



Corporate Services Scrutiny Panel

Draft 2015 Budget Statement

Public Hearing with Chamber of Commerce

THURSDAY, 24th July 2014

Panel:

Senator S.C. Ferguson (Chairman)
Deputy J.G. Reed of St. Ouen (Vice-Chairman)
Connétable D.W. Mezbourian of St. Lawrence
Deputy R.J. Rondel of St. Helier

Witnesses:

Mr. J. Filleul (President, Chamber of Commerce)
Mr. I. Taylor (Chief Executive, Chamber of Commerce)
Mr. R. Kirkby (Chair, Finance Sub-committee, Chamber of Commerce)

[14:30]

Senator S.C. Ferguson (Chairman):

Welcome to this hearing of the Corporate Services Scrutiny Panel. Thank you very much for sparing your time to come and see us. We will be talking about the budget, obviously, and the budget statement. There is a health warning there which explains your privileges and so forth.

Some of you will have read it; some of you may not have done. So, if we start off. What consultation, if any, was undertaken with you during the development of the budget proposals?

President, Chamber of Commerce:

I am sure Ian will correct me if I am wrong on this, but very little. I think there was a meeting on alcohol impôts about a week or so before the Council of Ministers saw it. I will need to correct that date but it was very close to the Council of Ministers signing it off. Beyond that, I do not think anything.

Chief Executive, Chamber of Commerce:

That is right. That was not an exclusive meeting. That was also with a number of brewers, hospitality associations, the Licensing Bench, health professionals and the Minister for Health as well.

Deputy R.J. Rondel:

The subject was just impôts...

President, Chamber of Commerce:

It was just alcohol.

Chief Executive, Chamber of Commerce:

It was just impôts or the proposals, which were not revealed, but a discussion about what was likely to happen over impôts.

President, Chamber of Commerce:

We will find the date for you but it was days before it was signed off.

Senator S.C. Ferguson:

In your time with Chamber, any of you, have you ever had a proper consultation on a budget with the Treasury?

President, Chamber of Commerce:

No.

The Deputy of St. Ouen:

Could you tell us whether or not there have been meetings held prior to the lodging of the budget with the Minister for Treasury to discuss the economy in general, how businesses are doing, some of the challenges that you face?

President, Chamber of Commerce:

No. We have a regular meeting with the Minister for Economic Development and his chief officer at which we would discuss those kinds of issues. We have met the Minister for Treasury perhaps once a quarter to discuss general issues but not specifically in relation to the budget.

The Connétable of St. Lawrence:

Do you think there would be any benefits in having a pre-budget meeting with the Minister for Treasury?

President, Chamber of Commerce:

Very much so. We did hope after the discussions around last year's budget that there would be more dialogue in relation to impôts particularly but perhaps on the budget generally, particularly after some of the comments that were made in the States Assembly in last year's budget debate. Unfortunately, that has not happened but I think it would be useful.

Senator S.C. Ferguson:

Have you had any consultation since the budget was lodged?

President, Chamber of Commerce:

Nothing, no.

The Deputy of St. Ouen:

In the statement made by the Minister for Treasury and Resources on Friday, 18th July he claimed that the budget was one of balance. Do you agree with his interpretation of the budget?

President, Chamber of Commerce:

I think I would describe this as a wake-up budget, and I will explain why I mean that in a second. I think there is some obvious expenditure issues, which we need to discuss in this session and which are very concerning in the terms of the level of States expenditure. Then on the flipside of that, since we are talking about balance, clearly it was the tax income forecasts which have caused the most debate since the budget was published last week, and I think we have got some comments in that area as well. So, balanced in the sense that we think there is a wake-up call on both sides. Balanced in other terms? Well, I am sure you have looked at pages 54 and 55 of the budget document, as we have, and the measures which the Treasury is proposing to take to bring the consolidated funds to zero pounds in 2015. In that case it is perfectly balanced; in fact rather finely balanced.

The Connétable of St. Lawrence:

Do you have any comment on that?

President, Chamber of Commerce:

I hope it is achieved, simply. I know the measures on page 55 are not quite clear, and maybe you are clearer on this than me whether or not they are definites or hopefuls. Clearly they all need to be definites in order to achieve a zero position in 2015 if the tax forecasts are true and always if they come through.

Senator S.C. Ferguson:

Did you get the point that the F.P.P. (Fiscal Policy Panel) were raising where they were suggesting that we need to be very prudent over our forecasts? Did they bring that across in the meeting you have just had with them?

President, Chamber of Commerce:

Yes, they did. That was mentioned on one of the slides that they were looking for prudent forecasts, but I know that has been a recommendation of this Panel. I think it was 2012 you queried the forecasts which are subsequently being revised in this budget. So, I know forecasting is not an exact science but if your expenditure is dependent on it then you need them to be within a tight margin of error.

Deputy R.J. Rondel:

On that, how in your view is the economy currently performing?

President, Chamber of Commerce:

I will ask Rob to comment on the finance side since obviously that is where he has the expertise, so I will stick with the non-finance. So, just some brief comments on that. You might have seen the recent Business Tendency Survey which has been published. Some of the way that was reported was business confidence at its highest level for about 5 years. I am not quite sure I agree with that statement, particularly in relation to the non-financial sectors. Obviously Rob will comment in a second on the financial sectors. But if you look specifically at the non-financial sectors then they had two key concerns. One was around profitability, and I will give you the figures there: 36 per cent of businesses outside of finance in that survey reported that their profitability had dropped in the last quarter, so 36 per cent. Specifically in construction more than half, 51 per cent, reported that they were now less profitable than they were 3 months ago. So those are just a couple of findings from the Business Tendency Survey. I said there were two main concerns. One was profitability and the other was the cost of operating in Jersey. This is not consumers saying that, which is something we have been beaten over the head with ever since

G.S.T. (goods and services tax), but this is businesses saying that, saying that the cost of operating here is high and it is challenging them. So if you put those two together we are in a twin-track economy at the moment. Rob will come in in a second on finance, when I give him the chance, but outside of finance I think it is a mix and a continuingly tough picture.

Chair, Finance Sub-committee, Chamber of Commerce:

In terms of finance, probably up to about the middle of last year finance was not really seeing much growth. New business being won by firms was being lost by other firms and was effectively circulating within the Island. From about late August, September new work did start to come into the Island and that has picked up quite nicely.

