamental to the F.P.P.'s report on their forecasts. For example, banking was anticipating a reduction in the amount of employment, and that was 60 per cent of banks. Should it not be that the F.P.P. report and the States own Statistics Unit report say the same thing?

The Chief Minister:

Then I think you would be concerned that there was some type of manipulation going on, because the Business Tendency Survey is a survey that is quality assured by the Statistics Unit. Of course the information that the F.P.P. produce themselves ... yes, they will look at the Business Tendency Survey but they will also themselves go back directly to source and meet with members of the banking sector, meet with members of the Chamber of Commerce, meet with members of all these sectors of industry so they might have a slightly different colour on a particular date about what they think and they might interpret it differently. That is one of the reasons why we have got these fully independent economists and we know that the economists - there are 4 of them - all come from slightly different perspectives so they are going to argue about what they think the future is going to hold for us.

Deputy S.M. Bree:

It is just that the F.P.P. advised that they have not seen the survey, that is all.

Deputy J.A.N. Le Fondré:

They did not seem fully aware of the contents of it when we met them on Friday.

Deputy S.M. Bree:

Which I was very surprised at.

States Economic Adviser:

I think you have to put in mind that they draw on a whole host of data, all the data that is published by the Statistics Unit. I think in terms of the Business Tendency Survey that came out on Wednesday, if I remember correctly, and the F.P.P. were publishing their report on Friday. They did see a copy of the Business Tendency Survey. I think you are quoting one particular statistic from that survey. There is lots of information there about employment in financial services, overall the industry is still optimistic about employment in financial services, less so than it was in the previous survey. In terms of the statistic you are quoting, there is a whole host of data on the financial service sector as a whole where there are a lot of businesses saying there is no chance in employment, a significant proportion saying it is going to increase both by less than 5 per cent, greater than 10 per cent. So just drawing on one particular statistic and trying to identify if that changes any particular economic assumption ... the fact is that the F.P.P. in arriving at their assumptions have done detailed work, we have done a lot of work on their behalf, visiting and talking with financial institutions, understanding their expectations around profits and employment going forward, not just for 2015 but out over the course of the M.T.F.P. period. I think there is a little bit of confusion by just drawing on one particular data and trying to suggest that that changes the economic picture. Quite clearly you have to look at all the information and the F.P.P. have done that from an independent basis.

The Chief Minister:

Sorry, I was not realising you were saying it is the latest report that they were not clear at seeing because of the timing. But we know with all of these reports we do not just take one quarter or one 6 month, we look at the trend over the period of time and that is what they would be doing in coming to their assumptions. But you will obviously speak with them directly and they will speak for themselves.

Deputy J.A.N. Le Fondré:

I will pick up on one comment while Simon is gathering his thoughts, which is obviously in the Business Tendency Survey it does say that the overall expectation for the sector in 2015 was marginally negative. Whereas banking, which is obviously where we get most of our tax profits still, was the most negative. Therefore that is obviously starting to feed into views on to the overall economic assumptions that you are going to be using for the M.T.F.P. going forward.

The Chief Minister:

Yes, but, again, we do not just take one sector or sub-sector of the financial services sector and say we are all doomed. We look at what is happening right across. If banking continues to be weak ... I would not have thought anybody in this room is surprised about that because we continue to see international banking under pressure. We have seen levies and penalties in

America for international banks. We continue to see in the United Kingdom the coming together of the ring-fencing issue and where our banks will sit in that particular area. So I do not think that would come as any great surprise if they still remained not exactly positive about the future.

Deputy K.C. Lewis:

What involvement does the Chief Minister have with the Department of Treasury and Resources regarding the follow up of recommendations made by the previous scrutiny panel's report into the draft Budget 2015?

The Chief Minister:

Well, I have seen the response that the Treasury Department have issued to that. I am pretty sure I saw it in advance of it being issued in the first instance.

[11:15]

Deputy J.A.N. Le Fondré:

The only significance in there, in a general context, there were some recommendations in there about, for example, investigating the potential - you will like this - for the States to run a budget surplus of .5 per cent or 1 per cent of G.V.A. (Gross Value Added) over the economic cycle. I think in the reports that came out recently we have moved on from there but one would assume that might be feeding into the thought processes that will then feed into the M.T.F.P. I suppose it is a case of flagging it up for your attention, if you can just log that.

