



Corporate Services Scrutiny Panel

Government Plan Review

Witness: The Chief Minister

Tuesday, 13th October 2020

Panel:

Senator K.L. Moore (Chair)

Deputy S.M. Ahier of St. Helier

Connétable K. Shenton-Stone of St. Martin

Connétable R. Vibert of St. Peter

Witnesses:

Senator J.A.N. Le Fondré, The Chief Minister

Mr. C. Parker, Chief Executive

Mr. R. Bell, Treasurer

Mr. J. Quinn, Chief Operating Officer

[10:32]

Senator K.L. Moore (Chair):

Okay, so I think we are all settled and you have dried yourselves after your shower outside. Shall we begin. This is a Corporate Services Scrutiny Hearing to discuss the newly published Government Plan. We will start with the introductions. I am Senator Kristina Moore and I am the Chair of the Panel.

Deputy S.M. Ahier of St Helier (Vice Chair):

Deputy Steve Ahier, Vice Chair.

Connétable K. Shenton-Stone of St. Martin:

Karen Shenton-Stone of St. Martin, Constable of St. Martin, panel member.

Connétable R. Vibert of St. Peter:

Richard Vibert, Constable of St. Peter, panel member.

The Chief Minister:

Senator John Le Fondré, Chief Minister.

Chief Executive:

Charlie Parker, Chief Executive.

Treasurer:

Richard Bell, Treasurer.

Chief Operating Officer:

John Quinn, Chief Operating Officer.

Senator K.L. Moore:

Thank you all and apologies from Deputy Perchard who is unable to attend today. We will start off with the overall look at government finances. Obviously it is a time of great uncertainty. The pre-COVID position for income tax was £585 million for 2019. This only reduces to a forecast of £545 million for 2020, which is a 6.8 per cent reduction, moving in 2024 to a position of £671 million, a £126 million or 23 per cent increase. It seems quite optimistic given the current uncertainties over the next 4 years and the unprecedented nature of the pandemic high, level downside risks associated with the U.K. (United Kingdom) position and perhaps a no deal Brexit looming on the horizon. The plan that we have confirms that this is a central scenario so, Chief Minister, what do you see as the worst-case scenario and how are you planning for it?

The Chief Minister:

My understanding is that relative to the F.P.P. (Fiscal Policy Panel) forecast, the I.F.G. (Income Forecasting Group) did discount the income forecast down. I know, depending on which commentator you speak to, some take the view is a pessimistic forecast and some take view it is an optimistic forecast. At the end of the day, we believe it is a reasonable forecast but that is also one of the reasons we built quite a lot of flexibility into the plan. Richard, do you want to comment?

Treasurer:

It is worthwhile pointing out first, as the Chief Minister has pointed out, it follows roughly profile and the gradient of the economic forecast and it is worthwhile remembering that we see quite a

considerable dip in 2020 so that creates quite a low base. In particular you will see that the biggest impact on the finances comes through in 2021 rather than necessarily in 2020 in terms of the reduction in the income forecast compared to a year ago. I suppose the other point that is worth underlining is that this is a forecast that is prepared, not by Ministers but prepared by officials aided on the Income Forecasting Group by 3 independent members as well. So an increase in the number of independents on there. They provide both a challenge but also bring that with some understanding of what is happening out there in financial services in particular. The other point to make out is that when you look through the structure of our economy today, the key part of that economy being financial services has held up particularly well so far. Obviously there is great uncertainty as you have said going forward but as we do not have a large manufacturing base, for example, we are not seeing the impacts that perhaps other economies around the world would see if they had that greater diversity in the income base and the economy.

Senator K.L. Moore:

Thank you. Interesting that you mentioned both the Fiscal Policy Panel and the Income Forecasting Group's reports because they were due to be published and shared with us yesterday and we have seen neither at this stage. We are all told that we are working in an inclusive Assembly environment, it is somewhat frustrating that our hands are once again slightly tied behind our backs.

Treasurer:

The Fiscal Policy Panel report has been published for some considerable time.

Senator K.L. Moore:

We were led to believe that there would be a new one yesterday.

Treasurer:

The Fiscal Policy Panel publish a report on the Government Plan? It is quite difficult for the Fiscal Policy Panel to do that until it is published but it will be coming in the near future. The Income Forecasting Report is complete and is published. It was not published as part of the plan last year, it was published alongside and will be provided. There is a great deal of detail in the plan itself.

Senator K.L. Moore:

That was one of our recommendations last time.

Treasurer:

But there is more detail to come in the income forecast, but for the majority of readers there is sufficient within the Government Plan. That document is ready and will be with you this week. It has just been in the printing process and making sure that the Government Plan is covered.

Senator K.L. Moore:

So later this week. Okay, thank you. Chief Minister, you described there that flexibility has been built into the plan to deal with the changing scenario potentially. How do you see that flexibility working?

The Chief Minister:

It falls into a variety of territories. Obviously there is contingency built into the plan. We talked about flexibility last year, obviously not in anticipation of the pandemic, and I think we have been able to demonstrate that flexibility all the way through dealing with the crisis to date. A lot of credit from a financial point of view is obviously to Richard and his team. Looking ahead that flexibility remains. The advice is to try not to dip into the reserves in a significant way. We have retained that. That is quite a large amount if we ever needed to. The other perspective is in terms of the R.C.F. (revolving credit facility). Obviously we sought permission in the Assembly to create it, which was granted. We are seeking permission from the Assembly to draw it down to the level we have been talking about, £385 million for next year. But obviously if things change beyond what we were thinking we would have to go back to the Assembly to seek greater drawdown. So I think there are components you can pull through.

Senator K.L. Moore:

Would, for example, the growth spending of that £1 million that you have agreed with your fellow Ministers be one of those areas where the Ministers might have agreed certain elements of growth spending but they may not receive it?

The Chief Minister:

To an extent, as we all know, the expenditure including the Government Plan is up to, always, and that continues to be the case. Now, we have obviously added some instances this year where proposals that were in the Government Plan could not take place at the time we thought because you could not recruit, for example, and therefore you will see less spend in those areas. Therefore, if circumstances were to change then, yes, you would readdress some of those issues. We have gone through a reproofing exercise, as I think you know, which was looking at some of the spend anyway over the next 4 years which has meant that we have effectively shifted £80 million off to the right.

Senator K.L. Moore:

Due to your move to year on year budgeting now as opposed to the previous medium-term budgeting, surely this is only a plan for a year's worth of spend anyway, so to give that amount of

uncertainty in the year, albeit that it is quite an unusual year, does not give a lot of courage and reassurance to the Ministers who fought quite hard for some of these elements of growth spending.

The Chief Minister:

I think everybody has to be realistic. I have to say you are not usually one for understatement but I would say that “quite an unusual year” is quite understated for you, Senator. I would say it has been an incredibly unusual year. I think it has been if not once in a generation or a once in lifetime, or in that kind of order since World War 2. I think we are only ... the analogy we are using is half time in a football match. But we have got to this point, we are in a good place, but there is uncertainty, we can see that all the way around, as to how things are going to evolve. Basically it is when a vaccine turns up and what is the economic impact going to be around the world. So it is a very unusual situation, definitely. It does mean that you will not get the level of certainty in this year that most people would normally be used to and that is why we have to make sure we have flexible plans that can adapt.

Chief Executive:

The Government Plan is not just one year. It is one year’s worth of expenditure but the signal from last year was for a 4 year Government Plan but the direction of travel does not change. So those items ...

Senator K.L. Moore:

Yes, we can see that the hands of the next Ministers are going to be tied.

Chief Executive:

... in there ... yes, so it is not ...

Senator K.L. Moore:

But we will get on to that later, Chief Executive, thanks. What I would like to do is go back to the question of central versus worst-case scenario, and particularly employment because, of course, as a government you rely on income tax receipts for the majority of revenue. Therefore, what we are trying to understand is how you view the potential for employment in the Island going forward through the life of this plan, given the uncertainty. We have seen now that I.T.I.S. (Income Tax Instalment System) returns show a decline in the number of people employed. Of course there is an increase in the number of people unemployed, sadly, as well. Then we have, coupled with that, a rapid move now to A.I. (artificial intelligence) and as businesses tightened their belts they are looking to outsourcing. How are you as the government planning and considering the future of employment levels in the Island and therefore how that will impact on revenue?

The Chief Minister:

There are 2 or 3 issues in there. One is about how do you support the Island's economy in a global way. The visit, for example, of the American ambassador last week to the J.F.L. (Jersey Finance Limited) office in New York. Those sort of measures were already put in place, or the J.F.L. office was, the visit reinforced that kind of capacity or ability to grow business links. We have to make sure we keep doing that work and there is money in the plan to do that. That does seem to be generating extra returns within the financial ... or extra business, I should say, within the financial services industry. I think mainly it has been particularly in hospitality areas and the lower paid that have been suffering and although in terms of numbers of people it is very unfortunate for those individuals, from a numeric purpose for income tax our understanding at this stage is that things were reasonably holding up, which is what Richard was referring to. You are right in terms of the challenges ahead for A.I. Again, there are some discussions and work starting gestate in that area. I would say that one of the areas has always been, does that mean you are going to shift from, let us call it, routine processing jobs to perhaps more client facing jobs. That is going to be one of the challenges and I think that is what we are going to have to adopt. I do not think there is a problem ... I hope it is not a problem for next year. It is a problem probably for the next 5 to 7 years and is one we will have to address.

