



Corporate Services Scrutiny Panel 2014 Budget Statement

MONDAY, 21st OCTOBER 2013

Panel:

Senator S.C. Ferguson (Chairman)
Deputy J.G. Reed of St. Ouen (Vice-Chairman)
Deputy R.J. Rondel of St. Helier
Mr. M. Oliver (Panel Adviser)

Witnesses:

Mr. J. Laity (Institute of Directors)
Mr. J. Shenton (Institute of Directors)
Ms. W. Dorman (Institute of Directors)

[15:14]

Senator S.C. Ferguson (Chairman):

Ladies and gentlemen, welcome to this hearing of the Corporate Services Scrutiny Panel on the 2014 Budget Statement. Now, I am not sure whether you have been to a previous scrutiny hearing. We have a health warning, which is just there. It will give you the background and the structure. For the purposes of the transcribers, I wonder if you could say who you are and what your position is. Super. Now, you indicated some disappointment with the lack of employment and growth opportunities in this year's budget. Why?

Mr. J. Laity:

Okay. Well, thank you for the opportunity to speak in front of you. Picking up on that point, the Minister for Treasury and Resources described the budget for the hardworking people of Jersey. I think perhaps he should have said the hardworking voting people of Jersey. To start with, perhaps we would make the point - and I will come back directly to the question you have raised - it is not all of the people of Jersey who benefit from the budget and there was a certain amount of reaction to the phrase which the Minister for Treasury and Resources chose to use. We expressed disappointment at the budget overall because our view was as a package there was little in there to stimulate economic growth in the short term. We recognise, of course - and we will no doubt come on to discuss - the positive impact that the construction projects will have in the medium to long term, but other than that really it was difficult to pick out anything which as business leaders you could identify as being something which would stimulate the environment or your business. So that was the reason for the comment which we made immediately after.

Senator S.C. Ferguson:

So was there any consultation with the I.O.D. over the proposals?

Mr. J. Laity:

No. This is effectively the consultation period as we recognise it as such, but Jersey's close-knit community and ease of access to Government, which is one of its major strengths, is of course conducive to provision of comments and dialogue over an ongoing period. We certainly have over quite an extended period made submissions formally or informally to the Minister for Treasury and Resources and others about particular measures which we believe could have an impact on the Island. One was picked up in the budget Town Hall presentation, which was the proposal to not proceed with 100 per cent capital allowances, as an example.

The Deputy of St. Ouen:

Picking up on something you said earlier, you spoke about the fact that the construction industry seemed to be well supported within this budget but little else?

Mr. J. Shenton:

The construction industry is only supported in this budget for the medium to long term. There is very little in there for the construction industry in the short term. If you look at the plans for liquid waste, housing and the hospital, we do not expect any real construction to be undertaken for a number of years.

Deputy R.J. Rondel:

What about the decrease in the marginal rate? Surely that benefits a lot of people who may well then go out and spend, albeit it a small amount, token gesture?

Mr. J. Laity:

Well, I do not believe the reduction will make the difference between people going out to work or not. It will obviously leave more disposable income in their pockets, although we had the benefit of sitting through the Chamber discussion before. As you have correctly identified, the extent to which that actually hits is debatable given the introduction of the long-term healthcare charge in 2015. So it will put more money in people's pockets. I do not believe those people are likely to be saving at the moment because of the economic circumstances we all find ourselves in, so one would imagine, yes, some of it will find its way into retailers, et cetera, locally to the extent there is a marginal increase, yes.

Deputy R.J. Rondel:

So you consider that to be a positive step forward?

Mr. J. Laity:

Yes, but we are talking 2015 for the net effect to flow through to everybody given the fact that not everyone will be benefiting from the reductions in 2014 pay packets.

The Deputy of St. Ouen:

I want to come back to a comment you made earlier about the construction industry and no real support in the short term for the industry.

Mr. J. Shenton:

Yes.

The Deputy of St. Ouen:

What would you like to see?

Mr. J. Shenton:

Well, I think it is a culmination. I think that we have been asking for the construction industry for a while. We have seen very little movement. The police station as a typical example, I do not know how many years that has been going on for. We have seen very little new States building. We have seen little bits down by Le Squez, which we have seen modernised. The hospital will deliver some but not for a number of years. The old site where the police station is could have delivered an awful lot of economic impetus. If you remember back to the previous recession, if I can put it in

those terms, what stimulated the construction industry was the construction of the Radisson. I am not saying it is the world's most beautiful building, but it did stimulate the construction industry. We have seen very little real spending by the States in capital projects over the last few years.

Senator S.C. Ferguson:

Yet the Minister says we had - I forget - £80 million or £90 million last year, we have £80 million or £90 million this year; that is all capital spending.

Mr. J. Shenton:

Capital spending into what? Most of the amounts identified for the hospital, liquid waste and housing is feasibility studies, is it not? Is that not where most of the spend is going?

Deputy R.J. Rondel:

What we have spent on, that sum is mainly social housing and revamping Jardin des Carreaux, Pomme d'Or Farm Estate, like you said, Le Squez, that area. There has been a significant amount put into those sites in the last year.

The Deputy of St. Ouen:

So, from your point of view, are you saying that the local construction industry has not seen any significant benefit from...

Mr. J. Shenton:

From States policies?

The Deputy of St. Ouen:

...States policies and funding?

