



## **Corporate Services Panel Medium Term Financial Plan**

**WEDNESDAY, 4th FEBRUARY 2015**

**Panel:**

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

Deputy K.C. Lewis of St. Saviour

Deputy S.M. Bree of St. Clement

Connétable C.H. Taylor of St. John

**Witnesses:**

Senator A.J.H. Maclean (The Minister for Treasury and Resources)

Deputy T.A. Vallois of St. John (Assistant Minister for Treasury and Resources)

Mr. D. Peedle (Economic Adviser)

Mr. R. Bell (Interim Treasurer of the States)

Mr. C. Haws (Head of Financial Planning)

[11:32]

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

Welcome. This is actually first hearing we have had with The Minister for Treasury and Resources here in the Corporate Services Scrutiny Panel looking into essentially the Medium Financial Plan, the economic forecast and the follow up from last year's budget. For the sake of the one person in

the gallery, as it were, obviously your attention is drawn to the notices on the walls about recording and photographs and all that type of stuff. Minister, I am sure you are fully aware of it, but you are obviously aware of the notice on your left, as I am sure everybody else is, but it basically covers the status of the hearing. To start with can we just go round and introduce ourselves and that is for the purposes of the recordings. I will start with myself: Chairman, Deputy John Le Fondré.

**Deputy J.A.N. Le Fondré:**

Right, let us kick off. Can I just say, firstly, obviously warm welcome? Thank you very much for coming today. I just want to stress obviously, if I may, there are a couple of areas we are no doubt going to go into which will potentially look like it is going to be backward-looking, but obviously part of that is to just discuss what we can learn from past events. I think I should also stress that any comments that might be made about past history are obviously about the post of The Minister for Treasury and Resources, but recognising that neither the Minister nor the Treasurer were in those positions at the time. I would also like to put on record that certainly we welcome as a panel the approach taken so far and we do appreciate being treated in what would seem to be a far more open and transparent manner. While we are going to be firm at certain times on certain matters, I hope we can work constructively together on some fairly important issues we all face. So, without much ado, can we just go into what we have got down as our first area of discussion? Could the Minister give an overview of what your plans are to address the forecast deficit?

**The Minister for Treasury and Resources:**

Yes, Chairman, of course I can. Before I start, I would just like to endorse what you have said in terms of open dialogue and transparency between both ourselves and your panel. We are very keen, as you know, to ensure that that is the case and we have had a number of informal meetings hopefully to give you some further understanding of the Treasury Department, in particular some of your colleagues who perhaps were not as familiar as you might have been. We hope that the positive start that has been made, in my view, can continue through the processes, understanding, of course, that both sides have a job to do. Now, the issue that you have raised in particular is about the process.

**Deputy J.A.N. Le Fondré:**

The overview of your plans, the approach you are going to apply to the forecast deficit.

**The Minister for Treasury and Resources:**

Well, they have been laid out. If you are talking specifically about 2015, which I assume you are, as opposed to the period for the Medium Term Financial Plan ... perhaps you could just clarify that point.

**Deputy J.A.N. Le Fondré:**

I was actually looking ahead.

**The Minister for Treasury and Resources:**

2016 to 2019, so the Medium Term Financial Plan?

**Deputy J.A.N. Le Fondré:**

Yes.

**The Minister for Treasury and Resources:**

That process has started in terms of the work that the Fiscal Policy Panel have helpfully carried out on our behalf, their independent view, which I know you were briefed on as well. It was important that the Fiscal Policy Panel position was clear so that we could understand and take on board the advice that they issued with regard to potential issues around structural deficit and ways in which we could consider how we manage the public finances over the period in question. I think that advice was very helpful. That was the first stage of the process. We also have gone through and considered forecasting, which is obviously very clearly important to ensure that we have appropriate forecasting over the term, and the new Income Forecasting Group. We have broadened it, by the way. Previously it was the Tax Income Forecasting Group. Now we have broadened all income to be included and we have set in place a proper remit for that particular group and reconstituted the membership. I do not know if you are interested in the membership details. We can give that later.

**Deputy J.A.N. Le Fondré:**

We will come to that later in the questions.

**The Minister for Treasury and Resources:**

Yes. Okay, fine. So that particular group will be looking at ensuring that forecasts are appropriately put together and taking economic data into that consideration as well. They will be having their first formal meeting during the course of the middle of this month. We are also waiting for the outturns from 2014, which we are expecting to have towards the end of February and beginning of March, and that, of course, will also be considered by the Income Forecasting Group as well. I suppose what I am outlining is that we are going through a process which has started with the Fiscal Policy Panel report and will continue on as we build for the lodging period for the Medium Term Financial Plan.

**Deputy J.A.N. Le Fondré:**

Can I just, I suppose, take you back probably not so much a higher level, but in essence what you laid out there is the approaches to identifying what the actual income is obviously going to be in 2014 and feeding that through into the likely projections for 2015, 2016 and 2017 going forward. So that is really going to be identifying, as precise as you can get, the quantum of the deficit. At this stage you know that there is likely to be a significant deficit, so I suppose the query is: what is the overall approach likely to be for addressing that deficit? I am not really too worried if we are £5 million out or £10 million out in the actual figures. We know they are quite large. Therefore, what is the likely approach going to be given the comments that have come out more recently?

**The Minister for Treasury and Resources:**

There are a limited number of levers available in terms of ensuring ultimately balance of budget and dealing with the deficit. Obviously we are going to be continuing to drive for efficiencies within departments to ensure that that programme, which was originally dubbed the Reform Programme - I prefer to refer to it as "modernisation - continues. That is what I might describe as "almost business as usual"; so the workforce modernisation, the lean processes and such like. So departments will continue to do that. Above and beyond that, we will be looking to departments to look at the opportunities for further savings. Part of that was identified in the measures announced last year for result in 2015, which was the 2 per cent that you would be familiar with, and we will be looking for departments to come up with sustainable ongoing savings of that type. For the savings element, clearly ensuring that appropriate investment is put in place for driving economic growth is the second issue that needs to be addressed. We were heartened by the advice from the F.P.P. (Fiscal Policy Panel) identifying, in their view, that 2014 was going to show growth of 1.6 per cent and 2015 of 2 per cent. We note, of course, that further out their predictions are perhaps less favourable, which indicates the absolute need to ensure that there is investment for high-value growth opportunities. Savings, efficiencies and growth are the first three key ways in which we are going to seek to deal with it. Beyond that, if all those areas are exhausted and there is still a position that needs to be resolved then we would have to be looking at other forms of charges or perhaps, as a last resort, taxes.

**Deputy S.M. Bree:**

As the Minister has basically confirmed he accepts there is a structural deficit moving forward, which I think the F.P.P. and all the figures that we are looking at confirm that there is a structural deficit ...

**The Minister for Treasury and Resources:**

Sorry, "the Minister"; who are you referring to?

**Deputy S.M. Bree:**

You, sorry.

**The Minister for Treasury and Resources:**

Okay, we will carry on.

**Deputy S.M. Bree:**

How would you prefer to be addressed?

**The Minister for Treasury and Resources:**

No, that is absolutely fine. You said, "The Minister has confirmed." I do not think I have confirmed there is a structural deficit.

**Deputy S.M. Bree:**

Well, I think earlier on you said, "As the F.P.P. have shown us, there is a structural deficit."

**The Minister for Treasury and Resources:**

Likely. If I did not say "likely ..."

