

STATES OF JERSEY

Corporate Services Panel

Financial Forecasts Public Hearing

FRIDAY, 14th NOVEMBER 2008

Panel:

Deputy P.J.D. Ryan of St. Helier (Chairman)
Connétable D.J. Murphy of Grouville
Connétable J.L.S. Gallichan of Trinity
Connétable P.F.M. Hanning of St. Saviour
Professor M. Oliver (Panel Adviser)

Witnesses:

Senator T.A. Le Sueur (The Minister for Treasury and Resources)
Mr. I. Black (States Treasurer)
Mr. D. Peedle (Economic Adviser)

Deputy P.J.D. Ryan of St. Helier (Chairman):

Good morning, Senator Le Sueur, our Treasury Minister, and officers. Okay. Well, as you know, we are here to discuss the financial forecasting history and the future of financial forecasting generally. There are some concerns that we have had and that other politicians and the public and the media have had about the accuracy of financial forecasting in the past and, indeed, whether it can be improved or generally made more accurate for the benefit of everybody. I think the best thing to do would be to ask you a general question to start this hearing. Before I do that, I would just like to welcome members of the press as well, good morning. So, it appears that the presentation of data in the budget and the Business Plan could be improved. What we would like to do is to explore with you how this might be done.

Senator T.A. Le Sueur:

Okay. I think I would start by saying that probably what we need is for people to have a greater awareness of what financial forecasts are, what they are designed to do and what their limitations are. To me, financial forecasts are there to help guide us to set financial and fiscal policy. They are there as

a guide and I think perhaps one of the failings in the past has been to try to suggest that they are totally accurate or a single figure which should not be capable of variation, whereas, in fact, to me they are more of a shorthand notation saying: "I suggest that the revenue for next year will be a figure of N million but in reality it could be N plus 20 or N minus 30, it is within that range somewhere but the most likely scenario is somewhere around N." That may sound a bit technical but I think ... now, maybe if people were aware of that and used financial forecasts then just as a guide to how they should plan policy decisions, they would not be so disappointed when N turned out to be N plus 10 or N minus 10.

Deputy P.J.D. Ryan:

Yes. You, though, cannot blame the media for ... or the public or politicians.

Senator T.A. Le Sueur:

I am not blaming the media. I am not ... I am not blaming anybody. I am simply saying that perhaps we as States Members have failed to explain just what financial forecasts are and what they should be used for.

Deputy P.J.D. Ryan:

So do you think the presentation could be improved?

Senator T.A. Le Sueur:

So I think the presentation could be improved, but in doing so it would require quite a significant amount of explanation and, having done that, would States Members actually be in a better position to make judgments? If I say that there is a range of revenue between certain levels, that simply seems in their mind to increase the uncertainty factor so how do they plan? So I think there is a danger in trying to be too clever, but we do have to I think try to just keep improving people's understanding. Now, how we do this I do not know, but I think we are in danger of trying to conflate 2 different problems. One is that forecasts are susceptible to change, they are based on the best information we can have and best analysis of that information, interpretation of that information, but that is to some extent subjective. Now, I am satisfied that the way that the figures are generated is, if that is the right word, as accurate as I could reasonably expect. But it is the fact that there is inevitably a range of uncertainty and how that is communicated which may be the source of whatever problem or perceived problem we seem to have with the present forecasting arrangements.

Deputy P.J.D. Ryan:

Okay. Well, I think we would like to explore with you certain aspects of what you are talking about here: the presentation; you have touched on the frequency and the accuracy, depending upon the frequency of the forecasting or the presentation of the means of forecasting figures. That is really what we are here to do today.

Senator T.A. Le Sueur:

Yes. I think in the past I have probably been guilty of trying to update financial forecasts too often because that assumes, I think, a degree of reliance on those figures greater than one should reasonably put on them. Forecasts are there as a guide to help you set policy, but I like to think in terms of forecasts more in terms of the future economy, which way is the economy going. It is probably at the moment going in a downward direction; well, it is certainly going in a downward direction. To what extent is that going to affect the forecasting and so on? But I think to try to refine an inherently uncertain figure every 6 weeks or even 6 months may well be counterproductive.

Professor M. Oliver:

Two important issues you have raised there. One is the sort of general level of education in the widest possible sense of explaining what forecasting is and educating the press, politicians and the general public. That is point 1. Point 2 is about the presentation of data, and in terms of avoiding hostages to fortune, which is what has happened over the last 5 years, to have things like probability bands, that is the sort of idea behind this. Inflation targets from the Bank of England have those fans ... distribution.

Senator T.A. Le Sueur:

That is right, yes.

Professor M. Oliver:

In a way that at least explained but it is less ... fewer hostages to fortune.

Senator T.A. Le Sueur:

That is right, and I think ... I am seeing that certainly in the last Fiscal Policy Panel report, which you may have looked at. They again did probability ranges and again that is fine, as long as we can have some evidence for justifying how widespread those bands are and trying to put a percentage on the likelihood of any one or other of those situations occurring. Now, I am not sure that we have sufficient

time, expertise, to actually generate that in an efficient and effective way, but I am not directly involved in the compilation of those figures because that is an internal departmental activity which contains figures to which I am not privy. I simply look at the principles under which they are built up. It may well be that at this stage Ian, who I think is part of that team, or Dougie, might comment on some of the difficulties of trying to validate that range. Anybody want to kick off?