The Chief Minister:

We said at that point, did we not, that we accepted in principle that it is good to try and run surpluses over an economic cycle. However, I would suggest from the report from the F.P.P. they would suggest that it would seem unlikely to be able to do so in this particular cycle.

Deputy J.A.N. Le Fondré:

I think you are right. Okay, shall we move on? When were you aware of the deficit that the Island is facing in the coming years?

The Chief Minister:

Well, you say "aware", I am always of the view that Ministers should take an action to ensure that we do not face a deficit and that is why we took the view that we did about the 2015 Budget, that when we see that income is not growing as fast as expected and has not grown in line with what was the assumption in the M.T.F.P. then we take action to make sure that there is not a problem. It is quite, in my mind, straightforward. We still do not know ... we can have some assumptions

about what the future is going to hold but the economic assumptions that the F.P.P. produce, the income tax forecasting group, the outturn for 2014 and we need the outturn for 2014 to rebase the numbers to then be able to apply the assumptions and the growth forecasts to that to then understand what the position will be. I intend to bring forward an M.T.F.P. that takes action to make sure that this idea, the significant risk of a structural deficit, does not occur.

Deputy J.A.N. Le Fondré:

Perhaps I should rephrase that. Obviously we all want ... well, you are obliged under the law, which we will come to in a second, perhaps the use of the word “deficit” may be the wrong word. When we were first aware of the problems faced on the shortfalls on income ... because obviously this has not just kicked off now, we know we have had problems going back.

The Chief Minister:

No, it kicked off prior to the Budget 2015 and I do not have the information in front of me but I think it is recorded in States questions and in Hansard of when it was. I remember the meeting but I could not tell you exactly the date that it was.

Deputy J.A.N. Le Fondré:

Can you give us a year?

The Chief Minister:

When I became aware that there was issues with regard to the 2015 Budget was ... I think it was last year but I lose track of when it was, it would be 2014. Of course, we all knew and the scrutiny panel at the time, I think it was at the time of the M.T.F.P., suggested we should be reviewing some of the forecasts at that time. So we knew that the economy was continuing to suffer difficulty. We all knew that and we knew then that that would potentially affect the income tax forecasts. So without going back and looking at meeting dates I cannot ...

Deputy J.A.N. Le Fondré:

I will let Simon come in in a second but what I would just say is that when scrutiny in the past raised a point about the economic forecast, which was in 2012, the defence at that point was that they were robust. That obviously turned out not to be the case. Well, sorry, I will rephrase that. It obviously turned out with hindsight that scrutiny was closer to the outcome at the end of the day than any forecast that we used in the M.T.F.P. at that point.

Deputy S.M. Bree:

A supplementary note on income forecasts was issued in September 2013 based on some figures correlated as at April 2013 which showed there needed to be a recalibration of the income

forecasts, that is identifying at that point in time that there would be a deficit. It does seem to be quite a long time between that point and the point at which you are saying you were made aware of this deficit issue, which was 2014. With regards to the fact the report was issued in September 2013, could you explain at what point you decided to advise the States Assembly that there was going to be a deficit?

The Chief Minister:

As you know, I do not have these detailed times and dates in front of me, had you said you wanted them then I could have found them for you and been able to answer the questions. In fact, I am quite happy to go away and do so. You know the questions that I have answered in the States are on Hansard in some of these more detailed timings and Chris works in this area on a daily ... I do not know if he can shed any light on the actual timing of lodging of particular reports or not. We certainly can go away and find that information out for you.

Deputy S.M. Bree:

Thank you.

Deputy J.A.N. Le Fondré:

I think the context is slightly backward looking at the moment but it is from the point of view that the roots of the problem we have now obviously started, arguably, back in 2013. It is about, therefore, making sure ...

The Chief Minister:

You could argue the roots of the problems around now started in 2008 with the economic crash.

Deputy J.A.N. Le Fondré:

You could do, yes.

The Chief Minister:

Like everywhere else, the economy has continued to be bumpy and lumpy for a lot longer than anyone thought in 2008, and a lot longer than anyone thought in 2012 when we were doing the M.T.F.P.

Deputy J.A.N. Le Fondré:

I think that is the context, it is obviously ...