**Deputy S.M. Bree:**

You did not say "likely" though.

**The Minister for Treasury and Resources:**

Can I just clarify that point? What the F.P.P. actually said - and you are probably familiar with it but just for recording purposes - the F.P.P. pointed out that once the economy returns to capacity, and their prediction is that that would be in 2018 or 2019, if there was still an imbalance between income and expenditure at that point, that would constitute a structural deficit. Their further advice was that, of course, we could not just sit by now and wait to see whether that is indeed the outcome. We had to put in place measures to deal in case there indeed is a structural deficit. Their views were "probable" and I think that is the terminology I have followed: probable structural deficit at the end of the term referred to. If I have misled you I apologise, but that is what I have been saying; so if I was not clear this morning, then my apologies.

**Deputy S.M. Bree:**

With regards to the fact that there will be a probable structural deficit moving forwards, that obviously has a fundamental effect on the Medium Term Financial Plan moving forward as well and a lot of the policies that the States may look to introduce. So can you confirm that addressing this probable structural deficit is your key priority at the moment?

**The Minister for Treasury and Resources:**

Well, it is obviously one of the key priorities, yes.

**Deputy S.M. Bree:**

What are the other key priorities you are looking at? Surely everything is driven through the M.T.F.P. (Medium Term Financial Plan), the Spending Review and everything else. If you accept that there is probably going to be a structural deficit moving forward then surely now is the time to be taking action, not waiting to see what happens in the future.

**The Minister for Treasury and Resources:**

Absolutely, and I think I just confirmed that a moment ago. As the F.P.P. said, we cannot ignore the fact that there is a probable structural deficit. We cannot wait to see if that is the outcome. We have to put in place measures now. When I say it is one of the key priorities, it is because, of course, we have also to deal with the short-term issues. So we have short-term issues and longer-term issues. I think the point also made by the F.P.P. which was particularly interesting was the fact that it is going to be somewhat of a juggling act for us. In fact they used the term "good luck" at the end of it, simply to express the fact that we do need to invest in the short term. We have got an economy that is not at capacity at the moment and, in order to ensure that the economy does move towards capacity and we ensure that we consolidate and develop further growth to generate more revenues, then investment is required but, equally, we cannot put money into the economy that is going to become embedded in base budgets of departments. So we have got to be very careful in the ways in which we invest. That is why there is more than one priority, to deal with clearly ensuring that at the end of the term - when I am talking about the term I am talking about this Medium Term Financial Plan - we have to have balanced budgets at that period. That is a clear focus and clear priority, to use your terminology, but we have got short-term issues to address as well.

**The Connétable St. John:**

Can I just take you back a bit? You said that, as part of it, you were looking at savings and you mentioned Lean. Is there a timescale for which Lean will finish and what are the target savings to be had?

[10:45]

**The Minister for Treasury and Resources:**

Lean has been ongoing for a number of years. It started two or three years ago. I do not know if you can recall, Richard?

**Interim Treasurer of the States:**

It was probably four years ago with Health and Social Security and then other departments were in there.

**The Minister for Treasury and Resources:**

So it has been running as part of the overall reform. Lean is one element of reform and it has delivered and we can very happily provide you with statistics on the savings that have been delivered. The initial department, as the Treasurer was saying, was Health and they have driven efficiencies as a result of the Lean programme. There is not a specific target for Lean alone because that is just part of an overall package. I would describe Lean as something that most organisations should be doing. We have started, I suppose you could argue, late in some respects but, nevertheless, three or four years ago that started, which is good, and it is ongoing. I do not think any organisation should ever sit on its laurels. You can always, each and every year, drive efficiencies, whatever you do, and that should be an aim and objective throughout the piece.

**The Connétable St. John:**

If you could provide the figures of what success you have had so far I would be grateful. Personally, I believe that it is always good if targets are set for anything, even if it is ongoing, so that you know whether you are achieving what you are setting out to do in the first place. Just moving on ...

**The Minister for Treasury and Resources:**

Sorry, can I just pick up on that?

**The Connétable St. John:**

Yes, please.

**The Minister for Treasury and Resources:**

I agree absolutely with the principle of it. Targets will be set in terms of savings and efficiencies that are going to be required and we have got to look carefully and learn from the previous experience of, first of all, fiscal programmes that have sought to drive efficiencies, like the Comprehensive Spending Review. Salami slicing is not necessarily the best way of doing it, setting targets across the piece. We have got to learn from previous experience and make sure we apply appropriately. As I have said, it is not just about Lean in isolation. It is about the overall package of savings efficiencies and indeed, as I have also stated, once one has been through that process - and bearing in mind the strategic plan and, in particular the strategic priorities the Council of Ministers have outlined which is now up for consultation - in order to deliver on those I have very little doubt that some services and ways in which we operate at the bottom are going to

have to be changed, delivered in a different way or possibly cut. That is the prioritisation that will continue.

**The Connétable St. John:**

We met the Chief Minister on Monday and he was saying that Health was going to require an additional £70 million over the next 3 years, over and above the current figure.

**Deputy J.A.N. Le Fondré:**

He said £50 million and £19 million. So basically, as a contribution to the deficit, there is £69 million from Health.

**The Connétable St. John:**

Health is, as it were a sacred cow and everybody stands back saying, "They must have what they want." There must be savings that can be made within public health and fairly substantial savings. What measures are you taking to examine that?

**The Minister for Treasury and Resources:**

I agree that Health is important. It is a clear priority within the strategic priorities, but absolutely every department, including Health, can drive and must drive efficiencies. As I mentioned a moment ago, Health was the first department to lead on the Lean programme and we will give you those examples of where they have driven some savings. They must continue to drive efficiencies and savings and that will be an absolute requirement as far as I am concerned and we are concerned. In terms of ensuring they deliver it, clearly that is part of the ongoing monitoring that is undertaken. It is part of a programme that has been in place for some time and that will continue.

**Deputy J.A.N. Le Fondré:**

I think you have touched on it so we can probably have a shorter response, but I am going to waive this one under your nose, which you will no doubt recall with your permanent memory, from a presentation that Bill Ogle gave to both the Council of Ministers of the day and Assistant Ministers up at Durrell some time ago. The point was it is not so much the detail but the principle behind it, which is - and to reiterate, I think, the comment you just made - that we all have to go through the process of examining what we do, how we do it, do the States need to do it and effectively go through the expenditure we have almost on a line-by-line basis going ahead. Do you endorse that comment?

**The Minister for Treasury and Resources:**

I endorse the principle of that, absolutely.

**Deputy J.A.N. Le Fondré:**

Yes, good.

**The Minister for Treasury and Resources:**

Yes. There is an argument and this is much more difficult in some respects ... in my previous role within Economic Development we operated on zero-based projects, which is not typically deployed. I think in some departments that would present some problems in terms of knowing the trust cost of what services are and such like.

**Deputy J.A.N. Le Fondré:**

I was told once that departments, I think it was once every 10 years or something, should be rebasing their budget; basically restarting their budgets from a zero base and rebuilding from there. Putting aside the time issue, do you think that, in reality, we are now at the point where all departments should be required to something of that ilk fairly swiftly, accepting it would be difficult for them but to get them to go through that process?

**The Minister for Treasury and Resources:**

I am not sure about the 10-year process that you have just referred to. Whether that is accurate or not I have no idea, but unless you get to a zero-based budget then it is very difficult to know what the true cost of anything is. Yes, in an idea world that is indeed what more departments should be working towards.

