

# **STATES OF JERSEY**

## **Corporate Services Scrutiny Panel**

## **Draft Budget Statement 2017**

**MONDAY, 7th NOVEMBER 2016**

**Panel:**

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

Deputy S.M. Brée of St. Clement (Vice Chairman)

Deputy K.C. Lewis of St. Saviour

Senator S.C. Ferguson

Connétable C.H. Taylor of St. John

**Witnesses:**

The Minister for Treasury and Resources

Treasurer

Deputy Director, Tax Policy

Director, Treasury Operations and Investments

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[10:33]

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

Good morning. Welcome, everybody to the Corporate Services Scrutiny Panel with questions for the Minister for Treasury. Predominantly they are not entirely around the budget. Welcome, Minister. I draw your attention, as ever, to the notice in front of you, which I am sure you are fully aware of, and also to members of the public. There are still notices around the room in the middle of redecoration. We do expect members of the public and the media in the public seating to remain quiet at all times while the hearing carries on. As we proceed through the questions, Minister, as you know we may stop you if we feel you have answered the question sufficiently because we all need to try to be as concise as possible. For the benefit of the tape, I will start going round. Deputy John Le Fondré, Chairman of the panel.

**Deputy S.M. Brée of St. Clement (Vice Chairman):**

Deputy Simon Brée, Vice Chairman of the panel.

**Deputy K.C. Lewis of St. Saviour:**

Deputy Kevin Lewis, panel member.

**Senator S.C. Ferguson:**

Senator Sarah Ferguson, panel member.

**Connétable C.H. Taylor of St. John:**

Constable Chris Taylor, panel member.

**Treasurer:**

Richard Bell, Treasurer.

**The Minister for Treasury and Resources:**

Senator Alan Maclean, the Minister for Treasury.

**Deputy Director, Tax Policy:**

Paul Eastwood, Deputy Controller of Taxes.

**Director, Treasury Operations and Investments:**

Simon Hayward, Director of Treasury Operations.

**Deputy J.A.N. Le Fondré:**

Thank you very much. Minister, to kick off, general discussions and more general questions. The States has agreed expenditure on health but, as we know, did not approve the health charge. How are you going to fill the gap in the funding?

**The Minister for Treasury and Resources:**

We are looking at 2 issues first of all. We have got the shorter-term measures during the course of the Medium Term Financial Plan period so, as you will be aware, from 2018 that is £7.5 million in terms of shortfall and for 2019 that is £15 million. What we are going to do is manage that in the short term through existing resources, but the effect that the States decision has had in real terms is that we do not now have a sustainable mechanism for health for the balance of £15 million recurring after that period of time and that is what we are going to continue to work on, to look at what the sustainable measures may be from 2019, March 2019.

**Deputy J.A.N. Le Fondré:**

At the moment are you going to be just relying on the strategic reserve?

**The Minister for Treasury and Resources:**

No. The strategic reserve is not intended specifically for that purpose. We are going to be seeing how we can manage 2018 from perhaps underspend and we will just manage forward from there. In extremis, if of course we cannot, then the ultimate recourse would be to look at growth, so restricting growth.

**Deputy J.A.N. Le Fondré:**

That is rather helpful because, unless you are reading upside down, Minister, my next question was: would you consider withholding growth?

**The Minister for Treasury and Resources:**

I think I have answered that question.

**Deputy J.A.N. Le Fondré:**

We will take that as a yes, because you have suggested in the past that if income forecasts or saving targets failed to reach the proposed targets then the growth funding would need to be revisited.

**The Minister for Treasury and Resources:**

It is probably worth just to elaborate a little bit further on that. There are various moving parts, as I am sure you will appreciate. We are primarily talking about the budget today and, of course, the budget measures, as per this proposed budget, would raise recurring £3 million by 2019 on the

assumption, of course, that income is retained at the level that is currently forecast. There is some scope in there through the budget which adds additional flexibility to close some of that gap.

**Deputy J.A.N. Le Fondré:**

Did you consider whether savings targets have been met before including the release of growth for 2017 in the M.T.F.P. (Medium Term Financial Plan) Addition?

**The Minister for Treasury and Resources:**

If you are asking whether they are measured, yes, they are. In terms of any shortfalls that result, as I have said, ultimately there is the option to withhold growth if indeed they have not been met or any other variable like income should fall.

**Deputy J.A.N. Le Fondré:**

Do you think it is realistic to suggest that growth funding could be withheld when, from our brief look at it, a good proportion of it relates to inflationary costs and demographic costs? How realistic is it to say we could withhold growth funding?

**The Minister for Treasury and Resources:**

I think it is realistic to say some growth funding could be withheld. I think at the time one would need to assess the level that was going to be required, if indeed that were the case. As I have said, there are a number of variables. We could see income increase; we could indeed see income falling as well. So we would have to assess it as we go on. This is a matter that needs to be kept under continual review. The budgetary process each year is one area where we have some flexibility.

**Deputy J.A.N. Le Fondré:**

That is why we are raising it looking ahead at the budgetary process. How much is going to be taken out of the strategic reserve net during the period of the M.T.F.P. to 2019?

**The Minister for Treasury and Resources:**

£123 million.

**Deputy J.A.N. Le Fondré:**

That is gross I believe.

**The Minister for Treasury and Resources:**

Yes, and there is £20 million repaid in 2019.

**Deputy J.A.N. Le Fondré:**

So £120 million is going to be taken out and £20 million is going to be repaid?

**The Minister for Treasury and Resources:**

It is £123 million out; £20 million is repaid in 2019 is the intention.

**Deputy J.A.N. Le Fondré:**

So just over or just under £105 million is going to be taken out of the rainy day fund in the period of the M.T.F.P. to 2019?

**The Minister for Treasury and Resources:**

Correct. That is an interesting point, if I may just say, that there are many who have a view that we are not using our reserves. I know the panel probably is very aware of what reserves are being used, but from a public perspective there is a view that there are considerable reserves and they are not being used. They are; the Council of Ministers are using reserves to help to smooth the process in the transition over the M.T.F.P. period.

**Deputy J.A.N. Le Fondré:**

I think the query we had, Minister, is that - and we will obviously get on to income forecasts later - in the last few months, shall we say, following the revisions downwards to the income forecasts, you are proposing to withdraw additional amounts from the strategic reserve on top of those that were already planned, as I understand it. Is that not a case of funding revenue expenditure from reserves?

**Treasurer:**

It is question of how you present it. Of course it has been presented in here as being a contribution to the capital programme, the majority of that. I can answer the question, as the Chairman knows the answer to the question, in that the drawdown is consistent with economic advice to say continue spending while you set yourself on a path back to balancing budget. So it is presented largely as contributions to the capital programme, the largest drawdown in 2017 being in respect of Les Quennevais School. You can put it whichever you want to put it to suit your individual view.

**Deputy J.A.N. Le Fondré:**

The other argument is, the alternative is, it displaces income. Stuff that we would have previously funded out of revenue is now being funded out of our rainy day fund, effectively. Okay. I think the point we are trying to get to is does the Minister accept that if we were to go back 5 or 7 years, maybe 10 years, touching the rainy day fund would have been anathema to most politicians and to the public? Would you accept that we are in different circumstances and now the rainy day fund is being dipped into relatively significantly?

**The Minister for Treasury and Resources:**

It is on the basis of the figures we have just discussed. I think anybody would say that a net figure of over £100 million is a significant withdrawal but it is intended to smooth the impact on Islanders in a very difficult economic climate. Has it changed? Yes, and we have to remind ourselves, of course, of the reason why: obviously the economic climate we are in but also the fact that the States have approved, as they would have to do, this particular policy. It is the decision of the States, recognising the climate that we are operating in, that it is appropriate in these circumstances to use these reserves in the way that is being proposed.

**Deputy J.A.N. Le Fondré:**

Just moving ahead, instead of the health charge, at the moment the budget includes an income line that is future revenue raising measures, which covers the £15 million. Minister, I take the point you have made about possibly some of that could be offset by the budget measures but all things being equal, the £15 million that is in there in 2019, is that going to look something similar to the health charge that the States have rejected or is it too early to determine what that sum of money might look like?

**The Minister for Treasury and Resources:**

I think the States have made it very clear that a health charge in the way that it was proposed is not acceptable, so it is not a question of going back and trying to rehash a new health charge. No, that is not on the agenda, to be absolutely clear, so we would be looking at a number of other options. As you know, for example, there is a personal tax review about to commence that will conclude by the end of March. Senator Ferguson is obviously very involved in that through the amendment that she brought. We are also looking at other areas in terms of broadening the corporate tax area and these are matters that I have mentioned on a number of occasions before. I will give one example to explain the point and that is what has been dubbed as the Tesco tax. We know that the Isle of Man have introduced such a tax; Guernsey did at their budget before last. Once we have the necessary data we will look at considering that. That could drive revenue estimated possibly at around about £3 million per annum. So there are a number of other areas which are subject to reviews that will inform the Council of Ministers as to how we might manage the point you have raised.

**Deputy J.A.N. Le Fondré:**

Okay, good. At the moment is there any consideration being given to increasing G.S.T. (goods and services tax) by 1 per cent, say?

**The Minister for Treasury and Resources:**

Currently there is no discussion at the Council of Ministers about G.S.T. being increased.

**Deputy J.A.N. Le Fondré:**

Bluntly, I suppose, the queries in terms of this particular budget, is it just - I will use the expression - fiddling round the edges in order to try to meet agreed levels of expenditure while at the moment not tackling the funding gap and the structural deficit?

**The Minister for Treasury and Resources:**

No, I would not say that at all. We have always said that the budget was an important tool in order to give us additional flexibility. It is not just though, I should hasten to add, about revenue raising although, as I have said, this particular proposed budget will raise just over £3 million per annum by 2019. It is also seeking to manage the expectations and policy requirements of departments in areas like health. We will come on to talk about impôts I am sure in a moment. That is why we have been slightly more aggressive about R.P.I. (retail price index) in those particular areas, taking those considerations and policy directives but, as I say, I am sure we will come on to those.