Deputy R.J. Rondel:

What sort of sector of work was that? Wealth management?

Chair, Finance Sub-committee, Chamber of Commerce:

There were a lot of real estate structures, foreign investors using Jersey to structure investments through into the U.K. (United Kingdom) and further afield. More with private structures and other corporate type structured vehicles. So, quite a good spread of work coming through. It still takes a long time for businesses to land. It is costly to win that work. Quite often the first year or so is a loss leader to bring the work through. It is quite different from pre-crash where things were a lot easier to land. It was a lot easier to land the fish, so to speak. The banking piece in terms of net interest rates and interest rate recovery, obviously interest rates are still incredibly low and not forecast to reach pre-2008 levels for some time. Even if they did start to move up, the time lag before it filters through to Jersey is a lot. It is at least 2 to 3 years before it filters down into the operations here. Banks are making more money from doing other activities and such like. So the finance economy is positive. Recruitment is up. I think the issue around skill sets continues to be an issue, so the days of lower level financial jobs, whether it is in banks or trust companies, et cetera, is gone and requires more and more skill sets. That will impact on recruitment and therefore ultimately salaries and therefore ultimately on immigration demands where we will need to...

Deputy R.J. Rondel:

Does Jersey have the skill sets to provide it?

Chair, Finance Sub-committee, Chamber of Commerce:

It has the limited skill sets in there and once they are utilised by businesses growing then there will be strong demand for immigration to supplement those, to drive the economic growth.

Deputy R.J. Rondel:

Is there enough being done locally to provide and to skill up people for those specific jobs?

Chair, Finance Sub-committee, Chamber of Commerce:

More could be done in upskilling people to have the relevant skills, considerably more, because there is a lot...it is becoming more and more technical, not just in terms of the actual financial structures and such like that are being used but also the type of technology that is being used to deliver them and the conversations you are having to have. You have to be able to talk on a greater level more and more with people from around the world who are incredibly skilled and bright.

Deputy R.J. Rondel:

Do you see any impact on the relocation of 1(1)(k)s to the island in terms of their wealth being brought in?

Chair, Finance Sub-committee, Chamber of Commerce:

I think they are completely separate to finance. (k)s are a very small but very valuable contributor to the economy. I think they are very valuable in the sense that they do not take up what I would call normal housing stock because they operate in such a stratified level of housing. They invariably have their own wealth. They use private medical care. They do not place demands on the infrastructure of the Island. They usually employ a lot of people at a raft of levels from gardeners, cleaners and housekeepers through. They tend to employ local tradesmen a lot and they tend to get involved in the local community in the charitable sense or some of the quasi type charitable events, whether it is sport or something else. I think (k)s are a very significant benefit to the Island and I think we are very lucky to have them, and I wish we had a few more actually. I think they drive a sort of microeconomy but they are disconnected to finance. Really they are disconnected to finance.

Deputy R.J. Rondel:

Looking at the budget specifically, do you think it does enough to stimulate growth economically and job creation?

Chair, Finance Sub-committee, Chamber of Commerce:

I think there is very little to stimulate economic growth, although there have been a number of suggestions made by I.O.D. (Institute of Directors) and Chamber around putting in some form of enterprise investment scheme or an equivalent, the U.K. model, in order to stimulate growth from investment. The budget is silent on that and it would be great to see something on that because to grow the economy, yes, finance will grow, I believe it will, but also we need to continue to diversify

both finance and invest in other sectors, whether that is digital or something else. Some form of investment scheme does help wake people up to those opportunities and helps just nudge things in the same direction, but there also needs to be non-financial incentives. You know if you want to drive the digital sector you need to get very digitally-minded, innovative things, you are going to have to open up the immigration doors to get some of those people in to help drive that. It is financial stimulus and non-financial that will drive new sectors of the economy.

Deputy R.J. Rondel:

One of the aims of the Council of Ministers is to create jobs, jobs, jobs. Do you think that the budget will reduce unemployment?

President, Chamber of Commerce:

I think it is quite hard to draw that connection, unfortunately. I agree with Rob that there is almost nothing, the construction programme aside, of economic boost in this, which is strange when you look at the income tax forecasts. The Island is banking on economic growth so you would have expected some measures within this budget to achieve that and I do not see them, obviously with the caveat that there is a capital programme that will help the construction industry, but outside of that I do not see it. In terms of direct employment, I think it is quite hard to ask a budget to do that in some ways, apart from by stimulating the economy and thereby potentially that might create jobs, but one way the economy needs to move is by increased use of technology. So, if businesses are using more technology rather than lower level jobs then you might have a more profitable business but lower employment. So trying to tie A to B is not always exact.

The Deputy of St. Ouen:

I am interested to hear your comments because again the Minister for Treasury said in his statement that we should continue to be spending more than we are taking out of the economy to help economic growth. He went on to say: "We propose to do just that." However, from what you are saying you, as members of the business community, representatives of the business community, bearing in mind that money is going towards significant capital projects, there is very little else that seems to be directed towards supporting other elements of the economy.

[14:45]

President, Chamber of Commerce:

I would agree. We cannot find anything...Rob mentioned the enterprise investment scheme. There are other ideas that could have been taken forward. We did have one meeting specifically on that enterprise investment scheme. I do not know where that has now got to, but there we go. So we would have hoped for more in that and it is disappointing that it is not there.

Deputy R.J. Rondel:

In the past you have been quoted as saying that sending a message that investment in Jersey is simple, worthwhile and welcome does not require strategy but needs action. Do you think this budget provides any action?

President, Chamber of Commerce:

No.

Deputy R.J. Rondel:

What do you think or would you like to have seen that could provide that action from this budget?

President, Chamber of Commerce:

We will not get into any more depth on the enterprise investment scheme. I know we have spoken about that previously but that would certainly be one of the issues. Rob has spoken about the relaxation of the immigration limit for a set number of people who would be key to growing the economy, digital or in the finance sector. I think either of those two measures might be a way forward. We would certainly encourage two further areas: a review of class 2 contributions to help people who have left employment and want to set up their own business, which is an experience I went through 12 or so years ago. It is difficult finding the class 2 contributions. The second one is small business exemptions, which I would not necessarily have expected to see that in the budget but in some ways I think there is a bit of a Harry Potter view of our economy in Jersey, which is you just wave your magic wand and it is suddenly all okay. Unfortunately that is not the way it works and you actually need to do something. Given that 80 per cent of businesses in Jersey are fewer than 6 employees you would hope that some stimulus might be given to them to try to grow and to employ, but unfortunately those calls are falling on deaf ears at the moment.