Treasurer:

That is very much what I was going to say. These are some of the medium to longer-term issues within the economy more widely, as the Chief Minister just said. Those areas that have been impacted mostly are not areas that contribute significantly compared to the financial services, for example, in terms of tax revenues. The point that needs to be made is that this income forecast follows the view of the Independent Fiscal Policy Panel rather than the employment forecast being wishful thinking ... follow the Independent Fiscal Policy Panel economic assumptions rather than they being about future policy.

[10:45]

That is over the short to medium term. As you move medium to longer-term obviously those things start to come into play. In addition, as we move to a more sustainable fuel forecast, that will see a drop of fuel duty. We have been here talking about that previously, however that is a more medium to long term as opposed to short to medium-term forecast. This is dealing in the short to medium term rather than the very long term, but we are working in the background on those matters from an economic productivity perspective on the one hand in the case of fuel duty on replacements for that tax.

Senator K.L. Moore:

As the Chief Minister just stated, 5 to 7 years ahead is the period of time he considers that those changes to employment trends might be borne out. However, when we look back at the first question which referred to the 23 per cent increase in personal taxation revenue in the 4-year period of this plan, how does that sit against that 5 to 7-year period?

The Chief Minister:

It goes back to the point that Richard has been talking about, it being based on the F.P.P. forecast. I also think it might be helpful if you go to page - I assume that is what Richard is turning to - 112 ...

Senator K.L. Moore:

So the F.P.P. are forecasting a 23 per cent increase in personal tax revenue.

The Chief Minister:

If you go to page 112 in the plan you will see that kind of graph look which shows a very immediate V shape drop. If it helps, that is the diagram we are talking about. Obviously depending at what point you are comparing you will see quite a significant increase from that low point.

Treasurer:

It comes from a very low base, that being the 20 base of the economy. You will see from that graph also that the dark line, which is now the current projection from the economy does not get back up to what the previous projection was. There was a structural imbalance in the plan which has been dealt with. It is not as it was predicted at the start of the economy by many other commentators, not the Fiscal Policy Panel, that there would be a bounce back right up to the previously forecasted economic levels. That is not in the forecast, it is not in the income forecast and it is not in the economy forecast. The economy forecast is showing that there will be an ongoing structural imbalance. The economy will not get back up to where it was forecast a year ago and that is consistent through the words in the plan but also the graphical representation of that for the income forecast and the economic forecast. You also see that that line, however, goes back to the sort of growth level. The growth initially comes, it is following Q2 of this year, goes up sharply, not as sharply as previous economic forecasts around the world have predicted, it then starts to flatten out and follows the trajectory of the previous modest increase forecast. Much of that averaging is done through very rapid growth early on from a very low base arising directly from the economic and health restrictions in the Island as the economy bounces back. We have seen that happening. The question is the extent to which it happens. The latest forecast suggests that it will be lesser than previously imagined and that there will be a protracted recovery, as you see from the dotted line from the previous, let us say, upside scenario compared to the downside scenario.

Senator K.L. Moore:

Looking back at last year, one of the spend to raise initiatives was the domestic compliance income tax. That did not meet its target, largely due to the issues in the Income Tax Department. Once again, this Government Plan predicts additional tax revenues due to this approach of about £13 million annually by 2023. How realistic and how confident are you that that is achievable, given the lack of achievement last year?

Treasurer:

You will see from the forecast that we have reduced that forecast, it was £13 million I think at the end of 2023 or something like that. Under recovery has happened this year. It feels that is part of lots of questions. A lot of the work that needs to be done on domestic compliance needs to be done by visiting businesses and people. It obviously could not be done this year for very obvious reasons relating to health restrictions, which explains, to a large extent the under recovery. Nevertheless, the Comptroller is forecasting quite some recovery, about £1 million less, and then that £1 million sees its way through the forecast on an ongoing basis. So we are not forecasting to recover all of that immediately. The work will proceed. The other point to be made is that the taxes office and the tax system, the previous I.T. (information technology) system, led to rather an archaic way of collecting and assessing taxes, which was rather around spending all our resources on data input. The investment in the I.T. tied up with the investment in the compliance team in particular, allows us to take a more risk-based approach to where we go and look and investigate and assess whether there is compliance in taxation. It does not seem an overly ambitious target given the low starting point from which ... the taxes office previously were working with a 35 year-old system. Much better data, improving the skillset of the people who work in the taxes office to go out there and ...

Senator K.L. Moore:

As we have seen, that has not been a seamless transfer on to the new system and it still has its issues as we regularly still receive frustrated messages and letters from members of the public. But we will not go into that right now because it is well trodden territory, I think. I will hand over to the Constable of St. Peter who is going to ask about capital.

The Connétable of St. Peter:

Right, thank you very much. Chief Minister, a significant number of capital projects are in the pipeline, are you concerned about overinflation in the construction industry?

The Chief Minister:

Funnily enough, that was a discussion we had. I am going to see if I can find the right page. If you look at the full analysis there are things in there like legal changes, like I.T., for example, that is quite a chunk of the spend. Like I think it is the infrastructure one, which is basically tarmacking roads, like replacing assets. Richard might want to talk to those bits. Once you break that down, the actual,

what I will call, capital spend that is going to go into the construction industry is obviously not the full amount, so therefore somewhat less concerning than if it was the full amount. You have to remember the F.P.P. raised this last year in terms of impact on inflation and the view was that if it was problem you could potentially flex it, you could change the timing, you could determine whether you want to do more pre-fab or something out of the Island and then bring it in which mitigates your inflationary impact in terms of workers and things like that. Bear in mind where it is probable that things may go ... in other words we have got the uncertainty, so what is the impact on industry going to be the next year and the year after. It feels like there is likely to be a demand for government projects to keep the economy ... that side of the industry going. At this stage I do not have perhaps the level of concern that might have been being expressed last year.

Chief Executive:

Just to add to that, there is always a lag about the start of capital projects. One of the reasons why the rolling vote position changed last year was to enable us to get quite a lot of work done in that pre-feasibility so that when projects come to start they can start within the period. Now, some of these are profiled for later, because you have to have them in the Government Plan under the Public Finance Law arrangements but a lot more are ready. The lesson we have learnt from the previous time where there was an economic impact on the Island was to have things shovel ready much earlier because otherwise you create a lag in the system which then generates further inflation into the construction industry. That is what happened. Whereas this time I think we are in a better place to be able to get key projects up and running in 2021. Then picking up on the point about I.T., over this year we have managed to ensure that we have quite a lot of the B.A.U. (business as usual) for the I.T.S.(Integrated Technology Solutions) project ready so, again, we can proceed with that in line with the revised timelines that we have identified. Hopefully the spend profiles will be much better and the construction industry are telling us that is what they are looking for.

The Connétable of St. Peter:

You do not necessarily see, particularly from construction, an adverse effect on any migration policy, in that you could see the need for construction workers coming from outside the Island? You mentioned modular building and prefabs, so some of that could be used to mitigate, yes?

The Chief Minister:

I think that would be the view. I think the crucial thing ... and I am hoping the Migration Control Policy will be lodged probably next week, it is going to C.O.M. (Council of Ministers) this week for final sign off so it will be within a very short number of weeks before it is lodging. One thing we are trying to make sure as well is that it is about the graduation, in other words how people used to go from zero to 5 years to 5 to 10 years and effectively gain their rights. It is essentially putting some

significant controls to break that automatic right to stay. Provided we get those in place as well then I think that will help the issue you are talking about.

The Connétable of St. Peter:

The capital programme for 2021 to 2024 covers some £371.4 million of investment. Most of the source of funding comes from the Consolidation Fund, some 92.7 per cent. Given the plan to augment available internal funds with external borrowing, has there been any assessment of the likely programme slippage as a result of challenges to the Island, capacity and drag and, of course, the continuation of COVID-19 challenges?

Treasurer:

At this point it is based upon a fairly level restriction to activity on the Island. Picking up on the chief executive's response, with the best will in the world not all of these projects will come through as scheduled. Some will experience delays, some of those might be internal, some of those might be external, which is why it is always a good idea to have perhaps a full programme so that you end up delivering near to a full programme rather than delivering a programme fair less than that because you have not build in the perspective that there could be changes. Nevertheless, this plan is now on a cash flow basis as opposed to putting all of the money up front. So in answer to your direct question, it is assuming that we do not step up the levels of restrictions on the construction industry but obviously there is a risk there as there is a risk to other programmes across the Island as well.

The Connétable of St. Peter:

Thank you. Now we look at financial modelling and revised income forecast. There is an implicit assumption that the core level of the Consolidation Investment Fund will not be unduly impacted by a significant market turndown. Given that £103 million or 5.2 per cent was written down from the £2 billion of investments associated with the Social Security Reserve Fund to 30th June this year, which is relatively unprecedented, where is the evidence that investment returns will stabilise and grow?

Treasurer:

We have taken a proven approach in the early years to the investment returns. Just clarifying on the Consolidated Fund, there is very little in the Consolidated Fund left to earn funds on. This may be referring to the Investment Fund.

The Connétable of St. Peter:

Yes.