Mr. J. Shenton:

No, and I would throw into the mix the Odeon cinema, the redevelopment at the top of Bath Street. I would throw in, too, Charing Cross, the delays in relation to the redevelopment of Commercial Street and Broad Street. We are not seeing the projects being passed in order to generate the construction industry moving on. In relation to the unemployed, a lot of them are low skilled and the construction industry, after the fulfilment industry have gone, must be an obvious outlet for these people.

The Deputy of St. Ouen:

Outside of the construction industry, would you wish to see any additional funding or support provided to other sectors of industry?

Mr. J. Laity:

We would and, if I just wind back a second, the budget itself says it will stimulate economic growth - and I have it in front of me as you do, too - by maintaining the cornerstones of the existing tax regime, which is doing nothing; putting more money in the pockets of taxpayers through a reduction in the marginal rate and increasing the exemption thresholds, which is the point that the Deputy has raised; encouraging further inward investment through changes to the tax regime to high net worth individuals, which we support but which was one of the 3 points which we raised; and providing targeted tax breaks for parents of children in higher education so as to develop a skilled future workforce, which we support but is very much a long-term investment. So, in the budget's own words, that is the way it is stimulating economic growth. Beyond that, we have suggested, yes, the 1(1)(k) point is an important point. For the benefit of the Panel, the point of that is to enable more of the high net worth individuals that are already here to bring more of their funds into the Island to be administered in the Island and generate tax revenue. So we very much support that. We also suggested 100 per cent capital allowances, which was the point that the President of the Chamber mentioned, which we were rather surprised, actually, to see in the budget document as having been proposed and dismissed because it was a suggestion that we had made to the Minister for Treasury and Resources and his team and which they obviously did spend a great deal of time thinking about, certainly in terms of the length of the document which we were sent back. Their conclusion was that there was no real need for it. The point of 100 per cent capital allowances is simply to accelerate investment by local business in a new bit of plant and machinery. It was difficult for us really to see what the downside in that in economic terms was for the Treasury. People are not going to rush out and spend hundreds of millions of pounds on a new bit of kit just to reduce their tax, but it might make the difference between someone that was deciding to do it or not. So we were disappointed at the time and that measure was not taken further. We were even more disappointed to see it in the budget as something that had been thought about as a proposal and rejected. I think it was a fairly tight circle of discussion. It also suggested, and Chamber have already raised it, the Enterprise Investment Scheme, a mechanism which I think goes to the point. So the reason for this is quite simply what we would like the budget to do is it needs to demonstrate and create an aura of an Island or an economy that is open for business, wants business, is not complacent and is hungry to get things done. Our view is a basket of simple straightforward measures, most of which could be taken from elsewhere, which created to the outside world and to probably a greater extent the business community here that the Island wanted to be imaginative in using its tax system to diversify its economy would send out positive messages. Rather than at the moment we seem to be stuck in this idea that we have zero per cent tax for most companies; therefore, how could we possibly improve matters for them? Fundamentally, we think that is the wrong direction of travel for this debate. As the burden of taxation moves, as it is elsewhere in the world, from corporates to individuals, one must look at the individuals as being the people who drive the investment and the economic growth behind the

corporates. Therefore, some mechanism which allows an individual to invest post-tax income into a company or a business, another business of another description, such that that business could create jobs seems to us to be a good thing. Now, it is open to abuse, there is no doubt about that, but that is why the scheme would be tightly drawn. Again, there are plenty of rules which can be borrowed and adapted to make sure it achieves its stated purpose. We do not believe necessarily it needs to cost very much because, after all, what you are talking about is the private sector multiplying public sector investment by a factor of 5. Because you are giving me tax relief and I am putting my own money in. In terms of the Innovation Fund, arguably this is a more effective and efficient way of driving that investment. So we were disappointed to see certainly within the documents little thought had been given to it and we have...

Deputy R.J. Rondel:

Sorry to interrupt, what reaction did you get back from Treasury? Was it correspondence saying that they did not agree with it because of various reasons?

Mr. J. Laity:

We did not get a reaction formally. Certainly, the reaction when we have been back subsequent to the budget document has been open for further discussion and I have had one or 2 further discussions with them about it.

Deputy R.J. Rondel:

A piece of work probably has to be undertaken as to how much they feel it might cost.

Mr. J. Laity:

Yes. That could even be capped. You could envisage a system whereby the Minister for Treasury and Resources said: "I have half a million pounds worth of Enterprise Investment Scheme tax relief to give away in fiscal year 2014. Put it on the website and this is how much is left." I know I am simplifying it, but: "Get your applications in in the early part of the year before the tax relief runs out." It needs to be targeted and we would support it being targeted towards obviously local businesses employing locals.

[15:30]

We would even go beyond that and say it could even be targeted at non-finance businesses and perhaps even further at specific areas of the industry that we wanted to grow. The costing is manageable. I do not think necessarily it would be a system where we would see widespread tax leakage in terms of it would cost the Treasury a huge amount of money, but one would never know. Initially I mean one would never know. If it did cost the Treasury a huge amount of money,

would that not be a good thing because that would mean the private sector was investing 5 times as much? So there is an argument on either side.

Ms. W. Dorman:

I think long term you would hope that if it is successful that it will not cost, it will bring more revenues through jobs and increased business activity.

