

STATES OF JERSEY

Corporate Services Scrutiny Panel Medium Term Financial Plan Addition

FRIDAY, 15th JULY 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

Connétable C.H. Taylor of St. John

Dr. M. Oliver (Adviser)

Witnesses:

The Minister for Treasury and Resources

Assistant Minister for Treasury and Resources

Treasurer of the States of Jersey

Economic Adviser

Head of Financial Planning

Director, Financial Planning and Performance

[10:33]

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

Thank you to everybody for coming today. This is the hearing with the Minister for Treasury and Resources in relation to the Medium Term Financial Plan. Welcome, Minister. I will start with the normal preamble. There will be one or 2 things after that and then we will kick off. So, Minister, I draw your attention, as ever, to the notice in front of you, which I am sure you are fully aware of. Also members of the public or people sitting in the public seating, there are notices around the room, which obviously 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. Minister, as we proceed through the questions we may stop you if we feel you have answered the question sufficiently, because we do need you to try to be as concise as possible, and I am sure you are aware of that. For the avoidance of doubt, if you see my hand raised that should be taken to be that we want to move on. What I am going to try to avoid is that we do not over-talk each other as we have had in one or 2 other hearings, not necessarily with yourself. For the benefit of the tape, if I 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.

Connétable C.H. Taylor of St. John

Constable Chris Taylor, panel member.

Dr. M. Oliver (Adviser):

Dr. Michael Oliver, an adviser to the panel.

The Minister for Treasury and Resources:

Senator Alan Maclean, Minister for Treasury and Resources.

Assistant Minister for Treasury and Resources:

Constable John Refault, Assistant Minister for Treasury and Resources.

Treasurer of the States of Jersey:

Richard Bell, Treasurer.

Economic Adviser:

Dougie Peedle, States Economic Adviser.

Head of Financial Planning:

Chris Haws, Head of Financial Planning.

Director, Financial Planning and Performance:

Alison Rogers, Director for Financial Planning and Performance.

Deputy J.A.N. Le Fondré:

Welcome. Just before we start, we do think it is appropriate to recognise the atrocity of last night in Nice and to express our condolences and that our thoughts are with the families and the victims and the whole of the French nation in respect of what has happened in the last 24 hours. Also before we start, Minister, on a different matter, we note the response of yesterday of the Fiscal Policy Panel and your response to their document. Obviously, given the timeframe, we have not really had time to digest that in its entirety and, therefore, it is our intention, just to give you some notice, that we are going to try to hold a separate hearing on that matter shortly, probably in about a week, week and a half's time, if that is appropriate, and our officers will liaise with yours to try to find a convenient diary time.

The Minister for Treasury and Resources:

I believe they have been very efficient and have already done so and we have an agreed time. I have certainly agreed a time, if it is acceptable to yourselves, so hopefully that will be in a week's time.

Deputy J.A.N. Le Fondré:

Thank you for that. So, there is not going to be that much dwelling on the F.P.P. (Fiscal Policy Panel). There might be some reference but most of the focus will be at that hearing.

The Minister for Treasury and Resources:

Yes, understood.

Deputy J.A.N. Le Fondré:

The first set of questions we are trying to run through basically the format of the proposition. Section A of the proposition asks the States to approve the transfer of £5 million from the Health Insurance Fund, which for ease of reference we will call the H.I.F., to the Health and Social Services Department for each year of the M.T.F.P. (Medium Term Financial Plan) 2017 to 2019. What is this money for?

The Minister for Treasury and Resources:

Essentially it will be used for primary care within the Health and Social Services Department, as has been the case in the past. There have been, as you will be aware, Chairman, transfers previously from the H.I.F. Originally there was an intention signalled in 2016 that £30 million would be taken from the H.I.F. In fact, as you can see from this proposition, it is only going to be half that amount, so £5 million per annum over 3 years.

Deputy J.A.N. Le Fondré:

I think you did say it is linked to primary care. Why is it being linked to health expenditure on primary care?

The Minister for Treasury and Resources:

It seemed an appropriate use for that particular funding, as was the case in the past.

Assistant Minister for Treasury and Resources:

Can I assist the Chairman? Originally it was requested, going back I think about 4 years ago, to help to fund the amount of primary care work that was being delivered in A. and E. (Accident and Emergency) which was causing significant cost pressures to the hospital at that time. That amount of pressure still continues where members of the public who cannot afford to go to G.P.s (general practitioners) for primary care service go to A. and E., so it is to fund those services through A. and E., essentially.

The Minister for Treasury and Resources:

Chairman, as you know, my Assistant Minister is also Assistant Minister for Health so he has perhaps a more in-depth knowledge of the health funding.

Deputy J.A.N. Le Fondré:

Thank you for that reminder, Minister. If the H.I.F. was to be used to bridge the funding requirements for health until the health charge is implemented, basically once the health charge is in place, which is in 2019, I believe you are still taking money from there. Is that going to cease at some point?

The Minister for Treasury and Resources:

The plan is for a period from 2017 to 2019. Obviously what happens in the second or third, as it would be, Medium Term Financial Plan is another issue altogether. All we are dealing with is this medium-term planning period of which the details are laid before you.

Deputy J.A.N. Le Fondré:

Why is it appropriate to take the money in 2019 when the charge is fully in place?

The Minister for Treasury and Resources:

The charge is also partially in place in 2018, as you will be aware. It is coming in at 0.5 per cent, or that is the intention, with 1 per cent in 2019. It is a package of measures which we believe is appropriate, and bear in mind that the original signal was that £35 million was going to be required for a health charge. We have clearly reduced that down significantly.

Deputy J.A.N. Le Fondré:

An observation has been made that it is not really a sustainable way to fund revenue expenditure. Can you confirm that once the health charge is introduced, no further money will be taken from the H.I.F.? Will one replace the other?

The Minister for Treasury and Resources:

All I can confirm is what you see before you for this particular Medium Term Financial Plan. I cannot predict what may happen for the third Medium Term Financial Plan, which would commence from the period 2020. That is some years away.

Deputy J.A.N. Le Fondré:

So it would be in the hands of the next Minister for Treasury and Resources, whether it is yourself or some other individual?

The Minister for Treasury and Resources:

It will be in the hands of the next Minister for Treasury and Resources and, importantly, the Council of Ministers, because this, of course, is the Council of Ministers' plan.

Assistant Minister for Treasury and Resources:

Chairman, can I assist again or have you heard enough?

Deputy J.A.N. Le Fondré:

No, it is okay.

Assistant Minister for Treasury and Resources:

The health charge as a separate one is really helping us to deal with the ageing demographics. Also one thing that we have not really taken account of is over the past 10 years the population has grown by around about 10,000 people. The base budget of the hospital has not gone up to cover that. The increases we have had year on year have been to cover the cost of new drugs and new treatments coming through. The health charge is required to meet the pressures, particularly from the ageing demographics, which is separate to the H.I.F. funding for primary care treatments within the A. and E. Department.

Deputy J.A.N. Le Fondré:

Thank you. With the money from the H.I.F. and obviously the health charge, there is a considerable amount of money being allocated to health. Other departments are losing money from their budgets, as we all know. Does that mean, essentially, that there is the loss of frontline services elsewhere almost to benefit health?

The Minister for Treasury and Resources:

No. I think if you look at the makeup of the package that has been presented, the majority are not cuts to services but efficiencies. The vast majority are efficiencies, so that is delivering the same service but in a more cost effective way, perhaps utilising technology, cross-departmental working and so on. There are lots of different reasons for it but the vast majority are efficiencies not actual savings. The definition of savings in many people's books ...

Deputy J.A.N. Le Fondré:

We will come to that in a minute, Minister.

The Minister for Treasury and Resources:

That is fine.

Deputy S.M. Brée:

Minister, looking at the proposition, the States Assembly are being asked or will be asked to approve a number of things, one of which is appendix 1 which is "Summary of user pays proposals". For clarity and understanding of what is exactly included here, appendix 1 shows in 2015 and 2016 user pays charges of £10,000 for education and £685,000 for health, a total of £695,000, reoccurring in 2017, 2018 and 2019. What are these?

The Minister for Treasury and Resources:

Chris, do you want to just give the detail on that?

Head of Financial Planning:

Yes, sure. If the Deputy would like to turn to appendix 2 and the lists of savings and user pays by department, you will see the analysis for each department providing the user pays for each of the years 2017 to 2019, as you will the efficiencies and ...

Deputy S.M. Brée:

No, I am not querying the figure. I am just asking: what are they?

Deputy J.A.N. Le Fondré:

This is for 2015 and 2016.

Deputy S.M. Brée:

This is the 2015 and 2016 figures that are contained within appendix 1. What do they relate to? We can see the figures. There just does not seem to be any detail.

Treasurer of the States of Jersey:

Page 155 gives you more detail of what they are and indeed if you then went to the annex, that will give you a breakdown within Health and Social Services for the descriptor within page 155. There is application of subsidies and means testing, so they are going to look at subsidies and means testing that exists within Health and Social Services with a view of making those savings.

Deputy S.M. Brée:

It does not quite answer the question I am asking. Contained within appendix 1 are some figures. All we are asking is: what user pays figures does that relate to?

Treasurer of the States of Jersey:

This is off the top of my head. How many pages have got in here? You come up with a memory test right down to individual measures. My recollection, and I will stand to be corrected, is within Health and Social Services these relate to services that individuals currently receive subsidies for. Not all individuals currently receive subsidies for them, but they are going to be looking at the roles of the subsidies with a view to bringing more people in who will have to pay for those subsidies themselves.

Deputy J.A.N. Le Fondré:

Can you send that to us in writing?

Deputy S.M. Brée:

It might be better, yes. Could we request that you give us further details on that 2015, 2016 user pays charge?

Head of Financial Planning:

Just to be clear, if I may, Deputy, the only elements of appendix 1 that the States are being asked to approve are those user pays that are being introduced in 2017 to 2019. The figures for 2015 to 2016 are being provided to you for information to give clarity as to the total user pays over the whole M.T.F.P. period.

Deputy S.M. Brée:

That is what we are trying to understand is exactly what those total user pays charges relate to and that is all.

Deputy J.A.N. Le Fondré:

I think the point was when we went back to look we could not easily identify.

Deputy S.M. Brée:

It was not easy for us to identify and merely we seek clarity on that point.

Head of Financial Planning:

Yes. We are happy to provide that.

Deputy S.M. Brée:

In the same table, again referring to appendix 1, under the Nursery Education Fund for education it is showing introduction of means testing from September 2017 as a user pays charge, therefore one would assume it was an income.

[10:45]

However, our understanding of it is that the means testing refers to people who will no longer receive any form of grant if their child is in nursery care in private nurseries. How can that be classed as a user pays charge when in effect it is a saving?

Treasurer of the States of Jersey:

Because in essence the user will have to pay for that service if they continue to receive that service. We do not be specific where it is, so we are not trying to say a reduction in subsidy does not necessarily lead to an impact. What we are describing, therefore, is that the user, if they wish to continue to receive that service, regardless of who ...

Deputy S.M. Brée:

Will pay for it, yes, but surely if the Nursery Education Fund means testing is targeted solely against private nurseries then the States will not be receiving an income, the private nursery will.

Treasurer of the States of Jersey:

But the user will pay, hence the title "user pays".

Deputy S.M. Brée:

Yes, but you have got it down as an income.

Treasurer of the States of Jersey:

It is a reduction in a cash limit, so we are not calling it income. We are saying the user pays. We are trying to say that regardless of where the user pays to, the user will pay but it comes through in a reduction of the cash limit through a reduction in expenditure.

Deputy J.A.N. Le Fondré:

So it is not a case of somebody ...

Treasurer of the States of Jersey:

They will not be paying Education. They will then start to pay the provider.

Deputy J.A.N. Le Fondré:

The user pays definition here is not solely somebody receives a service and pays for it. It could be that if they have been receiving the service previously they might just not receive cash from ...