The Deputy of St. Ouen:

Moving on to taxation measures, have you been involved or asked to be involved, consulted upon, in developing the long-term tax policy?

Chair, Finance Sub-committee, Chamber of Commerce:

There is a Fiscal Strategy Group that meets that talks about tax and it is made up of the big 4 accountancy firms, tax practitioners, the head of the bankers group, the head of the trust group and a few other members, and I sit on that as the representative of Chamber. There has been talk about long-term tax policy and there have been discussions about moving towards that which is very welcome but it has not yet been fleshed out. There is a desire to move that way which is something the Island has not had before and does need in the current...well, should have as a good policy.

The Deputy of St. Ouen:

Do you think, bearing in mind what you said before regarding potential opportunities to encourage local businesses, that that should be included in any long-term tax policy in various initiatives?

Chair, Finance Sub-committee, Chamber of Commerce:

Long-term tax policies are around trying to make sure there is sufficient income and balance of income that is not affected directly by things like the economic cycle, et cetera, to make sure you can cover the key strategic things that the Island would be facing. So, for example, the key ones we are all very aware of is the ageing population, the demographics, how do you fund that, and if immigration continues to be tight and overall your total number in work declines so therefore the burden on them becomes greater. So long-term policies about looking at things like that. In terms of stimulating new sectors of the industry or subsectors of an industry, I believe that is more around the Council of Ministers collectively coming up with a strategy. For example, I think the excellent strategy around Gigabit Jersey and driving forward new infrastructure is great but infrastructure is only part of the story. You then need to bolt on to that infrastructure the skills that then allow small businesses to develop and ultimately come up with the winning solution and the winning proposition. We have put in place the gigabit infrastructure or we are getting there. We have established Digital Jersey but we need to continue to invest heavily in that before it becomes a flop, because that is the last thing I am sure anyone wants. It is the same with all initiatives. We must design that initiative and then invest into it fully. I do not think that is part of a long-term tax policy. If you want to drive an initiative and there is a tax incentive as part of that then you would refer back to long-term policy to make sure that does not create any other long-term issues.

The Deputy of St. Ouen:

You are not concerned that a long-term tax policy could have a significant effect on the future economic potential of the Island?

President, Chamber of Commerce:

I think it depends what it is.

The Deputy of St. Ouen:

I make my point. If you now say it depends what it is, it would seem essential that discussions would naturally take place between the business community and the Treasury as to considering the various options.

President, Chamber of Commerce:

We would certainly welcome that and Rob is right to correct me and the only link is through Rob on the fiscal...is the group called the...?

Chair, Finance Sub-committee, Chamber of Commerce:

Fiscal Strategy Group.

President, Chamber of Commerce:

Fiscal Strategy Group. Thank you. So there is that connection but...

Chair, Finance Sub-committee, Chamber of Commerce:

We have never had a long-term tax policy and this is a good step forward. We used to only do budgets on an annual basis and now we are doing it on a 3-year business. That is a good step forward. We have moved a long way from where we were in a pretty reactionary environment where we could afford to be because we were throwing off lots of surplus cash and times were good. Probably the next step, I believe, is a long-term tax policy and move towards some longer-term planning for expenditure and income. So, looking forward 15, 20 years, so a 2030-type plan: where are we going to be by 2030? What are our key headline costs going to be, whether it is healthcare, education, et cetera? That will be a further step forward in the right direction.

President, Chamber of Commerce:

You cannot just look at income on that, is the only point I would make, I think. We also need to be looking at States expenditure in a much more revolutionary way than I think we are at the moment. Rob is absolutely right, the income side is important but there are - you drew attention to the word yourself - balances and there is another side to this equation.

Senator S.C. Ferguson:

We understand that the Economic Development Department is looking at the cost of doing business in Jersey. Have you been involved in that?

President, Chamber of Commerce:

Yes, we have. We have had a session with their consultants on that and fed back our views. So, yes, we have been consulted.

Senator S.C. Ferguson:

That would surely be an integral part of this 20-year planning, which is something that the F.P.P. like as well.

Chair, Finance Sub-committee, Chamber of Commerce:

Longer-term planning is becoming more critical as we understand the longer-term issues facing a jurisdiction like ours and a Western population like ours. The cost of just doing business is part of that but it is the cost and the type of services that the States provide. We probably need to take

the view now: “Right, clean sheet of paper: what services has the States to provide? The absolute bare minimum, what must be provided for our people?” Clearly one of those, I suspect, would be health. We need to then say: “What we would also like as desirable services?” The question then is can we afford those desirable services, yes or no, and if we cannot afford them then maybe it is a pay-as-you-use type approach where you effectively have hypothecated charges. The obvious example is parking in a car park; if you want to use the car park you pay. I think the current expenditure policy is very much: “We spent X million last year. This is a bit of growth on that. Let us spend it this year” rather than saying: “The service we are providing, is it essential, yes or no? Can we do it in a different way, yes or no? Can we link it with another department who might be doing similar or addressing the same type of audience?” I think we very desperately need to start relooking at that. Things like the e-gov initiative is a welcome step forward because that will help States departments work closer together to understand what is happening and drive efficiencies through that.

Senator S.C. Ferguson:

At your fiscal advisory panel, have you looked at any other countries, how they are dealing with supplying services like health?

Chair, Finance Sub-committee, Chamber of Commerce:

Yes. Quite often discussions come up around how different countries are providing different services. Health: you see particularly isolated type communities like we are in effect; how do you provide health? It is obviously very costly when you are a suboptimal population. For a general hospital normally you would operate for around 250,000 people. Cayman, for instance, to support that they are doing health tourism so they can have a larger hospital but import people from the US and elsewhere to operate and such like, and that provides a more critical mass. Other countries like Malta have invested heavily into digital and e-gov. You will have heard about Estonia as well in terms of e-gov. They have used that as a way of solving some issues but also solving other issues. Estonia was a communist state previously and they have managed to get other things moving such as voting and such like, which is a different background.

Deputy R.J. Rondel:

E.D.D. (Economic Development Department) have been over there to do research. Are you hopeful that that is the right way forward?