The Deputy of St. Ouen:

I am pleased you mentioned the Innovation Fund because I think it is one of the difficulties that we have when we look at the budget because the budget does not necessarily show the true picture because there are other matters that have been dealt with either prior or outside of the general overall budget process, which includes the creation of the Innovation Fund. Just listening to what you have been saying, were you involved in any of the discussions prior to the introduction of the Innovation Fund?

Mr. J. Laity:

Not formally, no.

The Deputy of St. Ouen:

Because it seems to me that the funds that have been allocated to the Innovation Fund could be used in the manner proposed to achieve a similar result. I just wonder why that proper dialogue has not taken place between yourselves and the Minister for Treasury and Resources and his department and, indeed, the Economic Development Department to ensure that the money is better targeted to places in greatest need or not so much greatest need but would give the best return.

Mr. J. Laity:

Yes. I understand the question. I do not necessarily think the dialogue is the issue. My personal view - and this is not a view which I can ascribe to all the I.O.D. membership - is the Innovation Fund will not hit the target audience that a Seed Enterprise Investment Scheme will hit. The reason for that is the Innovation Fund is, after all, public money. I find it difficult to see how the appetite for investing public money in brand new start-up businesses will go from nothing at all, which is where we are at the moment, to a huge hunger for risk taking. Now, we might get there eventually and I sincerely hope we do, but in the meantime that will take some time. So I very much see the Innovation Fund as we need to create a funding pathway for new businesses, whether or not it is retail who have a new offering or digital, which no doubt we will come on and talk to, a digital enterprise. We need to create a pathway and I see very much the Innovation Fund is stage 2 or possibly even stage 3 of that pathway. At the very first stage, we obviously have

friends, family and fools, the usual suspects, and I see Seed Enterprise Investment Scheme as end of first stage, beginning of stage 2, which is the model which by all accounts has been successful or is being successful in the U.K. (United Kingdom) in their Tech City project where their Seed Enterprise Investment Scheme was introduced by the Chancellor in April 2012 and is one of the 3 reasons most touted for the success of the Tech City initiative. So the Innovation Fund is great. I was pleased that you used the words "creation of the Innovation Fund". It is not giving any money out yet obviously, I do not think. That itself is a discussion, but certainly there must be a real concern that the Innovation Fund will take a different view to investments and start-up businesses than perhaps a private investor who would be willing to accept some more risk.

Senator S.C. Ferguson:

But given the I.O.D.'s somewhat capitalistic approach to things, is it the position of Government that it should be effectively deciding which businesses are going to succeed?

Mr. J. Laity:

Well, they will not be. They will be deciding which businesses are successful in getting funding from the Innovation Scheme and nothing else. So if a business...

Senator S.C. Ferguson:

So you do not actually need Government to do the seed investment thing, only if you want a tax break?

Mr. J. Laity:

Well, no, the point is you are creating an environment - or people call it an ecosystem - whereby people understand that this is an Island and it is an economy that seeks entrepreneurs and entrepreneurialism and will use its fiscal system to stimulate that activity. I do not necessarily think that it will be the sole reason why an individual would invest in a company because of the tax break, but if you look at the evidence of the U.K. it appears to be a motivating factor for individuals who can invest up to £100,000 in one year or £150,000 overall in tech start-ups. The anecdotal evidence, and there have been a number of articles on it in recent months, is that is what is generating the seed capital for the tech businesses in the U.K. to the extent they cannot find it elsewhere.

Mr. J. Shenton:

It does gross up your investment because if I am going to put £100,000 into a start-up, then obviously if I have to pay tax on that then I can only effectively afford £80,000 to put into the start-up, so I do end up with a gross-up of what I put in. If I encourage someone to put £100,000 into a start-up, then I might encourage them to employ 2 people and then you get the ball rolling. I think

that is what we are trying to do. Going back to where we started, we are trying to create some stimulus. We are trying to create some ideas which are not actually going to cost the Government very much money in order to try and get some entrepreneurial spirit out there again.

Ms. W. Dorman:

With a wealthy population, what we want to do is encourage them to invest in local businesses and not to invest outside the Island where the stimulus is lost elsewhere.

Mr. M. Oliver:

Can I ask a technical question or point of clarification technical question? You mentioned, Wendy, the ultra highs that will have the ability to, I suppose, go into the 2011 tax regime, to go into that rather than the old regime. Have you any numbers at all about how many will potentially do this or have you talked to anyone about this at all?

Ms. W. Dorman:

I do not know the numbers but there are about 12 a year that come into the Island.

Mr. J. Shenton:

If you take a straw poll, if we average out, to take our practice and a few of the others, I would imagine that there are probably 18 affected individuals who would probably come into the new regime. I would say if you assume that they have even £100 million invested offshore - some have significantly more than that - then that is a lot of money. Because at the moment there is a disincentive for these people. If I am faced with a wealthy individual who came to Jersey in 2011 and he wants to buy a garage, if he buys a garage in Guernsey he pays no tax. If he buys a garage in Jersey he pays tax. It is as simple as that. So where does he buy the garage? Certainly not locally, and that is what the rules have done. The rules have made it a complete disincentive for these people to invest locally. What you have to remember also about the 1(1)(k)s, we are getting a different breed of wealthy immigrant these days. We are not getting the pipe and slippers, the one who wants to retire here. We are getting people with substantial wealth who want to run their businesses from here. They want to employ people from here. They want to do everything from here. Even if you have a simple thing like a family office, if I have £200 million and I need a secretary, an investment adviser, a bookkeeper, probably a couple of other staff, I want 5 staff to run my family office. I cannot bring that £200 million into Jersey. That has to stay overseas so it goes into Guernsey. So I give 5 jobs to Guernsey. I give all the administration income to Guernsey. I give the banking deposits to Guernsey. Everything goes there and the change in the rules should see an enormous amount of money coming in. As part of the proposals, I think the Minister for Treasury and Resources has said that he wants a full business plan in relation to the assets that will bring onshore. The people I have spoken to cannot wait for

this to come in. We have been lobbying for it for at least the last 2 years, I think, and when it will come I think we will see significant additional investment locally.