**Deputy J.A.N. Le Fondré:**

Good. Okay, let us just move on because I am acutely aware that we have only got about 40-odd minutes left. There is a slight element of history to what I am about to say here. The principle behind what I am about to say is not so much about digging up the past but it is about the lessons that can be learned from it and in a way it is about communication, information flow and that type of stuff. If we go back to the previous M.T.F.P., November 2012 the States approved the present M.T.F.P., which, as you have referred to already, has got a year to run. The Corporate Services Scrutiny Panel of the day challenged the income forecast, as you may or may not recall. In response, on a number of occasions those were rebuffed. In April 2013, which is no more than 6 months later, data started to be gathered that showed the income forecast was going awry. That seems to have been codified in some form of report in September 2013 and the budget was debated in December of that year. Now, there is bound to be a slight disagreement, not necessarily from yourself, as to whether the data was presented to States Members but it certainly was not in big flashing lights saying, "We are now aware that the income forecast has shifted by £70 million," that is obviously over the 3 years of the M.T.F.P. The actual figures only came out in January 2014 as part of, I think, a 300 to 400-page document. In 2014, at that point, early June or

maybe late May, a further reduction in the marginal rate of income tax was being discussed and yet later that month or early July suddenly cuts were being imposed, which was basically the 2 per cent. In other words, we have gone from a very sudden turnaround of, "Everything is rosy and we can afford another income tax cut," to, "No, we cannot and, in fact, we have now got to impose cuts, when we say 'balance the budget', to keep the Consolidated Account out of deficit." So I am just laying the scene and really it is just to say there are two themes there, in my view. One is about communication and the speed of presenting information to the Island's Parliament at the end of the day and the second is about timeliness of information.

**The Minister for Treasury and Resources:**

Sorry, I did not catch that.

**Deputy J.A.N. Le Fondré:**

Timeliness of information. In other words, does it really take 5 to 6 months to identify and report the problem; so from April 2013, which is when you are gathering the data, to September, purely based on the date of the report, to bring it together? Did it really take another 3 months to inform States Members, at least? Lesson one on day one of my accounting degree was that information can be accurate or it can be timely and there is a balance to be struck. In other words, is it better to inform the directors of a company that there is a problem and it is between £60 million and £80 million, say, or wait a further 3 months and inform them that the problem is actually £70,100,050.20 at the end of it? I suppose the query that comes out of all that, and not going back about the history, is: are there lessons that can be learned and what approach are you going to be taking looking forward to improve the communication between yourself, the Council of Ministers, the States Assembly and obviously at the end of the day the wider public?

**The Minister for Treasury and Resources:**

First of all, there are always lessons that can be learned from anything it would be safe to say. Again, not wishing to go ...

**Deputy J.A.N. Le Fondré:**

No, I do not want to go and look at the history of the stuff. It is more about, bearing in mind that history, the approach you are going to take.

**The Minister for Treasury and Resources:**

Yes. On the basis that it is helpful, I think, sometimes to ensure that the flow of information to key decision-makers is as timely as possible ... so, in other words, when there are changes, for example, to forecasts of a material basis to ensure that they are transmitted both to the Corporate Management Board and also the Council of Ministers in the first instance. Bearing in mind, of

course, one may have drafts at that stage as opposed to definitive figures, it is a judgment call as to whether to go to a wider audience until that data has been clarified and you are absolutely sure of it. Putting that caveat in place, bearing in mind that one has to work in an environment of confidence, so one would not want to go out with uncertain figures that identify a potential problem if it is not absolutely clear too early to the wider public, but the principle of what you say is right nevertheless. We must ensure that we streamline decision-making and get accurate figures as early as we can to best inform those that are going to be making ultimate decisions.

**Deputy J.A.N. Le Fondré:**

I will just go slightly further forward than that one reference then on the area of questioning. Canada has often been cited as one of the prime examples of achieving change in public sector reform and all that type of stuff. One of the big things I have always understood was that they put the data out there because then people bought into it. They understood the problem. I suppose there is just an impression we have got, which you might briefly like to address. We are not necessarily getting the impression of urgency and I just want to clarify why. The Chief Minister, on Monday, said that everyone is waiting for the final outturn of the 2014 results before we can recalibrate the present M.T.F.P. Strictly speaking that is probably correct, but you kind of get an impression that people are either tiptoeing around the problem or pinning the hopes that the figures might be slightly better than they expect and, therefore, everything is going to be all right. You know, that could just be a blip. First, would you like to address that comment? In other words, do you think there is recognition of the level of problems that we are facing? Also, where does prudence sit in the general equation from your perspective?

**The Minister for Treasury and Resources:**

Prudence is top of the agenda if you are talking in respect of forecasting, which is what I assume you are referring to.

**Deputy J.A.N. Le Fondré:**

Yes, I am.

**The Minister for Treasury and Resources:**

Obviously I would just make a comment that in a challenging economic environment it is even more important to be prudent or conservative, whichever phrase you might choose as more appropriate, because you tend to underperform economies in a recession as opposed to a growing market where the opposite happens and we have seen surpluses in previous years. Interestingly, the Treasury and the States have been criticised for surpluses in years gone by, which is rather ironic in the situation we are currently in, but the reverse happens obviously the other way round. I can confirm that there is absolute focus on the need to deliver, in a very short timescale, a

Strategic Plan and a Medium Term Financial Plan in a challenging economic environment and there is absolute focus, so please do not have the impression that that is not the case.

**Deputy S.M. Bree:**

Moving on from that, we accept that there were problems regarding the forecasting of income for the budgets of 2014 and 2015. What steps are being taken to ensure that that does not arise in the next M.T.F.P. proposals?

**The Minister for Treasury and Resources:**

There is probably one point I ought to deal with first of all. There has been criticism in the past of the outcomes or the changing forecasts. Of course, a forecast is a forecast. It is not an absolute number.

**Deputy S.M. Bree:**

Indeed.

**The Minister for Treasury and Resources:**

I think that has been misinterpreted in some quarters. It is a range. It is more relevant what you do with the forecast than the forecast itself. In other words, the central line of the forecast, how conservative and how realistic is that and, indeed, what sort of vigour and analysis has gone into reaching not just the forecast but the central line that is being used. To answer your question, first of all we broadened what was the Income Tax Forecasting Group to the Income Forecasting Group; in other words, it takes all States income into consideration. We have reset the panel that is going to be considering that and I am happy to give you a list of those members that are on the panel in due course.

[11:00]

**Deputy J.A.N. Le Fondré:**

We will do the I.T.F.G. (Income Tax Forecasting Group) in a minute.

**The Minister for Treasury and Resources:**

Okay, that is fine but it is important in terms of the answer to the question that we have reset that. We have also put a framework in place to ensure the proper terms of reference, reporting, reports to the Council of Ministers for example, and so on. So it has been tightened up considerably from perhaps where it was before. I am not saying necessarily there was a big problem in the past but you can always learn and you can improve and I think what we have put in place now, as far as

the Income Forecasting Group is concerned, is going to be far stronger than perhaps it was. It is considering a far broader range of data in order to arrive at its conclusions.