Treasurer:

So we are taking a prudent approach in the short term. More often than not what we do with these forecasts is use the long term as the assumption because it is difficult to see in any one particular year whether there will be overperformance or underperformance of that and if anyone wants to take ... if I could say where the performance would be at any particular year compared to the income forecast, there is much more certainty I would get close to the income forecast. So we generally use the medium to long-term return on those funds as advice by our investment advisers but in the initial years we have used quite a prudent approach to those. You have seen during this year quite rapid drop offs as you would expect initially followed by very rapid and very steep improvement in the stock markets, which equally people scratch their head with, and some discounting off from that position as we go through the year. Stock markets are volatile, they are always going to be volatile in the short term but at this point probably more so than previously. So we generally in these forecasts - it is difficult to forecast any particular year - use that long-term return on the funds that we are anticipating that will underperform or overperform in any one, 2 or 3-year period.

The Connétable of St. Martin:

Moving on to the Social Security Fund. What impact will the deferral of the grant have upon the Social Security Fund considering the reduction in contributions by employers and employees?

The Chief Minister:

I will give you that at a high view, as it were, and then I will hand over to Richard who has the details, of course, as former Chief Officer of Social Security as well. The Social Security Reserve Fund remains in a very healthy state. I think the figure I have used is about £1.7 billion. I know Richard has said publicly the intention was to get it up to around 5 years' worth of spend effectively as the buffer. It is up to about 7 so it has exceeded where we wanted it to be.

[11:00]

The advice basically, or the view has been rather that rather than essentially adding to the borrowing to put money into a reserve that does not need it and does not need for quite a considerable time, it made sense just not to make the payment in to the reserve. What we have said - that is part 1 of the picture, if you like - part 2 of the picture, which we did identify last year and was a piece of work that showed that we have been looking ahead, it just becomes more fortuitous, as it were, now, is we do need to do a piece of work looking at the size of the supplementation grant. Broadly speaking, that was forecast to go up to £100 million at some point in the next couple of years, which at the end of the day loosely is around 10 per cent of our spend. There is an argument that say if you go pre-Zero/Ten the contributions from employer, employee and taxpayer are about a third, a third, a third. We are talking principles here. The taxpayer contribution pre-Zero/Ten would have obviously been more balanced towards the corporate area rather than the individual. In Zero/Ten that balance

shifted the other way. So there is an argument to suggest that you should look at how that supplementation grant is funded going forward and whether ... I am not saying that is where we are going to but we might want to look at rebalancing that so you get the proportions back to where they used to be. That has not been done obviously since 2008, 2005 or whenever, so it is a longer piece of work. On top of that, because we know we have frozen - as previous Council of Ministers did do when they had this type of crisis - the grant for 2020 with the permission of the Assembly and we are seeking the permission of the Assembly for 2021. We are flagging that we might want to do this but the permission is purely for 2021 that we are seeking. We know that during 2021 we have to come back with a piece of work that says this is how we are going to top up the reserves. So provided we do that in 2021 and we have a plan, there is no threat to anything; the reserve is fine. We just make sure that those plans then bring it back to the levels that we have all been talking about. But as we were saying, it is in a very healthy state at the moment. It is more than what was originally projected and it makes sense not to borrow to pay into a reserve that does not need it. Do you want to add anything?

Treasurer:

I think you have dealt with it comprehensively, Chief Minister. But there is also in the Government Plan, if you go to page 170, on the short to medium-term forecast accepting what I have just said about the volatility of returns, either that or there is like in graphics on page 105. We will see at the start of the period, at the start of 2021, forecasting about £1.7 billion on the Social Security Reserve Fund. At the end of the period more or less in the same position slightly up from that margin. Over the period, while, yes, the funding is being utilised, then we would expect - given the long-term forecast of investment returns and accepting that in the early years we forecasted a very low level historically on those returns - to get back to roughly where we are or where we will be at the end of this year.

The Connétable of St. Martin:

What was your involvement in the decision? Were you responsible for the approval of those? To take it ...

The Chief Minister:

Approval will come to the Assembly, the intention will include ...

The Connétable of St. Martin:

Yes, yes, yes, I know but ...

The Chief Minister:

To be honest, it has been all the key Ministers. I have been involved, the Minister for Social Security obviously has been involved, the Minister for Treasury and Resources has been involved and then there has been a discussion with the Council of Ministers as well. As we keep going back to this point, particularly during this year, it has been very fundamentally about the managing of the cash flow and I go back to the point, you could carry on and just make the payments in but then, ultimately, you are adding to your borrowing requirement, which did not make sense.

The Connétable of St. Martin:

Yesterday in a press conference, Chief Minister, you suggested that Social Security contributions were to go up in 2023/2024 to pay for this.

The Chief Minister:

I said it might. What we are saying is that during 2021 or between now and basically sometime next year we have got to come back to the Assembly with proposals that will say this is how you are going to top that up. Logic would say Social Security contributions are going to be something you are going to look at, fairly obviously. There may be other measures in there because I understand there are various payments that get paid at the moment, which you might want to re-profile, by the way, in terms of where the liabilities fall for those payments and that might be a contribution as well. There is quite a lot of detail in there, I will stop there. They are not off the table definitely. It is not saying it would be the measure or the sole measure.

The Connétable of St. Martin:

All right, thank you. While it is fully understood that liquid funds were essential to finance immediate COVID-related expenditure, given the likely demographic changes that will impact future generations, was a diversion of Social Security contributions to the Social Security Reserve Fund the right thing to do?

The Chief Minister:

Sorry, diversion to the Social Security Reserve Fund?

The Connétable of St. Martin:

Yes, of Social Security contributions to the Social Security Reserve Fund.

The Chief Minister:

I will let Richard answer, I do not think that is ...

Treasurer:

I do not quite follow the question.

The Connétable of St. Martin:

Is it not?

The Chief Minister:

No, I think that is wrong.

The Connétable of St. Martin:

Right, sorry.

The Chief Minister:

What we have done is we have said ...

Treasurer:

I think it is a long question.

The Chief Minister:

Yes. We have basically said we are not paying into the fund; that is it. We have not diverted anything around it.

The Connétable of St. Martin:

Right, okay, apologies.

Senator K.L. Moore:

Yes. But as your statement yesterday in the press conference alluded, and I think this is in relation to the Social Security Fund and the eroding down that you have described, this is just pushing the can down the road for future taxpayers and future generations.

The Chief Minister:

No, I do not think it is. This had been done prior to our time as well. The first decision was you do need cash, you need cash very urgently. There was £65 million that was going to be paid into the fund that basically did not need it because it had £1.7 billion at least on the balance and, therefore, it made sense and the Assembly agreed with that. But we do know we have to top that up again and so we are not putting the burden down to future generations. It is looking ahead and saying that at some point you will need to top it back up. In the same way, and I will quote Terry Le Sueur of the day, I think it went up 0.5 per cent a year for a number of years. That might be an option one looks at and I would say that was very good forward thinking at the time because it built up the reserves that we have been able to bolster the Island's finances then and obviously which we are

now very grateful for. I think we are going to apply that same kind of forward looking and look at the structure of what payments go out of the fund and what payments need to go in to make sure that we keep that balance going. As Richard is saying, broadly speaking, in the next 4 years the balance should remain slightly better than where we are now.

The Connétable of St. Martin:

Just to continue on Social Security, one last question on this, would it not have been more prudent to realise the equivalent £65.3 million from investments can weaken the fund, particularly when the plan is to divert some £235 million covering 2021, 2022 and 2023?

The Chief Minister:

Sorry, did you say would it not have been more prudent to realise the investment?

The Connétable of St. Martin:

Yes, to realise the equivalent from investments can weaken the fund.

The Chief Minister:

From which, so either from the Strategic Reserve or from the Social Security Reserve Fund?

The Connétable of St. Martin:

Yes.

The Chief Minister:

It is the same impact, is it not? You either sell the investments to the Social Security Reserve Fund or you do not put cash in. The question is depending at what points if you are doing that in March, when in theory the investments were lower, you were realising losses, which was the advice not to do. Obviously things have recovered now but then you get into that territory of, are we better off? The reserve at £1.7 billion is in a very, very healthy state, therefore, it does not make sense to borrow or mess around with it too, too much. What we have tended to do is that ... we should not necessarily pay into it, certainly for this year and for 2021 and then we are going to come back with a plan to the Assembly by 2021 and obviously we flagged up some other measures in there but it is only 2021 that we are asking permission from the Assembly for.

The Connétable of St. Martin:

Okay, thank you.

Deputy S.M. Ahier of St. Helier:

Thanks. We will move on to borrowing, the revolving credit facility and debt repayment. Can you confirm, Chief Minister, that the strategy to retain C.I.F. (Collective Investment Funds) investments at broadly current levels and commit to significant external borrowing to finance support for the economy is prefatory to securing the level of financing options for our new hospital in terms of optimising the Island's credit rating?