[10:45]

**Deputy J.A.N. Le Fondré:**

I am sure we will come on to that shortly, Minister. Does anybody at this stage want to come in?

**Senator S.C. Ferguson:**

Do you really think that the revenue measures you are taking in the budget are going to be sustainable to meet the long-term income demand of the States long term?

**The Minister for Treasury and Resources:**

In the budget, no, and I did not say they were intended to do that. I said they add some flexibility.

**Senator S.C. Ferguson:**

No, I am talking about the overall revenue measures that you are taking as Minister for Treasury in the budget.

**The Minister for Treasury and Resources:**

Well, they are as I have described them really, Senator. They are intended to provide additional flexibility. They are intended not just as revenue raising. They do raise £3 million per annum by 2019 but they have other objectives and that is meeting and supporting policy objectives of other departments.

**Senator S.C. Ferguson:**

Yes. I am talking about the overall budget. Sorry, I perhaps did not explain it properly. I just wonder if what we are doing at the moment, as the last question said, is just fiddling round the edges and not looking at the overall problems of the funding gap and the structural deficit.

**The Minister for Treasury and Resources:**

I think we are doing a lot of work and have done a lot of work with regard to the deficit and that is why, broadly speaking, the M.T.F.P. gives balanced budgets by 2019. There is a lot of additional work going on to address some of the areas where there are shortfalls. The decision of the States, for example, over the health charge has created, as we have just discussed, a shortfall and we are looking and will be coming back with solutions as to how we address that. That is all I can say at this stage. You can take short-term decisions, and this budget is dealing with some short-term issues, but longer term for sustainable funding for health, and there are some other areas as well, the Council of Ministers will be coming back and indeed have charged the Corporate Management Board with looking at options for consideration.

**Senator S.C. Ferguson:**

I was not talking about just health. Let us go on to taxation.

**Deputy J.A.N. Le Fondré:**

I will come to that in a minute.

**Deputy S.M. Brée:**

Minister, I am slightly concerned, as I am sure a lot of other people are, about the use of the strategic reserve, colloquially known as the rainy day fund. Effectively you are saying, if I am correct, that there is over £100 million worth of net withdrawal from the rainy day fund. Use of the strategic reserve to effectively fill the gap in funding could be construed as very, very bad financial management where you are using a capital asset to fund a gap in revenue. What assurances can you give to this panel and the public at large that you will not be raiding the strategic reserve fund any more than you already are?

**The Minister for Treasury and Resources:**

First of all, Deputy, “raiding” is a very emotional word, is it not? The use of the funds...

**Deputy S.M. Brée:**

It is an opinion of mine of the actions you are taking.

**The Minister for Treasury and Resources:**

Well, fair enough. You are, of course, welcome to your opinion, but we have to remind you and the panel that, as you should be well aware, it was a States decision to use money from the strategic reserve. You rightly say it is often described as the rainy day fund. There are many who have said in recent years that surely it must be at least drizzling outside at the moment and I think in the circumstances it is absolutely appropriate. The States thought it was appropriate. The key factor is that this funding is used in the short term on a short-term basis. It has been supported by external advice, for example the Fiscal Policy Panel. The bulk is being used in areas such as capital expenditure, which again is where the advice is that we need to continue to support the economy and a way to do that is through capital expenditure. This year, this budget, talking about 2017 has £65 million worth of capital expenditure, recognising the economy is not at capacity and we need to continue to invest until it gets closer to capacity. So, yes, it is right but it is not right to be doing what your underlying question was referring to, which is using capital for ongoing revenue expenditure. On an ongoing basis, that is entirely wrong. As a short-term measure to meet an objective, supported by independent advice, it is right.

**Deputy S.M. Brée:**

You are perfectly satisfied that you are taking the right actions in using capital to fund revenue expenditure?

**The Minister for Treasury and Resources:**

In the short term...

**Deputy S.M. Brée:**

A simple yes or no.

**The Minister for Treasury and Resources:**

But it is important because it is not a simple yes or no. If it was long term it would be wrong and it would be not the right thing to do. For the short term, in the circumstances I have described, it is right and that is supported by the Council of Ministers believe it is right and it is supported by independent external advice, the Fiscal Policy Panel for example.

**The Connétable of St. John:**

The use of the strategic reserve or rainy day fund in this way is as a result, in my opinion, of a failure to control expenditure in the past. If you take the first M.T.F.P., budgeted expenditure was £626 million in 2013, £638 million in 2014 and £654 million in 2015. I cannot remember all the figures but in 2015 we spent £697 million, £43 million more than what was agreed in the M.T.F.P. If you totalled the 3 years together it is probably very similar to the £100 million that we are now needing to take

out of the M.T.F.P. over the next 3 years and it is a legacy of having failed to control the budgets during the first term of the M.T.F.P. What measures are you taking to ensure that does not happen in the next 3 years?

**The Minister for Treasury and Resources:**

The principle of what you talk about I completely and utterly agree with. Controlling expenditure is important, it is critically important. To suggest that nothing has been done, though, is not right.

**The Connétable of St. John:**

I did not say nothing has been done. I am asking you what is being done.

**The Minister for Treasury and Resources:**

Yes, exactly. I am coming on to that. You have quoted some earlier years figures which demonstrate your argument. What I would say is that revenue expenditure, if you look at it in 2016 is £740 million in round numbers. Over the course of the Medium Term Financial Plan, this is excluding depreciation, it falls to £734 million. This is the first time that I can recall - I have not actually looked back - any time recently that you see net expenditure falling over the 4-year period. That is 2016 to 2019.

**Deputy J.A.N. Le Fondré:**

Just very quickly, I agree entirely with what you said about 2016 to 2019. What is it relative to 2015? The reason I raise it is in my view 2016 shows a massive spike in expenditure, increase in expenditure compared to 2015. If you are comparing a reduction against one of the bigger increases, you are absolutely correct factually but in spirit, if you like, I would argue that ... I can accept that expenditure is slowing. I think compared to 2015 you will find that 2019 is still higher. Do you accept that point?

**The Minister for Treasury and Resources:**

Yes, it is, but I think you also need to recognise what this Council of Ministers has sought to do. It has sought to recognise many of the costs and funding pressures that have not previously been recognised. They have all been brought out. It is recognising the challenges faced by the ageing population and so on. It is not unique to Jersey, it is happening elsewhere, but it is not a question of brushing this stuff under the carpet. It is recognising what actual costs are and putting in place mechanisms to deal with it. It is one of the reasons why we have this emotive headline about black holes, £140 million and all the rest of it. When we were talking openly about the funding pressures that were faced, we were also equally talking about how we were going to seek to meet those funding pressures, not that we would be left with them. If we did nothing, of course, yes, you could ultimately, a few years ago when we were looking at it, have had, by 2019, a deficit of £140 million in income

over expenditure but we were never suggesting that. What we were saying was this is what the scale of the problem is and we are putting in place measures to deal with it.

**Deputy J.A.N. Le Fondré:**

I think we would have to go back and check the press releases of the day. Can I just pick up on one point?

**The Minister for Treasury and Resources:**

Well, Chairman, they were not your press releases. I was not suggesting that.

**Deputy J.A.N. Le Fondré:**

No. I will rephrase that. We would like to go back and check your press releases or the Council of Ministers press releases of the day, I think.

**The Minister for Treasury and Resources:**

Yes, that is fine.

**Deputy J.A.N. Le Fondré:**

The one thing I just wanted to pick up on and then Sarah has to go on to the next section, you made reference to the Corporate Management Board being charged with various options for consideration, I think was the expression you put. Would you like or care to elaborate on what those options might contain at this stage?

**The Minister for Treasury and Resources:**

I think we have probably touched on a number of them, but I do not think there is anything else that I would add above and beyond what I have already said. We have got also a number of reviews underway. I have talked about the personal income tax review, for example, so I think we need to finish that work, the Corporate Management Board do their stuff and we will come back to you further into next year.

**Deputy J.A.N. Le Fondré:**

There is a balance between seeking to put more personal taxation up and hopefully driving further efficiencies out of the system.

**The Minister for Treasury and Resources:**

This is an ongoing programme with regard to efficiencies. Public sector reform is not a start and finish programme. It is a start and ongoing programme. You can never stop driving efficiencies and indeed that is critically important to the States of Jersey long term.

**Senator S.C. Ferguson:**

Tax measures. You have highlighted in the budget the generous personal exemption threshold in Jersey compared to other jurisdictions. In light of the continued deficit the Island faces and the downgraded income forecast, did you give consideration to reducing the threshold to bring it in line with Guernsey and the U.K. (United Kingdom)?

**The Minister for Treasury and Resources:**

That was not given any specific consideration in depth by the Council of Ministers. We felt that the measures that we put forward were fair and balanced, taking into consideration the current economic climate and the fact there have been a number of changes in recent years which have impacted on the community and Islanders generally and we wanted to seek to be as balanced and fair as we possibly could. The fact that Jersey has higher exemption levels, which is effectively what you are referring to, than those areas that you talked about I think is a fact that we recognise that there have been a number of changes through our corporate tax system and personal tax arrangements in recent years and this fairly reflects that the less well off in our community should be protected.

**Senator S.C. Ferguson:**

Can you explain the changes to the second earner's allowance that will cost you £1.5 million each year?

**The Minister for Treasury and Resources:**

Yes. First of all, that was last amended, I believe, in 1999 and it is simply a matter of fairness and equity because you have got a disparity between married couples and single people. We feel that by increasing this particular allowance, first of all it addresses or seeks to address that matter but it also is a matter that helps to encourage participation in the workplace.

**Senator S.C. Ferguson:**

The enhanced childcare tax relief will no doubt be welcomed by parents but is this not at odds with the policy of means testing nursery places where the objective is to pass more of the burden on to higher earning parents?