Chair, Finance Sub-committee, Chamber of Commerce:

That is fantastic, absolutely fantastic. e-gov and the ability to use technology to get departments to talk to each other and to get citizens to talk to government is clearly the way to help drive a new way, a more effective way of doing business and providing services.

Deputy R.J. Rondel:

An efficient way, yes.

Chair, Finance Sub-committee, Chamber of Commerce:

It is more efficient.

Deputy R.J. Rondel:

Have you identified any obvious nice-to-have services that perhaps government do provide?

Chair, Finance Sub-committee, Chamber of Commerce:

No, we have not got down in...when we have been talking as a sort of fiscal thing it has been about the broader type measures of things that we should be looking at to understand. Zero/Ten is a framework that was imposed on us effectively from the E.U. (European Union) but all things can be refined. Some of the things you look at is how do you refine things. With things like the property review that is underway we have, as a fiscal group, looked at understanding property taxes, the drawbacks and positives of those in other jurisdictions, because property taxes drive all sorts of weird and wonderful behaviours in terms of how they are applied and what they do. So it is a case of using the experience around the table to help give a view on that.

Deputy R.J. Rondel:

Identify those.

Senator S.C. Ferguson:

It is all right doing these bits of work but it really depends on what you look at as your tax policy, does it not; are you going to be direct or indirect taxes and that sort of thing, surely?

Chair, Finance Sub-committee, Chamber of Commerce:

Which is why we are saying the move towards a long-term policy is good because it will then give an indication of the balance, as you rightly say, between direct and indirect taxes, the way those taxes are affected by the economic cycle or not - we all know G.S.T. tends to be considerably less affected by the economic cycle than direct income tax - and getting that balance right in terms of whether they are regressive or non-regressive taxes. Cost of collection is the other one in terms of Jersey.

The Deputy of St. Ouen:

Focusing on more immediate proposals, what are your views on the proposed cap on mortgage interest tax relief? Do you have a view?

President, Chamber of Commerce:

Mostly what we have been considering so far is around the tax forecasting side of the budget rather than some of the other measures. I think that capping mortgage interest will be difficult for plenty of people who are relying on some of that income. Whether it will have the effect on the housing market that is desired I am not quite so sure. I do not know if there are any more comments you have on that, Rob?

Chair, Finance Sub-committee, Chamber of Commerce:

A lot of countries have abandoned mortgage interest tax relief because they believe it stimulates the housing market and prices, so it does not seem an unusual move to do and is probably in line with more local policies.

The Deputy of St. Ouen:

Does it seem appropriate to do it at the moment when we are just, we hope, coming out of a recession and into a period of growth?

Chair, Finance Sub-committee, Chamber of Commerce:

I think it depends how you want to look at it. On a micro scale the amount of mortgage interest relief people are getting at the minute is very low because interest rates themselves are very low. Arguably to the man on the street the impact today is probably a lot smaller than it would have been back in 2006 and 2007 when the interest rates were a lot higher. In that sense maybe it is appropriate. At some point, given that the global trend is to remove it, we have got to do it that way and probably doing it now is a sensitive time to do that and it will not put pressure on house prices to go up by having things like mortgage interest relief in place.

The Deputy of St. Ouen:

Is it not the case that interest rates are now proposed to rise over the next 12 months or so?

Chair, Finance Sub-committee, Chamber of Commerce:

They are forecast to rise but they are not forecast to rise anywhere near to the level of 2007. If you look at the future rates that you see in things like the *F.T. (Financial Times)* the rates are predicted to be around 2.5 per cent within 2 to 3 years, which is a very different world to where we were.

[15:00]

The Deputy of St. Ouen:

Moving on, what do you think of the proposed changes in respect to stamp duty?

President, Chamber of Commerce:

I think similar comments. I think it is unlikely to have the effect of reducing house prices, which I think is the suggestion that was being made at the time, because presumably you are increasing demand by doing it because people feel they have got more money in their pockets and there is higher demand so presumably prices go up. I am not quite sure about that.

The Deputy of St. Ouen:

Would your comments be similar with regards to property tax?

President, Chamber of Commerce:

What specifically on property tax?

The Deputy of St. Ouen:

One of the proposals that is being commented on at the moment is a property tax.

Chair, Finance Sub-committee, Chamber of Commerce:

There is a property tax review going on but we cannot comment until we know what the actual proposals are.

The Deputy of St. Ouen:

You have not been involved in those discussions?

Chair, Finance Sub-committee, Chamber of Commerce:

As part of the fiscal strategy, there are various ideas being bounced around on property taxes but there are so many different property taxes out there. I am not aware of the definite proposals yet.

Deputy R.J. Rondel:

A Green Paper will be launched.

Chief Executive, Chamber of Commerce:

I think it has just come out just recently.

Chair, Finance Sub-committee, Chamber of Commerce:

Sorry, I have not read that yet.

President, Chamber of Commerce:

I do not think there is anything specific on that yet from us.

The Deputy of St. Ouen:

Much emphasis is being placed on increasing productivity, and it is a word that the Minister for Treasury will use even if there is constant review. In your opinion what, if anything, does the budget do to help businesses improve productivity?

President, Chamber of Commerce:

Very little. I hate to be kind of relentlessly negative about that but I am struggling to give you a measure that I can see in there that will help businesses be more productive.

Chair, Finance Sub-committee, Chamber of Commerce:

I am not sure a tax policy would ever help businesses be more productive. I would have thought it would be more long-term education, whether that is primary, secondary or tertiary education, or other measures to drive productivity.

The Deputy of St. Ouen:

The budget is not just a tax. It is investment and it is looking at support for different sectors of the industry, surely. If you are saying that the support needs to be directed in another way to enable improved productivity across the Island then you would expect to see that.

President, Chamber of Commerce:

Yes, I agree. I think the simple answer is you asked whether we could see measures in this budget and the answer is no. It is as straightforward as that.

Chair, Finance Sub-committee, Chamber of Commerce:

There are little measures around such as investing into schools. It think it is £1 million on I.C.T. (information and communication technology) and they are good but I do not think they are substantial enough.

Senator S.C. Ferguson:

What else would you like to see? Slightly off-piste, but if you were able to magic one special move to increase productivity what would you want to see?

Deputy R.J. Rondel:

Less red tape?

Senator S.C. Ferguson:

No, do not give them the answers. Let them think about it.