Treasurer of the States of Jersey:

You walk through what the impact would be on the individual as opposed to saying whether the department receives income or not. This comes through as a reduction in spend but the impact upon the user is that they will pay but they will not pay the department.

Deputy J.A.N. Le Fondré:

Just one question before we go on to Chris: can you clarify, Minister, whether at the moment it is solely the private schools that will be having the impact from this means-testing limit or has the decision been made to apply it across? It is done above a certain income limit. Is that going to be applicable wherever that child goes to school or is it still focused just on the private sector?

The Minister for Treasury and Resources:

My understanding is that it is still focused just on the private sector.

Deputy J.A.N. Le Fondré:

Thank you.

The Connétable of St. John:

Minister, in part (c) of the proposition the States are being asked to approve the introduction of an income-based health charge to raise £7.5 million in 2018 and £15 million in 2019. Why, once again, are we being asked to approve something as significant as a new tax without any detail?

The Minister for Treasury and Resources:

The proposition is asking, as you can see, for the principle of the health charge, and this is not new. This goes back to 2012 when P.82 was approved by the States, which was additional funding for health, recognising the profile of an ageing population, the pressures on health services, not just in Jersey but globally. There was going to need to be a sustainable funding mechanism to deal with those increasing costs over time. What this is seeking to do is establish the principle within this

Medium Term Financial Plan that a charge for health funding will be introduced. The mechanism and detail, although it has been discussed publicly, will ultimately be approved through the budgetary process in December.

The Connétable of St. John:

Have you examined other methods of raising these sums of money?

The Minister for Treasury and Resources:

Yes. The Council of Ministers considered a range of different options for raising money to put in place a sustainable funding mechanism for dealing with the issues that I have just referred to in terms of health funding. It was deemed that this was the most appropriate one, more progressive up to the level of the cap, of course, but nevertheless it was also utilising a system of collection through social security, similar to the long-term care that is already being utilised. Therefore, there was a degree of simplicity in terms of adapting a system that was already in place.

The Connétable of St. John:

Surely it would be much easier to put 1 per cent on to the employers' rate social security? You would raise very similar sums of money, it would be cleaner, easier, but also you would be taxing companies, the employers, who at the moment do not pay tax, rather than taxing the individuals and the hardworking Jersey people of the Island.

The Minister for Treasury and Resources:

If I could just correct you, employers do pay tax. They pay through their personal financial services business.

The Connétable of St. John:

Firms do not. Companies do not.

The Minister for Treasury and Resources:

Some companies do.

The Connétable of St. John:

They are the biggest employers.

The Minister for Treasury and Resources:

There are some companies who do through Zero/Ten, and of course 20, depending on the type of the business. I accept that there are a large swathe of businesses in Jersey that do not pay under Zero/Ten. Nevertheless, the owners of those companies and the employees do pay tax. As far as

putting a further burden on to businesses, of course there was an increase on the employer contributions only a few years ago. Again, looking across the piece, the measure that we have put forward was deemed to be the most appropriate and fairest in the circumstances.

The Connétable of St. John:

Right. We will beg to differ.

The Minister for Treasury and Resources:

There is no perfect answer, I should say quite simply, but at the end of the day the view of the Council of Ministers was on balance that this was the most appropriate route to take. Of course it means that the more vulnerable, low income individuals within our community who do not pay tax are not contributing towards this because that accounts for about 30 per cent and then, of course ...

The Connétable of St. John:

But you would catch through an employer's contribution and you would catch again through businesses who are not paying tax. It seems a much fairer system to pay it through the employers' rate than it does through income tax.

The Minister for Treasury and Resources:

Sorry, I was talking about protecting the more vulnerable and low earners and you were talking about catching them. I think we were particularly trying not to catch more vulnerable and low earners in our community.

The Connétable of St. John:

Precisely. They would not be caught as an employer's contribution anyway.

Deputy K.C. Lewis:

Minister, within summary table C for proposed central contingency allocations 2017, 2019, what is the difference between carry forwards for committed redundancy and carry forwards for restructuring and redundancy?

The Minister for Treasury and Resources:

The committed redundancies are those that have been identified and the restructuring redundancy, that is yet to be identified, I think I am probably correct. I do not know if the Treasurer wishes to add anything further to that.

Treasurer of the States of Jersey:

I think Chris is probably best placed on the nuance between the 2 but it is pretty much in accord with what they are with a bit more detail. We have just summarised it in one line. What we are doing is forecasting how much of the original contingency for redundancy between those 2 lines we no longer think will be required for redundancy and, therefore, able to reduce the restructuring allocation within the year.

Deputy J.A.N. Le Fondré:

Sorry, can you just repeat that last bit?

Treasurer of the States of Jersey:

The very last bit or all of the last bit?

Deputy J.A.N. Le Fondré:

The fact that you would be able to reduce the redundancy provision for the year.

Treasurer of the States of Jersey:

The States agreed a redundancy drawdown of £20 million in total. The latest forecast of the level of redundancies that would be required are somewhat less than that sum. The proposal is, to assist in balancing the budget in 2019, while the target for efficiencies is extended into future years, to use the funds that are not required on that redundancy drawdown to make them available for restructuring and/or redundancies that we currently do not anticipate in those years and, therefore, reducing the amount that we are allocating from budgets within those years. I did not see your hand go up to stop me.

Deputy J.A.N. Le Fondré:

That is okay. Thank you for that.

Deputy K.C. Lewis:

If redundancies are less than have been budgeted, does this show that the scheme has not been as successful as planned?

Treasurer of the States of Jersey:

I do not view it that way. The way that I would describe it is that people seem to think that the whole of that £20 million, if it was going to be spent, would be spent as a result of individuals deciding to come forward. In order to make redundancies of this scale, you have to look at it at a service level not an individual level. The Council of Ministers had alternatives in order to deliver a higher combination of savings and efficiencies that would have seen a higher number of redundancies, but those would have been associated with reductions for services as opposed to efficiencies within

services. We think elongation of the time period to deliver the original target of efficiencies will move some of those into future periods. It would also allow, if you move into future periods, you not to rely upon redundancies. If you do workforce planning over the longer term you will take advantage of natural attrition, in particular retirement, and therefore reduce the amount that you should require in the longer term for redundancies.

Deputy J.A.N. Le Fondré:

So, effectively, your vacancy management and your attrition might achieve the same reduction in job levels?

Treasurer of the States of Jersey:

Yes. So when people see, I think there were, 400 jobs that we have in terms what we would anticipate to lose, that is not the same as saying they are 400 forced redundancies or even 400 voluntary redundancies, because if departments are looking at when people are retiring and when people choose to leave you take the opportunity to decide what you are going to do. In Treasury we know we have programmes that will ...

Deputy J.A.N. Le Fondré:

Okay. You can stop there now.

Treasurer of the States of Jersey:

I am sure you will find out more about that later.

The Minister for Treasury and Resources:

Could I just add to that very briefly that there is about 7 per cent turnover of staff within the public sector on an annualised basis? I think what this has proven is that whereas in the past vacancy management was very poorly managed, I think now and as part of this programme it is being managed much better and so that is helping to deliver. One final point I think which might help the Deputy is that to date, that is through 2015 and 2016, we will have spent £6.8 million in terms of delivering voluntary redundancies but the ongoing savings are £5.5 million, recurring savings of £5.5 million by those posts moving out, being taken out, effectively. So that gives some sort of scope as to the numbers. That is 122 F.T.E. (full-time equivalent) 2015 and 2016.

Deputy J.A.N. Le Fondré:

I think that is in the M.T.F.P. somewhere. I am sure I have seen that.

The Minister for Treasury and Resources:

It will be in there somewhere.

Deputy K.C. Lewis:

Summary table D "Summary of proposed growth" only details growth for 2018 and 2019. What has happened to the growth for 2017?

The Minister for Treasury and Resources:

Yes, it is in the plan.

Head of Financial Planning:

If I can help you with that. The proposal for growth or, as we like to call it, additional funding, because it also covers service pressures and pressures related to demography as well as new growth initiatives, for 2017 - on the basis of the fact that we have proposals now for 2016 and 2017 savings, and indeed into 2018 and 2019 - that the growth, which would normally be held back until those savings are identified, can be allocated. Therefore, the 2017 additional funding is included within the proposed expenditure limits for departments, as the additional funding for 2016 was in last year's M.T.F.P. What we are doing is we are saying we are going to hold back the ... or the proposal is to hold back the growth funding for 2018 and 2019 until there is more certainty about the financial position for 2018 and 2019, which is some of the flexibility which exists within the plan.

Deputy K.C. Lewis:

What if departments cannot manage the savings they have committed to and they have to ask for more money from contingency this year?

Head of Financial Planning:

This year being 2016 or this year being 2017?

Deputy K.C. Lewis:

2016/17.

Head of Financial Planning:

Which year?

Deputy K.C. Lewis:

For 2016 to start with.

Head of Financial Planning:

In 2016 we, at the moment, do not have, from our quarterly monitoring, any indication that departments are overspending and, therefore, at the moment we are not proposing to issue funding

to contingency solely for the purpose of a department struggling to meet its spending limit. For 2017 I have no idea what the claim on contingency will be but there is a £5 million D.E.L. (departmental expenditure limit) contingency for those such eventualities.

Deputy J.A.N. Le Fondré:

To summarise, whereas previously indications were that the growth expenditure would be released working backwards, for 2019 it would be in the 2019 budget, which we debate in 2018, for 2018 it would be in the 2018 budget, which is in 2017. Now for 2017, instead of being in the budget which we will debate in December, it is being in here. So if we wanted to identify what that growth was we would have to refer back to last year's M.T.F.P. to see what those figures were because they have now been incorporated in the base budgets of the departments.

Head of Financial Planning:

The 2016 additional funding was identified in the last M.T.F.P. and is repeated in here in the tables on figure 24. The 2017 is also identified in figure 24 and in the cash limit summary tables that we have provided to show what additional funding has been allocated for each of the years. You will also find in the department annex, in the cash limit reconciliation statements for each department, a clear analysis of the additional funding that has been allocated for 2017, which reconciles back to figure 24.

[11:00]

Deputy J.A.N. Le Fondré:

Yes, I think we found our way round figure 24 in the end.

Head of Financial Planning:

The key point is that the central growth allocation is important in terms of the flexibility that we will have moving forward for 2018 and 2019.

Deputy J.A.N. Le Fondré:

Thank you for that. Minister, page 44 of the M.T.F.P. gives a summary of the position and shows a surplus at the end of 2019 of just over £1.5 million. Hopefully that will be tattooed across your forehead. Can you confirm you will judge the success of the M.T.F.P. on the basis of that financial forecast, on the fact, in other words, that the financial position at the end of 2019 will be at least £1.5 million?

The Minister for Treasury and Resources:

What the Council of Ministers set out to do was to balance budgets by 2019. What this plan shows is that we have made significant investment in the key areas of priority that we have identified, health and education, and that although the figure is not particularly large, nevertheless it is showing a balance by 2019. What I have said time and time again is that forecasts are exactly that and they will change, so I cannot give you any guarantees that that is going to be the exact number. In fact, I can guarantee it probably will not be the exact number.

Deputy J.A.N. Le Fondré:

I think that is a different question from what I asked, Minister. The question I asked was: how are you going to judge the success of the M.T.F.P. and are you going to judge the success of the M.T.F.P. by the fact of you achieving or exceeding that surplus forecast? If you hit a deficit in 2019 instead, will the M.T.F.P. not have succeeded?

The Minister for Treasury and Resources:

It really depends. There have been, as you know - and this was identified previously by the Fiscal Policy Panel - many global uncertainties and that is prior to the situation where the U.K. (United Kingdom) made the somewhat surprising decision to leave the E.U. (European Union). That has created greater levels of heightened uncertainty, if I can put it like that, and market turbulence and, as such, the plan may well have to adjust over the coming few years. So, really, to talk about how I will assess whether that particular surplus figure is a success or not, it is one dimension of an overall plan.

Deputy J.A.N. Le Fondré:

It is the success of the plan overall and the objective of the plan is to get the books into balance. If the books are not in balance ... I am not going to worry about exactly the precise figure.