**The Connétable St. John:**

The F.P.P. have more or less said that the future trends should be tested against a real economic growth of zero in their report that came out last week and in their table they have used G.V.A. (Gross Value Added) rates of minus 3.1 per cent, plus 0.2 per cent and plus 1.3 per cent. The average again there is less than zero. Would it not, therefore, be the case that one should be even more prudent in the present case when forecasting the future?

**The Minister for Treasury and Resources:**

All I can say in terms of answering that is that, having restructured the Income Forecasting Group and its terms of reference, they as a group will take into consideration all the factors. Critically important to that is the view of the F.P.P., which I have said previously. So the point you just raised, the comments of the F.P.P., will be taken into consideration and fed into our Income Forecasting Group's modelling together with a lot of other economic data and such like for them to arrive at their views, which I would expect to take on board the need for prudence.

**Deputy J.A.N. Le Fondré:**

Just to go back on that, presumably what you are going to be referring to is effectively the table that was in the report that gives various potentials on real G.V.A. and all that sort of stuff, but obviously, to go back to the table that Chris was raising which is 2.7 per cent, I think, their central scenario is 0.2 per cent. Their highest scenario is 1.3 per cent and the lowest scenario, which they do say is pessimistic and I think requires everything to go wrong, is 0.31 per cent. Okay, central scenario 0.2 per cent and they are saying ... I have just lost the quote.

**The Connétable St. John:**

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**Deputy J.A.N. Le Fondré:**

That is where they are talking about testing against a trend rate; a real economic growth of zero per cent a year. When matters are finally presented to States Members - let us for the sake of argument use the central scenario of 0.2 per cent - are you going to present the figures that will show, for example, zero per cent or even, I do not know, one per cent below? I might be using the wrong terminology but you get the principle. In other words, to give us a range of, "Yes, we believe that in the central scenario we might be okay, but should we not be at least understanding what the magnitude of the problem would be if things are worse? We are probably not going to get shot if things are better, but if things are worse and we have not put the plans in place to

address that, at least then you can understand what the quantum are.” Would that not be the sort of prudent approach we should be following?

**The Minister for Treasury and Resources:**

Some modelling has already been done looking at minus one per cent and minus 2 per cent, so there are various scenarios being considered, but if I may I will ask Dougie, the Economic Adviser, just to make a comment on that.

**Economic Adviser:**

Just in terms of the table you are referring to, that is trend G.V.A. growth. So that is the average over an economic cycle over a number of years. What the F.P.P. are saying is, if you take their assumptions from the table further on in the report and use those as your central estimate for your forecast, over the economic cycle using those assumptions you are not going to get an average rate which is significantly greater than zero. They are saying from 2018 onwards you should not plan for average rate of growth that is above zero. There is a difference between the economic assumptions year by year and your average over the economic cycle, but, in terms of forecast going forward and what we are working on for the Income Forecasting Group, is to put the range around a central estimate. The F.P.P. have given a range around G.V.A. in their report, so we will use similar economic assumptions that add up to that G.V.A. range to test the income tax central estimate against alternative economic assumptions. It will give you a line in terms of a lower bound and an upper bound and that will relate to different economic assumptions, so a more optimistic and more pessimistic scenario, and give you an idea of the sensitivity of that central estimate to different economic assumptions.

**Deputy J.A.N. Le Fondré:**

Okay, so 2 things. First, essentially what is being said, is that for 2016 and 2017 we might see an element of economic growth but let us say nothing particularly significant, but after 2018 and 2019 potentially we should be back to zero?

**Economic Adviser:**

On average for 2018 and beyond, yes, use zero because all the analysis they have done suggests that you cannot, on the evidence we have got, assume a positive trend rate of growth.

**Deputy J.A.N. Le Fondré:**

We should, therefore, be being somewhat prudent in our assumptions going forward because we know that we have got harder times coming? Is that not a fair way of looking at things?

**Interim Treasurer of the States:**

For clarity, we will use zero for 2018 and 2019 and we will use what is in the table ...

**Deputy J.A.N. Le Fondré:**

For 2016 and 2017. Whether that is in relation to the comment about zero or whether that is generally, these predictions should be treated with extreme caution because of the nature of the Jersey economy. Maybe that is just looking ahead for 2018 and 2019. In other words, how confident are we? Bearing in mind that is forecast and all that type of stuff, are we reasonably confident that 2016 and 2017 will be more positive than 2018 and 2019? Shall I put it that way?

**Interim Treasurer of the States:**

The point I would probably make is I would struggle to find a more eminent group of economists to advise us on what their conclusions are in respect of a central forecast for the economy. When you say are we confident, you are talking about me. When I look at the C.V.s (Curriculum Vitae) of the individuals concerned and what they have done in the past, I tend to take some comfort in those numbers in a way that if we were just left to our own devices perhaps I would not.

**Deputy J.A.N. Le Fondré:**

One comment that they make very clear to us is that, while they endorse the assumptions applied, I think they did state to us that they do not consider themselves advisers.

**Deputy S.M. Bree:**

No, they were very clear on that. They are in no way an advisory group.

**Interim Treasurer of the States:**

We have had some discussion around the exact terms under which they are endorsing or otherwise the economic assumptions, but I would say that if they did not endorse the economic assumptions they would say so.

**Deputy S.M. Bree:**

That would be a greater problem.

**Interim Treasurer of the States:**

Yes.

**The Connétable St. John:**

Could I just come back for greater clarification? Mr Peedle was talking about the economic cycle which infers things are going up and down. Firstly, could you redefine? Is it a cycle, in which case we are looking at things going up in the future, or is it a period of time?

**The Minister for Treasury and Resources:**

Time.

**Economic Adviser:**

Sorry, is what a period of time?

**The Connétable St. John:**

Well, you talked about an economic cycle.

**Economic Adviser:**

Yes.

**The Connétable St. John:**

Do you mean a cycle whereby it is going to be going up in future, because at the moment it is going down, or are you implying the reverse or is it merely a period of time over the next 3 or 4 years?

**Economic Adviser:**

At the moment it is flat-lining. Indications are that it has started to move into an upward phase in the cycle. A cycle is up and down and that is why you need to look, for example, from trough to trough or peak to peak in the economic cycle to understand the performance. It is not a period of time. An economic cycle could be shorter or longer, depending on the growth profile and whether you reach the peak quickly and then fall off again quickly or whether you reach the peak slowly and then fall off again slowly. It is not a defined period of time. It is the cycle within G.V.A. In fact, if you look at our G.V.A. we have had, over the least 10 or 15 years, a cycle and a half really.

**Deputy J.A.N. Le Fondré:**

On this particular section are you done?

**The Connétable St. John:**

Well, I raised my queries with the Fiscal Policy Panel with regards to this graph and I do have serious concerns about it.

**The Minister for Treasury and Resources:**

Sorry, which page are you on?

**The Connétable St. John:**

That is page 43.

**The Minister for Treasury and Resources:**

Yes, keep going.

**The Connétable St. John:**

When they look at compensation of employees. I believe that, as unemployment goes down, people getting into jobs will be in the lower income brackets and so, naturally, if you have more people going into work on the lower income bracket before they can work themselves up, it is going to drag down the average. As finance is the biggest industry in the Island, we are seeing zero growth in the finance industry but we are also seeing jobs in the banking sector, which is the highest paid, coming down and the number of jobs in the fund administration sector going up and they are the lower paid jobs. If the higher paid jobs are coming down in numbers and the lower paid jobs are going up, although statistically the average is the same employed, the actual rate is going down. I have difficulty in seeing that the wages over the next few years are going to be going up 3.7 per cent, 3.5 per cent and 4.3 per cent.