**The Minister for Treasury and Resources:**

Yes, and I think in one sense one has to split those 2 out. Let us, first of all, deal with the budget measure and the rationale behind it. The rationale is simply looking at the real costs to parents and we have realised that there was a gap that had emerged and that we felt was fair to be addressed. Separately, of course, with education and the N.E.F. (Nursery Education Fund) and the means

testing, that matter, as a result of the States decision, is in abeyance and needs to yet be rectified. I thought I was getting some words of wisdom of my own but sadly not.

**Treasurer:**

I am sorry, before I said it I wanted to check. The childcare relief is not available to 20 per cent taxpayers

**Senator S.C. Ferguson:**

You mean the 5,300 people who pay tax at 20 per cent?

**Treasurer:**

The ones with children.

**Senator S.C. Ferguson:**

The ones you are going to prove really exist.

**The Minister for Treasury and Resources:**

You are not sceptical, Senator, are you?

**Senator S.C. Ferguson:**

Perish the thought. Why are you changing the rules to cover all companies with zero per cent tax rate?

**The Minister for Treasury and Resources:**

To change the rules? You mean collecting more data in relation to zero per cent...

**Senator S.C. Ferguson:**

Changing the reporting rules, yes.

**The Minister for Treasury and Resources:**

Partly that feeds back to the earlier comment I was making about other measures that we are considering with regard to the Tesco tax that I referred to. It is important that we have data to understand what the distribution is under Zero/Ten. We have to be able to prove, obviously, that we have the majority of companies and a majority of tax distributions are defendable from an E.U. (European Union) perspective. If we do not have the data we cannot do so. Isle of Man were able to introduce that particular measure because they could broaden their tax base because they had the data to be able to prove it; we do not. Without data it is not possible to do so.

**Senator S.C. Ferguson:**

You are doing a total tax system review. Why is this not part of the tax system review?

**The Minister for Treasury and Resources:**

The idea and the decision to collect more data was something that was decided on some time ago. It is about collecting data. It is not about changing anything at this particular point. Secondly what we do...

[11:00]

**Senator S.C. Ferguson:**

The tax review was not about changing things. It was about collecting data.

**The Minister for Treasury and Resources:**

Indeed, but it is a personal tax review whereas this is looking at the broader picture of corporate tax.

**Senator S.C. Ferguson:**

If you are talking about the Tesco tax, are you talking purely about the Tesco-type companies that are incorporated in the Island or are you talking about all the companies that are zero-rated that are incorporated in the Island and all the companies that are incorporated elsewhere but operate in the Island? Are you talking about all of them?

**The Minister for Treasury and Resources:**

What we were talking about ... specifically in relation to the Tesco tax, which got its name from the Isle of Man because that happened to be the largest retailer in the Isle of Man at the time. They were actually looking at companies in a particular sector and they looked at a particular turnover level over which happened to capture Tesco, obviously because it was the largest, but it captured a number of others. You cannot carve out just non-locally-owned companies, so it would apply to all companies that fall into whatever that category happened to be and wherever the benchmark might be set in terms of turnover.

**Deputy J.A.N. Le Fondré:**

Sorry, just for clarity would you explain, Minister, what you mean by the Tesco tax? There might be people in this room who do not necessarily know what you mean.

**The Minister for Treasury and Resources:**

It was a description that came out of the decision that the Isle of Man took when they broadened their Zero/Ten tax regime. They were looking at what other activities they could bring into the 10

per cent taxation level and so they introduced what was dubbed the Tesco tax because they were looking for retailers over a certain size. In the retail sector they were focusing on they knew they had some very large operators and Tesco happened to be the largest. That is where it got the name from. It is a bit unfair because there were other retailers that equally were large. So that effectively is...

**Deputy J.A.N. Le Fondré:**

So it is aimed specifically at a particular sector and it was done on a turnover basis above which they got captured by the 10 per cent regime?

**The Minister for Treasury and Resources:**

They were looking at a specific sector, yes.

**Deputy Director, Tax Policy:**

You are absolutely right. It was looking at the retail sector and in order to capture just large retailers, shall we say, there was either a turnover or profit level that if your profits were below that level the tax did not apply and if your profits were above it would apply. You are really focusing on your largest retailers.

**Senator S.C. Ferguson:**

Are these companies incorporated in the island?

**Deputy Director, Tax Policy:**

I suppose they are. I suppose the important thing is that they have a taxable presence in the island. Either they were incorporated there or they had a permanent establishment there but they had a taxable presence in the island.

**The Connétable of St. John:**

But Jersey has some of these companies already, development companies, aggregate companies, quarries and so on. They all pay tax at 20 per cent, do they not?

**Deputy Director, Tax Policy:**

You are quite right that the scope of our tax regime for corporates captures property developers - they are subject to tax at 20 per cent - and also, as you say, quarrying activities. The importation and supply of hydrocarbon oils is also the scope of a positive rate of corporate tax as well.

**The Connétable of St. John:**

So expanding that brief is what you are looking at, basically?

**Deputy Director, Tax Policy:**

Absolutely.

**Senator S.C. Ferguson:**

Obviously you are doing this with a view to raising revenue?

**The Minister for Treasury and Resources:**

We are looking at the options as to whether this could provide more revenue. Partly, I should say, there has been a view in Jersey for a number of years since Zero/Ten came in about the level of tax leakage to non-locally-owned companies. It has been referred to on numerous occasions. We have done some work on this to try to identify what that tax leakage might look like. There are some who have said publicly that they thought it was £20 million or £30 million of lost tax through non-locally-owned companies. We have done some work and it came out at £7.6 million potential lost tax from companies that are operating in Jersey but the shareholders and the profits go out of the Island back to the owners elsewhere in the world where it must be clear - I am sure you are familiar with this - it is likely that they are paying tax in their home jurisdiction but Jersey does not see the benefit of that corporate tax. What we are seeking to do is look at ways in which we can capture some of it back. We believe this is one potential option that might close some of that, probably to the tune of about £3 million roughly. Guernsey are estimating about £1.5 million.

**Senator S.C. Ferguson:**

Are you aware that some of these companies are owned through other finance centres like Luxembourg and Switzerland and so on, so the assumption that they are paying tax on home ground is erroneous?

**The Minister for Treasury and Resources:**

It is why I said one would assume. From your point of view, you would assume that is not always the case and that is quite correct.

**Senator S.C. Ferguson:**

I know, having checked. I have evidence; you have not, obviously.

**The Minister for Treasury and Resources:**

Just to be fair, I do not need to check specifically because they are not doing anything illegal. They operate in the Island and they are operating under our tax rules. All I was saying was those profits go back to the shareholder. Wherever they are and wherever they are structured that is a matter

for them. What I am interested in is the revenue Jersey gets and any tax leakage that Jersey may seek. That is all.

**Senator S.C. Ferguson:**

Yes, absolutely. When do you expect to introduce the minimum retirement capital test for pensions?

**The Minister for Treasury and Resources:**

Next year.

**Deputy Director, Tax Policy:**

The budget gives the principle and the ability to create the orders in order to bring the test and then the test we hope to bring in ... finalise those orders and bring them in place next year.

**Senator S.C. Ferguson:**

Are you happy that you know what the levels of minimum retirement capital should be?

**Deputy Director, Tax Policy:**

We are still working on those levels to advise the Minister, so I could not tell you today what they would be but once we know what they are we will advise the Minister and work with the Minister around bringing forward the necessary orders.

**Senator S.C. Ferguson:**

What is the reason for introducing a tax disclosure opportunity and what do you expect the results will be from that? How much do you expect to collect?

**The Minister for Treasury and Resources:**

First all, the last time it was done, which was some years ago, I think it was about £1.5 million, £2 million was raised, something of that order. The intention is not specifically about raising money because in this instance we have a very low interest rate environment. We think it is not likely that we will generate anything like what was generated previously. Largely it was around deposits that had been missed or whatever. So we do not think there will be necessarily a significant increase in revenue from this tax disclosure but what it is doing is signalling that there is going to be a slightly tougher regime in the future and it gives individuals the opportunity to put their tax affairs in order should there have been any oversights up to this particular point or the point of the tax disclosure.

**Senator S.C. Ferguson:**

What additional penalties for taxpayers are likely to be brought in?

**The Minister for Treasury and Resources:**

They are being considered at the moment but certainly looking at a slightly tougher regime. For example, when there are disputes on tax and then a certain amount is paid, interest payments are very low and made at one level. I do not want if you want to elaborate at all, Paul.

**Deputy Director, Tax Policy:**

I think interest is one thing at the moment. For late paid tax, we have the surcharge which deals with late payment of tax but we do not have an interest regime for late payment of tax. I think another thing that we are specifically looking at is behavioural penalties. What do I mean by that? It is about having a different penalty regime depending on whether if it is an innocent error, you could have a low penalty to reflect that. If you have different behaviours moving up to outright fraudulent behaviour you have a different geared penalty, trying to make sure that the system is driving the right behaviours, that the penalties are encouraging people to be compliant.

**Deputy J.A.N. Le Fondré:**

It always sounds worrying when it sounds very nice and reasonable from the Income Tax Department about how much the penalties are going to increase.

**The Minister for Treasury and Resources:**

It is just that I am sure you and all Islanders would expect that there is an effective regime in place.

**Deputy J.A.N. Le Fondré:**

I know the Income Tax Department are very nice. I will tell you why one day, Minister, privately. Minister, can you give more details of the proposed review of personal tax that is due to report by 31st March next year?

**The Minister for Treasury and Resources:**

Outside of what was discussed in the public forum previously - and again the Senator will be very familiar with this - it is broadly looking at the regime as was identified during the course of that debate and looking at areas of inequity and opportunity.

**Deputy J.A.N. Le Fondré:**

Is there a particular reason why it is not an overarching review of the overall tax regime?

**The Minister for Treasury and Resources:**

When you say that, I assume that you are talking about the corporate tax regime.