The Minister for Treasury and Resources:

Yes, but we may well receive further advice in the coming months or even years from advisers that we need to take a different approach if the economic environment changes.

Deputy J.A.N. Le Fondré:

That will be the discussions for the next hearing, I think, Minister.

The Minister for Treasury and Resources:

Yes, indeed, but it is relevant to the question that you have just asked. I should also say, in terms of assessing success or otherwise, there is significant investment in this plan. Part of the success is the delivery of that investment and the improvement of public services, which is what we have set out to do in the key areas that we have identified.

Deputy J.A.N. Le Fondré:

Thank you. We will not get drawn into the discussion of whether it is investment spend or we are just trying to sort out the financial position of the States at this stage. Page 63, I am just trying to find the exact point ... the third paragraph down, Minister, the large one: "The total spending limits for the 4 years cannot be exceeded other than in exceptional economic or environmental circumstances and the financial position need to be broadly balanced by 2019. Could you give an example of exceptional economic or environmental circumstances?"

Treasurer of the States of Jersey:

I did think to myself: "Why did you not bring a copy of the Public Finances Law today, Richard?" and I have not, so I am trying to picture it in my head. Those words come from a paraphrasing or an interpretation of the terms within the Public Finances Law. It would be a decision for politicians ultimately, but I believe that if you were to experience ... well, the environmental one is quite straightforward, an environmental disaster or however you may want to describe that. We had some former politicians from the T.T.S. (Transport and Technical Services) Department, as it was once, and I am sure that they could imagine what those environmental disasters may look like. This is quite straightforward, the environmental disasters that may lead you to spend money, so then you could come back to the States and seek States permission to vary the expenditure limits. I would determine economic changes to be one-off significant structural matters or even cyclical matters. So if the Fiscal Policy Panel ... and it is a bit difficult. You will probably appreciate from us that it is a bit difficult to answer some of these questions, ignoring the advice we received yesterday. The advice we received yesterday is quite pertinent to answering the question, so it sets out scenarios which may call for different solutions, and if those were that you were to see ... and they are not seeing at this point, it would be, so we are forming scenarios to the extent that you would see significant structural positions beyond the allowed pool within the flexibility of the plan, or indeed significant structural positions emerge, which I would proffer that those are what the terms within the Public Finances Law were there to accommodate.

Deputy J.A.N. Le Fondré:

Okay, I think that will do for now. Minister, you will be glad to know we have got to the point of a question you were trying to answer earlier. Can you clarify the difference between efficiencies and savings? Just so we know it is clear; you have said it a number of times.

The Minister for Treasury and Resources:

There are clearly many different definitions from different people, but savings typically would involve the ceasing of a service, the cutting of a service, however you want to phrase it, whereas efficiency would be continuing the same service but in a more efficient, cost-effective way, so with less people,

utilising technology, perhaps going cross-departmental and so on and so forth, providing the same or a better outcome, but at less cost. That is what we are seeing in terms of the overall savings/efficiencies, the vast majority are efficiencies, not savings.

Deputy J.A.N. Le Fondré:

Just out of curiosity, on efficiencies, that would presumably not include user-pays coming in then?

The Minister for Treasury and Resources:

No.

Deputy J.A.N. Le Fondré:

So it would be a cheaper service, not one that is just the user is paying for it, as opposed to the Government paying for it directly through taxes, okay. Are all the efficiencies and savings proposals cashable savings?

The Minister for Treasury and Resources:

Effectively they reduce the cost of delivering the service within the department, so it impacts on or benefits the budget from the individual departments, so it depends what you mean by "cashable".

Assistant Minister for Treasury and Resources:

They have really contributed to some of the savings the departments have made, have they not, and enabled them to make more of the savings that have been required by Treasury to meet the budget requirements for this year?

Deputy J.A.N. Le Fondré:

I suppose an example - and I am just thinking about this, I do not know if I want to give this as an example because it might end up an accountant's argument - let us say that a cut in depreciation would probably not be a cashable saving immediately.

Treasurer of the States of Jersey:

These are at the near cash, not the non-cash, level, so they are in their cash limits, which is not included within departmental cash limits. We take that as a States overall position and while we do report their depreciation and you would allocate it ...

Deputy J.A.N. Le Fondré:

No, I was trying just to ...

Treasurer of the States of Jersey:

You are waving your hand already.

Deputy J.A.N. Le Fondré:

No, that was waving my hand. I was trying to just not go into the merits of depreciation, that is why I paused, but it was basically we just want to establish efficiencies and savings from your perspective are effectively cash or near cash savings. Okay, that is fine.

Treasurer of the States of Jersey:

Yes, so the department have said that they are losing that money. That money is cash; that money is nothing else.

Deputy J.A.N. Le Fondré:

Right, good. Thank you.

The Minister for Treasury and Resources:

Importantly, Chairman, that has allowed us to reprioritise that funding into the key areas.

Deputy J.A.N. Le Fondré:

All right, thank you. Why is pay restraint regarded as an efficiency?

The Minister for Treasury and Resources:

It reduces the cost and that money is then able to be reprioritised, so you are using your workforce more efficiently, arguably.

Deputy J.A.N. Le Fondré:

We will come back to that one, I think, Minister. Right, a final one, I think, from me, which is down to my favourite subject, the waste charge. Now, there has been some concern expressed of the impact on companies and businesses that already pay tax locally, particularly, for example, tourism businesses. It has been suggested it might be possible to mitigate the impact on such entities, including, for example, sole traders, by putting such a charge as a credit against any local tax liability. That seems to have been intimated by the Chief Minister, I think, on the basis of submissions made to him, I believe. Essentially, is the Minister or the Treasurer aware of any such proposal and would you be supportive of it?

The Minister for Treasury and Resources:

First of all, I think you made the comment about companies paying tax locally. Of course, generally companies do not pay tax locally, so I assume you were referring ...

Deputy J.A.N. Le Fondré:

Basically that companies ...

The Minister for Treasury and Resources:

You are referring to the waste charge.

Deputy J.A.N. Le Fondré:

I am referring to companies and businesses, so, for example, you could have a business, you could have a company that is paying tax, or alternatively you could have a business or you could have the local shareholder is instead paying the tax, if it is a direct one-man band in a corporate entity.

The Minister for Treasury and Resources:

Yes, understood.

Deputy J.A.N. Le Fondré:

Or you could have a sole trader, which is not a company, as a business obviously paying tax. In those instances, the argument goes that they are already paying tax and contributing to the collection and disposal of waste already and therefore the argument goes that are they paying twice? The suggestion has been raised, and I believe it was first mentioned by the Chief Minister, was that there might be a way of mitigating that, and I presume it is by - I do not know the detail - some form of credit against the local tax liability. The question is: are you aware of that; has it been discussed with you, and if so, would you be supportive of the principle?

The Minister for Treasury and Resources:

It has been mentioned. It has not been properly analysed and typically that is not something that we would be particularly supportive of, but we would need to look at the details and the impacts surrounding it.

Deputy J.A.N. Le Fondré:

So you probably would not be supportive of it?

The Minister for Treasury and Resources:

It depends on the circumstances and the details following the analysis. As I said, it has been mentioned, but there have been no further details.

Deputy J.A.N. Le Fondré:

So very quickly, I am trying to get to the principle. I accept the devil is always in the detail, but from the principle of if there was a methodology to reduce so that local businesses that were paying tax did not have a double-whammy, you probably would not be supportive of that principle?

Treasurer of the States of Jersey:

Let me just clarify that double-whammy, in that if it has reduced the taxable profits of the company, it would therefore not be distributed.

Deputy J.A.N. Le Fondré:

No, I am afraid that is where we are getting into the full tax liability, so the full hit versus effectively if you are reducing the taxable profits, they get 20 per cent. All right, I think we will move on because I do not want to get sucked into the detail too much in that area. Chris.

The Connétable of St. John:

Thank you. The M.T.F.P. Addition proposals clearly outline the health charge as a hypothecated tax by way of application recovery and not a user-defined charge. The first and second principles of Jersey's tax policy are taxation must be necessary, justifiable and sustainable. The second principle is that taxes should be low, broad, simple and fair. Does the proposed health levy meet these principles?

The Minister for Treasury and Resources:

We believe it does.

The Connétable of St. John:

Thank you. How much work and what work has the Treasury undertaken on this?

The Minister for Treasury and Resources:

Ultimately the decision was a Council of Ministers' decision with regard to the health charge. We looked, as I mentioned earlier, at a number of measures to raise the necessary money to deal with health and the rising costs of health care. This was deemed to be the fairest and most palatable of the options available, also considering all aspects, including the distribution analysis.

Deputy S.M. Brée:

Minister, you were quoted in the *Jersey Evening Post* on 1st July 2016 as saying: "For over £164,000 there is no further contribution, but if you do not have a cap, then it would be a change in income tax. A change to our income tax system is not where we want to go." My question to you, Minister, is why is there a cap on the healthcare charge?

The Minister for Treasury and Resources:

First of all, I think I have said this before, you cannot always - with the greatest of respect to those from the media in the gallery - rely on the accuracy. First of all ...

Deputy S.M. Brée:

That is why I said "quoted" rather than "stated."

The Minister for Treasury and Resources:

... I would just correct: it is £162,000, not £164,000. That is a minor change, but it just makes the point. The further part of your question was?

Deputy S.M. Brée:

Why is there a cap on the health charge?

The Minister for Treasury and Resources:

Right. As I alluded to earlier on in this hearing, we looked at a number of different measures and it was the view of the Council of Ministers that to utilise an existing system mechanism through Social Security, as we have done previously with the long-term care, was the most reasonable and fairest option, the simplest option to utilise. Of course the Social Security system has this cap and base, it is a contributory system, and it is a cap that is not fixed, I should hasten to add. In fact, it has been rising over the years under statute. It rises, I believe, based on average earnings, so it will continue to increase over the passage of time.

Deputy S.M. Brée:

I understand that the cap is set at £162,500. Why is it set at this level?

The Minister for Treasury and Resources:

I think, if I remember correctly, when it was introduced it was introduced at £150,000, but as I have said, under statute each year it increases based on average earnings.

[11:15]

So it will have increased dependent on that and that is why it is the number that it is currently.

Deputy S.M. Brée:

So what year was the cap introduced at £140,000?

The Minister for Treasury and Resources:

The Treasurer would have the best knowledge of that, in his former life.

Treasurer of the States of Jersey:

At broadly the same time we were talking about G.S.T. (Goods and Services Tax) so 2008, back around there. I do not know exactly which year it was; broadly around that time we brought in G.S.T. or was it increased the G.S.T.? When we introduced the additional contribution above the ceiling within social security at that point.

Deputy S.M. Brée:

So we are saying 8 years ago. When was the last study done on the level of this cap?

The Minister for Treasury and Resources:

I was just going to say, the Social Security Department have already stated publicly that they are reviewing the whole of their Social Security system, including the caps, this one and the £49,120, and that complete review is being undertaken over the next couple of years.

Deputy S.M. Brée:

Do you not think that this cap should be raised to make it a broader and more equitable form of charge?

The Minister for Treasury and Resources:

I think we have stated from the beginning, and indeed to the Constable of St. John's earlier question, there is no perfect system necessarily to achieve the objective that we had, to raise money for a health charge. This was deemed to be, by the Council of Ministers, the best option that was available. We are aware that Social Security are undertaking a review. That may well result in the cap being raised, but in the short term though it is not right to make a decision of that nature without having the facts to first of all support it. What I would say is that the majority of taxpayers, and certainly those who do not pay tax, more importantly, are not contributing to this system because they fall below the thresholds. At the moment it is 30 per cent in total. As I have said, we believe it to be the most appropriate system available currently.

Deputy S.M. Brée:

The panel has roughly worked out this charge to be £320 per annum on somebody earning £40,000 a year. This is on top of all of the other user-pays and additional charges that are being proposed. Surely it would be better to remove the cap and therefore reduce the burden on middle income earners. Do you not agree with this?