The Chief Minister:

There is about 3 questions in there, I think. In terms of what our thinking is, okay, we have got the medium-term outlook, which is the hospital. Essentially, the likelihood is it is going to be a very similar strategy to previously but that is a separate decision by the Assembly, I think July-ish next year; that is what we are aiming for. That will be around the funding and once you have got certainty on the site, which then determines the costs and all the rest of it. Because there is still quite a lot of uncertainty around it, once the site is approved and then obviously because of the length of time up to that decision, about the level of continuity to build it. But the likelihood is that we would go for borrowing at this stage long term and, potentially, repaid by, number one, excess returns out of the Strategic Reserve and I will talk about other measures in a sec. Then you have got the kind of, let us call it the short term, i.e. the debt that we are talking about this year, the £385 million. I think importantly and I am applying this across all the debt that we are talking about, whether it is the future of the hospital or the current one because when I was sitting on that side of the table Richard was on this side of the table and he asked: "Am I talking to the same person?" Because in different circumstances I was not a fan of borrowing at all, let us be clear. But COVID was not exactly on the agenda and we have had to shift a whole range of stuff, a whole range of issues around that. You deal with the circumstances you are facing at the time. The shorter term side then comes into flexibility. The R.C.F., it is not quite the same but in my simple mind it is the equivalent of an overdraft that we are taking out at the moment. We are asking for a maximum amount on that overdraft facility; that is what the permission was sought for from the Assembly. But also it is only kind of next year-ish that we will understand whether we need all of that or not but precisely because of the uncertainty areas around how badly or how well have, for example, financial services performed in terms of tax, what turns in the tax take for us, how much of the estimated spend for 2020 we have spent? All those kind of things. That is the flexibility for the next one, 2, 3 years until we get absolute certainty around what is the final level of the next debt, if you like, that we need to cover off that area, will take us into P.Y.B. (previous year basis) and C.Y.B. (current year basis) but I will not go down that line at the moment because I am sure we do not want to. I think the other measure in there ... so the crucial thing in all this lot is what we call the rules; that I was very keen on and a number of us are very keen on, which says that, essentially, there are no capital receipts in the government Plan, for example. What we have said is that if we do sell and, hopefully, we might get, for example, South Hill somewhere in that time period with some returns coming from that. If we do get returns from that, should it be sort of wrapped up in the normal government spend? Our view at

the moment is that, no, you specifically put that into the ring-fenced fund that we are talking about to repay the debt in the future; it is very focused. Any receipts that we are not anticipating, I presume if our income forecasts are better than we were expecting, any capital receipts, any efficiency that we do not identify, will also go into a fund for repayment for the debt. I think that is quite important because we want to be absolutely serious, we have got to deal with this. We do not want to hamper generations for decades to come if we do not need to and that is one of the measures we can, hopefully, get their confidence that we are serious about making sure it is repaid.

Deputy S.M. Ahier:

I think the basis of the question was, are we retaining our investments to secure an S. & P. (Standard and Poor's) rating so that we can fund our future hospital?

The Chief Minister:

We are not retaining the investments to secure the rating, okay. How we manage the debt obviously does have an impact on the S. & P. rating. The main advice I would say in practical terms, at least from my thinking, is that we are keeping the investments, if you like, in our back pocket as a reserve for unknown future shocks that may be 2 or 3 years down the line. Essentially, the view on COVID-19, I think, this year has been we have had the health impact obviously and then that has had the short-term economic impact. What we do not know, if you go back, for example, to the 2008 financial crisis, I think that probably hit you in, let us say, 2011, there will be a time lag as to what is happening around the rest of the world and what impact that then has on us. If, for example, we were to just use half the Strategic Reserve, say, or a third to clear all this debt, that will clear the debt now when interest rates are very low, you will not really have recourse to that at some future time easily. The F.P.P. advice certainly as I have understood it and certainly the more recent one is keep the reserves reasonably intact, that is, effectively, light for a contingency event in the future and use the borrowing instead.

[11:15]

I am comfortable with that on the basis we have got the rules around how we repay and also, as I said, because we think the way we are suggesting it be repaid is in an appropriate manner but I am sure we will be dealing with that separately.

Deputy S.M. Ahier:

Thank you. The first call on external borrowing costs into the future will be the Island's income tax base, should the trajectory of income tax be flatter than is planned? Will the burden of external financial costs leave less resources available for ongoing service delivery received by Islanders?

The Chief Minister:

Right, shall we talk about on the COVID debt, which is, I presume, what we are talking about at the moment? I think the view is that is probably not the case. I will hand that over to Richard and then come back.

Treasurer:

The central plan for the repayment of the COVID debt relates to the move from C.Y.B. to P.Y.B. that relates to the 2019 tax liability. The 2019 tax liabilities will not move as a result of future events, this is 2019 and based upon 2019 income, so that would not impact that. Regardless, I would say, of the income tax ... regardless of the debt position, it will always be the case that if your income forecast is less than forecast then you would not be able to afford the services you were previously planning to deliver. But that would be the case whether you had the servicing of the debt or not the servicing of the debt.

The Chief Minister:

I think also it goes back to the point we said that there are elements which are not included in the plans, as of capital receipts we cannot always guarantee the timing. Depending on where we are and provided those numbers come in that will also assist in clearing the debt. Obviously there are some long-term pieces of work that we flagged up last year, particularly around pension debt, that has given a little bit more flesh in the back of the plan. We believe there are some significant potential returns in there. At the moment it looks credible, provided we are absolutely happy they are credible then we will be flagging those up during 2021. That, if you like, has the potential to reduce quite a significant long-term liability in cash terms and that might also then give us some assurance around the ability to repay debt as well, on top of. As long as we are satisfied our main measure repays the debt and we think we have got other measures that we can bring in there that essentially accelerate the repayment possibilities.

Deputy S.M. Ahier:

Thank you. It is stated that should the States Assembly approve plans to move to current year basis taxation, as we have mentioned, the future repayments of the 2019 tax liabilities for prior year basis taxpayers will be paid into a ring-fenced sinking fund to repay much, if not all, of the debt.

The Chief Minister:

Yes.

Deputy S.M. Ahier:

What if this is not approved? What is plan B?

The Chief Minister:

Let us say, I think there are probably 3 choices in terms of how we deal with the debt. Number one is you take it out of the reserves, I think we have just covered that, well we do not think that is a good idea. Number 2 is we go down the suggestion that we are going for, which is the P.Y.B. C.Y.B., we can talk to that if you wish to. Number 3 is basically you find an alternative way of funding that. The alternative way of funding that government tends to have, unless there is some other magical area I am not aware of, is through taxation. The alternative, essentially, is some form of increase in taxation. I have given a rough indication and it is very much illustrative that for me it would be probably a 7 per cent to 8 per cent rate of G.S.T. (Goods and Services Tax) and that is a permanent increase and for me that is not something I will support, if we have got an alternative measure. Can I spend a minute on the P.Y.B. C.Y.B. arguments? I think it fits into the narrative. For me, the arguments around the P.Y.B. C.Y.B., number one is it does regularise a situation that has been around for quite a long time and you will find it in a recommendation of a previous Corporate Services Scrutiny Panel but there we go. But the point is that in this particular year you will have people who had taken a hit in their incomes. They still face their full 2019 liability at the moment. If we can do this, do not forget the permission from the Assembly is 2-fold; one is it is likely in principle to move to a C.Y.B. and then, 2, which is the actual detail on it and I will let Richard talk to you about that if he wants to. But the other point is that probably for all of us in this room, with possibly one or 2 exceptions, I am assuming most of us are probably taxpayers and depending on one's views and one's circumstances, when one retires one usually takes a drop in income but one is still facing the full year liability of tax; this will regularise that as well. Obviously we have moved and so you are helping people but by doing that it does also help government and it helps government by clearing the debt in what I call quite a neat package without any permanent increase in tax. Me, as a taxpayer in my lifetime tax profile, if you like, I am not seeing any additional payments. I am just seeing the timing of those payments be changed. For me, as I said, that works quite well. There are differing views, I know that but that from a strategy point of view does work. It does then put us into a good position for having a more modern tax system as well. I think there is quite a lot of benefits in that.

Deputy S.M. Ahier:

Thank you. Chair.

Senator K.L. Moore:

If I may just briefly, there is of course the question of fairness, that why should the prior year taxpayers be footing the bill for this measure, whereas the current year taxpayers would get off scot free, as it were? There are also alternatives for those who have struggled in 2019 under the Income Tax Law to negotiate a position where those repayments were enabled in a more affordable manner for them. Because if you look at the Opinions and Lifestyle Survey, for example, there is, yes, a

considerable percentage of people who have been impacted negatively but that is about a third of taxpayers and not all taxpayers. In fact some taxpayers have saved money over this previous year.

The Chief Minister:

I did not say it was going to help every taxpayer, I talked about the people who ...

Senator K.L. Moore:

No, so I would like you to address the fairness point.

The Chief Minister:

I think there is an argument around it. I do not particularly like the idea because in reality once you put, say, G.S.T. up or income tax rates up or whatever it is, they are very, very difficult to take down again for all sorts of reasons. I have to say, personally, I think that was the view also around the Council of Ministers, do not like permanent increases in taxation when they are not necessarily required. In terms of fairness, so it very much comes down to if you do not need to put, and I am being illustrative, G.S.T. up from 5 per cent to 8 per cent, say, or 7 per cent, then why would you wish to? Because if you look at the profiling and I am sure we can give you a lot more information on that and it will come out in the in-committee debate as well next week, you are not asking anybody to pay more tax, you are asking people to just change the timing of when they pay it.

Senator K.L. Moore:

But they will, when they have to make the repayments, pay more tax because they will be paying another ...