**Deputy J.A.N. Le Fondré:**

Yes.

**The Minister for Treasury and Resources:**

We have made it clear that there was no intentions outside of those areas that I have referred to this morning.

**Deputy J.A.N. Le Fondré:**

They are effectively 2 separate strands of work but you will dovetail them presumably at some point or other. Okay. Picking up, Minister, on your comment that we touched on and do not want to go too far about the zero tax companies paying elsewhere - and perhaps Mr. Eastwood can elaborate as well - I have also understood that even the U.K. has a regime these days where I think it is to do with overseas branches are not necessarily liable to taxation in the U.K. Is that correct?

**Deputy Director, Tax Policy:**

There is a part of the U.K. corporate tax system under which you can obtain what is known as a branch exemption. A U.K. company with a branch overseas, maybe here, they have the option - I think it is optional, I do not think it compulsory - to obtain a branch exemption whereupon the profits of the branch or if the branch was in a loss-making position are both excluded from the U.K. tax computation.

**Deputy J.A.N. Le Fondré:**

Again, that might be something that gets wrapped up in this particular area we are talking about. Thank you.

**Deputy S.M. Brée:**

Minister, I would like to ask questions about some of the increases in impôts and duties that you are proposing in the budget. What is the reason for increasing duty on alcohol by more than the cost of living?

**The Minister for Treasury and Resources:**

I think I touched on this a little bit before. It is largely looking at broader policies that exist, and in particular I am referring here to health. It is of no surprise that alcohol is consumed in inappropriate quantities in particular, detrimental to health, and so, recognising the impact and the cost on the health services, we have, for a number of years, increased alcohol duties above inflation and that is the intention here.

**Deputy S.M. Brée:**

It has been reported that the actual rate of alcohol consumption is increasing among the population despite the fact that there have been rises in duties payable over a considerable number of years. Is this strategy of increasing duty on alcohol to effectively reduce consumption actually failing?

**The Minister for Treasury and Resources:**

No, I do not think it is. I think in fact it is interesting. Where we have been more aggressive in recent years of increasing, for example, duty on spirits, in this budget, as you will be aware, we have gone for an increase across all alcohol at a set level. In previous years there has been a policy, largely pushed by the Health Department, to increase the higher strength alcohol at a greater level, in particular spirits. What we see from statistics over the last 10 years is that spirits consumption, that is litres of alcohol in spirits, has reduced quite considerably from 202,000 in 2006 to 139,000 now.

**Deputy S.M. Brée:**

But overall consumption of all types of alcohol does appear to be increasing.

**The Minister for Treasury and Resources:**

You can see that spirits have fallen over that 10-year period, as I have just mentioned. You can see that beer has fallen over that period and that wine is broadly level. You have seen an increase, interestingly, in cider. I suspect that is largely to do with there is some local cider production, which is clearly a good thing for the local economy, but there seems to have been a bit of a shift in that particular area.

**Deputy J.A.N. Le Fondré:**

Minister, you were obviously referring to a schedule. Do you mind providing that to the officers at some point? That would be useful.

**The Minister for Treasury and Resources:**

No, not at all. It is published, I think, is it not? Yes, absolutely.

**Deputy J.A.N. Le Fondré:**

That would be helpful. Thank you.

**The Minister for Treasury and Resources:**

It is very useful data.

**Deputy S.M. Brée:**

Looking at the proposed increases in duty, impôts duty, did you take into consideration the potential impact this would have on the tourism and hospitality sectors?

**The Minister for Treasury and Resources:**

Yes, of course. In making any changes we give consideration to broader issues. I talked about policy considerations relating to health. Clearly the flipside of the coin is exactly that, on the economic side, to sectors that these particular areas might have an impact on. We are conscious and we have great visibility, as you would expect, of what our competitors are doing, like the island of Guernsey, to make sure that our offerings are reasonably comparable and, therefore, changes such as this are not going to have a disproportionate impact on that particular sector.

[11:15]

**Deputy S.M. Brée:**

Did you consult with the tourism industry at all prior to proposing this increase in impôts duty?

**The Minister for Treasury and Resources:**

We did not consult beforehand, no. Of course we now have got the lodging period. We are engaging with members of the various trade associations.

**Deputy S.M. Brée:**

Okay, so no consultation took place. Going back to the rationale that you have provided for the increase in the impôts duty, that it is very much designed from a health perspective to attempt to effectively reduce consumption, why is, therefore, the duty received on alcohol not ring-fenced as an income that can be specifically directed at the Health Department to assist them in dealing with alcohol-related diseases?

**The Minister for Treasury and Resources:**

We have not typically hypothecated revenue generated from budgets. That is not what happens, but if we are perfectly blunt about it, you will see that the bulk of expenditure from the States is in health and so it is of no great surprise that the revenues raised are going to find their way into that area of funding pressure.

**Deputy S.M. Brée:**

Have you actually considered or discussed ring-fencing this particular duty income for health?

**The Minister for Treasury and Resources:**

No, because ultimately it is going to find its way there anyway. In fact, the only area where there has been any discussion, and it was not a detailed discussion at all, there was some talk some while ago about sugar taxes and such like that other jurisdictions were considering and they were considering hypothecation in that area. So there was a very short discussion around that, but the principle is exactly the same. We typically do not hypothecate for the purposes as you have described because it happens anyway and we like to keep the system simple.

**Deputy S.M. Brée:**

Okay. Let us move on to another duty, which is the increase of duty on fuel. Once again, what is the reason for an increase in duty on fuel by more than the rate of inflation?

**The Minister for Treasury and Resources:**

Again, it is tied in with other policies and...

**Deputy S.M. Brée:**

You cannot say it is related to health this time, surely.

**The Minister for Treasury and Resources:**

Well, you could to a certain degree, yes, but equally and more to the point it would be related to environmental considerations. We feel it is perfectly appropriate that the increase is not large. There is significant margins that retailers have within the Island compared to when you look at the U.K. Margins in the U.K. in the road fuel area are typically 2 pence. In Jersey it is in excess of 16 pence. It was a lot more until measures were taken by Government, approved by the States, for example to put roadside signage about what individual retailers were charging and that helped to change the behaviour of drivers.

**Deputy S.M. Brée:**

Duty on fuel was originally introduced or the increased duty on fuel was introduced to replace the road tax for vehicles. The road tax was meant to be for the maintenance of the roads. To increase the duty on fuel by more than the rate of inflation is effectively saying that we are unable to keep pace with the maintenance of the roads at the current level of duty. Is that correct?

**The Minister for Treasury and Resources:**

No, it is not correct. I have just said that part of the rationale was an environmental one, not just maintaining the roads. I should also point out...

**Deputy S.M. Brée:**

Therefore, if I may ask, if there is no direct benefit to the user of fuel, then effectively this is an increase in indirect taxation. Would you not agree?

**The Minister for Treasury and Resources:**

No, I would not. It is arguably a benefit. Some of the money will find its way through, as it does through general taxation, into the Department of Infrastructure and will be used for maintaining roads and so on. What we are talking about here is a 2 pence per litre increase, including G.S.T. We do not consider that is particularly significant, or aggressive is probably a better way of putting it.

**Deputy S.M. Brée:**

I would then ask the question that if you accept, Minister, that there are direct benefits for Islanders in this increase, then why are you not once again hypothecating this duty so there is an amount for the maintenance of the roads and there is an amount for environmental programmes"? What you are doing, effectively, is increasing duty on fuel but refusing, apparently, to direct it to the areas that it should be used for.

**The Minister for Treasury and Resources:**

Government directs money where it is required. General taxation gets directed to the areas of highest priority as and when it is required, which is appropriate. I think it is important to point out here we are talking about a 2 pence increase per litre of fuel. With the significant margins that exist in Jersey in fuel, it does not necessarily mean that Islanders are going to see a 2 pence increase per litre in fuel at the pumps. It would be perfectly reasonable for that to be absorbed with the significant margins that exist and the large number of retailers that we have in the Island.

**Deputy S.M. Brée:**

Yes, but that is a decision for the retailer. The Government are looking to increase the duty on fuel by 4.23 per cent from 45 pence to 47 pence. That will be passed on to the user by the retailer.

**The Minister for Treasury and Resources:**

What I am saying is it does not have to be and...

**Deputy S.M. Brée:**

What discussions have you had with retailers asking them to absorb that increase?

**The Minister for Treasury and Resources:**

That is a matter for the Competition Authority to be looking at the margins and whether they are appropriate and the...

**Deputy S.M. Brée:**

Minister, I am sorry, you have just inferred that it should be the retailers that absorb the increase, so I am asking what are you basing that statement on?

**The Minister for Treasury and Resources:**

What I am basing the statement on and the reason I made it was because there is a significant margin that exists in the road fuel market in the Island compared to the U.K. and elsewhere; 2 pence there compared to 16 pence here.

**Deputy S.M. Brée:**

So you, Minister, believe that the end user, members of the public, will not see an increase of 2 pence per litre on unleaded petrol. Is that what you are saying?

**The Minister for Treasury and Resources:**

I did not say that. What I said was that with the significant margins that exist, it does not mean that it will necessarily or does necessarily have to be passed on. I think we both know what is likely to happen.

**Deputy S.M. Brée:**

Basically all of these measures with regard to increase in impôts duties are going to bring about possibly an increased level or rate of inflation at a time when as we know there are a lot of things that are affecting inflationary pressures, including Brexit. I include Brexit but it is not the only one. Would it not be better at this moment in time for the Government to give stability to consumers by maintaining existing levels of duty?