The Minister for Treasury and Resources:

You would not reduce the burden, because all you would do is you would bring more people into the net, I would grant you that, and in fact the £15 million that is being raised, when it gets to 2019, when it is 1 per cent - obviously it is half that in 2018 - if you remove the cap altogether, you would bring into scope those earning more than £162,000, which would raise, it is estimated, approximately £2.6 million. It would not impact on those other people, it would just bring more money into the equation.

Deputy S.M. Brée:

If it brings more money into the health charge, then surely it would be possible to reduce the percentage charge down to a lower percentage?

The Minister for Treasury and Resources:

You might possibly be able to do that, but increments of 0.5 per cent would be the most realistic way of doing it. As I have said, we are introducing in 2018 0.5 per cent and then what might be possible would be to delay the increase to 1 per cent, but again, based on 0.5 per cent increments, it is a timing issue more than anything else. It is not going to make a big impact.

Deputy S.M. Brée:

So you do not think that would be a good idea, to relieve the burden on the middle income Jersey?

The Minister for Treasury and Resources:

First and foremost, I have made it clear, hopefully, that Social Security are reviewing all aspects of the Social Security system, and including these caps. It is the right thing to do, and to base decisions of future changes above that which is done through statute in terms of average earnings is a matter that needs to be done when the evidence has been presented, not just on the hoof, as it were. So I think where we are at the moment is the best place we can possibly hope to be in the current circumstances.

Deputy S.M. Brée:

Do you not agree that the health charge is in fact a tax by another name?

The Minister for Treasury and Resources:

No.

Deputy K.C. Lewis:

Minister, the Assistant Minister for Sports recently said that increases in prices for sports facilities could not be ruled out, and although he was unsupportive at this time, did state he could never say never. How many other charges are in the pipeline?

The Minister for Treasury and Resources:

The charges that are currently in the pipeline are those that have been presented as part of this Medium Term Financial Plan. I think the Assistant Minister is absolutely right, it would be folly for anybody to say categorically that there is not going to be a change in circumstance the further out into the future you go. As circumstances change, one has to alter one's plans. I think the whole aim of this Medium Term Financial Plan and the objective of the Council of Ministers is to constrain costs, to drive efficiencies and to use some of that money to reinvest in the priority areas. That is what we are seeking to do, and yes, there are some charges included as part of the package, but they are in the minority. The majority is efficiency savings or efficiencies, rather than savings, just to be absolutely clear.

Deputy K.C. Lewis:

I think we have just heard only last week free membership to Fort Regent sports facilities for the over-80s is going to be withdrawn, but surely the health and wellbeing of Islanders is paramount?

The Minister for Treasury and Resources:

Yes, it is, and some difficult decisions have to be taken by departments and by, ultimately, the Council of Ministers in improving this plan; it is the Council of Ministers' plan. What we have sought to do is to balance all the pressures and to ensure that the funding is available to be able to invest in the areas that are most needed. We deem that to be health and education, particularly in health areas like mental health, children's services and so on. They are identified in the plan, so I will not go into that in any further detail.

Deputy J.A.N. Le Fondré:

Thank you. Minister, just standing a little way back from it, and I have just scribbled some things down here and there is one figure I am not entirely sure about, but broadly speaking, the last budget raised - this is all by 2019 - about £8 million.

The Minister for Treasury and Resources:

I think it is about £7.5 million by 2019.

Deputy J.A.N. Le Fondré:

Yes. You have got your accounting adjustment, which is about £7 million, give or take, annual recurring.

The Minister for Treasury and Resources:

It is a bit more than that. I think it is about £9 million.

Deputy J.A.N. Le Fondré:

Okay, let us stick around that kind of number. We have got about £15 million coming in from the health care charge; I think we have got about £8 million on the waste charge. I will pause there, it might be £11 million.

The Minister for Treasury and Resources:

Waste is £11 million.

Deputy J.A.N. Le Fondré:

It is £11 million, is it? That is a year by 2019?

The Minister for Treasury and Resources:

Yes.

Deputy J.A.N. Le Fondré:

Okay. You put that lot together and that is roughly £40 million, say.

The Minister for Treasury and Resources:

£44 million.

Deputy J.A.N. Le Fondré:

Fine, I am glad you have got the figures in your head and you are doing your maths even further. Is it not really just the case that the Zero/Ten income tax structures that we have got are starting to creak, we are finding various ways of bringing in other income? What is the view in terms of perhaps we should be introducing a new headline rate of tax instead?

The Minister for Treasury and Resources:

No, it is not creaking. You can see that revenues are continuing to rise. I think the issue is they are not rising at the same rate that they were previously, whereas we have significant additional pressures, largely around the ageing population. This is not, as we have said, a Jersey issue, it is happening in many other places as well. That is why the priorities, in particular in health, and why there is £40 million additional investment going into the Health Department to deal with those pressures. So you have got rising costs, income rising, but not as fast as it previously was, and pressures, I may say, that put that income line at risk. We are having to make sure that we have flexibility to adjust to that.

Deputy J.A.N. Le Fondré:

I think the point we are making, perhaps the expression “Zero/Ten creaking” is not the right one, but the point being is that in terms of the revenue we need to raise, we are having to rush to devise other methods of bringing that income in, whereas previously we had a nice simple system and it was basically income tax. Where are we now?

The Minister for Treasury and Resources:

Yes, we had a nice simple system, I would agree with that in one respect, but if you compared it to the tax system of most jurisdictions, they are far broader. So the policy has been to move to a broader-based low, simple and fair - I think the Constable of St. John was referring to earlier on - and that that is what we have sought to do, taking into consideration the need to move to Zero/Ten, which we did. Without that, let us be absolutely clear, there is no doubt that a vast majority of our financial services industry would have gone and significant job losses and so on and so forth. So there was an absolute need to move to Zero/Ten in order to protect that industry.

Deputy J.A.N. Le Fondré:

Thank you. Okay, Kevin, number 20.

Deputy K.C. Lewis:

Minister, can you confirm you will not rule out a further income-based charge to fund the hospital?

The Minister for Treasury and Resources:

The funding arrangements for the hospital are yet to be clarified. I have spoken publicly about this and about the possibility of a blended solution in that regard. Part of that blended solution involves using reserves; part of it involves either extending the existing bond that we have currently got or seeking to go to the debt market and obtain a new bond as part of that solution. Clearly for debt of that nature there would need to be an income source, so the Council of Ministers will need to give careful consideration to what that income source would be to manage the debt, part of the debt that would be required to fund a future hospital.

Deputy K.C. Lewis:

But what has changed since February this year, when you said that a new charge would only be needed for the most expensive option then under consideration?

The Minister for Treasury and Resources:

As I have said, I have made it clear that a blended solution is necessary. I think we need to bear in mind that since earlier in this year, there have been additional circumstances that have arisen, not least the very recent decision by the U.K. to leave the E.U., which creates a certain amount of uncertainty, to put it mildly. As such, additional levels of flexibility in our arrangements over the next

few years are necessary. I would be loath to tie up too much of our reserves, in particular the Strategic Reserve, for the funding of a future hospital, and consequently the element of bond, loan, debt funding to make the balance would need to be funded by some income stream.

Deputy J.A.N. Le Fondré:

I will ask the question: what might that funding and income stream look like then, Minister?

The Minister for Treasury and Resources:

That is a matter yet to be concluded on. It would cover, I suspect, consideration of all the areas that we looked at in regard to the health charge. I should point out, as I have done on many occasions, that we were and have been in a position, due to our improved income from 2015, to reduce the health charge from £35 million to £15 million. That has given some flexibility, certainly for now, but part of that may well be eroded, that saving may be eroded if we need to find a charge to fund the bonds.

Deputy J.A.N. Le Fondré:

Okay, before we move on, can you just confirm that certainly at least one of the presentations that have been made, there was talk that such a charge might look like a health care charge? You have just made reference to a charge to fund the interest, basically, so it probably would like look the healthcare charge.

The Minister for Treasury and Resources:

If you are asking is it going to look like the same mechanism as the health charge, that has not been decided upon yet, but we would need to consider that and a raft of other possible sources for raising the necessary money to fund a bond. The interest of course on the bond is what I am talking about, which I am sure you are aware is just for the sake of ...

Deputy J.A.N. Le Fondré:

That is what we are all talking about. We are all talking about basically what is the potential impact on the taxpayer in the context of this Medium Term Financial Plan and then potentially the additional burden in some shape or form in terms of funding the hospital. That is obviously what we are all looking to get some clarity on at some point.

The Minister for Treasury and Resources:

Yes, there is one final point that is relevant to this, and I will be very quick. It is just that if we were not to do this, of course, we have got continued and increasing costs in terms of maintaining the existing hospital, which could, over the next 10 years, run to £10 million to £15 million a year, it could escalate to that. So there is this extra funding that needs to be resourced from someone.

The Connétable of St. John:

We are being asked to approve a £15 million health charge in this M.T.F.P.

The Minister for Treasury and Resources:

Constable, if I may just say, the principle, the actual approval will come through the budget, the mechanism.

The Connétable of St. John:

Yes, the mechanism, exactly. We are apparently, as has been hinted at, being asked to approve a further charge for the building of the hospital in 2017. Should this charge not be included in this M.T.F.P.?

The Minister for Treasury and Resources:

First of all, I am not sure that I was hinting, I think I was fairly straightforward about it. I did not mention 2017 with regard to hospital funding either, but nevertheless we will need to come back. Three things need to happen. First and foremost, the site, which has been identified, needs to come to the States, there needs to be approval by the States for the feasibility work that needs to be undertaken for the funding of that, and thirdly, quite understandably, the States needs to consider the funding mechanism and option and that will all come forward in the period between now and the end of the year.

[11:30]

The Connétable of St. John:

Do you not feel or agree that Members are being put in a difficult position by being asked to approve a health charge in the knowledge that only a year down the line there is going to be a further charge to consider?

The Minister for Treasury and Resources:

That is why it is important, in my view, that that is clarified before the M.T.F.P. debate, so more detail will come forward before that debate is undertaken. But I think we also need to make it clear that a year ago we were saying that there was going to be a requirement for £35 million worth of health charge to be raised and that was going to be the charge. As income has improved from 2015 and through the plan period the forecast has improved, we have been able to reduce £35 million down to £15 million. So there is some additional flexibility there to hopefully accommodate what will be required in terms of funding mechanisms for the hospital.

The Connétable of St. John:

Have you factored in or will you be factoring in the increased cost of running a much bigger hospital?

The Minister for Treasury and Resources:

That is all part of the project. There will be efficiencies, clearly, and the whole health model is changing. I do not know if the Assistant Minister, with the expertise in that area ...

Assistant Minister for Treasury and Resources:

Yes. Certainly one of the objectives with the new hospital is to get better streaming of patients through the hospital, which will reduce the amount of staff required to service a patient going through different levels of checks they need to go through. At the moment, they can be going from one floor to another floor and back down, so that streamlining is going to enable us to be more efficient with the staffing that we need on duty at any one time. A new hospital will also mean a reduction in the amount of maintenance costs. The current hospital has very high maintenance costs. A lot of it is effectively not suitable for current medical requirements and we cannot continue to operate like that. The efficiencies that the new building will be able to give us will reduce the level of costs of the ongoing revenue. I do not think we see any budget cuts on that. What we will see is more services being delivered when we need them.

The Connétable of St. John:

How much is the feasibility work going to cost, because we are now into the phase where a site has been found and we need feasibility cost studies going forward? What are those likely to cost?

The Minister for Treasury and Resources:

As I was mentioning, that is coming forward together in the proposition that the States will approve, hopefully, in September/October, whenever it comes forward, so the feasibility details will come forward there. I am just looking across at the Treasurer. Have we got the latest figures?

Director, Financial Planning and Performance:

It is within the current allocation, so the money that has already been allocated through previous decisions, one of the things they will be asking is to be able to use that money for feasibility.

Deputy J.A.N. Le Fondré:

What is the amount?