Mr. D. Peedle:

Yes, I have probably got just a couple of points there. One, I fully accept the point about, you know, ranges and variations around sort of central forecasts, but one thing is when you compare it to the Bank of England's forecasts there are 2 things there. One is they have forecasts. I know financial forecasts we do but in terms of economic forecasts for Jersey we do not. The second thing is it is around inflation and probably the right comparison in terms of financial forecasts is what other governments do in terms of their financial forecasts. Ultimately, we as a forecasting group are providing a service to the Minister and for States Members and if there is a particular desire to have a range then I think that is fine and that could be incorporated. But then at the same time quite often in terms of financial forecasts people want a number and they are more interested in the central number and that becomes the focus of attention rather than a range. But certainly it is something we could look at and, you know, I certainly would not rule it out from my side.

Deputy P.J.D. Ryan:

I think the Minister was alluding to the fact that it could be quite difficult and time consuming and costly to do that. Is that really the case or while you are formulating your different assumptions, making your assumptions, surely during that process would it not be a fairly simple matter to assess at the same time the level of accuracy in that assumption or the risk analysis in that assumption being correct and then put a ... put some kind of a health check on it which would in turn lead to your probability around where you think the final figure number would be? Would that not be a relatively easy thing to do during the process?

Mr. D. Peedle:

It depends what we are talking about. In terms of the final number in the financial forecast are we talking about a range around there or a range around the underlying economic forecasts?

Deputy P.J.D. Ryan:

Well, I think it is a range around the assumptions.

Mr. D. Peedle:

That is feasible but at the same time you have to have an underlying forecast rather than assumptions that were used for the financial forecasting. I think we are ... we are looking at ways we can improve the economic assumptions that go into the financial forecasting, and it may well be that in some of the work that is ongoing in my unit that we are able to actually develop the way we look forward and assess the economic performance and forecasts or at least provide assumptions for planning purposes on the economic variables. Yes, we might be able to build that in, but at the same time you have to have a forecasting. Up until very recently we have not been producing economic forecasts. In fact, a lot of what we have been doing is trying to assess where the economy is today or maybe even last year in terms of the economic data we have available, so it is quite a big jump to go from properly assessing where we are today and understanding the forces hitting the Jersey economy even in 2008 to then going forward forecasting for 2009 and 2010, even in doing those forecasts to then start putting probability ranges around that. One of the things that you would have to think about is how that then feeds back into your financial forecasts because if you have ranges around inflation and you have ranges around economic growth, then those ranges can actually interact with each other in terms of the financial forecast and actually you end up with an even bigger range around your financial forecast. So there is an issue there in terms of just thinking how that might feed through and how they might actually multiply within the forecast, but again, certainly open to doing, looking at how we can do that. In fact, we have already got processes in place in terms of the work we are doing to look how we can improve.

Deputy P.J.D. Ryan:

It seems to me - I do not know how the rest of the panel feel - that what you are highlighting there is maybe the difference between what would be the traditional approach to forecasting that we have had in the past where some very senior people have sat down and given their views on what they think will happen, the traditional approach. I think you are highlighting a more scientific, more economic model based, where you would build up perhaps a computer-generated Jersey forecasting model. Is that right?

Mr. D. Peedle:

Not going as far as that. I think we need to be clear in terms of ... and I have been involved in the forecasting group now for a number of years and we always within the group look at ways we can improve things. One of the things ... we have considered a number of times how we can use any forecasting techniques, but the issue we have always come up against is quite simple. The group, certainly from my perspective, seems to perform very well in terms of the expertise and knowledge within that forecasting group. It has actually to me probably performed better than any economic model could.

Deputy P.J.D. Ryan:

Well, let us just examine that, actually, Michael. Can I ask you to come in here? Because looking back over the history of how accurate we have been, it seems from the research that we have made that it was, as you say, doing very well as a forecasting group some while ago, but that the performance seems to have tailed off, albeit recently, so that we are not getting it as accurate as we used to.

Senator T.A. Le Sueur:

I am not so sure that is right.

Professor M. Oliver:

Well, in terms of variances from the original budget have got worse, but in terms of the probable it has improved over time. They have all been 3 months prior to the actual. So what you have seen ... so within 3 months it has got better, but in terms of 15 months out it has got worse.

Mr. I. Black:

Can I just finesse that a bit? Could it actually be that where our forecasts have been awry is that we have not been great either predicting booms or recessions, and so in very recent times we have had very big levels of economic growth that we did not predict; I do not think anybody else predicted. Therefore, when you say that we seem to have been a bit further out in recent times, that is, of course, that we have just had a high level of economic growth and conversely, because if we now move into a period of much lower rates of growth that no one anticipated, it could be that our forecasts are equally out the other way. So it is not that our forecasts have got less accurate in recent times, it is that we have had very high levels of economic growth in recent times.

Deputy P.J.D. Ryan:

Do you think it is ... I mean, a trend that we have noticed, and I would like to explore this one with you, is that when we have growth you tend to underestimate.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

When we have recession, you tend to overestimate.

Mr. I. Black:

Yes.

Senator T.A. Le Sueur:

In broad terms, yes.

Mr. I. Black:

I think one of the reasons you started on this is there was a belief building that the Treasury has been consistently underestimating income. I have heard it personally from so many different sources and so many politicians. If this report does one thing, it is to demonstrate that is not true. The figures in the report, that we have overestimated 13 times and underestimated 12 times, so if anything it is slightly in reverse of what people have said. It is just not the case that we have been consistently underestimating income and are being overcautious.