Deputy R.J. Rondel:

Do you think our Treasury have been slow to react to bring this in?

Mr. J. Shenton:

I think it is political. I do not think bringing anything in which could be remotely seen as favourable to somebody on a tax deal is terribly good for electioneering and politics is a popularity contest.

[Laughter]

Ms. W. Dorman:

But the 1(1)(k)s are not the only ones in the Island and that is why the Enterprise Investment Scheme is so important because there are lots of people that are wealthy that are paying normal rates of tax. Okay, those are reasonably good rates but this would still make a really big difference.

The Deputy of St. Ouen:

Looking at the package of taxation measures that are proposed in the budget as a whole, what is your general view?

Mr. J. Laity:

Well, as a whole, the net effect of £8 million back after taking account of the ups and the downs, one would hope, as the Deputy said, that will find its way back into the tills and books of businesses on the Island. I do think probably greater emphasis could have been given in the documents to the long-term healthcare charge, which will directly impact obviously even the 84 per cent hardworking people of Jersey noted in the document.

Deputy R.J. Rondel:

Perhaps that is for after the elections. **[Laughter]**

Mr. J. Laity:

Perhaps, yes. I could not quite work out whether or not the next budget will be before or after the elections, so it will certainly be close. Looking at the breakdown of that, obviously the increase in thresholds and the reduction in marginal rate is to be welcomed if it has the desired effect. The higher education allowance, as we have said, is a good investment for the medium to the long term. The Impôts is interesting. I do not have an interest to declare in respect of this, but I was interested in the debate previously that tourism was not... I think it was implied but it was not

specifically mentioned. I noted with interest that the budget documents say that the increase was agreed with specific agreement of the Minister for Economic Development so clearly some thought has been given to the impact of the increase in Impôts on tourism. I wonder whether or not it is right at this time to make such an increase given the fact that the Tourism Shadow Board are still working their way through their agenda and if, for example, the Tourism Shadow Board were to identify that our impôts were too high, then what could be done about it by that stage. We will have already made the problem worse. I understand there is a range of views on it, of course. It is an emotive issue. I understand and, of course, I understand why they are in the document, the health reasons for it, but based on the percentage increases it appears that the Treasury have taken the view that there is a lot more unhealthy people this year than there have been in recent years. So the percentage increases seem out of line with what has come before. So as a package of tax measures, given the net effect of that is £8 million given back, as the Minister for Treasury and Resources described it, if the £8 million finds its way into the tills and books of the Island's economy then all well and good, but really that is the question we will not know the answer to for some time.

The Deputy of St. Ouen:

As a body that looks at general and overall tax policy for the Institute of Directors, how does what I call a short-term gift link to other matters and changes and charges that are going to be introduced over the coming years?

Mr. J. Shenton:

I think there are 2 things here. One is that they keep stating that tax ought to be low, broad and simple. It clearly is not and it is clearly getting more and more complicated by the day. I think the fact that in his introduction he did say that he has made it even more complicated to ensure that people pay the right amount of tax, there seems to be this perception that everybody is at it, which I do not believe to be the case.

[15:45]

I think Jersey is very compliant. The long-term care will be a half a per cent, going up to 3 per cent, which will suck money out of the economy. That extra tax will come out. It does come in 2015, exactly the same time as most people are taking advantage of the marginal relief, so as a range of tax measures I do not think they hit the spot because it is neither low, broad nor simple.

Senator S.C. Ferguson:

So if I ask you what do you understand Jersey's long-term tax policy to be, what would you say?

Mr. J. Shenton:

Muddled.

Mr. J. Laity:

Yes. The stated policy is, as John says, low, broad and simple. I think we were very vocal in our opinion this time last year that last year's budget was none of those. It is difficult to say. The mark of a good budget or the mark of a budget, I think none of us really were anticipating the specific measures that were in there, the income tax thresholds and the marginal rate. I think most of us expected that Impôts would go up and higher education I think is something which has been under discussion for some time. But the proverbial rabbit out of the hat, which is what has been produced, does not necessarily feel that that is quite the right rabbit, if I might stretch the analogy even further. I do understand that there will be individuals who will welcome the increase in their disposable income. I do hope those individuals understand that some of that increase will be diminished by the long-term healthcare charge, which is a different debate. Overall, it is a net amount of £8 million, which in the great scheme of things and in terms of the long-term capital projects and the Island's overall budget does not really seem to be that big a rabbit, if I might be so bold.

The Deputy of St. Ouen:

Some commentators have suggested that the current proposals with regard to long-term care funding amount to an increase in our income tax base rate of 20 per cent to something higher. I just wondered if the I.O.D. currently had a view on that.