Director, Financial Planning and Performance:

There were 2 amounts that were approved already. One was £10 million and one was £22.5 million, or £10.5 million and £22 million.

Deputy J.A.N. Le Fondré:

So does that mean £32 million for feasibility in total?

Director, Financial Planning and Performance:

They have already spent £7 million on previous work, so I think there is about £6 million or £7 million already spent, but the remainder would give them sufficient money to do the feasibility.

Deputy J.A.N. Le Fondré:

So £25 million, £26 million?

Director, Financial Planning and Performance:

So partly for feasibility and there is a little bit of a transition which allows to them to give some more capacity between now and the new hospital.

Deputy J.A.N. Le Fondré:

Can you give us a ballpark figure then of what the feasibility study ...

The Minister for Treasury and Resources:

I think we need to come back to clarify that, to be more accurate, because it does not necessarily mean that all that money is going to be used on feasibility, just to be clear. So I think to be more accurate, we need to come back with a figure for you.

Deputy J.A.N. Le Fondré:

If you could, please.

The Minister for Treasury and Resources:

Yes, we will do that.

The Connétable of St. John:

On page 129 within the indicative capital costs of the new hospital, you have got a figure of £40 million for relocation works. Can you just expand on what is meant by "relocation"?

Assistant Minister for Treasury and Resources:

Can I assist?

The Minister for Treasury and Resources:

You certainly can.

Assistant Minister for Treasury and Resources:

If the States decision is to build a hospital on its current site, then we are going to have to create some space elsewhere to move the current facilities to another site. I am not sure if I can go into the detail at the moment, because it has not been fully fleshed through, but clearly we have identified another facility where we can send the outpatients to as an interim measure, but that will need some work to enable that. Then there is the demolition of the current wing down at Patriotic Street and Peter Crill House will have to come down to create a relatively virgin site to build a one build from the ground upwards on that. A lot of that money is about enabling all the moves that need to be done to give ourselves a clear site to build a new hospital on.

Deputy J.A.N. Le Fondré:

Sorry, just to be clear, the £40 million then, is that for moving or is it including demolition or do you want to come back to us?

Assistant Minister for Treasury and Resources:

Yes, I think on that detail I would probably need to come back to you, but certainly I know there will be some new buildings, a couple of new buildings, probably going in the car park in front, temporary buildings.

Deputy J.A.N. Le Fondré:

So that would cover relocation, yes.

Assistant Minister for Treasury and Resources:

So some of that is part of the relocation. I think it is out in the domain: Westaway Court is identified as becoming the Outpatients Department, which is just across the park. That will need a lot of changes to enable that to happen there. A lot of that money is going into those types of work.

Deputy J.A.N. Le Fondré:

Subject to you coming back to us on it, broadly speaking, the cost of using the General Hospital site, because of the relocation, of course is about £40 million, based on what is in the plan?

Assistant Minister for Treasury and Resources:

That sort of ballpark, yes. I think it is fair.

The Connétable of St. John:

Another figure in the table on page 129 is contingencies at £90 million. This is almost 20 per cent of the total project. Contingencies are usually 3 per cent or 4 per cent, at the most 5 per cent. This seems an extraordinarily large sum. Have you an explanation?

Treasurer of the States of Jersey:

I am not an engineer. We are carrying a level of contingency. I would beg to differ: it is not usually that amount on such a large and complex build.

The Connétable of St. John:

£90 million is roughly 20 per cent of £450 million.

Treasurer of the States of Jersey:

But at this stage we are using a ... I do not want to use the word "prudent" because I know you do not like the word "prudent" but we are trying not to undercut how much we think it will cost. At this preliminary stage, it will be carrying quite a high level of contingency. As you go through the feasibility, you will be hoping to become more precise on the level of contingency. In terms of control of contingency, which you are probably quite interested in, unless that hand is up ...

Deputy J.A.N. Le Fondré:

I am glad you are watching it.

Treasurer of the States of Jersey:

We are working with the Department of Infrastructure. We think that what we will do is we will hold contingency separate to the main budget so that there is an even greater degree of control in terms of releasing contingency into the main budget. We are at early days, but the feasibility at this stage, as I understand it, is trying to eliminate any optimism bias. Obviously as you get further into the feasibility and further into the design, you can release, hopefully, some of that non-optimism bias, if you see what I mean, and therefore reduce your level of contingency.

The Connétable of St. John:

The Minister for Infrastructure recently announced that additional floors could be added to Patriotic Street Car Park to help cope with the new hospital. Has that been factored into these costs?

Treasurer of the States of Jersey:

I would have to revert back to you with that. I remember being in a conversation on this a couple of days ago.

Assistant Minister for Treasury and Resources:

To the best of my understanding, it is not. To the best of my understanding, it is not factored into the hospital build. That is a separate build, probably being funded by the Car Park Trading Fund. I would suspect that build is factored in.

The Connétable of St. John:

You have already taken all the money from the Car Park Trading Fund.

Assistant Minister for Treasury and Resources:

Have we?

The Connétable of St. John:

Yes.

Director, Financial Planning and Performance:

It does include the connection, so as part of the plan, the plan is to connect it to ...

The Connétable of St. John:

Yes, the connect across. Yes, I accept that. It was the extra floor I was ...

Assistant Minister for Treasury and Resources:

Alison just reminded me, it is not only the connection across the car park, but part of that £40 million we are talking about is also acquiring other properties in Kensington Place we currently do not own. That is all part of that £40 million.

Deputy J.A.N. Le Fondré:

Okay, of the relocation costs? Right, okay. Kevin.

Deputy K.C. Lewis:

Investment in St. Helier: Minister, it is mentioned on page 14: "Improving St. Helier" and other references through the M.T.F.P. to investing in the strategic priorities also mention St. Helier, but without any detail on what the investment is. Where in the M.T.F.P. addition is the regeneration of St. Helier included? The only places seem to be a passing mention. You have got obviously the Finance Centre and Andium will be doing some homes in J.C.G. (Jersey College for Girls).

The Minister for Treasury and Resources:

Exactly that, you are hitting the nail on the head.

Deputy K.C. Lewis:

Three nails.

The Minister for Treasury and Resources:

There is significant capital investment. Andium you have mentioned. Over the course of the plan, that is £200 million of investment in improving social and first-time buyer housing, largely in St. Helier. You have got S.o.J.D.C. (States of Jersey Development Company), which of course you mentioned the Finance Centre. There are sensitivities around that, but nevertheless there is that investment and there will be open spaces as part of that, but importantly, with S.o.J.D.C., also Castle Quay development and College Gardens, those are 2 big developments, and over the plan period that is an investment of around about £150 million through S.o.J.D.C. into the St. Helier area. Key to these developments is open public spaces and I would also add working together with the Planning Department to ensure that developments from the private sector contribute to a greater extent to the development and enhancement of open spaces and the quality of living within St. Helier.

Deputy K.C. Lewis:

Apart from Andium and S.o.J.D.C., where is the new money coming from, just Planning?

The Minister for Treasury and Resources:

You say “apart from” and that is we have £350 million.

Deputy K.C. Lewis:

We have spoken about 3 projects.

The Connétable of St. John:

Yes, but you did announce that last year, so it is not new money. You announced it last year.

The Minister for Treasury and Resources:

Yes, we did, but we announced the plan, did we not, last year? What we are doing, this is information that has been put out ...

Deputy J.A.N. Le Fondré:

Surely the point here is that the plans for Jersey Finance Centre, Jersey College for Girls, Andium’s £200 million bond and the reinvestment it is doing there, that has been in the pipeline for a long time. What we are asking for is where is the new money being attributed to St. Helier as a result of the Strategic Plan approved by the States with its priority of investment in St. Helier, or is it just: “We have got these projects that we are going to have anyway and now we are going to label them

investment in St. Helier”? Because even planning gain will be part of those projects. They are already happening.

The Minister for Treasury and Resources:

Yes, planning gain to a certain extent, but the Planning Department are working to enhance that, to improve it, so that there will be greater levels of planning gain. That is the intention, to simplify and improve the planning process, to make it a lot easier to undertake these developments and others from the private sector are also part of it. Working together with St. Helier - and of course we may come on to this a moment, because it was on your list for the States paying rates - that puts more money available potentially for St. Helier to invest in improving facilities within and around the town.

Deputy J.A.N. Le Fondré:

Okay, we will ask the question and see how you answer it. Is it not fair to say that relative to the other levels of the strategic priorities of the Council of Ministers, St. Helier is not getting the same priority as those other streams in the Strategic Plan?

The Minister for Treasury and Resources:

No, I do not think it is fair to say that at all.

Deputy J.A.N. Le Fondré:

In terms of when I say new money and new projects.

The Minister for Treasury and Resources:

New or old or previously identified is not really the point. The point is that the Council of Ministers made it clear that St. Helier was a priority and therefore, within constraints - and there are constraints, obviously we want to end up with a balanced budget at the end of the day - but nevertheless, this plan has got significant capital investment. You have got £168 million of capital in the plan. That is excluding Andium that I have just mentioned, it is excluding S.o.J.D.C., there is £168 million of capital. Now, I accept not all of that is in St. Helier, we have got investment in schools like Les Quennevais, in fact, £55 million of that schools' improvement and the new school, but some of it improves infrastructure within St. Helier. Working together with the Parish of St. Helier to provide an improved environment is, I believe, well catered for in terms of funding.

Deputy J.A.N. Le Fondré:

Okay, we will move on. Thank you for the comment, Minister. Anybody else at this stage? Kevin, are you happy? Simon.

Deputy S.M. Brée:

I would like to talk to you, Minister, about contingencies and central growth allocation. In the proposition itself, States Members are being asked to approve summary tables B, C and D. Where does the additional £40 million in investment in health appear in these tables?

The Minister for Treasury and Resources:

I will let Chris identify that for you.

Deputy S.M. Brée:

Because I was at a slight loss to identify it.

Head of Financial Planning:

Okay. If you refer back to our previous conversation about the 2016 additional funding being included in departmental expenditure limits, the 2017 additional funding being included in expenditure limits and then the 2018 and 2019 is being held in the central growth allocation, so between the 2016 and 2017 allocation being allocated to the Health Department and the monies in the central growth on page 144, you will find the total of the £38.5 million, which is going to Health and Social Services over the 4-year period.

[11:45]

Deputy S.M. Brée:

Okay. With regard to growth expenditure, could you outline, Minister, how the efficiency savings will be monitored? I refer you to page 63 of the M.T.F.P., where that is talked about. How will you be monitoring the efficiency savings to allow the additional funding to be released?

The Minister for Treasury and Resources:

Departments themselves, first of all, are responsible for monitoring the performance. They have come up with the plan, both the efficiencies and the savings, within their respective departments. They have to live within expenditure limits which have been set by law last year and ultimately progress in terms of income and expenditure, including the points you have just raised, are brought quarterly to the Council of Ministers for review updates.

Deputy S.M. Brée:

Okay, thank you. I would like to talk to you a little bit about contingencies. Of the contingencies contained with the Medium Term Financial Plan additions for 2017 to 2019, how much has already been allocated?

The Minister for Treasury and Resources:

2017 to 2019? We have not got there yet.

Treasurer of the States of Jersey:

None of 2017 to 2019 have been allocated.

The Connétable of St. John:

There are some in table C.

Deputy S.M. Brée:

Yes, if I refer you to summary table C, you are saying: "Less earmarked, carried forwards, less earmarked, carried forwards, less prioritised funding from base budgets." So part of this has already been allocated, is that correct?

Treasurer of the States of Jersey:

No.

Deputy S.M. Brée:

Could you kindly explain why?

Treasurer of the States of Jersey:

Right, so if you take, for example ... which one will I take? If I ...

Deputy S.M. Brée:

Let us look at the top one: "Central allocation A.M.E. (Annually Managed Expenditure) contingency less earmarked carried forwards" gives me zero contingency. I do not know, I am merely ...