Senator T.A. Le Sueur:

Certainly I accept that in the present time when we have had economic growth for the last few years and, therefore, underestimates, it is the last thing that people remember so they have forgotten about the fact that 5 years ago we were getting ... we were too optimistic.

Professor M. Oliver:

We are going turn, actually, to some of the assumptions under the forecast shortly, but let us return to this idea about variance. I mean, you have just accepted that yes, in terms of the original budget it has got worse, and that ... but we will park the growth issue to one side for the moment because there is a concern surely that why did you underestimate growth and why do you overestimate growth? I mean, that is another question. Sticking on to this pure forecasting at the moment, we heard from a former economic adviser that variance used to be plus or minus 3 per cent over the entire year. Now, that seems

extremely tight indeed.

Mr. I. Black:

I think ... I am not sure it is worth getting into today, but I think that is a misunderstanding because I think he said ... he meant 3 per cent between forecasts, which was actually a forecast within a year. So I have read the report and I think it may not be comparing like with like on that basis.

Professor M. Oliver:

Okay, there is a disparity then because he thinks he is comparing like with like. You do not think he is comparing like with like?

Mr. I. Black:

Sorry, I do not know what he said to you, but I do know the basis of the 3 per cent figure and the 3 per cent was the difference between the forecast produced. for the Business Plan debate and the outturn at yearend. So we are talking within year for a number of months.

Professor M. Oliver:

Not over a 15-month period?

Mr. I. Black:

No.

Professor M. Oliver:

You categorically say that is almost impossible?

Mr. I. Black:

Yes.

Professor M. Oliver:

What do you think should the figure be, the sort of ... from the original budget to outturn? Any idea what ... should you have a target? What do you feel the target should be?

Deputy P.J.D. Ryan:

Do we think a target would be a good idea?

Senator T.A. Le Sueur:

Well, it almost begs the question should you have more than one forecast a year?

Deputy P.J.D. Ryan:

Yes, we can examine that one as well.

Senator T.A. Le Sueur:

Because I think forecasts change in the light of better and more up-to-date information. Now, I cannot predict in advance what that up-to-date information would be, otherwise that would be the forecast in the previous situation. All I am saying is times change. Up-to-date forecasts have to reflect the best information you have at hand, but if that information suggested that your previous assumptions, we will say, of economic growth were wrong, that does not necessarily mean you were wrong to set that figure or even set a range. What I do not like is the suggestion that if you set a range of plus or minus 5 per cent and it comes out at 6 per cent it means that the previous forecast was wrong. It is not that the previous forecast was wrong, it is that the previous assumption was not sufficiently accurate. Now, I suppose I am not sure what I am saying there, except the fact that trying to get these things accurate to plus or minus 2 per cent, 3 per cent, 5 per cent and then criticising if they do not come within that range may not be the best use of financial forecasts.

Deputy P.J.D. Ryan:

But it is always good for our officers to have something to aim at, is it not?

Mr. I. Black:

I think I agree. I have never thought of this before, but I think it is reasonable for us to set ourselves a target so at least we can measure how well we did against that target and obviously to try and improve upon it.

Deputy P.J.D. Ryan:

And to then examine, measure yourselves against it and take actions that might try and improve it.

Mr. I. Black:

That seems to me reasonable.

Senator T.A. Le Sueur:

Yes.

Mr. D. Peedle:

It does not actually have to be a target. I dare say it could just be a way of measuring, you know, how you performed in terms of that forecast ...

Deputy P.J.D. Ryan:

Well, it is a K.P.I. (key performance indicator), is it not? To use the jargon, it is a K.P.I. within your department.

Senator T.A. Le Sueur:

Yes.

Mr. D. Peedle:

It is not that we will be within these bands, but maybe when you are outside that band you might want to look back and say: "Okay, what were the factors that contributed to that?"

Deputy P.J.D. Ryan:

Yes. By K.P.I., for the record, I mean a key performance indicator. Okay. Can we move on to the question of the different sectors where you are getting good data from and maybe not quite such good data from? You seem to be getting good data from the finance sector, generally speaking, but gathering detail from ... and accurate detail from other areas, for example retail and construction, can be much more difficult and informal. Have you any ideas and suggestions how we could improve that area?

Senator T.A. Le Sueur:

I have, but I think we also need to accept the fact that the majority of our revenue comes from one main source, which is income tax on individuals and companies.

Deputy P.J.D. Ryan:

But if we are going to diversify our economy as a lot of people are now ... there seems to be a feeling that we should increasingly look at ...

Senator T.A. Le Sueur:

Yes, that income tax may come from different sectors within the economy, but the majority of revenue still comes from income tax. What I am saying is that because things will change from 2009 when we move to Zero/Ten, some of the complexities in the past will wash out and equally as G.S.T. (Goods and Services Tax) comes in and has a bigger percentage, that ought to make the forecasting difficulties slightly less difficult. I say that because with at the present time the majority of our tax revenues or the majority of our States revenue coming from income tax and the majority of that revenue itself coming from one sector, which is the financial services sector, it is only reasonable that we should devote as

much resource as we can to making sure that we get as much information as possible from that sector, and we do. It is, I suppose, what you might call the 80/20 rule: do you want to spend ages trying to get an accurate figure of how much farmers are going to generate next year when that is partly down to the weather; and, secondly, even if you got the weather right as well, they only contribute about 0.01 per cent to the total tax take. So I am more interested in getting, in terms of my forecasting, those matters which are going to have the greatest influence or greatest effect on variance to that forecast. I am sure if you ask should we get more detail from retail or construction, yes, it would not do any harm, but I am not sure it would be good value for money or good use of resource.