**The Minister for Treasury and Resources:**

I think it is fair to say that from a Government policy point of view what we have sought to do... and it goes back to one of the first questions that we were asked about exemption thresholds where we seek to make sure that the less well-off are supported to the greatest extent. You get fuel, for example, which is purchased by people across the whole spectrum within the Island. It is not means tested. Clearly that would be utterly ludicrous to consider doing such a thing. What we have sought to do is to keep the increase in fuel relatively low and significantly lower, I might say, than others. We have seen the Guernsey budget, for example, which I believe increased fuel by 5 pence. We have kept it considerably lower than others but we do need to raise additional revenues and that is why this particular proposal has been put in place. I would just add that you have made the point about inflation. In fact, in the fuel market oil is priced, as you will be aware, in dollars. The falling value of the pound has seen changes in the market anyway and that is a factor that will continue as

we move forward and it will be fairly volatile and it can go in both directions. There is always going to be changes.

**Senator S.C. Ferguson:**

You say that you are introducing these to change behaviour and to try to keep it fair for the low paid and so on. The people who are not paying taxes and the people at the bottom end of the marginal rate are going to feel these increases very hard, so are you not contradicting yourself?

**The Minister for Treasury and Resources:**

Are you talking about all the impôts, so the alcohol, or are you talking specifically about...

**Senator S.C. Ferguson:**

Yes, because these are all things that pensioners like perhaps a glass of beer or a glass of wine. You just put them right up. A lot of pensioners are not paying tax or are paying marginal rate at the bottom end of the scale so they are going to be hit hard by all these increases. That is no justification for doing it, surely.

**The Minister for Treasury and Resources:**

None of these are easy decisions necessarily and one has to look at a rounded position. The element with regard to alcohol in particular we were looking at was on the health side, looking at health policy to ensure that we support that and recognise that the more people drink the greater the likelihood is it will have an impact on our health service and the cost of running it.

**Senator S.C. Ferguson:**

But is that the business of government?

**The Minister for Treasury and Resources:**

What, making sure people stay healthy?

**Senator S.C. Ferguson:**

Changing people's behaviour. Should you be using tax, which is a fairly blunt instrument, in these sort of areas? It is rather a socialist point of view, is it not?

**The Minister for Treasury and Resources:**

All I would say is that it is not unique for Jersey to be considering...

**Senator S.C. Ferguson:**

I do not care whether it is unique for Jersey. I am saying not on a comparative basis, on an absolute basis should we be doing this? I thought the idea was to reduce the size of government. All these sort of things increase it.

**The Minister for Treasury and Resources:**

I do not think increasing an impôts duty is going to increase the size of government.

**Deputy J.A.N. Le Fondré:**

I want to get a couple of questions in as well but briefly, Kevin, have you got any questions here? You are fine, okay. Two questions, Minister. You made reference to Guernsey and a 5 pence a litre increase as saying: "Are we not doing well?" but obviously Guernsey does not yet have G.S.T.

**Treasurer:**

Their duty was 59 pence before that rise and ours is 50.

**Deputy J.A.N. Le Fondré:**

The point I was making is that they do not have G.S.T. so obviously they have to find their revenue-raising measure. We obviously do have G.S.T. so technically we have revenue coming in from other areas.

**The Minister for Treasury and Resources:**

There is an argument between the position of the finances of Guernsey and Jersey.

**Deputy J.A.N. Le Fondré:**

I am not going there, Minister. We do not have time on that one, but the other question I was going to ask, we asked you about had you considered the impact on the hospitality sectors and things like that and you made a couple of references to Guernsey. I think part 1 is do we get many tourists from Guernsey, because I think the point is that hospitality are looking at the differential between here and our larger markets outside the U.K., and if that differential in, for example, alcohol prices and stuff ... and I am not going to look at the differential.

**The Minister for Treasury and Resources:**

Look at the differential between the U.K. and...

**Deputy J.A.N. Le Fondré:**

I did say, but how it changes each time round. Obviously the hospitality industry do get very twitchy around that, so what is your response?

**The Minister for Treasury and Resources:**

They do but I think we need to focus on the fact that the days of the 1960s where you could walk down King Street and see shop windows piled high with cigarettes and alcohol, because that is how we used to sell ourselves, have long gone. This is not what we sell ourselves on and this is not why people come here.

**Deputy J.A.N. Le Fondré:**

I am just making the point that I believe hospitality get twitchy. Final query, because we have to go on to income forecasts, particularly as you mentioned tobacco my understanding is that the volumes of tobacco are stabilised or maybe they are still falling, I do not know, but one has the impression that a lot of tobacco now is purchased through the duty-free outlets. Is there any scope or thought process about how one addresses that if one is trying to focus on reducing smoking?

**The Minister for Treasury and Resources:**

The policy of increasing tobacco impôts quite aggressively in recent years has reduced the amount of imported tobacco. The consumption levels have gone from 68,300 to 39,600 over a 10-year period, so the policy is working, clearly. Yes, some does come in through duty-free channels but that, effectively, would be at the point of departure largely so that is outside of...

**Deputy J.A.N. Le Fondré:**

No, people bring them coming in from the U.K., day trip to London, whatever it is, buy their box of 200 or whatever.

**The Minister for Treasury and Resources:**

Before they leave Jersey?

**Deputy J.A.N. Le Fondré:**

No, when they leave London and they get their duty free and bring it in or if they can buy it in Jersey, fine.

[11:30]

**The Minister for Treasury and Resources:**

Are you talking about the restriction with regard to the amount you can import into the Island?

**Deputy J.A.N. Le Fondré:**

Yes. Is there any thought of looking at those kind of levels?

**The Minister for Treasury and Resources:**

We have considered it and we have looked elsewhere and the experience of ... if I remember correctly, Australia did something around it and it proved to not be terribly successful at all.

**Deputy K.C. Lewis:**

Minister, income forecasts. Why was there such a difference between the Fiscal Policy Panel's revised G.V.A. (gross valued added) forecast for 2015 of 0.9 per cent and the outturn of 2.2 per cent?

**Treasurer:**

I now wish we had brought the economist with us. I will have to come back to you on the underlying. I will have to come back to explain that, sorry.

**Deputy K.C. Lewis:**

Okay. What impact, if any, does the better than expected G.V.A. for 2015 have on the G.V.A. forecast for 2016-18 and your income forecast?

**The Minister for Treasury and Resources:**

I think it improved the position, clearly. The underlying point about all of this is that I think what it demonstrates more than anything else is the fact that from a forecasting perspective we have made a specific effort to be more prudent and more conservative in all areas of the forecasts and that is the starting point. The fact that we have seen an over performance here is not a significant surprise. The level of the increase is obviously higher than one perhaps might have thought but as we have stated, and I have stated on many occasions, there is a higher level of volatility now and in recent years and likely to be even greater as we move forward over the next few years, partly as a result of Brexit. So I think you are going to see quite a number of revisions. What I am very conscious about is that, in doing the forecasts and assessing all levels of our forecasts, they are prudent so that we can absorb any shocks that occur.

**Deputy K.C. Lewis:**

Continuing the theme...

**The Minister for Treasury and Resources:**

Sorry, Deputy, if I may, you also said "and looking forward". Although we have seen a better than expected outturn from 2015, the advice is - the Fiscal Policy Panel have commented on this - looking forward with a high level of uncertainty. It reduces down because the view is one needs to be

prudent and the further out you go the greater the level of uncertainty and in the circumstances it needs to be factored in in a more cautious way.

**Deputy K.C. Lewis:**

What measures are you taking to improve productivity in Jersey's economy?

**The Minister for Treasury and Resources:**

The economic growth and productivity ... I always get the term of the fund wrong; internally it is described as the E.P.G.D.P. (Economic and Productivity Growth Drawdown Provision) fund, is partly there to ensure that investment is made in areas that are going to improve productivity within different areas of the economy. They are looking at projects and coming forward with requests. It is about also sustaining existing levels of revenues. Obviously with the changes that have occurred economically, the challenges that the Island faces, that is equally important, one might say, as improving productivity. Jersey, like the U.K. and elsewhere, has struggled with productivity improvements in recent years, so we need to continue to work hard and invest in areas that will help to improve that. Technology is one area where that type of investment is really important. That is where you see productivity gains through the adoption of technology and digital solutions.

**Deputy K.C. Lewis:**

Considering the theme of productivity, the decline in financial services productivity has a big impact on overall productivity. What specific measures can you take to address this?

**The Minister for Treasury and Resources:**

I think what is pleasing about the financial services sector, obviously it is the largest sector contributing to our tax receipts, to the economy and also to jobs. We have seen job numbers return to pre-crisis or virtually pre-crisis level, 13,000 people working in the financial services sector, profits up in 2015, which is encouraging. But we are absolutely focused on the fact that there are more challenges that lie ahead and we therefore continue to support financial services. J.F.L. (Jersey Finance Limited) get a significant grant, around £5 million a year, to support and promote the industry, which is absolutely the right thing to do, and more investment in law officers to make sure that the right legislation can be put in place to make sure that the industry has the right products to be able to be competitive on an international basis and so on. There is a lot of investment going into the support of the financial services sector in the Island and its development, both geographically and also in terms of new products that it can bring to the marketplace to keep its competitive edge.

**Deputy K.C. Lewis:**

What suggestions have you had from the finance industry on how Government can increase productivity?

**The Minister for Treasury and Resources:**

Much of that would not directly come in specifically to me. Obviously the financial services are within Economic Development, which Senator Ozouf has responsibility for, and indeed the Ministry for External Relations that focus on the other aspect of that.

**Deputy S.M. Brée:**

Sorry to cut in. Minister, you have spoken basically about economic growth, not about productivity. How do you intend to increase the productivity - I am not talking about economic growth - within the financial services industry and do you understand the difference between productivity and economic growth?

**The Minister for Treasury and Resources:**

Yes. Productivity you do more with less, effectively. The point I made which was most relevant to that would be around the enhancement of technology and ensuring the digital infrastructure is appropriate to be able to support the industry as it develops over the future.

**Deputy S.M. Brée:**

Do you not agree though that the decline in the financial services productivity has come about by the increased level of regulation required and therefore you have less revenue-generating staff for each financial industry entity? I go back to the question: what can Government do to increase financial services productivity, bearing in mind the increased level of regulation required?