Treasurer of the States of Jersey:

I am about to try and explain. What we are seeing there is that there will be £2 million available to Social Security, should they need it, in each and every year. However, we are not allocating that from within in-year income because we expect Social Security, based upon their forecasts, which are still holding out at this point in the year, the underspend to the tune of probably £4 million, maybe £5 million, and in addition, that means that we will not be asked by the Treasury to draw down on our £2 million contingency. We will have a sum total of £6 million at the end of 2016 available. As we are trying to balance the budget against a lower savings achievement and the target in 2019, we are saying over the period we will use that £6 million, so it is available over the period for Social Security. What we are saying is Social Security will have that money available in the event or benefit expenditure going up into the week. In addition, in those years to want a second contingency that it calls itself, however we do not need to fund it in-year or in-year allocations rather than the other way

round which is, I appreciate the way that you are interpreting it, saying that this is £6 million we will have available at the end of this year to be used, should it be needed over the period, which means we do not need to allocate it in those years.

Deputy S.M. Brée:

So if departments do not spend their contingencies, can those sums be used to fund other areas?

Treasurer of the States of Jersey:

These are not deferred contingencies held by those departments. These are contingencies held by the Treasury.

Deputy S.M. Brée:

Okay. All right.

The Minister for Treasury and Resources:

Well, £2 million of them are held by Treasury; £1 million is Social Security but Social Security is slightly different to other departments because of always the uncertainty in terms of benefit payments, particularly if the economy were to take a downturn, and what we talk about is the automatic stabilisers, which would be the first call should more people require benefits, losing their jobs and so on and so forth. So a million of that is held within Social Security but £2 million, as the Treasurer has said, is held centrally by Treasury in the event that it is needed. Interestingly, during the last recession starting in 2008, over the period, there was an underspend of about £12 million, largely around the fact that we invested heavily in schemes like Back to Work which appear to be successful and keep the impact on those automatic stabilisers down.

Deputy S.M. Brée:

Okay. Another question from me on central allocation of contingencies, which is the economic growth drawdown provision, I believe colloquially called the Heebie-Jeebie Fund. It was set up, effectively, last year with the agreement of the States Assembly that a sum of £5 million would be allocated per year for this particular contingency. Why, in 2019, is it less than £5 million?

Treasurer of the States of Jersey:

Just to clarify the decision last year set the amount for 2016. It was not a decision that would then ... into 2017 to 2019. I guess the proposal was in the document, just to clarify that before the Minister, that was the actual question ... or would you like me to continue?

The Minister for Treasury and Resources:

No. What was the question, why is it reduced?

Deputy S.M. Brée:

Why is it reduced in 2019?

The Minister for Treasury and Resources:

Well, the view was taken by the Council of Ministers that, first of all, this fund or drawdown provision, I must make it absolutely clear what it is, was going to be £18.5 million instead of £20 million, which is effectively the difference you are referring to, and the belief was that the sums for 2016, 2017 and 2018 were appropriate and that we could reallocate some of the additional money for 2019 rather than leave it in that fund because we felt that it would not necessarily be required. It is still £18.5 million.

Deputy S.M. Brée:

The difference in 2019 is £1.5 million which, very conveniently, matches the forecast surplus at the end of 2019 and I would feel that there is a little bit of creative accounting going on here. Can you set my mind at rest that is not the case?

The Minister for Treasury and Resources:

Well, you could potentially pick on any line item in a budget north of £700 million and say that that has been taken to balance the number off at the end of the day. The point is, we have a broadly balanced budget which was the objective we set. We also have significant money to invest in supporting the economy over the term of the plan, 2016 to 2019. There is £18.5 million of a drawdown provision provided and subject to strong governance that it can be proven that the investment of that money is going to help to diversify the economy, grow the economy, improve productivity and create or sustain jobs.

Deputy J.A.N. Le Fondré:

Can I just come in there, Minister? You said there is £18.5 million available. Is it not £9 million to £10 million because you have already allocated the difference between that and the number you have just quoted according to, it says prioritised funding, from base budget? So that has already gone.

The Minister for Treasury and Resources:

Yes. I said over the period 2016 to 2019 there was a total of £18.5 million. Yes, you are right, some of it has been allocated already. There is £5 million set aside for this year as well.

Deputy J.A.N. Le Fondré:

Okay. I apologise. Yes, I had forgotten we had lost a year in there, now deemed it started in 2017. I have a couple of questions but some of them ...

Deputy S.M. Brée:

No, go on. You fire away.

Deputy J.A.N. Le Fondré:

I am just curious because I suppose that what we are trying to get to is that there has been lots of talk, and I am sure at some point you will talk about flexibility but not necessarily right now please. Contingency for us is a sum of money; that is great. It is there for unforeseen eventualities. I think most people reading it would think, using 2019 as the example, you have got £28 million in contingency there. That sounds great. Okay. There is this subtlety there between proposed Central Contingency allocations, is what it is headed up, but really going back to the point that I want to be making you have got Central Allocation, Pay, P.E.C.R.S. (Public Employees Contributory Retirement Scheme) and Workforce Modernisation £17 million of that in 2019. You have got the Restructuring Redundancy provision which is just under £2 million, you have got the Heebie-Jeebie Fund, which, okay, arguably could be used somewhere, so maybe there is some flexibility there, but you are saying you want to invest in the economy. You have got earmarked for initiatives to support vulnerable children, £1.6 million. So I suppose what we are trying to get back to is of that £28 million contingency, for the microphones, in inverted commas type of thing. How much is actual flexible funding if you need to drawdown on something that is unforeseen? Because a lot of these are simply about achieving your savings initiatives or achieving the States special projects. You do not have that amount of flexibility in this sum of money, surely.

Treasurer of the States of Jersey:

Sorry, the flexibility has not reduced from that which we would have had previously because these are ... when we say contingencies here we are just using the phrase that we have in the ... for the client's report so that we can improve them in this manner. It is a more general description of contingency which says we are going to hold the fund centrally and control them. So in the case of the provisions that Deputy Brée was talking about in terms of the Heebie-Jeebies, they are aware of exercising control over the release of those amounts of funding as opposed to the more specific and explicit, to have more contingency, to meet unforeseen into the future. So, yes, the way that Payer Pensions is held is no different from the time when you were Assistant Minister for Treasury and Resources and indeed that has not changed. So the balance is in terms of availability for flexibility and so the first line if you take, automatic stabilisers within the Social Security Fund, so those are the ones that are supposed to go up but in terms of contingencies for unforeseen then you have the £5 million and the £2 million for benefit spend on top of that. So the others are held centrally; that is not to say that if you found yourself in circumstances you may decide that you would

not use them but against previous plans we have not held ... we did not have an Heebie-Jeebie, we did not have ... well, we had restructuring pots previously, yes. So those are not held for the flexibility purposes. The flexibility purposes are the same as they have been for a considerable period of time. They are held at that level as an accommodation between what the States Assembly is historically seeing at the moment, suggest that is acceptable to be held, but allows the Executive control over them as opposed to a bigger level of contingencies, which historically has not gone down too well, I might suggest, and so therefore that is a balance between the 2.

Deputy J.A.N. Le Fondré:

Just in terms of labelling, which is really what the question is about, from a layman's point of view, describing contingencies as a provision of money for an unforeseen circumstance, we are broadly speaking for 2019 at about £7 million. Is that a fair comment?

Treasurer of the States of Jersey:

Yes, although I would then pull in the growth allocations because the growth allocations, that is the way the Public Finance Law was written, they would give you backup that would say if you cannot afford the growth at that point in time you would have to take ... or did a group decision still haunt the growth of ...

Deputy J.A.N. Le Fondré:

That is obviously in the hands of the Council of Ministers and their political preferences at that point, is it not?

Treasurer of the States of Jersey:

No, because the State Assembly decide on the allocation of growth in the budgets each year.

The Minister for Treasury and Resources:

That is why we have held it back for 2018 and 2019.

Treasurer of the States of Jersey:

The States Assembly, whichever adjectives you used as a ...

Deputy J.A.N. Le Fondré:

I think I was trying to use the definition ... I used the term "layman" for the definition of contingency.

Treasurer of the States of Jersey:

So they are in the hands of the States Assembly as a proposition. I admit we have not seen it this way before but that was the way that the Public Finances Bill was written. In M.T.F.P. 1 the decision

was taken ... the position of the economy at that point in time said you should award as much of the growth allocation in year one and is what we have done this time so those funds are there and the States will decide upon their allocation in each year.

Deputy J.A.N. Le Fondré:

The conditions for release of that growth, and then I will shut up, is it going to be that obviously our savings targets are being achieved and therefore that growth ... this is in normal circumstances, and the savings targets are being achieved and therefore we can afford to spend or is it we have raised more tax through other methods and we can still afford to spend? I am trying to get the subtleties on ...

Treasurer of the States of Jersey:

So the plan at the moment, say, is on the basis that the savings are delivered and you received that income in they could be spent. Now, all I am saying is there is that flexibility. The plan is to award the allocation but there is a line of flexibility within the plan that would say the States Assembly could decide on an annual basis whether that growth should be agreed.

Deputy J.A.N. Le Fondré:

So it will be down to politicians to determine ... I am being ...

Treasurer of the States of Jersey:

As most things are.

Deputy J.A.N. Le Fondré:

I am being slightly hypothetical but for the sake of argument, if the next budget puts taxes up by another £10 million or something, excluding anything in the M.T.F.P., I am also being hypothetical, then potentially States Members could agree to release £10 million of growth expenditure if they wish to or alternatively it is in their hands to turn around and say: "You have not necessarily [hypothetical scenario] achieved the savings you talked about."

[12:00]

"We are okay on the revenue but because you have not achieved the savings we are not going to relieve the gross expenditure." That is down to them I presume.

Treasurer of the States of Jersey:

You are in a position that I am not in because you are States Member so ...

Deputy J.A.N. Le Fondré:

Maybe that should be addressed to the Minister.

The Minister for Treasury and Resources:

It is not fair on the Treasurer.

Deputy J.A.N. Le Fondré:

It should be addressed to the Minister, yes.

The Minister for Treasury and Resources:

I mean the importance here is, about the growth, that we have retained the growth for 2018 and 2019. It is ultimately going to be dealt with through the budget so, yes, it is the decision of States Members and they can decide whether or not they feel it is appropriate that that growth is distributed or not and it could be a whole raft of circumstances. Now, assuming that income had improved, as indeed it did in 2015, what we did when income improved in 2015, we looked at the charge, in particular the health charge, and it allowed us flexibility to reduce that down. In the full knowledge that we were going to have to be looking at the potential of raising a bond to fund the hospital and there would be some additional cost in the future; that has given us some additional flexibility around that area. So additional income can be used to reduce down some of the charges and therefore the impact on Islanders going forward. So that is some of the additional flexibility that we could choose at this point.

Deputy J.A.N. Le Fondré:

Okay, let us move on.

Treasurer of the States of Jersey:

It could probably depend upon what the economic advice would be at that point as well in terms of if it was an income shortfall why was it an income shortfall, had the advice changed in terms of whether the 2018 to 2019 should be balanced at that point or had it been extended further and, again, that is if their original statement of M.T.F.P. advice talked to that sort of ...

Deputy J.A.N. Le Fondré:

Which we will cover at the next hearing. Okay. Before we go on to Chris, anybody else at the moment? All happy.

The Connétable of St. John:

Income. Bearing in mind the deteriorating global economic position and the potential impact of Brexit are you still confident that the year-on-year overall income estimate increases are achievable?

The Minister for Treasury and Resources:

So what we are looking at is, as you say, most uncertain and heightened uncertainty in the global environment. I wrote to the Fiscal Policy Panel for interim advice, we will deal with that at a separate hearing, I have had that advice back. What they have effectively said is that at the current time we should maintain the current course and the current plan, because it is too early, according to our independent advisers, to be able to draw any conclusions about what the potential impact of the U.K. leaving the European Union are at this stage. So, therefore, based on independent professional advice, we are maintaining our position that the current forecasts are the ones that we are working to. However, previous Fiscal Policy Panel advice was to ensure, we have just been touching on that, there is plenty of flexibility within our plan in order to deal in the short term with any changes but we may have to do more over time upon further advice.