Chair, Finance Sub-committee, Chamber of Commerce:

It depends if it is short, medium or long term. Short term it is around not introducing laws like we have recently had, family friendly laws that apply to very small businesses, because that just increases the difficulty of doing business.

President, Chamber of Commerce:

The small business exemptions.

Chair, Finance Sub-committee, Chamber of Commerce:

Small business exemptions. Again short term, simplifying the way G.S.T., social security, I.T.I.S. (income tax instalment system), manpower returns, all the 45-odd or something forms that are filled in by businesses every year are put into one portal, so whether that is true through an e-gov type initiative or something. That short-term initiative will help productivity in terms of taking away non-productive, non-profitable time.

President, Chamber of Commerce:

I completely agree, but I think that are probably two strategic points to make. The first one - and this will not be a surprise for Chamber saying this but it should be no less relevant because it comes from Chamber - we would like to see Government doing less rather than more. I completely appreciate when you see these documents and you see potential deficits and potential structural deficits there is a rush to action and you think: "We have to do something." In some ways the answer to that is: "Please do not. In fact, do less." The examples I would give on that are the ones that Rob mentioned, things like small business exemptions and more flexibility for businesses. So I think the first strategic point is a point to Government about doing less and that would help some of the productivity points that we are trying to get to. The second one is about some of the other reactions which I have mentioned already to some of the issues in this budget, which is about increasing tax. So, because the appetite to reduce expenditure is not always that strong across the States Assembly, sometimes the obvious answer is therefore to increase tax because that is the easier of the two levers to pull, particularly when you are facing some of the issues that we are. I would strongly caution against that. I would say increases in G.S.T. would be disastrous, particularly for the retail sector. I know that is a strong word but I am quite happy to use it in that context. I think there would be a very strong reaction if States tried to increase their tax take from what is already quite a narrow base in Jersey. So I am hoping that there is not going to be the knee-jerk reaction. I know we cannot talk about the F.P.P.'s report until tomorrow but some of the comments made by the F.P.P. I think would echo that in terms of supporting the economy in the short term and accepting that that might mean that deficit is the new normal in Jersey for the next couple of years.

Senator S.C. Ferguson:

They are Keynesian, obviously, so not all of us agree with Keynes. Just again I suppose slightly off-piste, I appreciate that retailers are finding it difficult. I have been in the industry myself and I know what it is like. But what are you doing to encourage them to review their business model in the light of the changes that we are seeing in the economy?

President, Chamber of Commerce:

That is a very good question. We had a meeting on Tuesday evening with 76 retailers at the Radisson and the point of that meeting was to give them 4 presentations: one on the use of e-commerce; one on the macroeconomic picture; one on the use of social media; and a case study of a particular business that started online and now has a physical showroom, so a reverse of the traditional process. So we gave them those presentations and then we opened the floor up to how they wanted us to help. I do not have a retail background but I am asked to comment: "What do you do for retail?" most days. So we asked them what they would want us to do and the response to that was threefold. The first one was they would like coaching in the use of social media, which is free in terms of money but costly in terms of time, as I know you are all aware. They wanted coaching on how to do that. Secondly, which was really interesting, they wanted coaching in terms of the use of bitcoin, cryptocurrencies, which I was really surprised about, and the reason for that is because they involve zero transaction costs. If you look at the number of transactions that a business like Voisins does a day, if they could remove transaction costs from their overheads that is big step forward which they can do with bitcoin. So they were quite interested in that and they asked us to try to help them understand what these terms mean, because they are still pretty new to everyone. The third one revolved around the de minimis level for G.S.T., which you are all very well aware of. For the benefit of everyone in the room, Chamber has not yet decided what it is going to do about taking that one forward, but the view from the retail community was that that level should be reviewed because it artificially taxes the wrong people, according to them. I am not saying I agree with that. We need to have a think about how we are going to take that forward because it is not an easy one to solve, as I think we discussed last year.

Senator S.C. Ferguson:

No, because it is how Government would actually collect it. That really is a nightmare.

President, Chamber of Commerce:

Absolutely right. You saw the Economic Affairs Scrutiny Panel's report, I am sure, which talks about asking some of the big online retailers to collect it for us. I am not quite convinced by that but hopefully Amazon would agree. It is a difficult one to resolve and it would, of course, push up the cost of online trading, but then from the retailers' point of view they are facing a built-in 5 per cent differential at the moment to any of their online competition. If G.S.T. were to be doubled,

which I am sure will have crossed some States Members' minds in the light of the tax forecasts, it then becomes a 10 per cent differential and I can see that the retail sector would last minutes if that were to happen.

The Connétable of St. Lawrence:

I would like to move on to impôts, please. I think you said earlier that you had a meeting a week before the budget was presented with the Minister for Treasury.

President, Chamber of Commerce:

Just before it was signed off by the Council of Ministers.

The Connétable of St. Lawrence:

Yes. At that meeting the Minister for Health was present as well, so clearly she has an interest in impôts.

Chief Executive, Chamber of Commerce:

As was the Minister for Economic Development as well.

The Connétable of St. Lawrence:

Generally it is interesting that the Minister for Health was there, but in your opinion what should inform proposed changes on impôts duties?

President, Chamber of Commerce:

I am going to talk about alcohol impôts. My usual point I do need to mention is that I do have a conflict in terms of tobacco impôts so either Rob or Ian may want to deal with tobacco impôts if they choose to do but I am not going to do tobacco for that reason. In terms of alcohol, we would want to see a pause while a longer-term policy is agreed and it could be worked out exactly what we are trying to achieve with alcohol impôts. At the moment, clearly there are cheaper sources for people to purchase alcohol when they do not pay duty as in duty free, so I am not sure it achieves the health benefits that Deputy Pryke would like to see, unfortunately. We would want to see a pause where a decent policy is worked out because there is no doubt that the annual arbitrary increase in alcohol impôts has an effect on the hospitality and the retail industries. I use the word "arbitrary" because I have never seen a rationale as to why they come up with the figure they want to each year.

Senator S.C. Ferguson:

Have you ever done any work on the statistics that they keep trotting out? There is lies, damn lies and statistics.

President, Chamber of Commerce:

I know our alcohol impôts does not compare well to the European average. I think I am right in saying that we are the fifth highest in Europe in terms of spirits once you include G.S.T. as well.

