

2.3 Senator S.C. Ferguson of the Minister for Treasury and Resources regarding plans to deal with the structural deficit expected in Jersey in 2012:

Given the reticence of the United Kingdom Government to set out clearly their plans to deal with the country's deficit, would the Minister advise how he intends to deal with the structural deficit expected in Jersey in 2012?

Senator P.F.C. Ozouf (The Minister for Treasury and Resources):

As Members will be aware, the Council of Ministers met last Thursday to review spending forecasts and to consider how to deal with projected deficits. The Council is determined to control States spending to guard against future unsustainable structural deficits. There will be major challenges that will require first, a review of those services which are essential or highly desirable; secondly, a determination to deliver services efficiently across the States of Jersey; thirdly, consideration of a wider implementation of user pays principles; and finally, tax changes, including a review of Zero/Ten. The comprehensive spending review is designed to deliver the first 3 elements of this and the fiscal strategy designed to deliver the fourth. The C.S.R. (comprehensive spending review) process has now started, working with States departments it will analyse all areas of States spending in order to identify the possibility of saving £50 million over the next 3 years, to understand the implications of proposed savings and to target improvements. There will be 6 in-depth reviews looking at terms and conditions of employment, court and case costs, Health and Social Services, Education, Social Security and Home Affairs. All States departments will be asked to identify and find savings. The final decision on the balance between savings and taxes will of course be a political choice and it will be taken in this Assembly as part of the Budget and Business Plan debates. The next Members will hear from me is shortly in terms of inviting Members to a workshop where I am hopeful to discuss these matters in a wider forum.

2.3.1 Senator S.C. Ferguson:

Will the Minister tell the House what the most recent estimates indicate that the structural deficit will be for 2012 and 2013?

Senator P.F.C. Ozouf:

The most recent estimate at the mid point is £45 million, but I need to be completely clear with Members that that does not include the requirement to find some new money for some areas of States spending which is not already factored-in. In addition, I need to find a realistic solution to contingencies. Every year there is unexpected expenditure and I need to build in a realistic £12 million or £14 million contingency every year and to find the necessary growth for some areas such as Health and Social Services. So the total figure that we are looking at in terms of a structural deficit is likely to be in the region of £70 million or £80 million.

Senator S.C. Ferguson:

I assume the Minister means that for 2012. I did ask about 2013 as well.

Senator P.F.C. Ozouf:

I apologise to the Senator. It is looking, to a great extent, into a crystal ball to see where the global economy and its implications to the financial services industry will be. But I think a reasonable working assumption is that there is a structural deficit of

which we need to put in contingency plans for within the region of £50 million recurring every year.

2.3.2 Senator B.E. Shenton:

I will help the Minister with this, because the answer is yes. Does the Minister consider very high rises in parking charges and a doubling of planning fees to be efficiency savings?

Deputy G.P. Southern:

User pays.

Senator P.F.C. Ozouf:

No, I do not. But I also would defend the respective Ministers in needing to identify appropriate income in order to pay for their services. In respect of planning, they are cost recovery for commercial developments and I would point out to those individuals that do not think the States of Jersey is expensive to look at the cost of property occupation, to look at the cost of planning and holding commercial property in, for example, the United Kingdom compared to Jersey. We are not highly taxed and in my view it is appropriate that taxpayers are not asked to subsidise planning development. The decision in relation to car parks, that was a matter that was discussed in the Business Plan debate and I do not think is a surprise to Members.

2.3.3 Deputy P.V.F. Le Claire of St. Helier:

Would the Minister not accept that without Zero/Ten there would be very little deficit, if any at all, and as has proved to be unacceptable to the people that have foisted it upon us in the first instance the sooner it is withdrawn and returned to 20 per cent tax the better.

Senator P.F.C. Ozouf:

The Deputy, with respect, is wrong if I may say. If we had not implemented Zero/Ten we would not have seen the economic growth that the Island has seen in the last 4 to 5 years. Zero/Ten was the right policy at the time, it has not been found non-compliant with the E.U. (European Union) despite there being rumours about that issue. I have confirmed that in my budget statement last year. I am however, with the Chief Minister, reviewing Zero/Ten in the light of changing global norms in relation to taxation and if there are opportunities for collecting greater amounts of money from business and from corporation tax, of course I will do so. That will limit the taxes that are required for the Island community.

2.3.4 Deputy P.V.F. Le Claire:

Now that we have made our money on Zero/Ten, is it not time to get out of it?

Senator P.F.C. Ozouf:

Zero/Ten provides what is fundamental to what we do in Jersey which is providing tax neutrality. We seek to tax the services that are provided to financial services not, in often case, the underlying activity. That is a standard well known and an understood arrangement. We provide tax neutrality, it is the source of what we do, it is the source of the growth of our economy and the source of our prosperity. I have every intention of maintaining competitiveness of the Jersey economy and maintaining tax neutrality.