Deputy S.M. Brée:

Minister, if the overall income estimate increases do not reach the levels forecasted in the M.T.F.P. what actions will you need to take?

The Minister for Treasury and Resources:

Well, we will first and foremost wait for additional advice from our independent advisers. I rely upon advice, as Minister, that is one source of advice. The other source of advice will be from our Income Forecasting Group who will continue to revise the various indicators and we will then, upon that, decide on the level of any changes or any additional measures that might be necessary, depending on whether, indeed, any changes to income are likely to be short-term or longer term in nature. We will come on to it later but the initial advice I have had from the Fiscal Policy Panel is that if the economy does show signs of weakening the first response should simply be to allow the automatic stabilisers, to allow them to kick in. Those are the ones we have referred to, the £1 million in Social Security, and there is £2 million we hold centrally. As the economy weakens that would automatically happen.

Deputy S.M. Brée:

Minister, you spoke a few minutes ago about flexibility. In respect of income where is the flexibility?

The Minister for Treasury and Resources:

Well, clearly if flexibility of income were to fall then we would need to consider how we manage that situation. Now, it may well be that the advice says if the economy is going through a weaker period that we allow, as I have said, the automatic stabilisers to kick in. We would see income falling but we would continue to support the economy using reserves in the short-term, this is one of the options, as we have done in the past and as other jurisdictions have done based on good economic

advice but that would be part of the package of advice we would respond to when we have received it once the situation is clearer. So the fact that income falls is clearly an outcome of a deteriorating economic environment. We would not necessarily need to do anything other than support the economy in the short-term following that.

Deputy K.C. Lewis:

Minister, if the outcome for 2016 is significantly down will you revise the income forecast for 2017, 2018 and 2019?

The Minister for Treasury and Resources:

Well, I will not be revising them but the Income Forecasting Group will be considering all elements, including actuals, for the forecast for future years. What I can tell you at the moment is that the indicators to date, we are halfway through the year, is that the economy has been performing reasonably well but clearly what is going to happen for the remaining months of the year is difficult to predict in the heightened level of uncertainty that we are currently facing.

Treasurer of the States of Jersey:

So just to confirm each budget will have an updated income forecast, and that probably answers the question.

The Minister for Treasury and Resources:

I should also just add to that. In terms of being kept updated, the Council of Ministers are updated on a quarterly basis on income and expenditure and economic performance so we are very clearly sighted on progress in-year and through the year.

Deputy J.A.N. Le Fondré:

A couple of questions, Minister. Number one, broadly speaking, particularly based on summary table B for 2019, we are being asked to approve expenditure of £686 million for 2019 and obviously, as we are all saying, the world is a bit of a different place now following Brexit, uncertainty in the markets and all that sort of stuff. Basically, you may well have answered this already but let us just get it down on the record, should expenditure, at this stage, be recalibrated in light of Brexit and if not, does that mean you are going to be running the risk of running higher forecasted deficits well beyond 2019?

The Minister for Treasury and Resources:

Well, the day after the decision by the U.K. to leave the European Union I spoke on the telephone to the chair of the Fiscal Policy Panel. I have asked for an update, if there is anything else we should consider doing, we have had that; the advice, very clearly says, at this stage it is too early to draw

any conclusions as to what the impact of the U.K.'s decision is going to be. Of course, the Fiscal Policy Panel are going to be reporting at the end of August and importantly before the States debate the Medium Term Financial Plan. We will, at that point, need to consider if we need to make any adjustments.

Deputy J.A.N. Le Fondré:

Okay. There is one question we have not asked. We touched on the flexibility, as it were, on the income side and you have taken us somewhere. In simple terms, just to kind of round it up, could you clarify what the flexibility is that you keep referring to, which is called the expenditure side? So it is obviously contingencies but there are some other bits and pieces there.

The Minister for Treasury and Resources:

Yes. Well, I think we have alluded to this already but in the previous and first Medium Term Financial Plan growth was allocated upfront. What we have done here is that we have held back growth for 2018 and 2019; that will be managed through the budgetary processes we have already pointed out. So one option that Ministers and, indeed, the State Assembly could decide to take would be to not allocate all of that growth at that given time, should the circumstances have changed and, I would say, emphasise based on good advice, economic advice.

Deputy J.A.N. Le Fondré:

So broadly speaking it is contingencies. It is not release the Central Growth Allocation. Are there any other factors in there at the moment?

The Minister for Treasury and Resources:

That is one of the options which is probably the most pertinent but it would depend on the level, the severity, of any change and indeed what the economic advice was. It may well be to continue on with expenditure to support the economy even though income, as I was alluding to earlier, could be falling. We may need to continue to support the economy by continuing with spending. Now, that might be advice, I do not know. I am not seeking to predetermine expert advice.

Treasurer of the States of Jersey:

It is in terms of the further level. The further level is that we are running to pretty much hit £20 million left in the Consolidated Fund. So in a scenario that is income has fallen, you have that £20 million buffer before we have to ... the law requires the Minister then to return to the States if we were to forecast the £20 million put forward had been eaten into.

Deputy J.A.N. Le Fondré:

Very quickly. We are on time at the moment but I would like to try and keep there. You do your forecasts, I think, twice a year, is that correct, roughly?

The Minister for Treasury and Resources:

The Income Forecasting Group do, yes.

Deputy J.A.N. Le Fondré:

Income Forecast, so at what point if you have an indication that the Consolidated Fund is going to go overdrawn, in layman's terms, how quickly do you need to come back to the States?

Treasurer of the States of Jersey:

Firstly, I have to take that to the Council of Ministers because the Council of Minister has within its gift, among itself, to agree to reduce spending further, of course, and therefore tell me that the expenditure limits are not going to be spent and then from there on in the Minister would have to bring it to the States. So the requirements are within the Public Finances Law for the Council of Ministers, I think it would be, because it is Medium Term Financial Plan, to bring back a proposal as to what needs to be done if the Consolidated Fund is expected to be overdrawn based upon a forecast.

Deputy J.A.N. Le Fondré:

Is that reduce expenditure or it is increase other sources of income, like a dividend from a utility company?

Treasurer of the States of Jersey:

Yes, you could increase income. You could reduce expenditure. You could agree that you will pass back contingencies into the Consolidated Fund. You can pull money from other reserves or all of them.

Deputy J.A.N. Le Fondré:

All of the above.

Treasurer of the States of Jersey:

There probably is

Deputy J.A.N. Le Fondré:

Okay. Let us move on.

Deputy S.M. Brée:

To the surprise of many, the Bank of England held the base rate at 0.5 per cent. There are indications that the base rate will be cut further in August, possibly even down to 0.25 per cent. This will have an impact on the return on investment. What proportion of the Common Investment Fund is currently invested in cash or cash-related instruments?

The Minister for Treasury and Resources:

First and foremost it will not, necessarily, have an impact on our forecast income because we have already factored in the ...

Deputy S.M. Brée:

I did not say income, Minister. I said investment.

The Minister for Treasury and Resources:

Oh, investment. Sorry, I misheard what you said.

Treasurer of the States of Jersey:

I did get it on a schedule but I do not think it told me how much that was in cash.

Deputy S.M. Brée:

Could you clarify that to us, if you have not got the information here? Now, according to the M.T.F.P. Addition £100 million is being taken out the Strategic Reserve in 2016 and 2017. What impact will this withdrawal, and the potential lower interest rates, have on the returns on the Strategic Reserve?

Treasurer of the States of Jersey:

It will have no more than has been forecast in ... sorry, £100 million has been built in in terms of forecasting the future flows so you can see Strategic Reserve forecasts. So obviously if we kept £100 million in, any income that would have been on that would do the calculation for you that said what was the income foregone on £100 million in there, we can let you have that but we do not have that number. It is not one that we have got in the plan because the plan is to take that £100 million from the excess return, in accordance with the policy agreed by the States, from there but we would let you have a hypothetical if the £100 million stayed in there and what the rest of the Strategic Reserve is forecast to earn and we will give you that figure.

Deputy S.M. Brée:

Yes, can we have that?

Treasurer of the States of Jersey:

Yes.

Deputy J.A.N. Le Fondré:

We are rounding up and I have a couple of more detailed questions but has anybody got anything else at this stage? Right, broadly ...

The Minister for Treasury and Resources:

Chairman, sorry, it is probably just on the subject of the performance of the Strategic Reserve, it is probably worth saying that this year to date it has been performing very well and it is up, I am pleased to say.

Deputy J.A.N. Le Fondré:

Great. No, that is good news.

The Minister for Treasury and Resources:

It is. Despite the volatility we have seen an increase.

Deputy S.M. Brée:

What is the current return on investment of the Strategic Reserve Fund, do you know?

Treasurer of the States of Jersey:

To the end June, and I will clarify if I get these numbers wrong, roughly 6 per cent.

[12:15]

Deputy J.A.N. Le Fondré:

I should know the answer to this, is that the return of the C.I.F. (Common Investment Fund) or the Strategic Reserve?

Treasurer of the States of Jersey:

That is the Strategic Reserve; the return on the C.I.F. is a larger number.

The Minister for Treasury and Resources:

It is higher, 7.5 something.

Deputy J.A.N. Le Fondré:

That is what I was wondering. Okay. Quickly, the depreciation charges for 2017, 2018 and 2019 have been reduced by, if my maths is correct, around £8.7 million. I think the short question is, could you clarify why?

Treasurer of the States of Jersey:

So you are adding up all the years and adding them together?

Deputy J.A.N. Le Fondré:

Yes.

Treasurer of the States of Jersey:

Okay. If you want a simple straightforward answer, the straightforward answer is that we have ... every year we will go back to departments and ask them for their schedule of where they are expecting to have completed projects or disposed of projects or whatever they may be, that updates the numbers in terms basic rate in addition to which valuation will change the depreciation. So every 5 years we will do a full valuation. In the middle year within the 5 we do a desktop valuation. Those are professional valuations and they need to be; yes, they will be updated from the departments. So those valuations have an impact upon the depreciation. So depreciation numbers will change and one of the areas that it will change in terms of what it was, there was an impairment in any one particular year, that will either impact upon where you saw the value of the asset and therefore did the depreciation on it going forward.

Deputy J.A.N. Le Fondré:

I see. So we will see the impairment charge and if there is a permanent impairment. So, for the sake of argument, if the asset goes from £50 million down to £40 million, you have got an impairment of £10 million and then there will be depreciation of £40 million going forward, okay.

Treasurer of the States of Jersey:

Yes. So the C. and A.G. (Comptroller and Auditor General) would rather that we included forecasts for impairments and depreciation. My view, particularly at this stage, is impairment forecasts are written out of the income forecasts in that they tend to fluctuate over a medium term, definitely over a longer term, so we have restructured the view to depreciation, to use it ...

Deputy J.A.N. Le Fondré:

There are depreciations on the present value of the portfolio, yes, okay. That is fine.

Treasurer of the States of Jersey:

But we can provide you with all the miniscule detail if you wish to ...

Deputy J.A.N. Le Fondré:

I think we really want to know the principle. I suppose what we were wondering is if the depreciation charge has not been reduced, what the impact would have been on the overall surplus but it ...

Treasurer of the States of Jersey:

It would not have had any ... it would have had an impact upon the accounting surpluses but it would not have had any change in terms of how much you could roll from reserves or hold within the Consolidated Fund.

Deputy J.A.N. Le Fondré:

I think I am talking about the surplus on page 44.

Treasurer of the States of Jersey:

The number ...

Deputy J.A.N. Le Fondré:

Of £1.5 million.

Treasurer of the States of Jersey:

It now says £53 million so was previously between £55 million and £54 million, is that right?

Direct, Financial Planning and Performance:

Yes.

Treasurer of the States of Jersey:

So you take the difference between the 2 and that is the difference it would have made.

Deputy J.A.N. Le Fondré:

It would have cancelled it out basically.

Treasurer of the States of Jersey:

It is accounting, yes.