**Interim Treasurer of the States:**

Dougie might want to clarify, but if you look at the tables that is not the average earnings because that is the number of employees multiplied by the cost of ...

**The Connétable St. John:**

Sorry, by the cost and so on. Let me rephrase that.

**Interim Treasurer of the States:**

On that point, if the numbers go up ...

**The Connétable St. John:**

Let us rephrase that. The average earnings are going up 2.5 per cent, 3.5 per cent and 4 per cent. I would seriously question that, even though they have more letters after their names than I have letters in my address.

**The Minister for Treasury and Resources:**

One of the key points I think they made, which is probably, in my view, one of the most relevant ones, was around productivity when we were talking about the various levers available, driving economic growth and such like. Driving greater productivity within sectors, whether it be finance or indeed the more traditional industries is critically important. I think what we have seen, interestingly, in recent years through the recession, particularly in finance where they peaked at, if I remember correctly, about 13,200 jobs and it fell to just about 12,000 or slightly under and has now recovered to about 12,500. Businesses in finance have tended to retain staff on the basis of it is very expensive to train up and recruit and particularly in this economy. In fact we have seen the challenges and the ravages of wage inflation in the past, which is obviously not very satisfactory. I think driving greater productivity is really key in all sectors and that is probably one of the measures that we need to be focusing on. I do not know if you have got anything you want to add, Dougie, about the point raised from the Connétable.

**Economic Adviser:**

Yes, a couple of points. I think Richard has made it clear that if you are on about the earnings growth then obviously look at earnings growth, not compensation of employees. So I will not dwell on that. In terms of the actual trends going forward, you have got to also look at what is happening to inflation and all the earnings assumptions are doing is saying that you might expect some moderate real growth in earnings in the coming years. We have seen a return to real growth in earnings already in the economy in 2013 and 2014 and those trends should continue if the labour market continues to tighten and if we see unemployment continue to fall, which we are expecting. In fact, if you see employment growth continue, which we have already seen ... you said financial services is declining. Well, financial services employment was up on the latest information that we have got. I take your point that you raised on Monday around the Business Tendency Survey information that was out towards the end of last week. If you have not seen it, I would encourage you to look at Jersey Finance and the chief executive's blog on exactly the issue around financial services employment going forward. Yes, there are different trends within the sector. Clearly we have lost banking sector jobs over the financial crisis and he alludes to that, but also, from the survey evidence they are looking at, they are saying that over the next 3 to 5 years net job creation could be 1,000 jobs. Now, if that was delivered that would be significantly more positive than is underlying these economic assumptions. I think you are absolutely right to identify uncertainty around the financial services sector going forward. The F.P.P. go into that in quite some detail, the uncertainties that the sector are facing, but there is potential for some upside in the short term. If we got that level of employment growth and if we got interest rates following market expectations then you would expect that to feed through into an improved performance in financial services. Geoff Cook in his article is very clear about pointing out that the optimism that

was there last year ... yes, optimism has come off slightly given developments outside of the Island, the external situation in the eurozone being just one of them, but they still remain positive.

[11:15]

They are just slightly less positive than they were towards the end of last year and there are positive developments in the pipeline. So I fully understand what you are saying, but there is potential upside and there is potential downside as well and we should not just focus on new information that is on the downside and assume that everything then points in a downward direction. There is some balancing information as well which clearly points to what the F.P.P. are saying. Sensible assumptions going forward are in this range, but plan for either side of that. Think about what you do if in fact the financial services sector does not perform as well as these numbers suggest. Also, it might be an easier decision if the financial services sector performs better than these numbers. If it performs less well what is the right policy approach? We should not dwell too much on what the numbers are. If that is your real concern, how the financial services sector performs going forward, then what does that mean for the M.T.F.P.? Again, F.P.P. go into that in terms of what you should do if the economic performance is less well than expected.

**Deputy J.A.N. Le Fondré:**

Just to be clear, obviously the whole thrust of this is that ultimately, yes, these figures feed into income forecasts, which feeds into the M.T.F.P. Obviously that is where everyone is going. I have not seen the J.F.L. (Jersey Finance Limited) blog. I presume it is in the last few days. Does he make reference to whether - it might help for clarification actually - if there is 1,000 jobs out there, which is, if nothing goes wrong, absolutely excellent news, or are they more likely to be for existing businesses growing their staff or possibly taking staff back who they may have had to let go in the last few years, in other words from the existing pool of the population, or is that potentially people coming into the Island as well?

**Economic Adviser:**

I am not sure the blog goes into that much detail. It does say where they think the employment growth is going to be, but in terms of the interviews we conducted on F.P.P.'s behalf with the large financial institutions the thing we were getting was a similar story. I am not saying that it was 1,000 jobs, but there was some potential growth in the medium term in employment and actually that would be achieved by drawing people in from the local labour market but there would be some requirement to bring in additional people. Now, what the F.P.P. are quite clear about on that one, which is interesting, is that if financial services is not supported in that way and does not have the opportunity to bring in the people that it needs then that is a danger that you are constricting this

supply side of the economy and that would change the economic outlook and the structural position in financial services.

**Deputy J.A.N. Le Fondré:**

Yes, I think I picked up on that.

**Economic Adviser:**

That being said, what we picked up was that there were moderate requirements to bring people in. There was some ability to employ people locally and, those two things together, they took a reasonable level of confidence going forward, but within that there are different stories.

**Deputy J.A.N. Le Fondré:**

Let us just stop there because I am acutely of the time and we are running behind here. Before we go on to the next question, Kevin have you got anything on this? You are happy at the moment, are you?

**Deputy K.C. Lewis:**

I am okay on this one, yes.

**Deputy J.A.N. Le Fondré:**

Simon, do you want to follow up?

**Deputy S.M. Bree:**

No, I am fine.

**Deputy J.A.N. Le Fondré:**

Janice, are we happy at this stage? Yes. Right. We are going to move on to our question 3, which is Kevin.

**Deputy K.C. Lewis:**

I know this has been lightly touched upon, but could the Minister explain to the panel the approach taken to the economic forecast and associated assumptions relevant to the development of the Medium Term Financial Plan of 2016-2019? Could you go through the mechanisms?

**The Minister for Treasury and Resources:**

I think we have probably covered that, have we not?

**Deputy J.A.N. Le Fondré:**

It is slightly the next level down, if you like. You have talked about a little bit on the I.F.G. (Income Forecasting Group). Is it the I.F.G. now or the I.T.F.G.

**The Minister for Treasury and Resources:**

Income Forecasting Group. We have broadened it.

**Deputy J.A.N. Le Fondré:**

I was going to say, we have ditched "Tax".

**The Minister for Treasury and Resources:**

We did not ditch tax. We just broadened it. This is rather important.

**Deputy J.A.N. Le Fondré:**

In the labelling side of the thing. We will come on to the actual I.F.G. then shortly. You have talked about that but could you just explain the process that they go through to get from - maybe Richard - when they meet; what they are going to be doing in terms of the assumptions; how they are going to process the data. What is the timeframe for them to produce the forecast? A brief outline.