The Chief Minister:

The other thing is we talk about the problems we have now but I keep coming back to the fact that the economic advice was, and one of the difficulties we face today, that we should still be putting money into the economy. We are still being told the same now. We have to be careful not to do anything that takes money out of ensuring that the tentative growth is ... so I do not think it is a problem ...

Deputy J.A.N. Le Fondré:

Minister, before you go off on a tangent ...

The Chief Minister:

... I think we made the right decisions, it is the income that has not held up so now we are having to deal with that.

Deputy J.A.N. Le Fondré:

What we are talking about is the information players, not the action taken, if that makes sense.

The Chief Minister:

No, but you just said "our problems".

Deputy J.A.N. Le Fondré:

Okay, the point being is that in terms of information and communication, and this is about looking at past history and then looking going forward. In terms of past history, my perspective would be that it would be fair to say that the States Assembly was not told in big flashing lights that there was a problem on the income forecast relative to the M.T.F.P. until some time down the process. Now, there will be arguments as to where and when and who and what and all the rest of it but let us take that as a principle. The question then, looking forward, is in 2 parts. One is obviously I am sure you are aware under the Public Finances (Jersey) Law, Article 9 says that if it at any time it appears that the Council of Ministers ... and I am going to quote it: "By reason of any variance between an intended total amount to be paid into the consolidated fund and the amounts actually received in a financial year or by any other reason, the receipts and expenditure approved in the Medium Term Financial Plan will result in a deficit in the consolidated fund at the end of any financial year, the Council of Ministers must lodge a proposition that, if approved" I am just skipping you a section "by the States would remedy the deficit." Now, there are 2 reasons for that context. One is obviously we are at the end of the present M.T.F.P., it still has 11 months left to run, so the question there is has the forecast changed sufficiently that as of today is there a possibility that the consolidated fund will be in deficit at the end of this year, and if so, do you have

any measures that need to be taken? Obviously it is ultimately your decision as Chief Minister. The second point, which is more relevant to looking forward on the M.T.F.P. and perhaps even the strategic plan, which is obviously we are going to have the in committee debate and then the lodging, at the moment I think it would be fair to say, based on the F.P.P.'s comment that income levels are still going to be tight going forward - I think we can all agree on that - will States Members have a reasonable context, in other words, to be aware of what the financial situation is in some detail before they debate the strategic plan? So there are those 2 contexts there.

The Chief Minister:

If I take the last thing first. Yes, they will have a reasonable context to be able to make those decisions. Can you just remind me what your first question was?

Deputy J.A.N. Le Fondré:

2015, 11 months left of the present M.T.F.P., the obligations under the Public Finances (Jersey) Law ...

The Chief Minister:

We will know that better when we have got the 2014 outturn because then we will have to rebase again and look to see what is going to happen. That is the right thing to do and if we have a worsening issue, and if we say nothing appears to have got better in fact things have continued to be difficult, it would not surprise me if there was not some confirmed worsening, then we will have to take action to deal with that, not least of which because of the law you have just read out about making sure that we do not spend money that we do not have. We have to comply with the law. If that creates a difficulty we just have to deal with it, that is why we have brought forward the 2 per cent savings for the 2015 Budget so that we could make sure that we were compliant. So we will do that. The information about going forward, yes, there will be, what is the problem we face? The problem we face is - and the F.P.P. talk about it - a continual, relatively weak growth. We do not yet know what the number for 2014 will be but I suspect it will be economic growth. So we have that continuing weakness there. Yet, at the same time, we have to deal with the ageing population and the costs of health. They are phenomenal numbers. If we chose not to deal with our health issue, so we know that health has got 2 per cent growth and they have the White Paper money, they have their costs of increased salary for nurses, it is about £50 million. We know that we gave them between £25 million and £30 million in M.T.F.P. 1. That is why we are facing the difficulties that we have. Our income is not growing as fast as it has in the past so we are now having to struggle with: "We know we need to spend this money on health, how are we going to be able to afford it?" That is going to be the big debate, part of the big debate about the strategic plan. Do we want to do that or not.

The Connétable of St. John:

Any successful business really is a business that can control its costs. So the question I have is have the Council of Ministers been presented with options for addressing the deficit, assuming there might be one, and what are they?