The Chief Minister:

No, they will pay more cash.

Senator K.L. Moore:

... 110 per cent of their tax bill over that repayment time. Then yesterday you told us that they are likely to be facing Social Security contributions increases as well at that same period of time.

The Chief Minister:

Right.

Senator K.L. Moore:

Therefore, middle Jersey is very concerned at a time when they have mortgages to pay, they have university fees to pay and that there is a great deal of uncertainty about that at the moment, they are very concerned about this additional money being taken out of their pockets.

The Chief Minister:

As for choice of taking 2 per cent to 3 per cent, let us say, of G.S.T. a year extra out of everybody's pockets, as opposed to, which sounds like your suggestion, an income tax rate. What we are saying is we are not asking people to pay more tax, we are asking people to pay a degree more cash for a period of time. The period of time we are floating is between now ... so start in 2025 and to do it for 10 years. But by giving notice now, effectively, you could even be ... so that is a 14 to a 15-year period. That is not that unreasonable, given that it avoids a permanent increase in taxation. But I said that can be a political discussion but in terms of fairness ... I would say in terms of public support as well, and Richard can talk more to the survey that was done and we have had to do things at pace but of, I think, those 2,300 people who came back on the survey, just over half did support the measure.

Senator K.L. Moore:

We will deal with that survey in another forum because we have received some considerably interesting feedback on that point but we will not labour it now and I will allow Deputy Ahier to continue with his questions.

Deputy S.M. Ahier:

Thank you, Chair. What evidence is there that the cost of debt will be far lower than the long-term returns on our reserves, given unprecedented global market volatility?

The Chief Minister:

That is definitely one for the Treasurer.

Treasurer:

Yes, thank you very much. Volatility is generally a short-term phenomenon, rather than a long-term phenomenon, so when we are doing our forecasting, cutting through the middle when we are looking at our long-term returns, when we are assessing the returns. We are interested in what is happening in a particular year but I think in years when we have a very good return it has to be one to come down because that might be a good year but it might be full of a bad year, it might be followed by 2 bad years. Experience and history has suggested over the long term they will outperform. I have been here before talking about what I thought were historically lower rates of interest. I think we are definitely now at even lower levels of interest than those previous times I have been here and are, therefore, at varied levels of interest. The forecast at this point suggests that that will stay with us for a while but that may change. But it would now be the case that if you look historically at the returns we have made on those funds over a period of time, rather than looking at any one, 2 or 3-year period, then the investments will outperform sovereign debt, for example, which is what we

would issue in this particular instance over the long term. That is what the advice that we receive is, not just my view, certainly advisers tell us and we can see that from the history of investments.

Deputy S.M. Ahier:

Thank you. The Government Plan outlines £27 million of costs with a revolving credit facility through to 2024, do these costs match original estimates?

Treasurer:

The costs vary as the profile of the borrowing varies. The last revolving credit facility, those numbers are the numbers ... sorry, the first couple of years they are based upon the interest that we would pay on the revolving credit facility, in the last couple of years they are more representative of what we might imagine we will pay on more medium to long-term debt figures that would change. I think your question is probably hinting at the Word document that we provided to you 2 weeks ago had different numbers. We said at that point we were doing checks through all the numbers and we found that those numbers were still using earlier forecasts at the level of debt that we may take on and they are now more representative of the interest that would arise on the profile of debt that we have in the plan. It is one of those issues that we have to check through. When we get through the check and we found there was a slight change not predominantly, in actual fact there was a period of less than what was in the previous plan because the forecast in terms of the debt that we would need to access has reduced over the period.

Deputy S.M. Ahier:

There was a change from the document that you sent, from £29 million to what is now £27 million. Should we take these forecast figures with a pinch of salt?

Treasurer:

Sorry?

The Chief Minister:

No, no.

Deputy S.M. Ahier:

The previous figures that we were given were £29 million for the revolving credit facility costs and they are now reduced to £27 million within a week. Should we take these figures with a pinch of salt? They seem to very fluid.

The Chief Minister:

No.

Treasurer:

We have pointed out that we do checks on all the figures when we handed over the Word document. We have done those checks. I think this is the only substantive change in terms of figures, which given the scale of the task and the number of figures that are in both of these documents and the income forecast, it is not ... it is unfortunate. I apologise for the fact that there was an error in the numbers but we corrected the error in the document that has been lodged and presented to the Assembly.

The Chief Minister:

It should be identified in the log that has been sent through as well. We have done a log with all the changes.

Deputy S.M. Ahier:

Thank you. The increase in the allocation goes up to £8.73 million in 2023, why would the Treasurer defer the payments if needed, that is deferring the payments in the change to current year basis because it was originally 2023 but we understand now that the Treasurer has deferred it to 2025? Why was it not kept to 2023?

The Chief Minister:

Sorry, are we back to P.Y.B. C.Y.B. or R.C.F.?

Deputy S.M. Ahier:

No, no, what we are talking about is we are talking about the increase in the allocation for the revolving credit facility, the borrowing, which is rising to £8.73 million in 2023.

The Chief Minister:

Yes.

Deputy S.M. Ahier:

The Treasurer originally said that the change of the repayment from the prior year basis would start in 2023, which would cover some of that cost. But now they have deferred it to 2025, so basically incurring an unnecessary cost, why will they not come back to 2023?

The Chief Minister:

I will deal with the last bit and I will let Richard go back to the figures. The principal suggestion to shift the C.Y.B. P.Y.B. to 2025 from 2023 was looking at impacts on individuals and pushing it out slightly further to tie it into that. But also it tied into various changes in the personal tax system,

which I think would have pretty well run through that system by 2025, whereas in 2023 there were elements still in there. It was felt that the impact, therefore, would be slightly less on taxpayers by putting it into 2025.

[11:30]

Just making sure of one other point, the Chair asked if it was 10 per cent of payments. At the moment do not forget, although in the first year it would be 10 per cent likely if it was over 10 years, obviously that is a fixed amount. If it was, I do not know, £50 a month or £30 a month or whatever that number is, it would be that amount every month going forward for the next 10 years. Obviously by the time you get to the end of that period it is a lot less. Richard, do you want to go back to the R.C.F. side of it?

Treasurer:

But, no, it is not down to that, the way that we would approach the debt repayment we would issue debt for the medium to long term but will be paid at the end of the period, rather than paid in each of the years as we go through. The money from the P.Y.B. receipts would be put into a sinking fund and at the end of the period of the debt it will then be set against the debt, rather than doing it in a style of repaying on an annual basis. What you then will be able to do is match some investment gain on the money that it had put into the sinking fund; it was £330 million, not £385 million. But the returns on that we estimate will, over the 10 to 15-year period or 10-year period, amount to more than £330 million in fairly secure low-risk investments. We have not profiled it that we are taking the money off every year, what we are doing is, say, the money will go into the sinking fund at the end of the duration of the debt, we set payment from the sinking fund to repay the debt.

Deputy S.M. Ahier:

The revolving credit facility will be extended for quite a long period; that is what you are saying.

Treasurer:

Obviously I did not get this over at the start, we put it as revolving credit facility but we anticipate that halfway through that period we will turn that into medium-term debt, so it goes halfway through. Say it is recorded through a revolving credit facility but it anticipates that we will move the revolving credit facility into a more medium or longer-term debt into the future. I think it is in the narrative but on the tables we are still saying revolving credit facility. In the narrative we talked about once the Assembly being invited to take the decision in respect of the hospital and once we have taken lots of the measures that the Chief Minister has talked about to make sure that we have paid that debt down in respect of COVID-19 as much as possible, we then will be in a position to start issuing medium-term debt to replace the R.C.F.

The Chief Minister:

If you like we can take you over our facility and once we know what the balance is we then crystallise it into a 15-year repayment loan.

Deputy S.M. Ahier:

Okay, thanks very much. Sorry.

Senator K.L. Moore:

Thank you. Okay. If I could just ask a quick question to pick up on a point that you have made several times, Chief Minister. You have mentioned and alluded to potential for disposal of some property assets.

The Chief Minister:

I have.

Senator K.L. Moore:

We all know that you are a property man but have you considered any disposal of other assets, as well as property assets?

The Chief Minister:

Do you mean like selling Jersey telecoms or something?

Senator K.L. Moore:

Something like that.

The Chief Minister:

The short answer is, no, that has not been in the picture. We are focusing on the property strategy mainly because it is an area that does need to be addressed. But dealing with the arms-length organisations and things like that, we have not in the short term looked at it. There is some structuring that needs to be done around how they are all managed and things like that but not at this stage. Whether there are other assets i.e. that are not either subsidiaries or property that we are talking about, as that we have looked at reducing liabilities, which is kind of a counterargument, the same impact.

Senator K.L. Moore:

Thank you.

The Connétable of St. Martin:

Thank you. I just have a few quick questions about the prior year tax basis reform proposal and when these plans were originally announced you tried to spin them that they were for the benefit of the taxpayer, which is clearly not the case and that the benefit is for the government to plug the gap. Do you regret trying to mislead the public on this?

The Chief Minister:

I do not think we misled, by the way but ...

The Connétable of St. Martin:

I think thousands of people think you did.