Deputy J.A.N. Le Fondré:

Okay. Some specific departmental matters so I am going to guess this is more for either the Treasurer or for, well, any other member of the team. So on page on page 157, how will the tax office save £658,000 in 2019?

Treasurer of the States of Jersey:

Those savings are from ... you will know from the forecast capital programme, that there is up to £9 million available for the implementation ... not a new tax system but a complete transformation of the personal taxes system. There is a lot to go at in terms of changing the taxes system from one which is largely paper-based and therefore not a particularly lean process into a process that makes the most of technology. So some of the staff are required, because of the paper process, over a period of time those costs would no longer need to be incurred in terms of the administration of pieces of paper throughout the office.

Deputy J.A.N. Le Fondré:

Okay. I think you have probably led into then how you would be able to reduce the F.T.E.s by 15 posts by 2019.

Treasurer of the States of Jersey:

I think I have just answered that, have I not?

Deputy J.A.N. Le Fondré:

Okay. So that is broadly speaking by the reduction of the paper system, or move away from a paper system. I am glad you mentioned the new tax system. How is the implementation of that new tax office system going and will it be fully ready by 2019?

Treasurer of the States of Jersey:

No.

Deputy J.A.N. Le Fondré:

There is a pause there, Treasurer.

Treasurer of the States of Jersey:

I was going to ask for the Minister's crystal ball. The plan is that it will be in for 2019 and I can hopefully be confident in that what we have to do is say which 1st of January you are going to hit. So when we looked at this we thought 1st January 2018 looked tough to achieve so therefore we have gone 1st January 2019. 1st January 2018 could have been a tougher ask than perhaps could have been but unlike most of the I.T. (information technology) projects if you miss the first date for the tax year you cause yourselves all sorts of added concerns. So we believe, we are all confident, and therefore delivering 1st January 2019. We believe we have the resources to do so. Obviously any changes to that policy that occur within the period make that difficult. Shorthand, yes, I think we will deliver.

Deputy J.A.N. Le Fondré:

Okay. Because presumably this is going to cover not only income tax, probably G.S.T. ...

Treasurer of the States of Jersey:

No. This is personal income tax, this project.

Deputy J.A.N. Le Fondré:

This is just personal income tax, is it? Okay. So on the basis it is going to bring in roughly £500 million.

Treasurer of the States of Jersey:

So you want it to work.

Deputy J.A.N. Le Fondré:

Yes, precisely. Okay. Could you also expand then on what you are doing to improve shareholder relations function?

The Minister for Treasury and Resources:

I will pass to the Assistant Minister to ...

Assistant Minister for Treasury and Resources:

We are engaging very much with all the States-owned entities, coming up with a new set of shareholder requirements to work closer with us, looking at getting out a set of policies and procedures which we will want them to work to. Those are embryonic at the moment. There we are experiencing a certain amount of pushback because they are interpreting it as the States getting more control back into the entities. That is not the intention at all. It is to enable us to become even more arm's length, providing they abide to all the policies and procedures we set down, then that is all we need to be checking them on and allow them to expand and develop as they need to do. Certainly the relations, there are some other issues to do with R.E.M.C.O.s (remuneration committees) and how they are working and how they cross-pollinate that we are looking at as well and see whether we can have any leverage in there to stop that cross-pollination.

Deputy J.A.N. Le Fondré:

Sorry, can you just say in relation to what?

Assistant Minister for Treasury and Resources:

R.E.M.C.O.s, remuneration committees, sorry. Jargon, apologies for that. But generally speaking the relationship is still, with my new taking on that role, rather young. It is developing. We are getting good open dialogue now developing. We have got meetings this afternoon with S.o.J.D.C.

I have got ports coming in next week to have a chat about how we move forward with governance and stewardship particularly. We are looking at getting some support into Treasury as well to help us more in that role to ensure that the taxpayer or the people of Jersey get the best deal from all of these entities.

The Minister for Treasury and Resources:

Chairman, if I could just add to that, we are seeking, as well, to extend, and you will be familiar with your former role in Treasury, of T.A.P. (Treasury Advisory Panel), which has oversight for investments. We are seeking to expand the remit of T.A.P. with the necessary expertise to be able to provide additional advice to the ministerial team about the Management Oversight Strategy Policy in relation to the shareholdings that you were referring to. We have, in the budget, an additional £200,000 per annum in order to do not just that but also to buy in, where necessary, expertise that we might require for any particular entity because of course these are very complex businesses.

Deputy J.A.N. Le Fondré:

You have obviously been reading what I have been writing down, Minister, as could be my next question. Chris, have you got any questions on that?

The Connétable of St. John:

No, not at the moment.

Deputy S.M. Brée:

With regards to the changing relationship with wholly-owned subsidiaries will this involve any changes to the memorandum of understandings that currently exist?

Assistant Minister for Treasury and Resources:

None anticipated, no.

Deputy S.M. Brée:

So they are going to be left alone?

Assistant Minister for Treasury and Resources:

At the moment. Yes, we are not anticipating any changes at the moment. We are not looking at those at all at the moment, Simon.

Deputy S.M. Brée:

Okay, because the question I was going to ask was, should a change happen to the memorandum of understanding, an M.o.U.? Will that change be notified to the States Assembly or not? Should that happen?

Assistant Minister for Treasury and Resources:

Well, I think the first thing to be said is that the importance of expanding the Treasury Advisory Panel is to ensure that we have the right expertise in it that that would be the professional interface that would provide advice to Ministers to consider matters like the M.o.U.s, as to whether they are fit for purpose. They do get reviewed periodically, as you would expect, but the next point at which that would happen would be after that advisory panel had been enhanced to consider matters such as that. With regard to those going to the States that would not typically be the course of action that would be chosen. That would be a matter for the Treasury to consider.

Deputy S.M. Brée:

The reason I ask that question is when the Ports of Jersey was incorporated a very important document for States Members to review was the memorandum of understanding and a lot of work was done on it at the time between the department and the Scrutiny Panel. It is a fundamental document that controls the relationship between the States, through the shareholder representative, being yourself, Minister, and the end entity. It would be nice to get your agreement that any changes to M.o.U.s would be done under a Ministerial Order so it could be challenged by any Member of the States. Would you agree to that?

The Minister for Treasury and Resources:

Well, I think what I would agree to is that I think changes that may be in position in the future, whatever those may be, and indeed if there are any, would be matters that we would certainly be happy to provide to the panel, to yourselves, for your consideration. I think that is probably the best idea.

Treasurer of the States of Jersey:

Just in terms of clarifying, rather than there would be any changes to the memorandum of understanding requiring a Ministerial Decision and therefore there would be a formal livening process, a Greffe, a notified Ministerial Decision to that.

Deputy S.M. Brée:

Okay, thank you.

Deputy J.A.N. Le Fondré:

I have probably got 3 questions then we can wrap up. One is picking up immediately on what the Treasurer has just said. A Ministerial Decision obviously notified to the Greffe, et cetera, and going on the website is not the same as something that generates a report which is automatically and obviously notified to States Members, which one are you referring to?

Treasurer of the States of Jersey:

Without any decision to have made them a report all I am saying that any change to the memorandum of understanding would not be done without a Ministerial Decision, is what I am clarifying in that respect.

Deputy J.A.N. Le Fondré:

It would not be overtly notified to States Members?

Treasurer of the States of Jersey:

There could be a decision to make it a report. All I am saying is we would just like to clarify that any changes to the memorandum of understanding would not be done without the Ministerial Decision having been properly recorded.

Deputy J.A.N. Le Fondré:

Okay. Going back, Minister, to the bit I was scribbling down, as you were saying, which was touching on your expertise and obviously, as you have said, you have got a development company, you have got ports, an airport and an harbour, housing, social housing, development company again, telecoms, J.E.C., (Jersey Electric Company), electricity, telecommunications and water. That is a very broad spread. How do you ensure you get the expertise in? Is it literally going to be somebody coming in effectively on a temporary basis when an issue comes up in the relevant entity? Or are you going to have a pool of talent somewhere out there, that you have got an agreement with, that you have got ready, because of the time delay and things like that you need to move quickly and get advice.

The Minister for Treasury and Resources:

Yes. I mean first of all we have bolstered the resource within the Treasury Department, so a director has been brought in to have oversight in this area so now that has given additional resource which is important. I can give you an example, an independent consultancy firm that looks at aviation matters has been contracted. It does not take, necessarily, that long to get experts in. We have some that are known to us and some that have been used in the past and they will be utilised in the future if necessary. There should not be any issues over timing to get in the necessary expert advice we need, which would be topic specific. It was not realistic to start employing individuals across all these areas, as the U.K. does, the scale is entirely different in the U.K. So this was the model we

thought was the most cost effective and efficient for our size and jurisdiction and these size of businesses.

Deputy J.A.N. Le Fondré:

Okay, thank you. For me the final question, looking at everyone else, all it is, is in terms, again, the States-owned entities, is the line from Treasury all about, let us call it, shareholder relations, governance and let us say commerciality in terms of getting a return for the taxpayer or the shareholder, or is there an element of, let us call it, social and community matters and across all the companies you can think of things which come up from time to time? I will use an older one, which was, I think, telecoms and changes in rates for pensioners or something which obviously became a political issue of the day. The rule Treasury had in mind, let us call it, the softer issues, or is it a return on shareholder investment, governance and making sure they comply with the M.o.U. type of stance.

The Minister for Treasury and Resources:

I mean the softer issues that you referred to are adhered to within the ports and when the ports were incorporated they took on responsibility for a number of areas which, from a purely commercial perspective, they would not have taken if they wanted to purely concentrate on the bottom line.

[12:30]

Deputy J.A.N. Le Fondré:

Wider?

The Minister for Treasury and Resources:

Yes. So more broadly than that. You can see the social issues being taken care of with regard to Andium in their remit. You have got some entities within the portfolio like J.T. (Jersey Telecom) which are far more commercially focused. So we are interested in the bottom line. We are interested in the dividend we get. We are interested in the business diversifying and growing for the benefit of the island. Within that portfolio they do have some responsibilities and you have highlighted about the most significant one. Now, if that needed to be dealt with frankly it is not a matter for the company specifically, although they have been managing it in the past.

Deputy J.A.N. Le Fondré:

So, to sum up, there is some scope for the Minister for Treasury and Resources to give some form of, I will say, on the directional influence on what we will call the softer matters down to the underlying States companies.

The Minister for Treasury and Resources:

Yes. I mean the whole purpose of putting commercial businesses at arm's length is that they operate on a commercial basis, with a board and executive, and we, as the owners, I say that in the broader sense, need to consider the best interests of the Island as a whole. We do not get involved in running businesses operationally, as you will appreciate. We set policy and strategy and part of that can be contained in considering some of the softer issues that you have referred to.

Treasurer of the States of Jersey:

I think, just to add to that, it depends on the individual company and the department will be, and the Minister himself will be, or Assistant Minister, cognisant of whatever the maturity of the regulatory environment is like as well. So that comes into it on a company by company basis. The idea of some of the incorporations were still introduced were dependent regulatory environment to talk about J.E.C. and the competition. So it would not be the job of the shareholders, it would be regulator's job.

Deputy J.A.N. Le Fondré:

Right. That is understood. I think, hopefully ... so far as I think from the panel we are definitely there. We are a couple of minutes over but pretty well on time. Thank you very much for your time today. I think it has been useful from our point of view and we look forward to seeing you at the next hearing on the date when one of my officers tell me it is booked for.

The Minister for Treasury and Resources:

Good. It has been a pleasure from our point of view and in the intervening period, if there are any questions, we are always happy, officers or Ministers, to answer anything you would like us to clarify.

Deputy J.A.N. Le Fondré:

The Treasurer, I hope, has a note of the few queries I have asked for for some responses to be sent to us in writing.

Treasurer of the States of Jersey:

You wanted the depreciation detail ...

Deputy J.A.N. Le Fondré:

Yes, and there were some others as well as we were going along. So hopefully you can liaise with Janice and Simon Spottiswoode on that matter and on that basis the hearing is adjourned. Thank you very much.

[12:33]