Mr. J. Laity:

We do have a view and it is probably in your inbox at the moment. We released the letter on it. I think you may be on the Scrutiny Panel for...

The Deputy of St. Ouen:

Oh, right, I have not looked. **[Laughter]**

Mr. J. Laity:

Your point that some commentators believe it is a tax, well, I am a simple guy. It means people will have less money in their pockets at the end of the day. It is a calculation levied on their income. It is collected by the tax office. It is not voluntary and I expect, therefore, there will be fines if I do not pay it. It goes into the Government's pots and they are using it to pay for something, something which is obviously well stated in its aims. That does not sound to me anything other than a tax. I understand why politically it may be difficult for whether or not it is the Minister for Treasury and Resources or the Minister for Social Security to say that, but I think if

they really think that individuals and businesses do not sit down and say: "The headline rate is 20 per cent but what are all the other bits and pieces, social security, long-term healthcare charge, G.S.T. (goods and services tax)?" that they do not all add it up and find out what the actual tax rate that an individual or a business would be paying, I think that is rather a naïve view.

Deputy R.J. Rondel:

Do you think it could be funded any other way?

Mr. J. Laity:

Long-term healthcare charge? Well, that is, with respect, for a different discussion, but yes, it probably could. I think our position that we have made clear on in the last few days is we would like some further thought given to alternative funding. Our major concern on the charge is it is going to arrive in 2015, which is pretty soon, and we welcome the fact that it has been reduced to reflect the economic circumstances. We happen to believe there is a strong possibility those economic circumstances might still be around in 2015.

Ms. W. Dorman:

Personally, I would describe this budget as a quiet budget because although the headlines are that it is a giveaway budget, when you look at things in the round with the long-term care charge, it is actually a very neutral budget. In some ways, we welcome that. We do not have anything like the 20-odd pages of complex legislation that we had last year on the new distribution rules. We do not have any big new taxes or big tax rises, so we think that is good. On the downside, I think there is a little bit of lack of honesty around the long-term care being treated as a separate thing, not brought into the bigger picture. As we have already stated, we would like to see a bit more stimulus to business, which will create jobs and that would be the enterprise scheme, the capital allowances. There just does not seem to be much there in terms of stimulation in the whole package.

Senator S.C. Ferguson:

Yes, because you have said that you feel that business was forgotten in the budget. Is there anything else apart from the enterprise and the various schemes you have mentioned that you would like to see in it?

Mr. J. Laity:

Well, whatever we do suggest obviously has to link into the document which is being discussed next door. So taxation policy can only be one part of it, but it is an important part. I do not think it is sufficient to rely on the fact that we have a zero per cent rate of tax for corporates. I do not think necessarily that is something we would broadcast in the outside world in terms of attracting inward

investment to diversify our economy because if you are a businessman wanting to set up business here then you yourself are going to be subject to tax at 20 per cent and really it does not make much difference. If you are an outside investor wanting to do something here, then possibly, but then we run into all sorts of other issues.

Ms. W. Dorman:

There is one other thing that we did request when we met with the Minister for Treasury and Resources and that was to bring in a unilateral double tax relief because a lot of businesses here are now doing more and more international business. There is very limited treaty relief from double taxation, so for individuals and for businesses we would like to see a statutory unilateral double tax relief which other countries have and Guernsey, our neighbour, has so that that encourages outward-looking businesses and individuals to come to Jersey and base themselves here.

Mr. M. Oliver:

Why do we not have that then? Why do Guernsey have it and we have not?

Ms. W. Dorman:

The Comptroller has never been keen on it and I think it is just to do with concern about the cost to the tax revenues of providing that. But if you look at what it might bring in terms of making the jurisdiction more attractive, I think the cost has to be seen in that context.

Mr. J. Laity:

There is a general theme running through a number of the comments we have made and that is another example of it, which is the prevailing answer to a number of the issues we might raise around using the tax system to stimulate investment is it will be abused or it will cost us too much money. Now, if we are trying to create an entrepreneurial culture, then that in itself is an articulation of the problem we are trying to address. That does not sound to me like an enterprise-led tax system at all. If you go on to the U.K. H.M.R.C. (Her Majesty's Revenue and Customs) website and type in whether or not it is film industry, digital industry or whatever, you will get a list of tax incentives: Patent Box, Enterprise Investment Scheme, Seed Enterprise Investment Scheme, 100 per cent capital allowances. They have far greater fiscal constraints than we have, yet they believe it is a "bet" worth taking to introduce such stimulus. I do not think we are really any different and, as John says, arguably with a smaller, closer-knit community with hopefully less in the way of avoidance going on here, it should be easier to introduce such a system here rather than harder.

Deputy R.J. Rondel:

Do you think their concern is the risk involved with that?

Mr. J. Laity:

Yes.

Mr. J. Shenton:

The risk is minimal. I know when G.S.T. was brought in the Crown agents said that they could not believe how compliant we were in relation to G.S.T. I know they did Tanzania or somewhere before us but... **[Laughter]**. Going against all the incentives for the Patent Box and the holding company and everything else, we have no relief for foreign taxes; we have delays in obtaining business licences; we have odd housing laws. I cannot recruit the people I want. You have strengthened the rules surrounding whether I take on someone. I then cannot get rid of them. If it turns out I have made an error, no fault on either part but I made an error, I then cannot get rid of them. All these things, long-term care, the higher social security charges, it is just anti-business at the moment. Then we sit there trying to run our business and then the civil service is just growing and growing on the other side. We find it very difficult.