**The Minister for Treasury and Resources:**

The increased regulation is not unique to Jersey.

**Deputy S.M. Brée:**

I am aware of that. That is why I said the increased level of regulation required, not imposed.

**The Minister for Treasury and Resources:**

No, absolutely. It is required; it is required to sustain and ensure future sustainability of the financial services sector. There is no alternative to that. As I also commented earlier on, from a productivity point of view, again Jersey is not unique to many other places that have struggled to improve productivity. I think the points I have made have been pretty clear, that the investment in the Law Officers' Department and helping to streamline those functions and improve the products are important. I accept there is...

**Deputy S.M. Brée:**

That is economic growth, not productivity.

**The Minister for Treasury and Resources:**

Yes.

**Deputy S.M. Brée:**

But let us move on. Yes, carry on.

**Deputy K.C. Lewis:**

On a slightly different tack, Minister, what timetable have you set for the introduction of new measures to replace the health charge?

**The Minister for Treasury and Resources:**

I think we have touched on that earlier on, and I said that the Council of Ministers have asked and charged the C.M.B. (Corporate Management Board) to look at some of the options. We are managing through this period what we are going to focus on by budget 2018, which is looking at being in a position to present some alternatives, which will be focused on the sustainable element of the funding for health beyond the M.T.F.P. period.

**Deputy J.A.N. Le Fondré:**

Effectively you are saying by the end of next year, you will be bringing measures forward that might kick off in 2020 roughly?

**The Minister for Treasury and Resources:**

That is what the current thinking is about that.

**Deputy K.C. Lewis:**

Continuing with Health, you are proposing that £5 million allocated from 2016 underspends is to be applied to the Health Department. How realistic is this, given the experience in 2015, where most underspends were carried forward by departments to spend in 2016?

**The Minister for Treasury and Resources:**

We believe at this stage it is, but we will know more shortly.

**Treasurer:**

The point being that that is a decision for the Minister for Treasury and Resources.

**Deputy J.A.N. Le Fondré:**

Is that with advice or consultation with the Council of Ministers?

**Treasurer:**

I am sure it always is.

**The Minister for Treasury and Resources:**

It does go to the Council of Ministers for advice.

**Deputy K.C. Lewis:**

When can we expect to see the results of the review of the income forecasting model?

**The Minister for Treasury and Resources:**

Have we got the date of that?

**Treasurer:**

I think we said we would be doing this in time for the next income forecast, so that will be March/April.

**The Minister for Treasury and Resources:**

Yes, April next year.

**Deputy K.C. Lewis:**

Were the economic assumptions endorsed by the F.P.P. (Fiscal Policy Panel) outside the scope of the review, given that as far as the panel is aware, they form an integral part of the input of the model?

**Treasurer:**

The view taken is that the endorsement by the F.P.P. is a relatively new concept. That has only been going for 2 years now to the forecast, I think. Previously they were completely in-house. We feel that their independent and expert - extremely expert - oversight adds to the integrity of the forecast. What is interesting now to look at is the income tax model. The income tax model receives those inputs, but we are looking in terms of the principal yield that is driven from (1) the base, and (2) the economic forecast. So it is in the application of that economic forecast that is within the review of the economic assumptions, the relatively short period of time that they have been running with the oversight of the F.P.P.

**Deputy J.A.N. Le Fondré:**

Chris, you are next, question 23.

**The Connétable of St. John:**

The M.T.F.P. Addition mentioned the need to find a compensating income stream from the States to pay rates. There was no mention of this in the budget, so what is the current intention?

**The Minister for Treasury and Resources:**

We do not have a compensating measure at the moment and we have stated that when the plans have been finalised as to what that might be, we will come back with those details.

**The Connétable of St. John:**

I think I will hold you to that.

**The Minister for Treasury and Resources:**

I have no doubt, Connétable.

**Deputy J.A.N. Le Fondré:**

All right, shall we go to question 24? Are you happy with that?

**The Connétable of St. John:**

Yes.

**Deputy J.A.N. Le Fondré:**

All right. Kevin, 24.

**Deputy K.C. Lewis:**

Capital programme. Minister, the work at Grainville School appears to have been delayed by a year to enable a review of the Taxes Office system to be undertaken in 2017. Does this reflect that the work at Grainville is taking longer than expected or that the review of the Taxes Office system is simply a higher priority?

**Treasurer:**

I cannot remember which order you said that in, but it is not the reprioritisation of taxes. We went back, we understood that we needed to change the tax number, but Grainville is based upon what the department believes their current requirements are over the period, so the rephasing is not pushing that down. We have gone back to departments to ask what their current requirements are and that is the answer we got there.

**Deputy K.C. Lewis:**

This is acceptable to the Education Department and the school?

**Treasurer:**

As I understand it, yes.

**Deputy K.C. Lewis:**

You appear to be anticipating significant underspends in 2016 in the Department for Infrastructure of at least £1.4 million to add back into the capital programme. How realistic is this? Does it not indicate poor budget-setting to begin with?

**The Minister for Treasury and Resources:**

We think it is realistic from what we can see at the moment, but again, we will have to come back and confirm that shortly, once we have got the final figures in from the third quarter. No, it does not necessarily mean poor budget-setting. When you are dealing with a department like the Department for Infrastructure, big projects, as, Deputy, you will know very well from your former incarnation...

**Deputy K.C. Lewis:**

Yes, a previous life.

**The Minister for Treasury and Resources:**

... such projects can run into different years and change. They are significant capital projects, so you can get some differences. This sort of level is not that significant in that light.

**Deputy S.M. Brée:**

Minister, with regards to capital programmes, when will you be bringing forward proposals for the funding of the new hospital?

**The Minister for Treasury and Resources:**

We are in the process of taking to the Council of Ministers at the next Council of Ministers' meeting some proposals for the funding of the hospital.

[11:45]

**Deputy J.A.N. Le Fondré:**

Is that this Wednesday or Thursday or next week?

**The Minister for Treasury and Resources:**

This week. The details, once they have been through the Council of Ministers, a timetable for announcements, lodging and so on will be proposed.

**Deputy S.M. Brée:**

Providing that the Council of Ministers approve the proposals, what lodging date are you looking at and what debate date are you looking for?

**The Minister for Treasury and Resources:**

If the Council of Ministers are in approval and there are no further pieces of work asked to be undertaken as a result of that meeting, then we would lodge almost immediately after that.

**Deputy S.M. Brée:**

Could you give us a date?

**The Minister for Treasury and Resources:**

What it will mean is that if you look at the lodging period, originally we had thought that we might be able to bring the debate at the time of the budget, but I think we will be out of time probably, unless of course the States were of the opinion that this matter should be debated in any event, but that is another matter. But I would prefer to discuss it with the panel at a separate occasion. I think, as I have mentioned in a private briefing to the Health Sub-Panel that are looking at the hospital, we need to have some discussions about the timing of this decision and how and when the States were asked to consider it.

**Deputy J.A.N. Le Fondré:**

Unless anybody else has got any questions in this area, I have got one. One query, just touching on sort of capital expenditure and a comment you made earlier, Minister. As capital expenditure increases or you get large capital projects being completed or savings proposed, do you do any assessment as to what the revenue impact is of having such a project in play? In other words, you build a new building and it turns out it is going to cost an extra £1 million a year because of extra staffing requirements or whatever it is. Are there requirements imposed on departments to disclose that?

**Treasurer:**

Yes, there were. If you take the example of Education and the new schools coming through, there are revenue consequences built into the M.T.F.P. in respect of those.

**Deputy J.A.N. Le Fondré:**

That applies across all departments, I assume. Okay, thank you.

**Senator S.C. Ferguson:**

You propose drawing down £50 million from the rainy day fund in 2017 for capital projects. Can this be managed from the returns generated by the fund or will you have to dip into the capital?

**The Minister for Treasury and Resources:**

It will not be dipping into the capital, no. The capital is set...

**Senator S.C. Ferguson:**

If the market goes down?

**The Minister for Treasury and Resources:**

It is not anticipated that it will be doing that. If it were to dip into the capital, then that would be a matter that we would need to come back and seek the approval of the States in order to do.

**Senator S.C. Ferguson:**

Following the downgraded income forecast received before the debate on the M.T.F.P. Addition, you have added an additional forecasted £16 million drawing from the strategic reserve in 2018. Have you got any evidence on income forecasts to show how likely it is that this transfer will be needed?

**The Minister for Treasury and Resources:**

It is precautionary, on the basis that we have given a commitment that we believe the consolidated fund should have a minimum of £20 million. That is the purpose that it is there, on the basis that there is a possibility of a deterioration, as per the forecasts that you were referring to. We hope we will not be needing to draw on it, but there you go, it is there as a precaution.

**Deputy J.A.N. Le Fondré:**

Minister, just as we have touched on earlier, over £100 million will have been taken from the strategic reserve during the M.T.F.P. or this M.T.F.P. period. What impact is that going to have on the size of the fund and the ability to meet funding pressures in future years?

**The Minister for Treasury and Resources:**

As I think we have already stated, we believe that it is manageable based on current forecasts and current expectations of growth over the period. Again, this is something that will have to be reviewed, quite appropriately, on a regular basis and indeed that is what happens.

**Deputy K.C. Lewis:**

A final quick one. Minister, obviously we are discussing a £100 million drawdown from the strategic reserve. Are there any plans in the medium to long term to repay this money?

**The Minister for Treasury and Resources:**

Yes. The drawdown is larger than that. What we are proposing is a repayment ... in fact, there are 2 repayments. In 2017 we are repaying £5 million. That was £5 million that was drawn down to support the economic growth funding pot. We are also repaying £20 million in 2019. You get your net figure after that, so there is money being repaid. The net figure is...

**Deputy J.A.N. Le Fondré:**

I think the question is beyond that.

**The Minister for Treasury and Resources:**

Is there a proposal to do anything to repay the net figure? Not at this stage, no, not included in these plans.