2.3.5 Deputy G.P. Southern of St. Helier:

Would the Minister explain to Members exactly how Zero/Ten has produced boom years when it has not been implemented and now has singularly failed to meet the mark of the E.U. standard?

Senator P.F.C. Ozouf:

The Deputy well knows that the proportion of taxes that Island residents pay, both in terms of direct and indirect tax, is much lower than most other places. Yet we enjoy a very high level and generous services in terms of Health, Social Services, Home Affairs. We spend a great deal at this Assembly, so where does that money come from? That money comes from a successful financial services industry which benefits our economy. That is what benefits of maintaining Zero/Ten and all the reforms that we have made in the last few years.

Deputy G.P. Southern:

Zero/Ten has yet to be implemented and has failed, how can it have produced boom year?

Senator P.F.C. Ozouf:

I do not know where the Deputy has been for the last couple of years but Zero/Ten is in place. It has been debated by this Assembly and we are currently seeing the first tax year's result of it. The strong signal that this Assembly sent out 4 or 5 years ago in relation to putting its House in order for tax plans, yielded the growth that we have seen in the last few years which the Deputy and others have spent.

2.3.6 The Deputy of St. Mary:

Taking a slightly different tack, I just wondered if the Minister could assure the House that in the C.S.R - in the comprehensive spending review - he will give due attention to the principle that prevention is better than cure and the phrase that comes to mind is false economies and when he is looking for economies, will he assure the House that he will be very very careful about false ones?

Senator P.F.C. Ozouf:

I agree with false economies and I agree that we need to have a wide-ranging review of spending across the whole States of Jersey and we need to be honest with taxpayers and Islanders about the services that we are going to provide. I want to, for example, and the Council of Ministers agreed that we would - in identifying savings - clearly split-out any revenue raising measures versus efficiencies and cuts so that we are clear with people about the opportunities that we identify to raise money by user pays charges.

The Deputy of St. Mary:

It did not quite answer the question of whether the Minister will seriously take on board this issue of saving money and then rueing the day later which we spend a lot of time doing in this House. I have read a bit of Verita, I know that there are implications in there as well on this front and I would again ask the Minister, will he take this matter of not saving rashly and then paying the consequences?

Senator P.F.C. Ozouf:

We need to be realistic. I was reviewing the Treasury on Friday and looking at the growth in States expenditure over the last 5 years. Indeed, I think that we have added

an additional £70 million worth of new money in terms of Social Security, Health and departments such as the Prison. At the same time, we have delivered efficiency savings across the organisation and yes there is some debate with the P.A.C. (Public Accounts Committee) of exactly what was determined politically, but certainly we have delivered £20 million or £30 million worth of savings. I believe that all organisations can deliver their services more efficiently and more effectively. But it does not need to be done sensitively and I hope that Members would agree that every political problem does simply not require the writing of a cheque from taxpayers. We need to be long sighted in terms of the way we structure services, and put the right checks and balances in place.

The Deputy of St. Mary:

Can I ask a supplementary to that?

The Bailiff:

Sorry, not for the moment, Deputy. There are others who want to ask questions as well.

2.3.7 Deputy T.A. Vallois of St. Saviour:

The Minister mentioned at the beginning of answering questions about sustainability. From 2005 to 2009 we saw an economic growth of 19 per cent in the Island. Could he explain exactly what he means by “sustainability on the way forward”, and how far forward we are looking in regards to taxes?

Senator P.F.C. Ozouf:

I think that is an excellent question. The sustainability, as far as public finances is concerned, I would simply say is that we need to match income with expenditure on a year to year basis. I agree that it is appropriate that we run a budget deficit in 2010 and probably 2011, because we need to be investing in the economy, keeping people in work, allowing students to improve their skills in a way that if we did not make those budget deficits and if we did not invest, for example, in infrastructure there would be greater numbers of people unemployed. I am supportive of a budget deficit for the period of the downturn, but I want to see public finances restored to a longstanding, matching income and expenditure certainly within 2 or 3 years. That is what I call sustainability.

Deputy T.A. Vallois:

The Minister did not answer my question in regards to how far forward we are looking for sustainability in the Island?

Senator P.F.C. Ozouf:

I apologise. Certainly, I want to be looking at public finances 4, 5, 6 years out and certainly I want to move to a business plan which is agreeing spending limits on a 3-year basis as opposed to the yearly circus of a yearly settlement of budgets which gives departments absolutely no incentive in order to make savings within year and to have long term planning. So certainly 2 or 3-year cycles.

2.3.8 Connétable G.F. Butcher of St. John:

Given, in your statement, you said that obviously taxation is relatively low in Jersey - which obviously helps the general public to afford our exceedingly high cost of

living - if taxation is to increase, what would the Minister's plans be to reduce cost of living?