Mr. D. Peedle:

Can I just add something on that? Let us be clear, in terms of the information we have there are probably 3 sources of information for the finance sector in terms of statistics. We have gross value added, which is split down by sector and covers construction and retail; you have employment data, which is also split down by sector and covers construction and retail; finally, the big one is you have the Financial Institutions Survey, which is clearly focused on the Financial Institutions Survey. So the big difference in terms of gathering economic data is that particular survey and it is very useful because of the timing of it but also the fact that it asks about expectations of the performance of that sector. So in terms of not just relative to financial forecasts but in general terms assessing the performance of the economy, again we are looking at ways and have been working with the Statistics Unit in terms of how we might gather more information outside the finance sector. On the retail side, the head of statistics is already piloting a retail sales inquiry which will be a quarterly survey and will give us much more up-to-date information on the performance of that sector but also a barometer, if you like, for consumer activity within the Island, which will be useful to do. Also, the other thing that he is looking at - recognising where we are with the economic data that we have got and that we do have limited resources in terms of what we can actually provide - is the next thing that he is looking to do and he is hoping to produce next year is an annual business inquiry which will again be available for sector information, looking at components like investment, trade performance as well. So, again, we are always looking at ways we can improve the data that we have got with the resources we have. They are 2 pieces of

information which will actually provide more information on retail and construction performance.

Deputy P.J.D. Ryan:

Right, okay, that is interesting. You were talking about an annual business inquiry. This is something new?

Mr. D. Peedle:

Yes, it is new.

Deputy P.J.D. Ryan:

Would you like to just expand on that a little bit for us, what it means?

Mr. D. Peedle:

It is basically an annual survey. As I understand it, the Statistics Unit are working to produce the first one next year which basically provides information by all sectors on key economic variables.

Deputy P.J.D. Ryan:

I mean, the first question I would ask about that is are we going to see a whole a range of extra bureaucracy that businesses are going to have to fill in or do you feel that this could be part of something that they are already producing?

Mr. D. Peedle:

I think that there is always a trade-off in terms of wanting more data and the time that takes for people, you know, to actually complete any survey information. It will involve more input. It will also help gather information that is no longer available from the tax records under Zero/Ten, so it may require people filling out another form providing additional information.

Deputy P.J.D. Ryan:

Is this a sort of a sampling or is this a blanket across all business or what are we talking about?

Mr. D. Peedle:

It will be ... it is a survey so I think it would cover a large proportion of businesses. Whether it be a full survey or a sample you would have to ...

Senator T.A. Le Sueur:

With all these surveys, they are by nature voluntary.

Deputy P.J.D. Ryan:

Yes, they are voluntary; that is the most important thing.

Senator T.A. Le Sueur:

Yes, and the simpler the question, the more chance of getting a decent return. If you give them an 80-page questionnaire you are not going to get many responses.

Mr. D. Peedle:

Again, just to make it clear, it has been developed by the Statistics Unit, which will, of course, try and balance the trade-offs between time ... you know, people's time, samples and getting the quality of information.

Deputy P.J.D. Ryan:

I think you were referring to a technical problem under Zero/Ten, though, as well, were you not, where there will be an absence of data because people will not be any longer ... or certain sections of the economy, of industry, will not have any longer to file tax returns.

Senator T.A. Le Sueur:

There will be an absence of data, but there will also be an absence of revenue from certain sources, and that revenue will get diverted into personal taxation.

Deputy P.J.D. Ryan:

But if we are talking about assumptions on growth and things, those people still are part of growth and other parts of the economy, even if they are not paying income tax. So, you know, they are employing people and all of the rest of the stuff, they contribute to inflation or not as the case may be, so it is still important to get data from those areas.

Senator T.A. Le Sueur:

Yes.

Mr. D. Peedle:

We do as well, even without the annual business inquiry. If you want to understand the performance of the sectors, it is not just about profits, it is about employment and wages as they are a big component of G.V.A. (gross value added) as well. So it is not that we have not got any information on those sectors,

but will we need to top it up.

The Connétable of Grouville:

Is this new survey a reaction to the Fiscal Policy Panel asking for more data on trade? When they saw us in July last year they said they would have liked to have seen more data on trade. I just wondered is this a reaction to their demand.

Mr. D. Peedle:

It is not a reaction to that simply because I know the head of statistics has been looking at it, you know, for longer than the Fiscal Policy Panel has been in place, looking at how they would do it and developing the methodology and how they will do that. Will it help the Fiscal Policy Panel? Yes. Will it provide some information on trade? Yes, it should do. Obviously it is still to be exactly determined, but a business inquiry would go into issues like exports and imports so it would provide some trade information so it would help meet the panel's desire to see more information as well. Again, we are working with the Fiscal Policy Panel in terms of making them recognise the resources that we have and what are the key pieces of data that would help them perform their task.

The Connétable of Grouville:

How do you see the duty of the Fiscal Policy Panel? Is it as an overarching keeping an eye on you or is it offering advice at the same time?