Chief Executive, Chamber of Commerce:

We are actually the fourth highest for spirits and even the inclusion of a V.A.T. (value added tax) or a G.S.T. together with the duty takes us up to sixth.

Senator S.C. Ferguson:

I just wonder what sort of work has been done from the industry side of it. If I go into hospital with cirrhosis of the liver and I am a teetotaler and I die of it then that is immediately chalked up to alcohol.

President, Chamber of Commerce:

It is.

Senator S.C. Ferguson:

But if I do not drink, it seems statistically perhaps a little questionable.

President, Chamber of Commerce:

There are some differences in the way those statistics are generated between Jersey, Guernsey and the Isle of Man, which is worth looking at because it all depends on which illnesses they attribute to which product. In other words, if you take alcohol then is cancer of the oesophagus attributed to drinking or is it attributed to smoking or a lifestyle factor? If you are a jurisdiction that attributes it to alcohol then your cost of alcohol abuse is higher, but it depends how you calculate that figure and what you can say is directly related to alcohol abuse and what is not. It is very difficult, I think, to come up with: "This product causes this amount of public spend" accurately.

Deputy R.J. Rondel:

Would you agree that there is two ways of looking at the alcohol level? Either you have got the traditional pubs or restaurants who sell it or you have got the cheaper supermarket who will and now they are the ones that seem to be benefiting from people buying and drinking at home. We had St. Helier's street party last weekend and there were quite a few visitors and I spoke to a few and they were being charged nearly £4 a pint whereas from the Bolton way where they came from they said: "It is a fantastic island, fantastic to sit out here in the road having a drink" but in Bolton they would not pay more than £2.50 for a level of lager. That is a huge difference and they go away and the message from this Island as tourism, would you agree, is that we could be losing tourists because of our long-term strategy?

President, Chamber of Commerce:

The issue that irritates us is not the price differential and it never has been. It has been always misconstrued unfortunately. The issue that irritates us is that that price difference is attributed to excess margin and the two are not the same thing but we are continually beaten over the head with it costs £2.08 for a pint in Salford and £3.24 in St. Helier, therefore you are making an excess margin, and it is bonkers. I am sorry that is a very unparliamentary word, but it is because the two things are just not comparable. You have all sorts of costs in the supply chain that are different across those two jurisdictions, but the statement is made repeatedly at a political level along the lines I have just said. What that causes the general public to do is to feel that they are being ripped off in Jersey and then they extrapolate that across other product sectors and say everything here is more expensive. The solution to being told that repeatedly by some politicians is to shop online and then it undermines the retail sector even more.

[15:15]

So we would like a little more caution in some of the statements that are made around pricing and if there is a price differential let us discuss it. I know that during the budget debate last year that statement was made to you all that this would be the last year when we would have this sort of zero dialogue arbitrary increase.

Senator S.C. Ferguson:

Have you had the discussion?

President, Chamber of Commerce:

No.

The Connétable of St. Lawrence:

You have seen the proposals for the changes in impôts. What impact do you think they will have upon your members?

President, Chamber of Commerce:

They are more measured than they were in previous years so we think we can find some positives there but, with my previous caveat, I will make one comment about the tobacco impôts. It is R.P.I. (retail price index) plus 3 per cent which is I think what the responsible members in the industry would have supported so it does not seem excessive. Guernsey is the same level. What I think we would like to see is what we call a tax escalator over a period of time, which is some visibility, i.e. we will do it at this level for the next 5 years, and then we can plan for that. I do not see why we cannot do that. In terms of the effect on the industry, it will make it tougher, not quite as much

more difficult as we feared, because we expected a higher increase, but it certainly will not make it any easier for the hospitality, tourism or retail sectors. It is not going to support those sectors of the economy.

The Connétable of St. Lawrence:

How do you monitor the impact?

President, Chamber of Commerce:

Through the Business Tendency Survey is the only tool we have and anecdotal feedback from them. So we use the Business Tendency Survey as well as everyone else in how to look at how those sectors are performing and then they talk to us and say: "These are our sales pre and post budget. You can see the difference", but there is nothing more focused than that I am afraid.

Chief Executive, Chamber of Commerce:

We also do our own business tendency survey. We narrow it out.

The Connétable of St. Lawrence:

Would you just remind us how many members you have?

President, Chamber of Commerce:

Our membership is 552.

Chief Executive, Chamber of Commerce:

No, it is just under 560.

President, Chamber of Commerce:

You have got some more members in the last few weeks then. Congratulations.

Senator S.C. Ferguson:

Is that a measure of dissatisfaction with the way the economy is being run?

President, Chamber of Commerce:

It is certainly stronger than it has been. I started with Chamber 7 years ago and I think I am right in saying we were about that number then and then things dropped off down to more the 500 mark and now we are climbing back up again. So, yes, maybe our membership is linked to people's dissatisfaction generally, but it is about on par.

Chief Executive, Chamber of Commerce:

I would like to think that we are becoming a more relevant organisation.

Senator S.C. Ferguson:

It may be the strength of character of the people at the top.

The Connétable of St. Lawrence:

Has there been any consultation between you and the Minister to resolve what appears to be differences in price margins? We recommended last year, as a panel, that he should undertake that discussion. Has he done?

Chief Executive, Chamber of Commerce:

Not that I am aware.

President, Chamber of Commerce:

No. Certainly definitely not with the tobacco industry and I think there has been just one meeting, has there not?

Chief Executive, Chamber of Commerce:

I sent to the Minister an email after our meeting saying how we were disappointed at this sense of déjà vu, because we could see the argument coming up about what we had agreed would not be an argument coming up again the same. So it was a little bit disappointing.

The Connétable of St. Lawrence:

How would you describe this budget?