The Deputy of St. Ouen:

You say it is anti-business, but I think the Minister for Treasury and Resources might argue that over a relatively short period of time taxation has transferred or the pressure of taxation, the tax contributions made, have transferred from business to the individual.

Mr. J. Laity:

Most of them run businesses.

The Deputy of St. Ouen:

So how do you counteract that argument?

Mr. J. Laity:

Because most of those individuals will run businesses, so the actual economic activity on the Island to a large extent is still being taxed, it is just being taxed on individuals rather than on the businesses. There is something in that argument. The headline rate obviously for companies, other than financial services companies and a few others, is zero per cent, but the profits in that business are still being taxed at the point at which they are received by the individuals on the Island.

Mr. J. Shenton:

Yes. If I take any money whatsoever out of Grant Thornton I pay tax on it. There are rafts of anti-avoidance to ensure that I do not avoid paying that tax, but anything I take and I enjoy an economic benefit from I pay tax on.

The Deputy of St. Ouen:

Why is that message being lost then?

Mr. J. Laity:

It is not being lost...

The Deputy of St. Ouen:

Why is there this perception that the individuals are now covering the taxation?

Mr. J. Laity:

It has not been lost because it has not been given. It is not within anyone's interest or the Minister for Treasury and Resources's interest to say anything other than that the rate of corporate tax is zero per cent.

Ms. W. Dorman:

It is true to say that where the businesses are not locally owned that tax take from businesses has left the Island or gone from the Island and that means that the burden of tax falls more on the local people than previously.

Mr. J. Shenton:

People that are here, yes, absolutely.

Mr. J. Laity:

Yes.

The Deputy of St. Ouen:

But looking at the overall picture and taking that into account, what percentage would that be? You are looking at local business versus non-local. Are we looking at 50/50? Are we looking at less?

Mr. J. Laity:

We do not have that data. I am sure the Minister for Treasury and Resources will because he would have seen the tax receipts from the non-locally owned businesses disappear.

The Deputy of St. Ouen:

From the I.O.D. perception, are you aware that the non-local companies...

Mr. J. Shenton:

If the non-local companies do not pay tax, and I think if you look backwards then Jersey was always the Island where foreigners funded our education, our hospital, our roads and everything else. Now we have to fund it ourselves and that is why the pound in my pocket is worth a lot less than it used to be.

Ms. W. Dorman:

But what we are talking about doing is trying to encourage more people to come here and the people that are here to invest in a business here. That is all we can do. We cannot bring back 20 per cent tax because I think we would be in a very sorry state if we did for all companies. But what we can do is do what we can to stimulate business activity here among those that are business owners here.

The Deputy of St. Ouen:

How would you respond to the comment that the reason why we are having to build a new hospital and provide additional infrastructure and so on and so forth is because we have had an overgrowth in our population?

Mr. J. Shenton:

You have had that inward immigration, and it is funny because I went to St. Clement Parish Hall and listened to Rob Duhamel try and rehouse some fields not far from where I live, which I have no interest in [Laughter]. My views have obviously changed [Laughter]. But he was saying we have 48,000 homes and I think there are 4,000 of them empty and it appears that he was still working on a population of 100,000. So if he was working on a population of 100,000, which has been bantered around by the States, then if I keep at 100,000 then I do not need these homes because no one is going to want to move into it.

[16:00]

On the other hand, he was also asked to pass planning permission for 28 new primary school classrooms. I recall when there was a debate about private schools that the then president of Education said that there was quite a lot of slack within the schools, which I think they said could take the people who left the private schools. You then look at the long-term care, which I do not want to dwell on, which basically says that at the moment we have 4 workers to one pensioner.

Oxera have said you will have 2 workers to one pensioner, so unless we are going to have widespread euthanasia in order to squeeze the 100,000...but I am a simpleton: if I have lots more schoolchildren and I have a lot more pensioners, then my workforce, even if it stays the same, is going to take me to 120,000. Or it decreases and if it decreases we are all in trouble. So coming back to what you were saying, we need - and it is a terribly unpopular thing to say - to be able to open the doors a little bit further. I think if we had the same density as Guernsey or some other places...I think in Guernsey we would have 140,000 from the same density as Guernsey and nobody wants to be like Guernsey. **[Laughter]** Housing are looking in their little silo at what they need. Education are looking in their little silo at what they need. You mentioned about the hospital and how many new beds and everything else. They seem to be sitting in their little silo looking at what they need. The stated policy from the States is 100,000, so we as the I.O.D. would like to see a joined-up debate between all the States departments. We would like to see all the silos knocked down and we would like to see someone come out and say: "No, we are looking at 120,000 people."

Mr. J. Laity:

Or whatever the number is.

Mr. J. Shenton:

And if I have 120,000 people or whatever the number is, then we need to build an economy to keep those 120,000. Therefore, we need to get entrepreneurial investment rather than relying on a shrinking workforce to pay for long-term care and everything else because other people have not been taxed previously. It is asking the people over there to put their hands in their pockets to pay for me in my old age, and I do not think that is fair.