**Interim Treasurer of the States:**

Very brief. Within the taxes department we are finalising the figures for the 2014 outturn. We do not just put the 2014 outturn figures into a model because you have to strip out any items that are in there that you deem to be one-off for 2014. It could be debt provisions or whatever it might be. So there is quite an industrious exercise of stripping out any of those one-off items within the income tax forecast. These are then put into the model which is run by the Economics Unit and then we consider them in some detail as a group, the outcomes of those; just sense checking. So the idea is to get people around the table who can sense check what is going out of the model, but it will vary for other areas within income; taking it from being income tax to all, with new territory then we need to change the way we forecast those other income lines. In terms of timescale, while we are reaching the stage where we will be shortly furnished with the outturn, the rest of the February is needed for the stripping out of the one-off items, going through them with a fine-tooth comb, for them to then be passed to the Economics Unit and the first meeting of the I.F.G. is at end of February with a view to a final report by the middle of March. It has always been the case that there will be ranges and the trick this time is to make sure that we put emphasis on the range and that we do not end up just talking about the centre point when we are dealing with a forecast. Those ranges are dictated by the ranges that are within the economic forecasts that you have here. You have been on page 43, so it reminds me of page 43. It reminds me of a suggestion by

the F.P.P. that before we finalise - it brings back to the point you raised earlier on - the forecasts we will get them to recheck the economic assumptions. This would be the point in time at which we draw the line in order that we can actually have a debate. So that will probably be around April time, but we will also have an F.P.P. report in July/August. If there is anything changed again, that will be there for everyone to see and indeed we might take the step, if it seems like it needs to be, to ask if there is anything that has changed from when we launch the M.T.F.P. to when we debate it; just so people have got that knowledge, not to necessarily get to the point where we are amending the M.T.F.P. every week until we get to a date in September.

**Deputy J.A.N. Le Fondré:**

An important point about the role of the F.P.P. because, of course, if they were strictly advising us we would get the advice first before lodging the Medium Term Financial Plan. They are going to be looking at what we have put together with the Medium Term Financial Plan. We have got their initial report that they have just produced. We understand the direction in which they would like to see us going. We will be lodging it and they will be then reviewing it, if you like, and doing a report in July.

**Deputy J.A.N. Le Fondré:**

So if I try and summarise, your department puts the economic forecast together. They get endorsed by the F.P.P. They then feed into what is going to be called the Income Forecasting Group, rather than the Income Tax Forecasting Group. They will meet in February and they will be reporting about April-ish.

**Interim Treasurer of the States:**

Yes. Probably a bit earlier than that, I would say.

**Deputy J.A.N. Le Fondré:**

Then the range ...

**The Minister for Treasury and Resources:**

Sorry, John, they are not just meeting in February. There are several meetings.

**Deputy J.A.N. Le Fondré:**

Sorry.

**The Minister for Treasury and Resources:**

It is the start of a process.

**Deputy J.A.N. Le Fondré:**

Yes, okay. The process being applied is that they will use the figures being produced by yourselves but endorsed by the F.P.P. The query was what date did you produce the economic forecast as at? Were they based on November, December, January?

**Economic Adviser:**

Which ones, the F.P.P.'s?

**Deputy J.A.N. Le Fondré:**

Yes, the F.P.P. figures which are on page 43. Those are as at what date effectively?

**Economic Adviser:**

The publish date, end of January.

**Deputy J.A.N. Le Fondré:**

So they are basically current. They are not based on work that was done in November or something, for the sake of argument?

**Economic Adviser:**

The economic assumptions are not. There is a lot of economic analysis that had been done in November, December and January, but the economic assumptions are designed to be up to date at the point of publication, whereas, as it pointed out, even the F.P.P. are saying it would be worth reconsidering these if things change in the coming months.

**Deputy J.A.N. Le Fondré:**

Okay. So then the only queries are, in terms of what gets given to the Council of Ministers and the States - and, as you say rightly, there will be a range - will it just be a graph or will we have some numbers attached to those ranges?

**Interim Treasurer of the States:**

You will get a report.

**Deputy J.A.N. Le Fondré:**

We will get some numbers?

**Interim Treasurer of the States:**

The Income Forecasting Group's report will be published.

**Deputy J.A.N. Le Fondré:**

But it is not just going to be a graph this time round, is it?

**Interim Treasurer of the States:**

No, we put figures in.

**Deputy J.A.N. Le Fondré:**

Right. I have one query, I think. Yes, but it was only partially because ... the model that you are using, am I right in saying that you are using either a relatively new method? In other words, compared to say 5 years ago - I do not know if I am looking here or here or both actually - you have changed the process being followed a little bit. There was a comment in there that the analysis suggested that there was a tendency to underestimate income tax in a growing economy and overestimate in a weak economy.

**Head of Financial Planning:**

I think that was from your own economic adviser. It came from his report that he did.

**Deputy J.A.N. Le Fondré:**

That is from the I.T.F.G. report.

**Head of Financial Planning:**

No, but it refers back to some work that was done by the economic adviser of one of the previous panels.

**Deputy J.A.N. Le Fondré:**

Okay.

**Head of Financial Planning:**

But the answer to the question is that the model was reproduced a few years ago but, probably more important than that, each year the purpose of doing the stripping out that the Treasurer mentioned out on the income tax outturn is that you then get a much cleaner base from which you can then compare how the model performed in the previous year and use any lessons learned from that to adjust the model for future references.

**Deputy J.A.N. Le Fondré:**

I do not like using the word "accuracy" but is the model becoming more robust as time progresses? It might be the wrong terminology I am trying to use.

**Head of Financial Planning:**

All it can do is take on board the information that we have. Where we can see changes in the way that the model worked in the previous years and ways to improve that, then we will take those on board rather than letting the model just stand still. It does evolve each year and that is part of the work that is done between the tax office and the Economics Unit before the figures are produced.

**Economic Adviser:**

Just to add to that, it has not been a static model. As you know, the original model was developed by an economist from the Bank of England that we had on secondment. It has been developed nearly on a yearly basis as we have got more information. One of the things that we have added in is a much more accurate way of trying to forecast exemptions and allowances going forward. We had a problem in the early days we had a difficulty in getting the yield assumption right. We had a flat assumption which seemed right in the early days. Then we found that the yield changed, so we have that incorporated into the model. So we have now got a way in which we actually forecast directly. We make the assumptions going forward about what is likely to have changed and what the yield is going to be. So that is an area that has definitely been improved. The model itself, the way it works, updates each year. It is looking back at past relationships between the economic variables and the tax base and every year you get new information both on the economic variables and the tax base, so that relationship is being constantly adjusted. Also, in terms of the process that we go through, clearly when we take the modelling to what was the Income Tax Forecasting Group, they are a group of officers that want to challenge and understand and have information that can help us in the modelling. One of the things that we are clearly looking at is trying to understand how corporate profits might move going forward and that we are not dependent on a statistical relationship, because there is nothing that we have really got in the past that can inform us. So that is one of the reasons why we have done much more detailed information gathering from taxpayers through the Taxes Office. It is why we have spoken to the financial institutions directly, to try and understand that profile so we have a better assumption. It is an ongoing process and obviously if the panel and also advisers have got views on how we might be able to improve that we are always prepared to listen because it is not an exact science.

**Deputy J.A.N. Le Fondré:**

Okay, that is fine. Can we try and move on to the next question on the I.F.G., which I think is down for Kevin? Now can we just talk about the I.F.G. in terms of how it has been formalised, what the structure is, who is going to be on it and that type of thing? Can you give us an update?