President, Chamber of Commerce:

I would go back to the phrase that I used towards the beginning of the session and maybe expand on that a little bit. I think it is a wake-up budget. In some ways the measures in it are fairly low level. There is nothing in there that I think is going to make a huge change to anything, so I use that word wake-up budget in terms of the tax forecasts and what I hope will happen because of those. I always try to be optimistic and I hope people will see those tax forecasts and they will see the measures that are possible definites, definitely maybes in terms of whether they will work or not. They will look at those and they will say: "Finally, we do need to think about our expenditure line" because I think I am right in saying that the States expenditure has been planned on the 2012 M.T.F.P. (Medium Term Financial Plan) and these forecasts are a lot less than the 2012 M.T.F.P. yet spending decisions have been made on the basis of higher income. So if these tax forecasts are correct...and they were only done in May, I understand, rather than July, so they were done in

May by the Tax Forecasting Group, which is an eminent body of people. There is no one on that knows more than anyone else on that. They are the top guys, so you would hope that they are there or thereabouts. So I would hope it would really focus States Members' minds on reform in terms of how expenditure is handled within the States, because I think that we are going to see a few years yet of difficult tax receipts because there is not a whole load of levers you can pull on the income side. We have talked about the effect G.S.T. might have. It is accepted pretty much that 20 means 20, so I am not sure where a lot of new income is going to come from. If you were looking at that from a business point of view you would say: "If I know pretty much what my income is going to be then the line I will have to adjust is my expenditure, given what is happening."

Deputy R.J. Rondel:

What about in the medium term, the next 3 to 5 years, as your view of the economy at that period?

President, Chamber of Commerce:

I have said for a year now two things. I have said that this year needs to be the year that Jersey chooses economic growth. We are now midway through it and I have not seen anything that convinces me that is going to happen, but I have been saying that now since January. I have been saying one other thing as well on top of that, which is that we need to finally get a grip on the expenditure line. Again, that is not a new thing for a Chamber President to say but it does not make it any less relevant. It still needs to be done.

Deputy R.J. Rondel:

Do you feel that your message from Chamber is not really getting through to the appropriate people?

President, Chamber of Commerce:

We can only lead the horse to the water. It really is up to you guys whether you drink or not but we can only make the comments that we make. We do not have very much power at all apart from making the comments that we do. I think we have been quite clear on this for years but unfortunately the way it is translated in some parts of the media is the voice of big business trying to make more money. I wish that were true.

Senator S.C. Ferguson:

Which leads us neatly to capital projects. We hear a lot about the state of the construction sector. What is your feeling for it?

President, Chamber of Commerce:

I think they are more optimistic than they were a year ago because the capital programme is projected to triple over 2015, 2016 when I think it reaches this all time high. With that amount of work in the pipeline their problem is the reverse of some of the other sectors. So if you look at retail they are looking at where the business is going to come from; construction are looking at how on earth they are going to cope with the spike in activity. So in some ways that is a nice problem to have, with two caveats. One is that over the last couple of years they have reduced their cost base by cutting staff and fewer people working for them than previously. The second one is that with the States interim immigration policy, which previously we have described as ludicrous, how are they going to be able to resource the required capital programme over the next two years? So I think it is a difficult picture but with light at the end of the tunnel for construction provided by that capital programme.

Senator S.C. Ferguson:

I was going to say one of the complaints about immigration is the fact that our short-term contracts are not genuinely short term and we are constantly criticised by people who say Guernsey have got a much better handle on it, particularly in things like short-term contracts, as I say, being short term and also zero-hour contracts. Have you any comments on that sort of side it?

President, Chamber of Commerce:

It is the abuse of zero-hour contracts that is the problem and Chamber would certainly caution any business who spoke to us about that that no one is in the business of abusing zero-hour contracts. Unfortunately that word "abusing" zero-hour contracts is getting to often be just lump the whole thing as zero-hour contracts. Zero-hour contracts themselves are a very useful and flexible employment tool when used in the right way. No one wants to see them used in the wrong way. That is not in the interests of the business either, believe it or not. So they have a place in the employment market if used in the right way. The other word that is missed off is exclusive zero-hour contracts, which again I think falls sometimes into the abuse category. Exclusive zero-hour contracts are very difficult for people but zero-hour contracts that give them the flexibility to work with more than one employer is good. Would they rather not work at all? It is good.

Senator S.C. Ferguson:

What about short-term contracts? I understand with Guernsey the big thing is people will come over on a short-term contract, one or two years or whatever, and at the end of the time they go so that you do not have the inherent immigration problem.

Chair, Finance Sub-committee, Chamber of Commerce:

I will comment on Guernsey from a finance sector, because that is the sector I know. The current Guernsey short-term contract is a nightmare in terms of our business and other businesses you hear. It creates huge uncertainty for the employee in terms of whether they are going to be there or not for the long term because sometimes commitments are made that they will extend and then they are revoked at the last minute and it is difficult for the employer as well to get consistency. With most jobs, particularly in finance, it takes 6 months or so lead time to get the person up to speed and operating productively. If they are on a 3-year contract and they start to wind down a few months before they leave you get only two effective years out of the individual. It also means you tend to attract a certain audience, which tends to be the pre-marriage and children sector because people with children who are married want more stability in their lives than the fact that they are going to be leaving in 2 or 3 years. I do not think the Guernsey model does work effectively from an immigration perspective. What you have seen happen over the last few years is that particularly in banking where banks operate across all 3 jurisdictions, including the Isle of Man, it has tended to put many more people into Jersey because it is seen as a much more long-term, forward thinking place in terms of immigration, somewhere they can live; it seems to have more robust policies on that. That benefits because if you get the bright people into banking they tend to lobby for more banking business to come to this Island as opposed to going to Guernsey or the Isle of Man and have certainly been responsible for one large blue chip banking institution investing over £16 million into the Island just because of one individual who came here as a posting to the jurisdiction.

Senator S.C. Ferguson:

Yes, but the comment about the construction industry we will get is that if we have, and we have got, as you say, a construction programme that is 3 times the size of what we have had over the last goodness knows how many years, is it going to suck in too much labour?

President, Chamber of Commerce:

I think it has done and it has to. People have to do that work, so they are either in Jersey already but unemployed, possibly, or they come in from outside the Island to do it. It is very difficult. I am not saying I have got any clever answers to it. It is a really difficult one to resolve. I know the construction industry are very concerned about it because if they cannot get the people they cannot do the work.

The Deputy of St. Ouen:

There is another issue that I would quite like to just pick up on, and that is that have any of the local firms raised concerns about the specialist nature of some of the significant capital projects that are planned to be undertaken, such as the hospital and the liquid waste? We have seen in

the past with regard to the incinerator, a £100 million project, that actually it is a non-local company that is provided with the contract to build it and ended up taking most of the money allocated to it delivering the project.