The Chief Minister:

I know there are some people who think we did but I think it is all a matter of perspective, is it not? No, I think the point I will say is that we are very clear, for the reasons I have already alluded to, that there will be elements of taxpayers who will benefit from this measure. From memory and it is illustrative, in one of the States briefings that are profiling around the various measures we have done, I have got £18 million in my head is the benefit to taxpayers that arose out of this particular measure. There is benefit, it will not maybe for every taxpayer, it probably will not benefit any of us.

The Connétable of St. Martin:

No, it is not, not for everyone, no.

The Chief Minister:

But it will benefit some. It will also benefit and, again, it is about views ... I would suggest it does benefit any taxpayer under P.Y.B. on the basis it takes away this cliff edge where notionally you have a lower income when you have retired but you have still got that full-year liability of tax at the very end. You can say it is about freedom of choice and some people have measures in place to deal with it but there will be other people who do not. Suddenly you start putting in changes 3 years before they are due to retire and they cannot repay it. Potentially, as I said, if people start acting now it is a 14, 15-year period but at the very least it is 10 and that is subject to, as we have said ... there has always been reference to an affordability test in there and it is also subject to various other bits and pieces that are being looked at, which is one of the reasons why we split it between a principal debate, I think that is the right way of suggesting it, in November, and the detail coming up because that gives us a lot of time just to fine-tune some things with focus groups and things like that.

The Connétable of St. Martin:

I think there are still thousands who will need a lot of persuading that they are going to be better off but ...

The Chief Minister:

There will be. The other thing will be I will say accountants and lawyers will be highly mortified because they are probably well-positioned and there will be other people, more regular people who maybe think this kind of works, bearing in mind the alternative choices as well. My perspective is that alternatively you go for some form of permanent increase in taxation, which is as detriment to everyone, in my opinion.

The Connétable of St. Martin:

Going on to ...

Chief Executive:

I was going to say but the reality is we have to pay the debt.

The Chief Minister:

Yes.

Chief Executive:

There is no free lunch here.

The Connétable of St. Martin:

I know but you just seemed to be targeting a certain set of people.

Chief Executive:

No, no.

The Connétable of St. Martin:

I take it that you are probably current year and not prior year.

Chief Executive:

It is not that, whatever way you do it there will be difficult choices.

The Connétable of St. Martin:

Yes.

Chief Executive:

The reality is that the government is endeavouring to face those choices.

The Connétable of St. Martin:

Yes, yes.

The Chief Minister:

What I would say is what we could not say particularly at the time around the benefit to government ... so let us be clear, my perspective is there is benefit on all sides, because you did not want to particularly start sending out half a message around massive amounts of debt and things like that without the context of the Government Plan that goes round it.

The Connétable of St. Martin:

I think that ...

The Chief Minister:

We did start floating fairly early that it would contribute too but it is really when you then see the - from my perspective - I have used the word neat package, it does match up reasonably well, that is the perspective.

The Connétable of St. Martin:

I think my question was that it would have been better to come out straightaway and said that we are plugging the gap for COVID with P.Y.B., rather than trying to spin it another way.

The Chief Minister:

Okay.

The Connétable of St. Martin:

I just think a lot of people do not appreciate spin. Anyway ...

The Chief Minister:

It was not meant to be a spin, I think it was more about not putting a ... there is a benefit to some taxpayers and depending on your view it is quite a lot of taxpayers at their retirement age.

Treasurer:

Could I just clarify something that all taxpayers will, ultimately, be providing the funding for the interest charges on the debt?

The Connétable of St. Martin:

Yes, but some will be providing ... anyway, I will move on to my next question, which is when the Revenue Administration Law was being debated the Comptroller, Richard Summersgill, clearly stated that the government should not provide cheap money to taxpayers, which is why he wanted increased interest in penalties. Are you now asking for cheap money from the P.Y.B. taxpayers? What are you going to do to compensate them for, effectively, making a cheap loan to the government by advancing their tax payments? In some cases this runs to many decades. Are you going to give a discount or cost of money adjustment?

The Chief Minister:

Could you clarify that in some cases it runs to many decades? Because as far as I am aware we are only talking about 10 years.

The Connétable of St. Martin:

This is what I have heard that it does. No.

The Chief Minister:

No, I do not think we have said that one.

The Connétable of St. Martin:

Well, anyway, maybe many years, many years but ...

The Chief Minister:

At the moment the plan ...

The Connétable of St. Martin:

But it does seem to go against what Richard Summersgill was saying.

The Chief Minister:

There are a variety of views around that. Part of that is around if somebody paid up front, we had quite a lot of discussion around that, should there be a discount? There are varying views around the table on that one. The ultimate view was that, no, we do not do that. As I say, it does go back to choices, choices being do you tap the reserves, a few of us probably do not, particularly in the early days because you would have been hammered because you were crystalising losses and that is less now but, more importantly, around keeping some in your back pocket. Option 2 is the one we are talking about, which, as I said, is not a permanent increase in tax, in my view ... well is not. It is a cash impact, no question but that can be measured. If the focus groups come back and say: "We would rather it was 12 years rather than 10", we will take that on board and you can re-profile in there accordingly. Do not forget originally I think there was talk around 3 to 5 years, so we have

listened and we have moved. But the alternative is if neither of those 2 are acceptable, then you have got to find the money from somewhere and that money, really we are saying, it comes out through taxation in some shape or form.

The Connétable of St. Martin:

My last question on this is and no doubt you will argue or have argued that C.Y.B. taxpayers will somehow be disadvantaged but surely they will benefit if P.Y.B. taxpayers pay early, as G.S.T. income tax will not be increasing. Are P.Y.B. taxpayers subsidising C.Y.B. taxpayers and, again, should they not be compensated?

The Chief Minister:

Let us be clear, there is a benefit to government for doing this; that is the purpose. It avoids putting taxation up on a permanent basis. But I will not be paying, as a P.Y.B. person, more tax as a result. I will be paying it in a different timeframe but it is not a tax increase. It is a cash flow increase, no question but it is not a tax increase, whereas if we did change, for example, the income tax rates and G.S.T. or whatever, it is a permanent increase in taxation for everybody. You pay some money and take the choice at the end of the day.

The Connétable of St. Martin:

Thank you.

Senator K.L. Moore:

Okay. We are mindful of the time, so let us just go back to come COVID questions, if we could.

The Chief Minister:

Yes.

Senator K.L. Moore:

It is identified in the Government Plan that next year the total cost of the test and trace programme will be £46.3 million. Has a more commercial model not been considered?

The Chief Minister:

In other words, we start charging people.

Senator K.L. Moore:

There are many different ways of driving down the cost, some suggest that the government overpaid for some of the test kits that it bought, for example. It bought test kits and used them for a very short period of time and has not continued to use them because they have moved on to different kits. I

think there has been a considerable amount of spend and what are you doing to mitigate that cost and so £46.3 million is a considerable sum?

The Chief Minister:

There has been some very considerable sums spent on COVID. I seem to recall a number of politicians shouting to the rooftops about why we were not doing things quicker and why did we not have test X versus test Y versus various offers of help that were coming through that money needed to be thrown at tomorrow? We have, I think ...

Senator K.L. Moore:

But at the end of the day the public wish to see that their money is well spent and carefully spent and ...

The Chief Minister:

I agree but I am also saying that ...

Senator K.L. Moore:

... tests that are not bought for 3 times the price that they are sold to other ...

Chief Executive:

No, it is not. No.

The Chief Minister:

No, absolutely, but I do not think that is the case, as far as I am aware; I will let Charlie come to that. What I was going to say is that what we have been seeking to do, as technology has changed, is bring down, I believe, the average cost of doing each test. I believe, from memory, that was with an intention ... it is a combination, one is about reducing the cost of each test on an average basis, the other one then is about increasing the resilience, for example, and that is why we have got the on-Island lab. Looking ahead, I think in our minds there will at some point be a case where we will turn around and say, yes, we might start introducing some form of charge to recoup the costs. I think we have also taken the view to date that given the kind of fairly fragile state of connectivity within the Island and to the Island, that was not an appropriate time to start doing that and that is a judgment call at some point. We have done every effort to make sure that we have tried to keep the economy as well connected as we can. We have talked about the economic impacts of COVID and part of that has been around having that ability for people to come in and out of the Island in a safe way and, therefore, maintain what we can of the economy. Do you want to talk about the kind of future costs and the past costs?

Chief Executive:

Yes. Inevitably during this period the testing processes have changed. They have been expensive but have reduced and our costs reflect always the optimum figures. We endeavour to try and ensure that we come in below those. The Island has wanted the confidence of knowing how and in what way we are dealing with COVID and the best approach is about test and trace. The majority of people, I think, will see the investment that has taken place in that as being paramount for their well-being and their safety and security, whether it is from an economic point of view, a health point of view or indeed from a well-being point of view. Over the next period we anticipate that there will be changes in technology that will further reduce, potentially, the costs. But we cannot, at this stage in putting forward the Government Plan, give you chapter and verse about that. What we have done is taken, as I have said, the current position and used that as the estimates that we anticipate for next year. Let us also be honest, we expect there to be at some point some sort of ability to vaccinate people and we have put in a cost for that.

[11:45]

That may well reduce the costs for test and trace as well going forward. It is not a single one-size-fits-all approach, it is a multifaceted approach which we are adopting. Finally, I suspect that we will need to look at mitigation around charging and there will be issues about affordability around all of that. But if we were to do that at this moment I think that would be not as well received by the Island, who anticipate using public money to support the security of the Island and that, I think, is probably the best position to be in.