[11:30]

**The Minister for Treasury and Resources:**

Yes, of course. We have set a clear remit for it. There is a reporting structure. We have taken in summary some of the points raised in the former scrutiny panel's recommendations and basically adopted those as indeed we undertook to do. We accepted the points made. The terms of reference, which will be published: reporting to the Council of Ministers and the Corporate Management Board. It is a much cleaner, more robust, clearer, more transparent arrangement than was perhaps arguably in place previously. In terms of the actual membership of it, we have got very esteemed company, many of them here: Treasurer; Controller of Taxes; Economic Adviser down the end of the table; Director of Financial Services; we have added in the chief executives of E.D. (Economic Development) and Social Security with the view of wanting to get more live data from the frontline, if you like, which is important; the Adviser to International Affairs, which is a great title. You might want to know the names of some of these. That one is Colin Powell. I always get lost on his title but that is who he is. We are also going to include an external independent person yet to be finalised. Have I missed anybody?

**Economic Adviser:**

Sorry, Paul.

**The Minister for Treasury and Resources:**

Paul, sorry. Can I get the usual title?

**Economic Adviser:**

Tax Policy Director.

**The Minister for Treasury and Resources:**

Tax Policy Director.

**Deputy J.A.N. Le Fondré:**

I think one response that the proposals were being prepared for you to consider either this month or last month. Is there any chance of having a copy of those at some point?

**The Minister for Treasury and Resources:**

The draft ...

**Deputy J.A.N. Le Fondré:**

The draft proposals to formalise the role of the I.F.G. In other words, I think there is ...

**Assistant Minister for Treasury and Resources:**

The terms of reference?

**Deputy J.A.N. Le Fondré:**

There will be a terms of reference. There will be some report or other that you will have had recently, giving you how the structure has changed.

**The Minister for Treasury and Resources:**

Yes. The terms of reference and the outcomes are going to be published anyway.

**Deputy J.A.N. Le Fondré:**

If there are another proposals then if we could have a copy that would be great. Okay. Now, we are, on our timetable, slightly out of time. Do you have some more minutes to try and go through the actual details of the ministerial response or shall we do that by email?

**The Minister for Treasury and Resources:**

I could probably do another 5 minutes but I am not sure if we have enough time to cover it in that time.

**Deputy J.A.N. Le Fondré:**

Okay. No, we will not be able to do all of them. Let us just see if there is 2 or 3. I will skip through them.

**Deputy S.M. Bree:**

Sorry, can I just ...

**Deputy J.A.N. Le Fondré:**

Sorry, yes.

**Deputy S.M. Bree:**

I just sort of want to ask one question, please, if I may, just to clarify a point, going back to one of the original questions that we posed to you, looking at your plans to address the possible deficit moving forwards. Obviously there are a lot of areas that you can look at. One comment you made at the end was possible tax changes. Are you talking about tax increases to the individual income tax rates? It is just to get a better idea because obviously all of these things will play a part in addressing the deficit.

**The Minister for Treasury and Resources:**

Perhaps I should just clarify one other point. I do not think I said “a probable deficit”. I think we are clear we have got deficits to deal with over the next few years. It is a probable structural deficit. For the record and to be clear about that, it is a probable structural deficit at the end of it. There is no doubt in the short term we have got deficits that are a challenge and need to be dealt with.

**Deputy S.M. Bree:**

There are 2 types of deficits, basically: structural or cyclical. I think we can quite clearly rule out this being a cyclical.

**The Minister for Treasury and Resources:**

Yes, anyway, point made on that, but in terms of how we are going to deal with it, I have laid out all the measures that are going to be taken.

**Deputy S.M. Bree:**

Yes. I was specifically asking about the comment you made about tax, if you could just answer that.

**The Minister for Treasury and Resources:**

Well, there are no specific details around tax. The point I made was if all else fails. I have consistently said that taxes are the very, very last resort as far as I would be concerned. First of all, we have the other areas to concentrate and focus on in order to deal with that situation.

**Deputy S.M. Bree:**

So that is really the last area you want to start looking at, but it is always there in the armoury of weaponry to address the deficit. That is what it is.

**The Minister for Treasury and Resources:**

I have said previously in a public forum that I think in the past there has been a case to resort ... and this is not just a Jersey issue; it happens globally, I think. When governments need to raise money it is very easy to go automatically to tax. Bearing in mind we have got challenges around economic growth, and we talked about the numbers that are forecast from 2018 onwards anyway, we have got to be very careful in terms of any form of tax in the future and the impacts that that might have on the ability on of the economy to grow.

**Deputy S.M. Bree:**

Indeed, yes.

**The Minister for Treasury and Resources:**

Notwithstanding the impacts on Islanders because quite a lot of money has been taken out anyway in recent years as we have gone through quite significant changes, through the Zero/Ten process and suchlike. So I am very clearly focussed on ensuring that we do all the work first on the other areas that I have talked about before we get to discussions, if absolutely necessary, with tax. A lot of the problem here and the real challenge - I think the Chief Minister previously said this and I have said it - is around Health. There are different numbers. I think the Chairman mentioned: £60 million or something .

**Male Speaker:**

£70 million.

**The Minister for Treasury and Resources:**

£70 million, right. There is £23 million of white paper growth for Health and in total there is about £50 million as well. So there is a lot of money in health funding, which is a whole debate in itself. If you took that out of the equation, then that changes the picture quite significantly, but I hope that clarifies my position on tax.

**Deputy S.M. Bree:**

Good, yes.

**Deputy J.A.N. Le Fondré:**

I presume charges would apply at the same ranking as tax. In other words, one way or another it is always taking money out of the public. In other words, you might say that a tax charge is obviously the last resort but, hopefully, any significant increases in departmental charges would also be one of the last resorts.

**The Minister for Treasury and Resources:**

That, of course, is a very good question. Yes.

**Deputy J.A.N. Le Fondré:**

I hope you are going to give a very good answer, Minister.

**The Minister for Treasury and Resources:**

I will endeavour to do so. Charges, yes. Obviously it is a level down but it is similar in terms of the impact. I think another point I have made previously in the public forum is that we need to be very aware of the cumulative effect of any form of changes that take money out of people's pockets and charges, obviously, fall into that category as well, perhaps to a lesser degree, but we do need to

look at the cumulative impact in that area. I would just caveat it by saying that across the States as a whole there are a huge number of services delivered. Historically, many of those services have either not been charged or been charged at very low rates and there has been a move to try and normalise some of those charges. Of course, if you are doing it at the same time that you have increased taxes, then you have got a cumulative impact which is quite significant, but I think we need to look at the whole picture. There does need to be, in some areas, some normalisation. I think there is a debate in the future (not far into the future, I hasten to add) around Health and we have talked about sustainable funding models for Health. One of the options to consider, and this is a matter for the Islanders to very much consider when we get into it, is about whether some form of charging is part of the solution to that, if some of the other mechanisms that I have referred to are not successful. You could equally argue, looking at other jurisdictions, whether that particular model in something like liquid waste might also be something that needs to be debated. But, as I have said, this is off to one side in terms of focus.

**Deputy J.A.N. Le Fondré:**

Okay, we will come back to that in a minute. I think probably start drawing a line, to be honest, under where we are, because I am very appreciative ... and there will be a couple of questions on that. There will be a couple more questions on that. Kevin, have you got anything to ask?

**Deputy K.C. Lewis:**

No. I think we are fine.