Senator T.A. Le Sueur:

The remit of the Fiscal Policy Panel is quite specific. It is to advise me on economic trends and to advise me on whether I should recommend transfers to or from the Stabilisation Fund and the Strategic Reserve. Now, it may well be that as that policy panel develops its activities we can broaden them, but it was set up initially for that fairly limited range of purposes. I do not know if I have forgotten anything, Ian?

Mr. I. Black:

No, that is right, I think, but the huge benefit for us is for the first time ever in the Treasury we have got the benefit of somebody producing forecasts of economic growth and we can now use those ...

Senator T.A. Le Sueur:

Or economic movement.

Mr. I. Black:

... to improve the accuracy of our Treasury forecasts. So that is a real benefit, the Fiscal Policy Panel. In terms of what we can do to improve the forecasts, I think it is probably the biggest single thing is that we can now use information produced by them as a basis for us.

Deputy P.J.D. Ryan:

There is a danger, though, here that you ... somehow we get ourselves into a position where we would subsume the F.P.P. (Fiscal Policy Panel) into the Economic Adviser's Office generally, somehow, that the 2 would overlap in some ways

Senator T.A. Le Sueur:

I do not see that happening at all.

Deputy P.J.D. Ryan:

Would you agree that there is a danger there that that could happen if we were not a bit careful? I mean, the value of the F.P.P. lies in its independence from the executive side of government.

Senator T.A. Le Sueur:

I am confident that F.P.P. will remain totally independent and that that will be one of their requirements, to be independent and to be seen to be independent. They will require information and advice and that information may well come from the Economics Unit, it may come from the Statistics Unit, it may come from the Chamber of Commerce or a whole range of different places, but I do not think that the Fiscal Policy Panel would take kindly to being influenced in any way by ...

Deputy P.J.D. Ryan:

No, and that would be a concern, I think, generally that we would have certainly on the scrutiny side.

Senator T.A. Le Sueur:

Yes. I think one of the strengths of the Fiscal Policy Panel is that it is composed of people outside the Island with no axe to grind as far as the Island is concerned, who are leaders in their field and will not want their reputations tarnished in any way whatsoever, and they are going to make sure that they deliver something which they can be proud of and which they can justify as totally independent.

Deputy P.J.D. Ryan:

I mean, their value to you as the Treasury Minister will lie principally, I believe, in their independence.

Would you agree with that?

Senator T.A. Le Sueur:

Certainly one of their key strengths, that they are independent and objective. And that they have expertise.

Deputy P.J.D. Ryan:

It gives you ... it would give you or any Treasury Minister another view that would be independent of your own officers, frankly?

Senator T.A. Le Sueur:

It will be another view independent of my officers and my advisers. It may well come to the same conclusions, but that is a matter of chance.

Deputy P.J.D. Ryan:

That is another matter.

Senator T.A. Le Sueur:

Yes.

Deputy P.J.D. Ryan:

Okay, thank you. There is one little technical question on the finance area that I think, Dougie, you mentioned. That is to do with ... you mentioned 3 areas, the G.V.A. figures, employment figures and then you did a Financial Institutions Survey. Is it not true that with financial institutions there is a little bit of a disconnect because very often they are ... the profits that they declare at the end of any particular year may not be dependent on growth, actually, that there are several other reasons as to why they might make profit in one year that they would not make in another and it is not really necessarily connected to growth? Would you agree with that, first of all?

Mr. D. Peedle:

I think it probably works the other way, if I understand where you are going, that actually their profits which contribute to G.V.A., the measurement of G.V.A., do not actually translate necessarily one for

one into tax revenue. Is that the point that you are referring to?

Deputy P.J.D. Ryan:

That is the kind of areas that I am thinking about, yes. I am just wondering, one of the questions we have here is whether it would be worth spending a bit more money, actually, of your own resources meeting with individual companies to discuss the income position and the forecasts, whether you feel that enough attention is being paid to that area to try and understand it a bit better?

Senator T.A. Le Sueur:

I suspect that may not be particularly productive. I am not a banker, but I suspect that although they may well have an idea of their prospects for the year, what their bottom line profit will be at the end of that year will be decided very much at the last minute depending on factors which may be outside Jersey's control, partly influenced by interest rates and the size of their capital base, but also what requirements their head office may have.

Deputy P.J.D. Ryan:

Yes, but they do have a vested interest in getting our forecasts accurate as banks. How much co-operation do you feel you would get there?

Senator T.A. Le Sueur:

I think we will get every co-operation we can. They are very good in that respect. But I am saying that we cannot necessarily rely on forecasts of growth or business prospects necessarily translating into taxable profits at the end of that year.

Mr. I. Black:

Two comments on that. I believe - I will have to check - that we have attempted this in the past. I think the Comptroller of Income Tax has had a go at looking at the key players and meeting with them and getting information, and it did not prove worthwhile, it did not help improve the accuracy of forecasts. I think what might, though, is this discussion about the difference between profitability and tax revenues. There are some complicated links and we do not at present completely understand them, so what we are going to do is - and we have already committed to it; in fact, the person who is going to do it is sitting at the back of the room here - we are employing an economist who is on secondment from the Bank of England to actually look at the drivers of our tax revenues, so look at the links between profitability and

how that converts into tax revenues. Because if we have a better understanding obviously we can improve our forecasting.