The Chief Minister:

What we have done at this stage is asked departments to come forward with options for delivering efficiencies and savings. We say that any business controls its costs, there are some costs which are outside of the control of the business, just like there is costs outside of the control of government. That is particularly relevant in health. Then the question is, are there things we are going to stop doing or that somebody else could do cheaper and more effectively for us because we have the pressure of over here that we do not control ... so we do not control the rising costs of drugs, we do not control the coming on to line new procedures and we do not control the ageing population. Those costs are racking up, the question is are we going to address them and how do we look at the spend that we have currently got to try and deliver efficiencies and savings in order to be able to put money into the health service. At the same time we have to ask ourselves have we got a sustainable funding mechanism because these changes are not going to suddenly go away. They are going to continue.

[11:30]

The Connétable of St. John:

Some of the changes, and you used health as an example, are a lot cheaper than they used to be. For example, when I had my appendix out at the age of 17, I was in hospital for a full 8 days and that was normal in those days. A friend had their appendix out just before Christmas, they went in one morning and they were back home the next morning having spent one night. So there is obviously considerable savings through the advancement there. Are we taking full advantages that might be available in new techniques?

The Chief Minister:

We are. Their entire policy is premised on delivering that sort of change, because that sort of change is happening in lots of procedures. The thing that, with the best will in the world, one does not want is somebody to have to have an overnight stay a hospital. So anything that you can do during the course of a day is to be welcomed and to be encouraged. That is one of the reasons why we have put so much money into day theatres for those sorts of procedures. But then there are other procedures on the other scale of things which were not available when you or I might have had an appendix operation when we were young but are available now and difficult decisions have to be made about whether we can afford to give them. The Minister for Health last week on

a visit in one hand had some aspirin, which was a particular possibility for a cure for one condition, in the other hand he had a course of drugs which I think were £500. Both looking at the same condition but one gave a far better outcome, the expensive one.

Assistant Chief Minister:

There is also the issue with regard to consultants as well. They used to have generalist consultants who were doing perhaps shoulders, knees and all the rest of it. That does not happen any longer. Where you used to have one consultant, you might have 3 now because of the specialism which is going on within the health profession. So it is a difficult ... there are some real difficult decisions to be made about where the money is aimed at within health but it is not getting cheaper. The costs are escalating, they really are, and there are choices we have to make about whether we do things on Island or send people away.

The Chief Minister:

We say health is one ... sorry.

Deputy J.A.N. Le Fondré:

Sorry, just to address that, is that discussion being had rigorously?

Assistant Chief Minister:

Yes, certainly.

Deputy J.A.N. Le Fondré:

Because obviously there is ... as a layman looking in, as it were, there certainly seems to be more comment about a hospital that does 200 operations a week on a particular area is probably going to do them more efficiently than the hospital that does them 3 times a week, for the sake of argument.

Assistant Chief Minister:

There are certain things that we have to have on the Island. We have to have A. and E. (Accident and Emergency) and all those sorts of things, but the trouble is to have the consultants who can deal with the things around A. and E. they also need to be able to do other things outside of A. and E. and the balance of their workload has to make it attractive for them to come to the Island. If there is not sufficient work for them to be doing here, it is going to be difficult to attract consultants. The new Minister for Health is looking at it exceptionally closely and I have every faith in the review he is undertaking of all those decisions.

Deputy J.A.N. Le Fondré:

Chief Minister, you have touched on it already but you will recall probably as well as I do when we all went to a presentation at Durrell a number of years ago ... I think it was the first C.S.R. (Comprehensive Spending Review) that was being debated and there was a whole decision tree set up about we could look at what services we do and should we do them. Or should we do them and do they need to be done type thing. At the end of the day I would suggest that in fact the alternative suggestion was that we would save a certain percentage of every department and that was the way it went. Are we not now at the stage that we need a proper new Comprehensive Spending Review but one that goes down the earlier proposition of looking at the services we provide throughout government.

The Chief Minister:

That is what departments have been asked to do.

Deputy J.A.N. Le Fondré:

Okay, what is the timeline?