Senator K.L. Moore:

Thank you. Constable.

The Connétable of St. Peter:

Right, efficiencies, I think I will have to cut down on the number of questions.

The Chief Minister:

An efficient use of time, that is an efficient use of time, is it not?

The Connétable of St. Peter:

Yes, yes. Right. How can £40 million be a genuine capital saving for the efficiencies rebalancing programme when departments received more funding in 2020 to cover costs and that would have been mainly due to COVID?

The Chief Minister:

I was going to say that is an interesting question. Sorry, I thought you were going down a slightly different line. I think the point is that, yes, we know that that has always been an issue around as COVID spend comes in and how it goes. But provided we have said where there is a recurring item, which was on the business as usual, let us put COVID away from business as usual, hopefully, at least for the medium future, then it makes sense that it is an efficiency if we have reduced a particular course line in a department on a recurring basis. Obviously and we have touched on that, we have always had a plan A, B, C., I think is what I have labelled it as and I keep getting reminded of it. Plan A was what we put in the Government Plan, some of which has been achieved, about £28 million of the £40 million. Plan B was an alternative but, again, recurring. Plan C was get it across the line, provided you were going to make the steps to get a recurring reduction in year 2 or year 3 or whatever it is. Obviously COVID had an impact on that, we know that but up to date the message I get is that of the 12 that we did not achieve on a recurring basis for 2020, is significantly achievable in 2021, all things being normal. I think that is the caveat there.

The Connétable of St. Peter:

Yes, and that is important, yes. Right, okay. The rebalancing measures have already been removed from base budgets, are all relevant chief officers signed up to delivering rebalancing in their own departments?

The Chief Minister:

I think one, 2, 3, which one do you want ...

Chief Executive:

The answer is yes.

The Connétable of St. Peter:

Yes, that is a quick one.

The Chief Minister:

Do you want to answer that? Okay.

The Connétable of St. Peter:

All right. I think shall we move on?

Senator K.L. Moore:

Okay.

The Connétable of St. Peter:

We have done efficiencies in the past.

The Chief Minister:

Okay.

Senator K.L. Moore:

Thank you. Deputy Ahier, do you want to move on?

Deputy S.M. Ahier:

The Common Strategic Policy, the panel knows that the new revenue initiative proposed in this plan is to allocate the largest amount to modernising government post-2021, is this becoming the most important Common Strategic Policy?

The Chief Minister:

Right, I think one has got to be careful there because it is not a C.S.P. (Common Strategic Policy), if that makes sense, it is coming under ... I cannot remember which part it was ...

Chief Operating Officer:

It was ongoing initiatives.

The Chief Minister:

Thank you, which was around having a modern efficient workforce and organisation but it still remains important. John, do you want to talk about that?

Chief Operating Officer:

A lot of that is I.T. spend. We have got 3 of the programmes that were in last year's plan are underway already. The Cyber Programme is well advanced. The Microsoft Foundations Programme is well advanced and Integrated Technology Solution is going through procurement and we will complete the procurement stage at the end of this year to start that big implementation next year; that is replacing our core systems. If you recall and I said last year, our current accounting system is implemented in 2005, so 2003 vintage, not updated since. If you think about the technology you were using in 2003, which you think about your mobile phone, we all had Nokias. You could send a text, you could make a phone call and it had one game on it; that is the technology we are currently using to run the whole of the government's finances. They are sitting on a set of boxes that are old, they are running on Windows 7 server, which is out of date. We have to update that. Those programmes are underway. There are some other programmes which we brought forward last year for future years. We have to do something with our paper. We have millions and millions of pieces of paper in the hospital at the moment, all in the basement. If you go into the basement it looks like the hospital is held up by the paper because it is stacked floor to ceiling. The new hospital will not have a paper storeroom. Those papers have to be scanned and archived and stored in a way that can be retrieved electronically in order to support proper patient care in the new hospital. A similar position in the tax office, we have stacks and stacks and stacks of files and paper, which again cannot be accessed easily. The new tax system is constrained by the fact it cannot easily look back at previous information because it does not exist in electronic

form, it exists on paper. Obviously if you submit your tax records now online we have our own electronic version but all the historic stuff is all on paper. Tax officials spend a lot of their time when they are dealing with historic queries chasing around looking for bits of paper stored somewhere. We have to put all of that online. It is a big programme. We have got £500,000 in for year to start scoping work for that but to image document and store all of the paper records for tax and the hospital. We also have money in there for digitising services. We want to move more services online. Our approach to date has largely been about online input, so you will see there are lots of things now you can go online and fill forms in. What we have not done much on is online output and settled status scheme is the first time we have done online output to any significant state. If you are applying for settled status scheme you can now receive your certificate in a digital format so that you do not have to have a piece of paper and you can show it to anyone using I.T. to demonstrate that you have settled status and this is the first time we have done it. There is a lot of opportunities to do a lot more, things that we could do with online output, rather than sending bits of paper out to citizens. The other big area which has come into focus this next year, which was not in last year's plan, is health. There is a significant investment in digital health planned for next year and on to the end of 2024. That is to support the Jersey Care Model. It is to support the new hospital and also because some of those health systems are, again, horribly out of date, our patient record system is old, inflexible. It is one of the reasons why it was abandoned as a way of supporting tracking and tracing because it is so old and inflexible and we had to go and develop our own alternative system for tracking and tracing. That is where the I.T. investments are. We also have to replace NESSIE (New Employment & Social Security Information Exchange), again, that is another 2005 vintage.

The Chief Minister:

Social Security system.

Chief Operating Officer:

I don't know ... which is the Social Security system, sorry.

The Chief Minister:

Yes.

Chief Operating Officer:

I do not know what happened in 2003, 2004 but we obviously had lots of money because we bought lots of big systems in that period and then ran out of money to keep them up to date or replace them. We are now sort of 15 years on having to deal with that legacy. That is a large chunk of modernising government is that I.T. investment.

Deputy S.M. Ahier:

Thank you. Chief Minister, what is being done to reduce our income inequality in this Government Plan and how does it aid those in poverty?

The Chief Minister:

That is an interesting question. There are some references under I think it was the well-being section, which does refer to income inequality and employment. Also, somewhere in there I have

been asking about, how can we develop the metrics to start measuring it properly as well? If you talk about in practical terms, do not forget between 2020 and 2021 we have done everything from obviously the income support side, the special payments were made for those very much at the lower end, which was the £100 that was paid to low earners and pensioners, et cetera in July, plus which is the vouchers that have come through. Those are a one-off system to help us through COVID. But there have been some very practical measures that have helped people at a lower scale to deal with the particulars that we are coming to face at the moment. In the longer term, Richard, do you want to add into what we have covered?

Treasurer:

Plus included in here it said there is increased income support costs throughout the COVID situation. It is fair to say that I think within the Economic Council work some thoughts arise around the living wage programme going forward and in the plan, not within necessarily the measures that are here, there are obviously the provisions for funding, which will be provided arising from the ... as a Policy Development Board, as there is £10 million over 2 years or it is into next year now as a result of some of these delays with the Housing Development Board outcomes. That is in the plan as well, some of the revenue expenditure is provided for as well.

Deputy S.M. Ahier:

Thank you. Do you, Chief Minister, believe that investment proposes enough to support service provision?

The Chief Minister:

As a whole, yes.

Deputy S.M. Ahier:

Fine, thank you. Do we move on?

Senator K.L. Moore:

Thank you. We have a number of detailed questions, which I think we will send to you in written format. It might be simpler to get through them, rather than in this forum. If we could just ask you a few final questions. Firstly, we note with interest in the risk section, which I think is page 204 of your final copy and it would be ever so nice if you would provide us with proper copies of the Government Plan, as it would be helpful for us all to work from the same. But it talks of a risk of COVID second wave, a failure to adequately plan for a second wave of COVID. We were rather interested to note this, as last week in a separate hearing, Chief Minister, you suggested that we had not experienced a first wave yet ...

The Chief Minister:

I think it is a fair comment.

Senator K.L. Moore:

... so how could we prepare for a second? I would like to understand more what this is referring to.

The Chief Minister:

I think I will let Charlie ... obviously I think there what we are talking about is a second wave in terms of global rather than Jersey and that is probably all I would say on that front, yes.

Senator K.L. Moore:

It is really semantics and that was exactly the same point that we tried to explain to you last week when we asked you the same question.

Chief Executive:

No, it was not. No, it was not the same question. You asked whether we had got a first wave ...

Senator K.L. Moore:

Right, fine, so could I move on? Thanks a lot and just ask if ...

Chief Executive:

Sorry, the document is also in your pigeon holes?

The Chief Minister:

Yes.

Senator K.L. Moore:

We do not have pigeon holes anymore.

Chief Executive:

Yes, the Greffe has them.

The Chief Minister:

The Greffe, yes. The documents ...

Chief Executive:

Yes, and they have all been reviewed, so I do not know what has happened with that.

Senator K.L. Moore:

Okay, we did not know that.

The Chief Minister:

Obviously everybody was sent an electronic version on Monday.

Deputy S.M. Ahier:

Yes, we did not have the message.