Deputy P.J.D. Ryan:

Can I just explore this A.B.I. just again for a second, the annual business inquiry? This is going to be voluntary. If you did not get sufficient ...

Senator T.A. Le Sueur:

I think it is going to be voluntary. I do not know if it has been finally decided yet.

Mr. D. Peedle:

Yes, we need to be careful about sort of pre-empting what the Statistics Unit are doing in their development process.

Deputy P.J.D. Ryan:

Yes, sure. They are independent, of course. I have a feeling, though, and in discussions with the Statistics Unit, that they would favour something like a Statistics of Trade Act, a law which would drive this. Do you have a view on this, Minister? How do you feel about that if we are not getting ...? Do you think there needs to be some kind of legislation to give it some teeth?

Senator T.A. Le Sueur:

What we do not want to do is to inhibit business activity or dissuade businesses from setting up or maintaining business in Jersey. The more obstacles you put in their way the greater the likelihood of them saying: "Enough is enough" and packing up. So we have to balance the additional information we get from that sort of legislation against the burden it puts on businesses and, indeed, the burden it puts on the government as well.

Deputy P.J.D. Ryan:

I have alluded to the question of diversifying our economy and the necessary information that we would need to make the right decisions in that area. First of all, how do you feel about that? Because that is the kind of information ... if we are going to diversify in the most beneficial way, then this kind of information from other sectors other than finance, is it not going to be crucial?

Senator T.A. Le Sueur:

Yes, but that is a matter of economic policy. I think in terms of forecasting I am not sure that a forecasting group can necessarily ascertain where new business growth is going to come from until there is a steer from perhaps Economic Development as to the likely benefits of particular business sectors. We could look at profitability, we could look at costs per employee, we could look at tax revenue per employee, and say: "Well, yes, I think you should have more builders and fewer farmers." That does not necessarily translate into economic diversification or to what is going to happen in reality. So I think forecasting has to follow the economic trends to a large extent rather than lead.

Deputy P.J.D. Ryan:

We are getting on to more general economic ...

Mr. I. Black:

I think I end up repeating what the Minister said earlier, which is it is about materiality, is it not? If you have got an area that equates to 3 per cent of the economy, if that experiences 20 per cent growth it is still not going to have a huge impact on your tax revenues, so how much effort should you put into forecasting by doing surveys on it?

Deputy P.J.D. Ryan:

Okay. In the budget statement, at the moment we are not providing a breakdown in detail of the economic forecasts ... sorry, the assumptions behind the economic forecasts, are we, to a great enough degree, do you feel? I mean should we be incorporating data from the *Jersey Economic Digest*, for example, into the budget and discussing things in a little bit more detail there? I mean, that is a question that I have; I am not sure if you agree or not.

Senator T.A. Le Sueur:

The budget is there to set our revenue ... or to find a way to meeting our revenue requirements. I am not sure if ... I would be happy to give more details of the assumptions on which the forecasts were made if that would help in the decision-making process of the budget itself. If, for example, I said my assumption is that the economic growth next year will be 2 per cent and my forecasts have been based on that level, it will not be particularly helpful if the budget debate says: "I think the Treasury Minister is wrong, actually economic forecasts should be 3 per cent." Where does that get us? Now, there may be a place for discussing the assumptions used in building up economic forecasts, but I suggest it may be

better done around this table in a scrutiny type of process rather than in a States debate. So I am not quite sure how much benefit we get.

Professor M. Oliver:

Well, let us go back to the first point you made about educating the public and the wider education as well. Not so much ... could be the assumptions but just you take the U.K.'s (United Kingdom) financial statement and budget report. They have a table B9, summary of economic prospects. There is just a lot more information there. Now, it is a wider issue of education, of transparency and so on. That is I think the point being made here.

Senator T.A. Le Sueur:

Yes, right.

Mr. D. Peedle:

Can I just make a point? We do now have obviously the Fiscal Policy Panel which are publishing exactly what you are talking about in terms of an analysis of the economic trends, the economic assumptions. Now, if the budget is going to draw on their advice and their economic outlook, it is their job to give the independent advice on the most likely trajectory of the economy, then we have actually got a full and detailed discussion of all the economic issues. It accompanies, if you like, the *Economic Digest* because it is an economic interpretation of a lot of the information that is in the *Economic Digest* ...

Professor M. Oliver:

But that is what they say, not what you say, and there is a big difference.

Mr. I. Black:

No, we are going to use that information. We are not going to diverge from ...

Professor M. Oliver:

So they are guiding economic policy now? They are producing ... I am sorry, I am confused now because if you are going to use their information, does the U.K. Treasury then buy in what the I.M.F. (International Monetary Fund) says or does it buy in what the O.E.C.D. (Organisation for Economic Co-operation and Development) says? No, it produces its own forecasts.

Mr. D. Peedle:

It is not a fair comparison because the U.K. Treasury has not got an independent Fiscal Policy Panel with a remit to advise the Treasury and Resources Minister on what the economic conditions are, what the prospects are for the economy, what the outlook is and how fiscal policy should be balanced relative to that. So if the budget is not going to draw on the Fiscal Policy Panel report, then why is it in place and why are they publishing this report because that seems to me to be within their remit. Clearly, if the Treasury Minister or myself feel that there is something not right in the advice that they are giving, then we are quite entitled to make that point and there there might need to be an explanation as to why the Minister sees trends being different to the panel or, you know, if I have a viewpoint I can make it to the Minister and he can decide which is the right and the most likely ...