**The Connétable of St. John:**

The Minister for Health has lodged a third site for the new hospital at an estimated cost of £466 million. Do you know how robust this figure is and is it likely to be more or less?

**The Minister for Treasury and Resources:**

It has been independently verified. There are contingencies contained within it which we understand are appropriate for a construction of that size, so as far as we are aware, the figure is a reasonable planning figure.

**The Connétable of St. John:**

Will you be dipping into the capital figure of the strategic reserve to fund this build?

**The Minister for Treasury and Resources:**

That is not intended at this stage.

**The Connétable of St. John:**

If you are intending to borrow money in the form of a bond, what income stream are you considering to fund this in the future?

**The Minister for Treasury and Resources:**

We have been modelling the use of the returns on the strategic reserve as far as paying for the coupon, in other words, the interest on a bond borrowing.

**The Connétable of St. John:**

What discussions have you, as Minister for Treasury, had with the Minister for Health as to the capital available to build a new hospital?

**The Minister for Treasury and Resources:**

We have had some discussions, more so through the formal process of the Council of Ministers, when looking at what the hospital site originally was going to be. Of course there has been a lot of debate about the sites, People's Park and so on and so forth, and there were some assessments done originally at significantly higher expenditure, depending on the various models, and it ties into the way in which Health is going to be managed in the future. Yes, we have had discussions, as you would expect.

**The Connétable of St. John:**

You did not set a budget and say to the Minister for Health: "You can have a new hospital, so long as it does not cost more than, say, £250 million or £300 million"?

**The Minister for Treasury and Resources:**

No. I believe that has been done in the past, but not terribly successfully, in some respects. I think it is much better to look at what is required and assess whether you feel that the construction and what that particular hospital is going to deliver for the community and the whole Health strategy - and that includes primary care and so on - as to whether the proposal for the construction of the hospital fits in into that overall model framework and whether it works, because by putting an absolute cap on it without the knowledge of what you are seeking to try to deliver at the end of the day is rather back to front.

**The Connétable of St. John:**

Do you accept that there must be, somewhere along the line, a balance between what Health want and what Treasury can afford?

**The Minister for Treasury and Resources:**

Absolutely, affordability is clearly critical. The point that I am trying to make is that it is important that you first and foremost consider what is believed to be the requirement, then you can say to yourself can you afford it and how we afford it. That is the process, the how would we afford it, that we are concluding on at the moment. If you cannot afford it, you cannot build it or you cannot build

it in the same way, but first and foremost, you have to understand what is the best provision for this Island, the most appropriate provision for this Island, not just in terms of a physical hospital and what goes on within the physical hospital, but more broadly than that, your delivery of healthcare services, including the primary care and what have you. You need to look at the whole package.

**The Connétable of St. John:**

I agree. My concern is that if one is taking out a bond, for argument's sake, of £350 million, along with the Andium bond of £250 million, giving some £600 million, we are getting very close to the headroom available from the strategic reserve, which means we have borrowed more or less the equal sum of the value of the strategic reserve. We are also trading annually at a deficit. How is that going to be funded if we continue like this?

**The Minister for Treasury and Resources:**

Those are all of course very good questions and you will not be surprised to know those are questions we have been asking ourselves. We have looked very closely at the modelling going forward: expected returns, likely costs, revenue costs, capital costs and so on and so forth. It all goes into the model to make sure that it is affordable and manageable.

**The Connétable of St. John:**

Are you aware Minister that the waterfront site is being offered as security by S.o.J.D.C. (States of Jersey Development Company) for Building 5?

**The Minister for Treasury and Resources:**

Yes.

**The Connétable of St. John:**

Do you not feel that that may reduce the options of the future hospital site?

**The Minister for Treasury and Resources:**

My understanding is that first and foremost, a site has been selected from a proposal point of view which will come before the States for a States decision which does not include that site, because it was not chosen to be the most optimum of sites.

**The Connétable of St. John:**

Sorry, I will you correct you there: it is cheaper, it can be delivered more quickly and there is less risk, so it is the best site, it is just the Minister feels the other site is preferable.

**The Minister for Treasury and Resources:**

It was not just the Minister. The Minister, like all Ministers, makes decisions based on advice. Overall the decision was that the redevelopment of the existing site was the best option for the Island.

**The Connétable of St. John:**

That is a Council of Ministers decision which needs to come to the Assembly.

**The Minister for Treasury and Resources:**

Correct.

**The Connétable of St. John:**

The Assembly govern this Island, not the Council of Ministers. We have not made up our mind as a States Assembly that the current preferred site is the right one. Do you not feel you are tying our hands before we have been given the option to make up our own minds?

**The Minister for Treasury and Resources:**

There are 2 issues here. You are right - and I did make the point a moment ago - that the proposed site is coming to the States for a decision, so yes, it is clearly a States decision. That was decided upon. With regard to the security, which is the other part of your question, you have to look at security and consider how the timing is going to work. Now, that security has been offered up as part of the next phase of development as far as S.o.J.D.C. are concerned. That will run through probably to about 2020 and as developments progress and sites are sold, then of course security gets released, so it is not tied up in perpetuity as security. If indeed the proposal that is on the table comes before the States for the existing site to be used for the redevelopment of the hospital, if that were to change to what you are suggesting, that it should go down to the waterfront, then I suspect that would push the whole programme of the hospital back by a period - I do not know how long - probably not inconsistent with a time at which the security has been released anyway. I do not think it is necessary tying the hands. It might alter the timing fractionally, but I suspect very little.

**Deputy S.M. Brée:**

Sorry, Minister, I just want to clarify something here so everybody is completely clear. The offering up as security to the lender, to S.o.J.D.C., of what is known as the Esplanade Masterplan Phase 2, which includes the waterfront site, effectively restricts what can be done with that site until the lender releases security on that site; is that correct?

**The Minister for Treasury and Resources:**

Yes. The impact potentially is one of timing, which is what I have raised.

**Deputy S.M. Brée:**

Once that has been accepted as security against a loan, effectively it freezes what can be done on that site until the lender releases that security back to the owner. Is that correct?

**The Minister for Treasury and Resources:**

That is correct.

**Deputy S.M. Brée:**

Therefore the decision to allow S.o.J.D.C. to use the waterfront site as security against its borrowing for Building 5 has effectively removed that site, for the moment, as an option for a future hospital site, is that correct? I say for the moment, because I understand what you are saying is that security may be released, but the problem with any security, as we all know, security is only released when the loan is repaid in full.

[12:00]

If for any reason S.o.J.D.C. are unable to repay the loan in full in, say, 2020, then they will remortgage the building and therefore offer up the same security, therefore you are tying up that land, which could potentially...

**Treasurer:**

Principally they would have a completed building that you would want to convert the security into, rather than leaving it...

**Deputy S.M. Brée:**

But S.o.J.D.C. are offering up the security, not only Building 5, the plot on which Building 5 stands, but also what is known as the Esplanade Masterplan Phase 2 in its entirety?

**The Minister for Treasury and Resources:**

Correct.

**Deputy S.M. Brée:**

The question I am asking is for the moment, is that decision to allow S.o.J.D.C. to do that removing the waterfront site, for the moment, as a potential site for a new hospital?

**The Minister for Treasury and Resources:**

Can we separate these out for a second? If the States were to take a decision first of all to reject the proposal that is going to be put forward, if a new proposal came forward identifying this particular site as the site that the States were going to support ... and a lot would have to happen in the intervening period, but let us park that for the moment, let us just deal with the principle. There was this security because S.o.J.D.C. are operating in a commercial way, they are seeking borrowings and security has to be supplied in order for them to proceed ahead. That is perfectly okay and satisfactory. If there was an issue there over this piece of land which had some security on it, it is not unsurmountable, notwithstanding what the timing might be from an S.o.J.D.C. point of view, because they may well have completed a building that they can then remortgage and remove the security. But just assuming they have not, then if the States decide they want to build down there through a States decision, then it would be a matter for the States to find a solution to that security element. I do not think that is necessarily insurmountable, because I think, if I remember correctly - and Simon at the end might pull me up on this - I have got a feeling, but I am not sure if I can give the value of that site, but it is not ...

**Deputy J.A.N. Le Fondré:**

There is something in the report. No, probably not.

**The Minister for Treasury and Resources:**

But I was going to say...

**Deputy J.A.N. Le Fondré:**

I do not think you can.

**The Minister for Treasury and Resources:**

... and then I suddenly checked myself. But I know Chairman that you know the number, so let us just talk on that basis. It is not a significant number, so I do not think it is insurmountable if indeed the States wants to change. I do not think it is going to be a problem as for that.

**Deputy K.C. Lewis:**

You are saying that the States must find an alternative source of security to an equivalent value?

**The Minister for Treasury and Resources:**

Not must, but the States would have to, in proposing a new site such as that, take into consideration it was being used as security and would have to address that, if indeed it was not going to be done by the timing anyway, which I suspect it would be.

**Deputy J.A.N. Le Fondré:**

Bluntly, you would have to offer some form of alternative security to match that amount, yes.

**The Minister for Treasury and Resources:**

If there was a timing issue.

**Deputy S.M. Brée:**

But I think the important issue is that it has obviously become apparent that through a ministerial decision to allow S.o.J.D.C. to use that plot of land as security against borrowing, it has effectively restricted the usage of that land unless an alternative can be found.

**Deputy J.A.N. Le Fondré:**

Two or 3 weeks before the actual debate.

**Deputy S.M. Brée:**

Yes. That is somewhat concerning...

**The Minister for Treasury and Resources:**

I do not think it is.

**Deputy S.M. Brée:**

... that effectively - I think the Chairman makes the very good point - 2 or 3 weeks before the debate on the site for the new hospital, that is the preferred site of the Council of Ministers, one of the alternatives which has been discussed has effectively been removed as an option in the short term.

**The Minister for Treasury and Resources:**

Yes, but let us be realistic about this.