Senator K.L. Moore:

We have electronic versions, yes, which we are trying to work from but it is difficult to bookmark those and, therefore, find pages in complex documents that ...

The Chief Minister:

All Members have been sent the hard copy.

Senator K.L. Moore:

Okay, thank you. The other question I think I would like to touch on while we have time is in relation to OneGov and the Team Jersey has been allocated just over £250,000 in 2021, so we assume that there has been an extension of their contract.

The Chief Minister:

John, do you want to go into the details about that?

Chief Operating Officer:

There has not yet been an extension of contract, although we are planning to extend the contract. I think we need to distinguish between Team Jersey and TDP because they are 2 things. They are linked at the moment but they are 2 separate things. Team Jersey is a long-term initiative for the government, TDP is a short-term contractor that has been brought in to develop the foundations of that programme, so we ...

Senator K.L. Moore:

How is that programme being measured in terms of its success?

Chief Operating Officer:

As we briefed the committee on Friday, I am trying to avoid doing an hour's briefing now, the programme is in multiple parts. There are at least 5 different elements to the TDP initiative, the TDP input to the Team Jersey initiative. We were probably talking about the manager and colleague

programmes because that is probably where most people focus. At the moment we are measuring satisfaction with the sessions, so 90 per cent of managers would recommend it to a colleague, which gives us ... in fact the net promoter score I assume because the other 10 are not all negatives, some of them are neutral, our net promoter score is well over 80 per cent, which I think is fantastic for any programme. For the colleague programme it is not quite as high, only 80 per cent of colleagues would recommend it to a further colleague but, again, that is extremely high. We gave some good illustrations to the panel on Friday, verbatim comments that we have had from people.

[12:00]

At the end of every event we collect feedback from every participant. It is done on a tablet or was done on a tablet, it is now some of them are done remote. When we were running the events face-to-face it was a tablet that everyone was given and they filled in their comments anonymously. People were free to give their views, they gave them fresh as they had the programme and the majority of negative comments were about the amount of coffee and the temperature of the room, rather than the content of the programme, so that is how we are measuring. We also have just run the Be Heard Survey, which is a survey of all staff or all staff have an opportunity to provide feedback. Those results will be available later this year. There are a number of questions in there about Team Jersey, so that will give us a second measure, which is slightly more after the event when people are reflecting on it.

Senator K.L. Moore:

Will that offer an opportunity to perhaps curtail that funding if it is found that through the Be Heard Survey that people do not find it is very effective?

Chief Operating Officer:

I think it will give an opportunity to refocus the funding if we felt there was any elements that were not delivering to people. The Team Jersey programme is much more than those 2 events. It is also about the Team Jersey leads, which we have talked to you in the past about and developing a cadre of change agents, not just to support the cultural change of Team Jersey but to support other change. The I.T.S. programme, which will impact every member of staff and require people to do things differently, will lean heavily on those Team Jersey leads as being change champions within their business. It also includes the development of significant parts of People and Corporate Services, so we have revamped under the Team Jersey banner the induction process, so that now all staff when they join the organisation get a common induction, which was something which did not happen before. Induction was entirely random, based on which department you joined, did not get a corporate view, depended largely on your manager remembering to tell you things. We now have a common induction programme for all staff joining, so that it will ensure that people get the

best possible experience when they join the States of Jersey. We have been looking at recruitment. We are looking at talent programmes. They are all part of the Team Jersey. We also have the Jersey Employers' Group and I think it is probably one of the bits that we have not talked much about. We did take the opportunity last Friday to talk to the CSSP members about the Jersey Employers' Group. So we have a group of about 40 employers who are working as a group and facilitated by Team Jersey but not controlled by Team Jersey. We are looking at some of the issues which we face as a government but which also the Island faces so the output of that will be, by the end of the year, a Strategic Workforce Plan for the Island and not just for government. So going back to the question I think you asked the Chief Minister about employment and skills in the future, we are developing with multiple sectors - so agriculture is in there, hospitality is in there, finance is in there, construction is in there – we will develop a Strategic Workforce Plan for the Island through the Jersey Employers' Group. We are also then looking at how we work with schools and colleges to develop skills for the future. So I think the observation of the Employers' Group was that, as employers, we all at times engage with schools and colleges but very often we engage at the job level. We go and talk about particular jobs we are interested in filling rather than talking about skills which are needed for the long-term. So that Workforce Plan and that engagement with schools will be the foundation for the Island rather than just for government but clearly government are also an employer so will benefit from that. So I think there are lots of ways we are measuring it. Culture change in any organisation takes many years. The Team Jersey Programme with colleagues and leaders has been going for, in reality, 9 months. The *Team Jersey Phase One Report* was published in April 2019. On the back of that, we started the programme in May roughly last year and we paused it in March this year because delivering face to face with 20 people in a room about this size did not seem like a good idea during that first wave of COVID. We have now put all of that content online so we can now resume the programme online with facilitated sessions whereby people do some modules online and then come together through teams calls to complete that work so we have adapted the programme to the new ways of working.

Senator K.L. Moore:

Thank you.

The Chief Minister:

Just for the transcript, I think you made reference to 2 lots of 80 per cent in terms of satisfaction. I am asking, I presume you meant that, on the first lot, it was over 90 per cent and on the second one, it was around 80 per cent. Is that correct?

Senator K.L. Moore:

That is what I heard, yes.

Chief Operating Officer:

Yes.

Senator K.L. Moore:

Thank you for the full answer. I am sorry I thought that was going to be a relatively quick reply to the question.

Chief Operating Officer:

Well, I did try and pin it to an hour's briefing.

Senator K.L. Moore:

I know and you did a very good job. Thank you. I did want to - and I am mindful of the time - ask one very final question for this session and that is back in July, Chief Minister, you received a letter from a group of Island bodies asking you to consider a green recovery for Jersey. So it was the Société, Easy Car, Jersey Heritage, SOS Jersey, Trees for Life, the Jersey National ...

Chief Executive:

Did you say "a green recovery"?

Senator K.L. Moore:

A green recovery.

Chief Executive:

Sorry, I could not hear.

Senator K.L. Moore:

Yes, and so I just wanted to know how you feel you have responded to that letter by showing a green recovery or the potential for a green recovery in your Government Plan.

The Chief Minister:

That is, again, an interesting question. Obviously, the environment does get some additional funding and they are some matters around I think water quality which is not terribly sexy. Whether it is identified strictly, obviously as the environment as a whole as a section to it, and I am trying to think back to the letter in July I am afraid which I will have to go and relook at. In practical terms, for example, and we are still examining, we did the closure of Waterworks Valley during the summer for a Sunday just to kind of take the heat off always being orientated towards the car and we would need to take some feedback from that. I think some things have been learnt and I think we do intend to just see if there are some other, what I would call, very, very soft measures around there. We are

also looking ... as we know, within the Government Plan, there is reference to we know we need to do future work around car parking charges and things like that. That is what I will call whether you want to disincentivise car usage or not. I am not going to turn to the section on the environment but, as I said, there have been references and additional monies put in. It would also be fair to say that obviously much of the focus has been on recovery and not necessarily just green centric recovery but I will go back and just check what the response was because certainly in one's thinking, if you are going to do anything about changing behaviour, now is the time to try it.

Senator K.L. Moore:

Indeed, and you and your Council of Ministers are the people who have those levers at your fingertips.

The Chief Minister:

Yes, so that is why I am in agreement.

Chief Executive:

So just on that, the other challenge, Chief Minister, which you will recall which I think is via the Deputy Chief Minister which was for the Economic Council which is looking at a longer term recovery programme and where new investment and longer term changes could be made. Their independent report is going to come out and, within that, there was a challenge about green economic recovery activity. So we probably will see that as being where some of the more longer term measures may well be identified which will have involved third parties which will then be the subject of a conversation with the Island. That will then potentially form, longer term, some of the areas where some of the economic recovery money that is identified in the plan but is not specifically identified against lots of projects at the moment could be deployed. Also I think, Chief Minister, you have, subject to the outcome of the fiscal stimulus debate also identified a number of short-term projects to help with the economy whether it is construction or whatever which do have a green component to it and those ideas will come forward subject to the Assembly agreeing the Fiscal Stimulus Programme.

The Chief Minister:

I think it is also fair to say within the fiscal stimulus, yes ... we have to see if the Assembly approve it but, yes, there will be some elements in there that some of us want to vote on.

Senator K.L. Moore:

So we will hear about some of those values from the Council of Ministers coming forward eventually because they are not really apparent in the Government Plan as published.

Chief Executive:

The Government Plan last year agreed a Carbon Neutral Strategy. The strategy was produced this year that forms part of the Government Plan. It is a long-term programme that is still contained, whether it is tax measures or otherwise, in this Government Plan. It is not lost. You have to look at the 2 together in going forward but those other points that I have just said will come forward, yes, in the next few weeks and months.

The Chief Minister:

Also as a piece of work, which was something I included, you will see some references to the foreshore management side which is not so green but is environmental and to start thinking about how we are going to deal with that. Because even though it is 25 or 30 years away, the sooner you start at least having some form of plan that you can deal with, the less painful it is usually to the public.

Senator K.L. Moore:

Thank you, gentlemen, very much for your attendance today and we will send you our detailed questions for you to respond to in writing so thank you very much. I will close the hearing.

[12:10]