Professor M. Oliver:

So on that basis would you then put your own growth prospects that differ from the F.P.P. into the budget report? That is what I am trying to establish.

Senator T.A. Le Sueur:

If there were a variation, then one would, but first of all you would explore why there is this variation when the information is common to both groups.

Mr. I. Black:

My thought on all this is I agree with the point about transparency. I think the information should be available. Whether we should load it into the budget report that people already find can get quite technical and complicated is another discussion, but the important thing is it is available. I think, to reiterate what has been said, we should ... we will generally be using the Fiscal Policy Panel assumptions which they publish and wherever we diverge from them or use other assumptions, yes, I agree we should publish those assumptions.

Mr. D. Peedle:

Just one thing as well, before the Fiscal Policy Panel I did publish an economic review at the same time, and it would seem that actually this report was subsuming that responsibility and taking it forward in terms of an economic assessment. So there seems very little point in going back to something which has been replaced and improved.

Professor M. Oliver:

It just seems to be looking back in the past you had your Jersey figures ... sorry, your *Jersey Economic Review* published just after the budget, but there seemed to be a disconnect again where ... whereas in most other countries this is discussed in the budget, whereas it is 2 separate documents. It is sort of ... you have to make the connect. Well, you can, you know, no one is a dumb-dumb, so to speak, but it is just worth exploring that in the budget. Now you are saying now the F.P.P. will do that in their report and you will draw on that where necessary?

Senator T.A. Le Sueur:

Yes.

Professor M. Oliver:

Okay.

Senator T.A. Le Sueur:

I think the timing of the F.P.P. report is done with that in mind.

Deputy P.J.D. Ryan:

Okay. Well, we hear what you are saying, then. I am not so sure that we would necessarily agree that that is the right process, but anyway we will deliberate.

Senator T.A. Le Sueur:

Well, yes.

Deputy P.J.D. Ryan:

Can we just talk about the current process which relies quite heavily on the experience of individuals who have many years' understanding of economic issues? What about continuity? Because those individuals will not be there, they will eventually retire. How do you feel about that? Do you feel that we need to move into a different era?

Senator T.A. Le Sueur:

That suggests that those individuals bring subjective judgments based on their past experience.

Deputy P.J.D. Ryan:

Well, yes.

Senator T.A. Le Sueur:

Which they do, but I think if we are trying to improve our forecasting we need to do it on more objective criteria and on, if you like, a more technical basis rather than ...

Deputy P.J.D. Ryan:

Yes, so you would see moving into a different mode, perhaps, in the not too distant future?

Senator T.A. Le Sueur:

Yes, I mean, no one is going to want to throw away 50 years of experience, but you supplement that with more objective ... So yes, I think already the forecasting group has broadened slightly in number and it may well be ... I do not know if it has necessarily broadened in number, probably broadened in remit and the information available to it in order to improve those forecasts.

Mr. I. Black:

It did previously used to be 2 people. Actually, the report ... I mean, it is only a technicality but it actually misses one person, so it has grown in number quite a lot. There is also another member that is not in the report, is the Director of International Finance is on the group, and I think ... so it has grown ... I think it has grown from 2 to 6 ... and also the procedures have been far more formalised. It used to be a discussion between 2 people and a note. There are now spreadsheets done, detailed assumptions, far more formal process. So we are already through that transition phase from relying on what is in one or 2 people's heads to having more heads, more knowledge and a more formal approach so knowledge is not lost.

Deputy P.J.D. Ryan:

I will not ask the mischievous question of were they better when there were only 2 of them, actually, but I will not ask that.

Senator T.A. Le Sueur:

In that case I will not answer. [Laughter]

Deputy P.J.D. Ryan:

What I would like to move on to ... what I will ask is the structure of the forecasting, and I think we will cut to the chase here. Do we believe we can and do you actually believe that we should move to a much more of a continuous process with maybe the published forecast at a single annual event to change this

whole mode that we have been used to? Do you feel that we should move towards that?

Senator T.A. Le Sueur:

You have 2 questions there: the continuous process and the annual event.

Deputy P.J.D. Ryan:

Well, by continuous process I mean you have an annual event but you would have a continuous process which adjusts rather than these set events 3 times a year.

Senator T.A. Le Sueur:

Yes. I think the more I think of it the more I am moving towards an annual presentation. Now, yes, that has to be continuously updated, but in updating it probably in terms of the assumptions ... for example, tax revenue is only known at certain times in the year when assessments are issued, so it is not a continuous process, that is a step process, whereas economic trends and activities and employment figures and so on are ongoing trends. So yes, to some extent it would be an ongoing process, to some extent it has certain key dates in it. In summary, yes, one annual forecast but updated on a regular basis internally in terms of breaking(?) information. I think equally that those updates would be available to the Fiscal Policy Panel and shared with them so that they also get a deeper view of where our economic is going.

Deputy P.J.D. Ryan:

Do you feel they should be disconnected from political events as far as possible, those updates? I mean, we have had situations where, you know, either by coincidence or design ...

Senator T.A. Le Sueur:

Yes. I think it would be ... it probably would be helpful in that what we ought to be looking for is a trend maybe rather than absolute numbers, but on the other hand I think States Members have to be aware of what the impact of potential amendments to a budget would be and if you are going to do that you have to have some yardstick against which to measure.