The Chief Minister:

I will come back to that. I keep coming back to this and, as Chris said, health is one of the problems we face. The ageing population is why we are sitting here, why we have got the challenge before us, because you have £50 million new spending, their general rating on their budget throughout the course of the next M.T.F.P. is another £19 million, you can see that if we were not going to change the way and support this health funding - we still want to have a buoyant economy, we still want to deal with education standards - but health is the big issue that we need to address. So departments have been asked to look at efficiencies, savings, what functions can be brought together, what services can be delivered by someone else in a cheaper way. These are not easy and straightforward. What we wanted to do was make sure that we had options to then think about what was realistic to achieve as savings. So they are going away at the options process, we will have some independent support in that. It will, in the first instance, come to what we are calling a political oversight group, which will be the Minister for Treasury and Resources, the Assistant Minister for Treasury and Resources and myself and either Paul or Andrew from the Chief Minister's Department and we will go through all that work. That work will then be filtered down and have to go to the Council of Ministers and we will have a process to go through. You have the departmental structure, you have the office strategies, that you know a lot about, these are all things we have to look at.

Deputy J.A.N. Le Fondré:

What is the timeline for them to come back to you initially?

The Chief Minister:

The timeline I was given this morning was hopefully to ... I do not know whether this was to the first group of Ministers, which I have just explained, I am not sure, but by the end of March.

Deputy J.A.N. Le Fondré:

Obviously to challenge something like this is not going to be a 2 week process.

The Chief Minister:

No. You read out the law about the constraints that government finds itself under and the M.T.F.P. finds itself under and you have to ask yourself is there some merit in while planning for the medium term also allowing - I do not know if you want to use the word "break clauses" - a bit more flexibility down the line about exactly what we will need to balance the budget. That has some potential benefits to it but I also worry about the downside that you could get States Members wanting to increase the spending down the line if they have an annual ability to do so rather than control it, which would be the reason to build flexibility. I think that is something we just need to explore and we need to explore it together with yourselves.

Deputy J.A.N. Le Fondré:

We will move on because we want to have a discussion afterwards so we will try and do a couple of wrap ups in this section and then move on the last question. Chris, you have anything?

The Connétable of St. John:

No, not on that.

Deputy J.A.N. Le Fondré:

Okay, Simon.

Deputy S.M. Bree:

Not at the moment.

Deputy J.A.N. Le Fondré:

Kevin?

Deputy K.C. Lewis:

Is the deficits over the period of the Medium Term Financial Plan likely to affect the vision of the strategic plan?

The Chief Minister:

I keep using the words “a significant risk of a structural deficit” and I, and other Ministers, plan to bring forward measures to make sure that there is not such a thing. Does it restrict the vision? Well, I do not think it does because I am pleasantly surprised by what I read in the F.P.P. report about the big challenges ahead that we need to be aware of. That was making sure that your economy is more productive in delivering economic growth, dealing with the ageing population and making sure that you have got the right people with the right skills in your economy to deliver those efficiency and productivity changes. That is what the strategic plan is all about. We split them into 4 priorities but they are the priorities and they are the things that F.P.P. say we should be looking at not just for the next 4 years but even beyond that.

Deputy J.A.N. Le Fondré:

To be fair, though, it is good that the F.P.P. have talked about productivity this time around. I can certainly recall previous Members of this panel have been talking about productivity for the last 2 or 3 years. So it is, yes, great to hear and, yes, we are aware of identifying the problems but time is starting to run out on a lot of these things. It is good that we are starting it but you would you accept that actually perhaps one should have been a little quicker in bringing some of these forward?

The Chief Minister:

We can always look back and think: “Oh well, we might have done this differently or that differently”. But it is difficult if you return back to the information that you had when you were making your decision, the condition of the economy when you were making the decision and the independent economic advice when you were making the decision, it is difficult to say it would have been different. Perhaps we might have tried to spend more money in delivering economic growth. But even if we tried to do that we know that the economy around the rest of Europe has remained fragile. So would it have made any difference? It is reverse crystal ball gazing.

Deputy J.A.N. Le Fondré:

I think we might pick that up later. All right, any more questions? Right, we will stop there. Thank you very much for your time but we want to go into private discussion now so if members of the public would clear the room, please?

The Chief Minister:

With us?

Deputy J.A.N. Le Fondré:

Yes. I do not know if you want your officers present or not, it is a discussion on a review that we are doing.

The Chief Minister:

On this issue?

Deputy J.A.N. Le Fondré:

No, not on the M.T.F.P.

The Chief Minister:

Oh okay, no, they can go then if they are not needed.

[11:41]