Chief Executive, Chamber of Commerce:

Within the construction industry there is obviously concern, whether it be in the architectural, the planning, the design functions, that a lot of that work is contracted to potentially an off-Island firm and there might well be a small interface with a local company. I know that our construction and development subcommittee met with the Chief Minister, the Minister for Planning and members of the planning office to talk about these issues, especially as a number of these large construction projects are up and coming, to voice their concerns that at least they should be given a fair crack at being able to tender for all these jobs that are coming up.

[15:30]

The Deputy of St. Ouen:

That is the assurance that they would seek to get from the Treasury Department or the Chief Minister?

Chief Executive, Chamber of Commerce:

That is right. They have recently met with the Chief Minister and other Ministers to voice their concerns to enable them to play an active part in the proposed construction projects going forward.

The Deputy of St. Ouen:

But simply the case of being able to tender is all they are interested in, not necessarily delivering the project?

President, Chamber of Commerce:

I always find them pretty reasonable and if they have gone for the piece and they have not got it because of the specialist requirement I usually find they are fairly accepting of that. What they do not like is that they did not know about it and then find out that it has gone outside the Island and they have perceived they could have done it. That is when you will get the contact just as much as we do and that is when they complain vociferously because of that. I think the real question is whether there could be some sort of mechanism to prevent it. I think there is a presumption in the States tendering process that they need to go local first unless there is a reason not to. I think that mechanism is already there.

The Deputy of St. Ouen:

I suppose the question is, it is one thing to have your eye on the overall cost and getting it as cheap as possible but at the same time if you have a policy of investing and running deficits to encourage and grow the economy it would point to ensuring that the money that you invest in capital projects stays on Island.

President, Chamber of Commerce:

It would. I think it is about a smarter way of thinking, is it not? If we are talking about reducing expenditure you might think the knock-on from that is you always have to go for the cheapest tender because these guys tell us we have to reduce expenditure, but then in some ways you might not go for the cheapest tender because by doing so you may reinvest in the local economy and therefore be supporting your own. So it is not always about cheapest is best.

The Deputy of St. Ouen:

That discussion, that dialogue, has that taken place between the construction industry and the Minister for Treasury to your knowledge?

President, Chamber of Commerce:

Not the Minister for Treasury, no. The building and development subcommittee have met the people that Ian said, but I do not think the Minister for Treasury was there, was he?

Chief Executive, Chamber of Commerce:

Off the top of my head I cannot recall. I was not there and the building and development committee were who reported back to me.

The Deputy of St. Ouen:

Would you think, bearing in mind the proposal contained in the budget, which is going to be significant capital expenditure, that those sorts of discussions need to take place?

President, Chamber of Commerce:

The industry would certainly welcome it. I am not saying there is a quick answer and there is some magic dust but they would certainly welcome the discussion to see if there is any way that an understanding of the fact that cheapest is not always best can be filtered through to the States decision-makers. Yes, absolutely. There is liaison going on at that level. The building and development subcommittee are pretty well aware of where the States projects are coming from and the chief officers who are signing off those projects I would say probably have a good dialogue with the industry, certainly from the feedback that I have had with them. Whether that has got through to Treasury I am not so sure about.

The Deputy of St. Ouen:

Ultimately it is the Treasury that is responsible for taxpayers' money and if we are going to invest taxpayers' money and we look for best value, as you quite rightly say, there is a balance to be struck.

President, Chamber of Commerce:

They are, Deputy, but also it is not the Treasury who is making the supplier decision. That is made further down the project chain on the thing. The Treasury might sign off the overall amount but they are not picking the suppliers who may deliver the project.

Chief Executive, Chamber of Commerce:

I am not sure that it is purely that.

The Deputy of St. Ouen:

You are discounting Property Holdings then as the vehicle to deliver States project, which is part of the Island too?

President, Chamber of Commerce:

Okay, but we were talking about the Minister for Treasury previously.

The Deputy of St. Ouen:

Yes, but is he not responsible?

Chair, Finance Sub-committee, Chamber of Commerce:

But even Property Holdings, I know on the hospital project they work in conjunction with Health and Planning and such like. They do not have a veto on ... it seems a very complex and quite broad decision-making process which certainly is not down to just Treasury. It is down to a huge number of departments and officers.

President, Chamber of Commerce:

I think the broad principle of what you are asking is: would that dialogue be useful? I think the answer to that is a wholehearted yes. It can only help. None of us want to see this capital programme go off Island unless it absolutely has to. Of course there will be areas where it does. There will be specialist stuff which no one locally can do. Fine, we have no problem with that, but in the main we would want to see it done locally for obvious reasons.

Senator S.C. Ferguson:

Are the various companies happy that they can get going with the expertise and capacity that we have got locally?

President, Chamber of Commerce:

I am not sure of the answer to that, I have to say. I know they are concerned. I could not give you a more definite answer than that. I know they are worried about the next two years. I had a conversation with them recently and they said: "We are not quite sure how we are going to be able to deliver." They will try to find a way and then the businesses really...I would not want to go further than that. I think the Construction Council could give you a clearer view on that. I do not know if they are talking to you as part of this process but the Construction Council would be more detailed on that.

Senator S.C. Ferguson:

Was there anything that is not in the budget which you would like to have seen?

Chair, Finance Sub-committee, Chamber of Commerce:

Apart from the ideas around greater stimulus for new business, that is the key one, and a commitment to move towards a longer-term budgeting process as well.

Senator S.C. Ferguson:

Thank you very much indeed, gentlemen. Is there anything else you would like to say to us, any flags you would like to wave or anything?

President, Chamber of Commerce:

No. I would just like to wish you luck. I think it is going to be a difficult budget coming ahead of elections. I think it is going to be a difficult budget and I wish you luck with it.

Deputy R.J. Rondel:

There will probably be loads of amendments coming from certain people.

Chair, Finance Sub-committee, Chamber of Commerce:

I think that is a valid point. Given the opportunities, this budget should not be around electioneering and giveaways. We face some massively serious challenges going forward as an Island, like many jurisdictions do, and we need to think long term: how do we deal with those challenges?

Deputy R.J. Rondel:

Easy to give away money.

Senator S.C. Ferguson:

This, I think, was the essence of the F.P.P.: prudence.

President, Chamber of Commerce:

That might be the best thing that comes out of this budget that finally wakes people up from their complacency. I was slightly flippant when I described it as a Harry Potter economy but I mean it. People think there is this magic dust and there just is not. We have to wake up.

Senator S.C. Ferguson:

Yes. Super. Thank you very much indeed for your time.

[15:37]