Mr. J. Laity:

Just one point to add to that, there are some interesting numbers out there which you can get yourself on various websites. Jersey's median age is higher than you would want for an entrepreneurial, outward-looking, growth-orientated Island and it is too high. Therefore, that is obviously going to get worse. As we look and debate I think what is going to be an interim population policy, there is certainly something which needs to be in there about encouraging a different type of immigrant to the Island, the type of economically active entrepreneur that John was referring to, someone who is going to lower the median age and generate jobs.

Deputy R.J. Rondel:

Would you say one of the deterrents at the moment is the actual affordability of housing to get on that first rung of the ladder for young?

Mr. J. Shenton:

Not for people coming in, no. I think people investing in the Island, the housing laws prohibit them from coming in in most categories...

Deputy R.J. Rondel:

I am talking about young people.

Mr. J. Shenton:

I think there are various problems. The current economic climate about the amount of deposit you need in order to get a mortgage, I think if you are not fortunate enough to have a - what did you say - family, friend or fool to lend you some money to get round the thing, I do not think you have much chance with the starting price at £360,000.

Deputy R.J. Rondel:

Yes, so that is a real issue?

Mr. J. Shenton:

You cannot build them for any lower.

Mr. J. Laity:

No.

Mr. J. Shenton:

Because the builders will not build them at a loss.

Senator S.C. Ferguson:

Okay. If we can move on if you do not mind...

Mr. J. Laity:

Can I just respond to that point, if you do not mind, very quickly? I think it is a very interesting point that you raise there and it is obviously not just a problem here. Radio 4 this morning covered it in respect of the U.K. I think the real issue in respect of the youngsters of the Island is what is here for them to work in, whether or not it is rented accommodation or accommodation that they purchase? We should not necessarily project our generation's feeling that owning a home is what young people coming through, who are going to generate the economic growth of the future, aspire to. Again, models elsewhere suggest that is not the case and renting and being more transient is much more accepted.

Deputy R.J. Rondel:

In St. Helier as well it is town living, absolutely.

Mr. J. Laity:

Absolutely, yes.

Senator S.C. Ferguson:

Right, which takes us on very nicely...

Deputy R.J. Rondel:

Sorry, Chairman.

Senator S.C. Ferguson:

Absolutely, I will deal with you later. **[Laughter]**

Mr. J. Laity:

I do apologise.

Senator S.C. Ferguson:

It is all right because that brings us on very nicely to asking you what your views are on the proposal that we borrow £250 million to fund the housing project.

Mr. J. Laity:

Okay. Well, we are pleased that the capital projects as a whole have been considered in some depth in the documents. There is certainly evidently some work and thought gone into that. The hospital I think looks like an imaginative way of dealing with a problem and if the investment returns can be achieved then it certainly looks like a viable option. The liquid waste seems to be using existing resources and something they found down the back of a sofa, so that appears to be dealt with. The housing is an interesting one because I would have expected that that would have attracted more attention than it has. Jersey has borrowed in the past and there are instances noted in the budget documents quite some time ago when it has done. Perhaps the time is right for Jersey to use the strength in its public finances, its balance sheet, to provide. We are pleased the analysis is there. Obviously, the distinction between hospital and housing is housing you have an income stream to service the debt, which certainly points you in that direction. So yes, it is certainly not something we rule out at first glance. We have spent some time looking through the documents. We would like to spend more time looking through the documents before we provide a considered view on it, but certainly it seems like a potential way forward.

Senator S.C. Ferguson:

What is your view on the proposal to use the unrealised profit on the strategic reserve to fund the hospital project?

Mr. J. Laity:

It is the realised profit, is it not? It is the investment returns which they are going to...

Senator S.C. Ferguson:

It is realised and unrealised. It is the growth in the portfolio from 1st January to 31st December. If the portfolio goes up in the market then A minus B is what is available.

Mr. J. Laity:

Well, I am a person who settles my credit card at the end of each month so that would probably prejudice the answer I would give. Certainly, I would focus the investment towards the gains that have been realised rather than unrealised.

The Deputy of St. Ouen:

Do you think it is realistic to believe that over what many would consider to be a considerable period of time through to December 2024 that we are likely to see a return on our strategic reserve fund of an average of 5 per cent over that period of time?

Mr. J. Laity:

I think it is realistic to believe that research has been undertaken and included in that document to suggest that that could be the case. It appears to have been modelled. There is mention of a professional services firm in there being involved in some aspect of it. I am not an investment professional. It does look on the optimistic side, but it would appear to have been modelled and thought through on some professional basis.

The Deputy of St. Ouen:

You are tax policy experts, not me. If there was that sort of certainty for that form of investment, then I would expect more people would be taking their money out of their...

Mr. J. Shenton:

If there was that certainty I would not be sitting here. **[Laughter]**

The Deputy of St. Ouen:

Okay, so obviously there is...

Mr. J. Shenton:

You cannot forecast. To be honest, if you go backwards, you cannot forecast. If you saw it coming, if you were George Soros, then maybe you might get away with some of it, but if you are Mr. Madoff then you are looking at it in a slightly different perspective. I think that it would be overly optimistic to think that we are going to achieve 5 per cent year on year, but that is based on my pure personal opinion.

The Deputy of St. Ouen:

Right, so based on that pure personal opinion, obviously there are issues that will arise if we do not proceed with...