Deputy P.J.D. Ryan:

Any more questions? I think ... I do not think we have missed anything, have we, on the various points? That being the case, I thank you very much for your time this morning.

Senator T.A. Le Sueur:

Thank you.

Deputy P.J.D. Ryan:

Anything you want to add?

Senator T.A. Le Sueur:

Forecasting has been something which has caused I think difficulties or uncertainties in a lot of States Members' minds, and anything which we can do either as Treasury or as Scrutiny Panel or both which can somehow improve the understanding of forecasting I would certainly welcome and I think States Members ought to welcome and the general public ought to welcome. So I am grateful to you for taking on this piece of work and recognising that it may be a little bit more complex than we might first have thought. But I think maybe if you, the panel, can help me work out how we can better explain what forecasting is all about, then States Members can get more out of the forecasts than they currently do.

Deputy P.J.D. Ryan:

Okay.

Mr. I. Black:

Sorry, can I just say a few things?

Deputy P.J.D. Ryan:

Yes, please.

Mr. I. Black:

I have to say this. It is in the report. It is extraordinarily difficult to forecast tax revenues in Jersey. It is difficult in other countries. Look at the U.K. and how good their forecasting of tax revenues are. You know, the future is unpredictable. It is particularly hard here for all sorts of reasons. Currently high dependence on corporate profits, as we know, can change very much a small, concentrated, volatile economy. So these things are really difficult. The first question - which you have alluded to - you have always got to say is what is the cost/benefit analysis of putting effort into this? Is it worth spending a lot more money? If I do, do I really think it is going to result in very accurate forecasts? It might result in better forecasts but you still may find there are factors that throw things out, so how much effort should you put into it? Having said that, I think there are 3 things that we could do and are doing that we have covered today: get better data, and I think, as Dougie said, we are already trying to do that within the

resources we have got; use the Fiscal Policy Panel's forecasts, well, they are already doing that and we think that will be a great help in improving the accuracy; and the third thing I think is understanding the link between economic growth and tax revenues and, as I say, we have started that piece of work. So I think that will improve our forecasts but I am not sure that we can ever aspire to get them accurately.

Deputy P.J.D. Ryan:

But would you agree, Ian, that you are talking about this from a technical ... as you would obviously tend to do, that is your job, but there is the sort of socio-political aspect to it which is the confidence with which politicians look at the forecasts and that is as equally important that we have as much transparency and confidence at a political level in what you are doing.

Mr. I. Black:

I mean, we did talk about communication, but if people go through life expecting Treasury to produce accurate forecasts then they are going to go through life disappointed, probably. The other thing I would say is we need to consider from a policy point of view how important it is that those forecasts are because forecasts are cyclical, they go up and down, and I remember, you know, whilst I have been Treasurer we had a year where we were £25 million better off than we expected and it got the reaction: "Well, should we go and spend it?" You know, is that why you want forecasts so that when you can predict better ... a cyclical increase in your income, you can go and do some ... we go and spend? Or is it actually we should try and somehow break the link a bit between forecasting our income and decisions on our spending?

Deputy P.J.D. Ryan:

Yes, but that leads to the converse question which I think is in our minds and that is ... and that is something that we need to defuse, is the worry that some of the forecasting is bent in a particular way for political reasons. In other words, do we underestimate in growth, do we underestimate income in a growth situation, in order to try and keep a cap on spending, and conversely the other way round?

Mr. I. Black:

The one thing I have learnt from this process is that ... until the analysis was done I could not have told you for definite; I suspected it. It is just not true that we consistently underestimate our income. You know, you have the facts in front of you. Since was it 1999 or 2000 we have overestimated 13 times,

underestimated 12 times. If anything, the reverse is true.

Senator T.A. Le Sueur:

There is one where we have got it consistent and that is that our expenditure always exceeds our forecast.

The Connétable of Trinity:

True. The other big problem I would say when you suddenly find this £30 million or so, where you have been getting something like G.S.T. through which is really quite hard to guess, they are saying: "Well, did we need this tax?" That is the biggest problem with forecasting if it goes that way. We are pretty sure we do need that tax, but the thing is the general public says: "Oh, there you are, another £30 million has dropped out."

Mr. I. Black:

It is very, very difficult, is it not, because the difference between cycles that go like that ...

The Connétable of Trinity:

I agree.

Mr. I. Black:

... and spending needs that go like that.

The Connétable of Trinity:

But politically you have to look at it this way. You know, politically you wonder whether ... did we need it? Well, we all were told we needed it for when Zero/Ten comes in, all agree we know it is in place and hopefully it stays there, but you can see the way the public still think of it.

The Connétable of Grouville:

Well, that is why we have a Stabilisation Fund.

Mr. I. Black:

Exactly. It is tricky to explain, is it not?

The Connétable of Trinity:

It is.

Mr. I. Black:

You know, that we should be running surpluses and putting them away, because the public think if you

run surpluses ...

Deputy P.J.D. Ryan:

Sorry, gentlemen, I think our discussions now are getting into the discussion mode rather than public hearing mode, so if you would not mind I am just going to call the meeting to order and actually say that I think we have finished the meeting. Thank you very much. Our officers have got other things to do apart from listen to us having a discussion about economic policy. So, thank you very much for coming this morning, and I declare the meeting closed. Thank you.