**Deputy J.A.N. Le Fondré:**

Chris, anything else?

**The Connétable of St. John:**

No, I am fine.

**Deputy J.A.N. Le Fondré:**

I have got a couple of points to cover before I do the wrap-up.

**The Minister for Treasury and Resources:**

Just when we thought it was all over.

**Deputy J.A.N. Le Fondré:**

There you go, you see. Briefly, and more of an observation - you do not necessarily need to respond or at least you can do a wrap-up - you made reference to liquid waste charges for example. I would hope one of those debates when we get to that is then, well, what is the purpose

of income tax, for example, because my view has always been and I say, and that is what I just want to put it on record, that the purpose of income tax is to pay for basic services that Government would be expected to provide. I would suggest that removal and disposal of sewage, which originally was done partially because of cholera outbreaks in the past and things like that and people dying, is one of the basic services of Government. Therefore, is it justifiable? We know everybody does it elsewhere because fundamentally they have got their finances in a mess and that is one thing you are going for, but it is a pretty basic function that you are going to suddenly start to charge people for. I will just put down that as a marker. You can respond to that in a second. But what I was also just going to ask briefly, which is one of the things on the Minister's responses, is ... one is reference; one is just looking for an update. Obviously, going back to June, July or August last year when the 2 per cent suddenly got imposed, it was relatively short notice that the department had to react. Let us accept that. However, we are now, what, 6 or 8 months down the line and the initial response in here was that departments have been, I think, requested to provide details for the first quarter of 2015 as to what they are proposing to do, which just goes back to the urgency point. It is quite a long time now that they have been given. I accept politically there have been elections in the middle but the departments have carried on. It is about the urgency bit about where we are. So, first is the principles of income tax; second is the general urgency about information flow; and, third, and perhaps more importantly for 2015, are the departments on track to achieve their 2 per cent? That is probably the end of my questions for the moment.

**The Minister for Treasury and Resources:**

Okay. Well, hopefully I can deal with those last 2 together. First of all, the 2 per cent was taken out of the budgets of the departments. So the money has gone and that is why this less ... you talk about urgency. It is not about urgency. The money has gone. Simply we want to know exactly how they have gone about doing it, but we have left it over to the departments. They have got to sort it out within their existing resources and we have started to get that flow of information.

**Deputy J.A.N. Le Fondré:**

So just to clarify, would it be fair to say then that the accounting officers have been told: "Your money is not there, so as a safeguard you can have a £1 million budget." They are now at £900,000 or whatever it is.

**The Minister for Treasury and Resources:**

They had 2 per cent taken out, absolutely.

**Deputy J.A.N. Le Fondré:**

It is gone. It cannot be spent and if, at 31st December they are budget, they have got a problem?

**The Minister for Treasury and Resources:**

Correct.

**Deputy J.A.N. Le Fondré:**

Okay.

**The Minister for Treasury and Resources:**

We are just interested to know how they have gone about making those savings, because it was relatively short notice. What obviously we would like to have seen is sustainable savings that can be then transferred. We accept, because of the timescale, that there are going to be some one-offs within those savings for departments to meet the 2 per cent and that is something we will have to deal with. That is why we want to just be cited with how departments have gone about it. But the money has gone. There has been confusion, I think, in the media and elsewhere about this 2 per cent saving, "Maybe departments will not make the saving." The fact of the matter is: the money is not there. They have not got it. They are just identifying exactly how they are going to go about dealing with that within their budgets.

**Deputy J.A.N. Le Fondré:**

Okay, I said they will have a problem. What happens if in October they come back and say: "Sorry, Minister, we tried our best but we have not been able to do it"?

**The Minister for Treasury and Resources:**

Well, frankly, that applies to any of the other measures that were put in place as part of the solution for 2015. Obviously we are working through the delivery of those measures against the need to have a balanced Consolidated Fund and you are obviously familiar with that. In extreme circumstances, if one needed to come back and make a variation to the Medium Term Financial Plan, then that would be a course of action necessary. At the moment we are just going through the assessment process of what was put in place and the ability for it to deliver on what was intended and we will report back on that in due course.

**Deputy J.A.N. Le Fondré:**

Do you want to address my first point?

**The Minister for Treasury and Resources:**

The liquid waste or the principle ...

**Deputy J.A.N. Le Fondré:**

The principles of income tax.

**The Minister for Treasury and Resources:**

Yes. Well, I think it is probably one of the areas that I try to emphasise time and time again. It is all about balancing budgets and how you apportion the funds available and the priorities that we as a Government have. Your point is that liquid waste is something that should be, in effect ... it seems a bit odd to call it a priority, but it is certainly a fundamental expense that people perhaps would expect to be contained within the income tax revenue side of it.

**Deputy J.A.N. Le Fondré:**

Which they already have been paying for and which they have been paying for, for years.

**The Minister for Treasury and Resources:**

Well, that was the point you were making and I think I have made the point. In terms of ultimately balancing, we have got to go through the other processes first of driving efficiencies and so on and so forth, which would lead us to be able to deliver as many of the key services expected within that envelope before getting into charges. You asked me earlier a specific question, Deputy Bree, about taxes, and, you, about charges, and I have simply said that at some point we may have to look at those options if we do not deliver. I am determined that we do everything feasible first to deliver on the first element, but if we do not then those are something we might need to look at. I mentioned liquid waste as an aside. More specifically, and it is more specific, there is the whole debate around Health and the funding of Health.

**Deputy K.C. Lewis:**

Can I just elaborate on that?

**The Minister for Treasury and Resources:**

Yes.

**Deputy K.C. Lewis:**

When I was at T.T.S. (Transport and Technical Services), and the Chairman was with me, we had a plan together to build a new sewage plant. Apart from the initial outlay, there would be no cost to the public purse. There would not be any sewage charge. How far down the line are we now? I take it that is no longer the case. Is this just something that has been mooted or is this now policy.

[11:45]

**The Minister for Treasury and Resources:**

I should have realised before I mentioned liquid waste that the expertise on your panel was going to get me into trouble. No, it is not. I mention it purely as an aside and there are a range of options and that is the whole purpose of where we are with this whole process of planning for medium term financial plans. There are a number of options which are being worked through. We are at the early stages. It is part of a process. I mentioned it is just, in extremis, that is one area that consideration for a charge might be brought on but perhaps, in hindsight, it was not the best one to have mentioned. I hope I have made it clear, though, that there are charges and charges. It is at the other end of the spectrum.

**Deputy J.A.N. Le Fondré:**

The priority, from your perspective, at this stage is expenditure and control thereof. Would that be a fair comment, Minister?

**The Minister for Treasury and Resources:**

Indeed, and doing everything possible to ensure the environment is correct to drive growth. Growth does not happen overnight and certainly, focusing on 2018 and 2019, we are going to have to work hard and we are going to have to invest. As the F.P.P. have said, appropriate investment now is also important in terms of ensuring we support the economy to bring it back to capacity but it has got to be short-term expenditure. It is missing the 3 Ts, effectively.

**Deputy J.A.N. Le Fondré:**

I will say thank you very much, at that stage. Thank you for your time. Sorry we have slightly overrun, but I think perhaps we ought to put some extra time in the diaries sometimes because it is sharing information from both ends and it is quite a lot. Thank you, all. We shall now draw the hearing to a close.

**The Minister for Treasury and Resources:**

Lovely, thank you.

[11:46]