**Deputy S.M. Brée:**

We are being.

**The Minister for Treasury and Resources:**

No, but from a development company perspective, that development company, S.o.J.D.C., acting in the interests of the Island, trying to improve the assets in the Island and follow the economic aims of creating office space and so on and so forth, has to get on with its business. We cannot expect them to be hamstrung while we wait for some other decision that may or may not be supported, that may or may not, some months after that, lead to another proposal that may or may not involve this piece of land. It is not realistic.

**Senator S.C. Ferguson:**

But is 3 weeks really going to be material for them? I would not have thought so.

**The Minister for Treasury and Resources:**

It is not going to be just 3 weeks to the decision on the proposal. That does not mean you then automatically move to this site. There would then be another re-evaluation and eventually another decision for the States on the future site. It may not even be this particular one.

**Deputy J.A.N. Le Fondré:**

We need to wrap this up, because we can go around in circles on this. But the reason we thought we would raise it here, and partially as a result of some of the findings we had from the sub-panel, what has become clear is that the technical evaluations of the south side of the waterfront seem to indicate at this stage that it was the best-performing option. Then People's Park came in, and obviously People's Park was rejected for very clear political reasons, therefore the result is that the default position was not back to the south side of the waterfront, as it was the second best, we have gone for the third best, shall we say. The reason I am going to pick you up on that, Minister, is you then said: "If the general hospital site is rejected, we would have to go through another re-evaluation process." Why would you not go back to the best-performing option, particularly when it is £20 million cheaper at least?

**The Minister for Treasury and Resources:**

It may well be decided to go back there. The point I was making was it would not happen ... it is not just 3 weeks, it would take a lot longer.

**Deputy J.A.N. Le Fondré:**

No, the point in 3 weeks' time is that if a decision is made by the Assembly that it is on the general hospital site, then it is a clear run, they can use that as security. If it is not, then it is known that it is the best-performing site and then it would be logical to find a different form of security, would it not?

**The Minister for Treasury and Resources:**

One of the reasons that the existing site was not chosen originally but has now become the proposed and preferred site is that the cost for development, because of the sequencing of the development, it is much more difficult to work on an existing site and particularly where there is an operational hospital, as you will be well aware. But there have been some creative ways found in order to manage that and deliver a hospital not at what was originally assessed at £600 million.

**Deputy J.A.N. Le Fondré:**

I am looking at where we are now, and as of now, the 2 choices, there is a £20 million difference. I know in the context of the capital value of the scheme it is not significant, but in the overall context of if you had to go to a department and say: "We have got to find another £20 million because we have gone for a more expensive site" that is the point, Minister, that we have got to remain focused on the money side.

**The Minister for Treasury and Resources:**

Yes. It is important to be focused on the money side, obviously, but it is not just about the money when Jersey...

**Deputy J.A.N. Le Fondré:**

Have you had those discussions with Health?

**The Minister for Treasury and Resources:**

We have had those discussions, we have had those discussions with the Council of Ministers where we have been through these sites time and time again. You are right, in some areas one site is better than the other and so on and so forth, but at the end of the day, when we looked at it, it was believed strongly that the redevelopment of the existing site was the best overall, despite the fact it is costing a little bit more and it is not perfect in every area and a developer would prefer a green site to start from. But at the end of the day, the overall belief is that it is the best option.

**Deputy J.A.N. Le Fondré:**

We have got 2 other questions - I have got 2 other questions, sorry - but shall we just stop...

**The Connétable of St. John:**

Just to correct you, on the 6 or 7 different categories that they model the comparison of the 2 sites, there is not one category in which the current preferred site was better than the waterfront site, so it is purely a political preference, not a technical preference.

**The Minister for Treasury and Resources:**

It is not entirely true, because if you look at the weightings across the piece...

**The Connétable of St. John:**

I have looked at all of them. I have got them; I can dig them out for you. But all 7 - I think it is 7, it may be 6 - places the waterfront at a better technical evaluation.

**The Minister for Treasury and Resources:**

Yes, but there were other issues which were also highlighted in the report about the waterfront which made it not so preferable. When you start looking at the practicalities of that site, clinicians' views on...

**The Connétable of St. John:**

The clinicians' option is that site.

**The Minister for Treasury and Resources:**

... Accessibility to the site and so on.

**The Connétable of St. John:**

Accessibility is easier, much easier. It depends on how you wrap it.

**The Minister for Treasury and Resources:**

There are some other issues.

**Deputy J.A.N. Le Fondré:**

Let us move forward. I think the only person is Simon, who has got a query, and then me.

**Deputy S.M. Brée:**

Just a very quick question, going back to the security interest use of the waterfront, the Esplanade Masterplan Phase 2 site. If S.o.J.D.C. were not able to offer that up as security because they had been advised not to do so, what security would they have left to offer up to the lender in order for them to be able to start construction of Building 5?

**The Minister for Treasury and Resources:**

Off the top of my head, I could not tell you that, but they do have quite significant assets, so there could be other security. Simon, I do not know if you are able to assist at all with that.

**Director, Treasury Operations and Investments:**

No, we would need to come back.

**The Minister for Treasury and Resources:**

Yes. I do not have those details in front of me at the moment.

**Deputy S.M. Brée:**

I go back to my question: why were they allowed to put that site forward as security when it was well-known it was being discussed as a potential site for a new hospital?

**The Minister for Treasury and Resources:**

It was not, as such. The Council of Ministers have made a proposal that has been lodged for debate with the States. As I have said to you, if the States made the decision not to proceed with the proposed site, then it will be a question of looking again, and if it does end up being a proposal for the waterfront site, that will be another proposition that will come back and that will be sometime presumably the early part of next year. It is not 3 weeks; it will be a lot longer. One would have to address the security issue, if it becomes an issue, at that particular point.

**Deputy J.A.N. Le Fondré:**

One question on the hospital, then one final wrap-up question, at least unless somebody else chips in. The wrap-up question from me on the hospital: Minister, how comfortable are you that the £466 million that has been proposed is kind of the envelope we are dealing with? I am going to put that in the context of the actual proposition, which says: "The costs include works required to repurpose the granite block, for example, but not any other legacy buildings for non-clinical use. Some key cost estimations are not included within the cost estimate, including the cost implications of key worker accommodation arrangements, for example, which will require further assessment" and added to that, I believe staff office accommodation is not included in those costs. Presumably the administrators are going to have to work somewhere and we are going to have to build and pay for it. Of the £466 million, how comfortable are you that we are talking about £466 million and allowing for contingency and all that sort of stuff and not something larger?

**The Minister for Treasury and Resources:**

All I can tell you is at this stage I have not had an official coming to me raising concerns about the estimate of £466 million. That is all I can tell you at this stage.

**Deputy J.A.N. Le Fondré:**

You have questioned them on that or you will be questioning them?

**The Minister for Treasury and Resources:**

Of course one is interested in the figure. As I have said many times, ensuring that we are being realistic and prudent, whether it is income forecasting or whether it is capital expenditure on a project such as this, which is the largest capital project that the Island will have undertaken ...

**Deputy J.A.N. Le Fondré:**

Precisely.

**The Minister for Treasury and Resources:**

... The principles, however, are exactly the same, establishing the fact that it is realistic. Yes, it will continue to be looked at in that light.

**Deputy J.A.N. Le Fondré:**

To put the man on your right on the spot, Minister, are you comfortable, Treasurer...

**Treasurer:**

Goodness, it is the first time you have ever called me right.

**Deputy J.A.N. Le Fondré:**

To the right of the Minister. Are you comfortable that, for the sake of argument, you are not going to have to come back to the Assembly, or someone on your behalf, saying: "We need to approve another £10 million because we need to rent or build office accommodation"?

**Treasurer:**

As you have drawn attention to the things that others have drawn your attention to, there are other parts, if you like, consequential to the development.

**Deputy J.A.N. Le Fondré:**

Yes, that is obviously in the report.

**Treasurer:**

That means there are other amounts that might have to be found. There already have been discussions as to whether Andium may be able to assist with key worker accommodation. My stance, my preference will be - to the Constable's question - that now people are saying how much the hospital will cost, we will set the budget so we do not start getting creepage. It is right to identify those elements are outside of what would be provided by that £466 million. My stance on those is the hospital is an exceptional item. Other items of capital maybe as a consequence will have to go into the prioritisation process for a future capital programme. States worker accommodation may have a resolution that is outside of that capital programme that uses a housing provider.

**Deputy J.A.N. Le Fondré:**

Obviously States worker accommodation is an example.

**Treasurer:**

Is an example, Yes.

**Deputy J.A.N. Le Fondré:**

But there are other items in there which I think are probably going to be more pressing.

**Treasurer:**

Yes, and they will have to be handled from within the capital programme. We are not planning at this stage for people to come back to us and say: "Sorry, we have to increase the £466 million." Going through this process, Treasury will take a stance to the Minister and the Council of Ministers to say...

**Deputy J.A.N. Le Fondré:**

You will be able to inform us before the debate on the hospital budget, on the hospital site, which obviously identifies the £466 million, as to what those extra pressures might be, I assume?

**Treasurer:**

Yes, I think we have got sight of some of them, yes.

**Deputy J.A.N. Le Fondré:**

Good. A final question from me, looking around, is looking at our system of personal tax overall, has our position kept pace with other jurisdictions, including the U.K., to ensure we remain competitive? Minister.

**The Minister for Treasury and Resources:**

I believe so. I think it depends on your definition of competitive, of course, but I see no reason that that has not been the case, but of course we have got this review that is being undertaken now. We will see, as a result of that, whether there are any changes that result.

**Deputy J.A.N. Le Fondré:**

Good, and particularly also on the personal taxation front, I assume. All right, I think on that note we will conclude the hearing. On my watch, we have just overrun. The clock, we are obviously behind and that allows for the preamble and all the rest of it, but thank you very much and no doubt we shall be quizzing you again at some point, Minister.

[12:15]