Mr. J. Shenton:

Terrible thing to say: I struggle with the thought that the States will keep it within budget. I struggle with the thought that the States will deliver what they say they are going to deliver. I just need to look at the Comprehensive Spending Review, the terms and conditions for the civil servants, the pension scheme, the waste between each department and single supplier and all of that, which has not been delivered. I wonder whether the hospital can possibly be delivered so are we just going to end up with an enormous debt going forward. Probably, but against that I think it is accepted that we need a new hospital. I think it is also accepted that it is far more economic to build it on the 2 sites than knock one down and start building afresh. I think it is probably, with enough checks and balances, a risk you are going to have to take.

Deputy R.J. Rondel:

So 5 per cent is the balance of income and capital growth so it might be achievable.

Senator S.C. Ferguson:

Given all these factors, do you really see the budget doing anything to address Jersey's dependence on the financial services sector?

Mr. J. Laity:

I thought to myself when you asked that question at the conclusion of the last discussion I should prepare myself for an answer and unfortunately I have not. **[Laughter]**

Senator S.C. Ferguson:

Oh, I am sorry, I will ask something else. **[Laughter]**

Mr. J. Laity:

No, the budget itself will not do any harm in the short to medium term. I do not want to keep on coming back to long-term healthcare, but that is really what we need to be looking at in the medium term as something which will certainly not assist the Island's well-stated aim to move away from reliance on financial services because the other businesses will be lower margin businesses. They will be able to pay only smaller salaries and, therefore, as a proportion of that person's take-home income, et cetera. So it certainly will not do any harm. On the positive side, as Wendy said, it is very quiet overall. I do not see anything in there in itself which will achieve that aim. There is mention of the Innovation Fund in there only in the sense that it was introduced last year and has been recycled for a mention in this year's budget. I hope that it is not recycled for a mention in next year's budget and we are still waiting for some money to come out of it. So, in answer to your question, no.

Senator S.C. Ferguson:

Right, and your concerns about the economy in the medium term?

Mr. J. Laity:

I think it is still very fragile. We obviously have what looks like sustained encouraging signs in the U.K., although we need to be cautious about what we are seeing there and the rise in house prices - I think today they were talking about 10 per cent over a month in central London - looks a bit concerning. We are certainly seeing more optimism. We talk to people in the U.K. every day. They are certainly more optimistic than they were 2 to 3 months ago. Things are certainly...

Senator S.C. Ferguson:

Is that just in London or is that throughout the country?

Mr. J. Laity:

All over. I was at the I.O.D. conference in London 3 or 4 weeks ago and there were 3,000 people in there and the mood of optimism in the room was palpable. They were quite surprised that Jersey was not ahead of them and that we were watching them to... you mentioned following on from their recovery. They perceive us as being less regulated, lower taxed, more agile, and therefore should be leading the recovery rather than following it.

Senator S.C. Ferguson:

We are usually 18 months behind, are we not?

Mr. J. Laity:

Well, depending on which report or which commentator you look at, you could...

Senator S.C. Ferguson:

Colin Powell, actually.

Mr. J. Laity:

Well, the other way of looking at it is you could be 18 months ahead of it if you are over a 3-year cycle so it is not necessarily the case that we follow. Their expectation is that we should be in a position to do the things that they struggle to do. The talk in the U.K. is of lower taxation, it is of lesser regulation, it is of an export economy, less service orientated, and those are things that we should be able to achieve as well.

[16:15]

So in terms of our overall outlook for the Island, we remain cautiously optimistic. We would hope that the worst of the correction, recession, whatever word we would use today for it, is behind us, but we are at a flat moment now where really what we are looking for is do we go up from here or do we stay as we are. So is this normal now, which is not a huge amount of activity going on really? We are all busy but we are not doing busy on inward investment, creation of new businesses and so on and so forth. In fact, in many cases precisely the opposite. So is this normal and, if so, what can we do to move the trajectory upwards? Beyond that, it is difficult to say.

Ms. W. Dorman:

I think my biggest concern about the recovery, if indeed that is what we are seeing which, as Jason says, is fragile and at an early stage, is what it will mean for jobs in Jersey. Because I think businesses are still looking at cost cutting. They are looking at centralising, outsourcing to India, et cetera, and I think the long-term prognosis in terms of jobs, even if we are seeing a recovery, is not necessarily as optimistic as it might have been prior to the recession.

Mr. M. Oliver:

In terms of income tax going forward, in terms of the income tax forecasts that were made at the time of the M.T.F.P. (Medium-Term Financial Plan) and where they are now, are you more optimistic or less optimistic?

Ms. W. Dorman:

Well, they seem to keep finding a little bit more income tax than they were expecting and who knows, maybe that will continue, but it will depend so much on jobs and some of the bigger employers in the Island, what their strategy is, whether they are going to have as much of a

presence in the Island as they have had in the past. I think that will really dictate where income tax receipts go.

Mr. J. Shenton:

We do not have the competitive advantage we used to have with technology and everything else, centralising of costs no matter where, India, Mauritius, does not matter. We do not have that competitive advantage and we are still very reliant on the financial services industry but we need a little bit more diversity in the economy. It is not necessarily going to create an awful lot of money. I do not think that it will, but I think it is going to create more opportunities both for inward investment and for employment. I think something around that needs to be done.

Senator S.C. Ferguson:

Right, thank you very much. I declare the meeting closed.

[16:18]