[10:15]

Senator P.F.C. Ozouf:

The Constable is absolutely correct in identifying one of the core problems that we have in Jersey as to the rising cost of living which rose well above that of the United Kingdom throughout many of the years of the 1980s and 1990s which meant that, effectively, people were no better off as a result of rising prosperity because inflation eroded their purchasing power. We have done a great deal in this Assembly to improve the issue of inflation. We have introduced a Competition Law, we regulate utilities, we have increased competition. That is the key to driving efficiency and to driving down the cost of living in order that the Jersey taxpayer's pound can go further.

The Bailiff:

Deputy Higgins, do you wish to ask your question now?

2.3.9 Deputy M.R. Higgins of St. Helier:

Yes, Sir. I was seeking clarification from the Minister, we were talking about Zero/Ten; a number of people asked and the question is - when did Zero/Ten come in? Was it 1st January 2010? In which case, have you seen any benefit from it yet?

Senator P.F.C. Ozouf:

The Deputy knows that when Zero/Ten came in as far as taxation arrangements and tax returns are... But I would point out to the Deputy that in taxation and in business generally, it is important to give as much long term planning as possible in relation to taxation changes. That is why the whole Zero/Ten agreements were made a number of years ago in order to give certainty. You do not change taxation systems every year, they are long in gestation, they are long in research, and you need to give people a long lead time into those changes and businesses will factor that into their plans.

Deputy M.R. Higgins:

If it has only just come in, how can he claim, therefore, he has had a financial benefit in the past?

Senator P.F.C. Ozouf:

The certainty that Zero/Ten gave business and drew business to Jersey throughout the growth of the last 3 to 4 years and we, in fact, beat a lot of our offshore comparatives in relation to beating them for higher levels of financial services activity and the tax revenues that accrued to the Island followed as a result.

2.3.10 Deputy M. Tadier of St. Brelade:

It follows very much on from the question of Deputy of St. Mary, to do with false economies which I think was hinting at long term investments. If and how will the Minister take into account long term benefits which may not be immediately tangible in the short term, in terms of cost benefit analysis?

Senator P.F.C. Ozouf:

That is quite a broad question. Ministers are determined to look long-term at the way that they structure their services and in the way that we provide the infrastructure and the facilities for services in the longer term. I do not want the comprehensive spending review to be regarded as simply a negative in terms of death by a thousand cuts in terms of government expenditure. This is a one-off opportunity to restructure the way we provide services for the longer term. The Minister for Education, Sport and Culture looking at the long term needs of the Island in terms of skills and education, maybe reconfiguring some of the arrangements that he has in primary or secondary skills. To the Minister for Health and Social Services, the way and the location in which she provides hospital facilities maybe on fewer sites with different physical facilities. I fully understand the need to have to find an 'invest to save' pot. In order to get savings we may need to have upfront investment in terms of new facilities to cut long term costs and restructuring money and those are discussions that the comprehensive spending review will have and I certainly want to engage in Members in terms of having an initial workshop to get Members' ideas.

2.3.11 Senator S.C. Ferguson:

As I understand it, the Minister says he is planning for a deficit of £70 million to £80 million in 2012. It seems incredibly optimistic to me to plan for only £50 million in 2013. Would the Minister care to confirm this figure and if he has not got the figures will he undertake to provide them?

Senator P.F.C. Ozouf:

The Senator refers to figures that are in the budget statement that was published last year and I need to tell her that I regard the structural deficit for 2010 as a reasonable certainty in terms that it is likely to happen. What I have said is that unchecked, the structural deficit or the deficit for the States of Jersey will be certainly in the region of £40 million, £60 million, £70 million if we do not take corrective action. Corrective action on savings; corrective action on cuts; corrective action in terms of changes to taxation. But I do not want to take any action until I have got a reasonable certainty of the income line and, as the international economy unblocks, so we will have certainty of the income going forward.

Senator S.C. Ferguson:

The Minister has not answered the question. If he is basing his £50 million savings on forecasts of a structural deficit, I think it only sensible to inform this House and the public of the possibilities of the structural deficit in 2012 and 2013. Will the Minister undertake to provide the up to date forecast? He can qualify it and say this is a forecast, but will he undertake to provide the public with that information?

Senator P.F.C. Ozouf:

I am always happy to be pressed by the Senator but I would remind her that these figures are set out in the budget statement that was I think circulated to Members last week where it clearly shows a range of deficit that is expected unchecked. This is without the corrective action that the Council of Ministers has committed to do. In other words, unchecked based on the latest scenario, the midpoint estimate is for a deficit in 2013 of £50 million and a further £50 million in 2014. But that comes with the health warnings that I have already said.