



**Corporate Services Scrutiny Panel
Finance Sub-Panel
Hearing with the Minister for Treasury and
Resources**

TUESDAY, 26th MAY 2009

Panel:

Senator S.C. Ferguson (Chairman)
Connétable D.J. Murphy of Grouville
Deputy R.G. Le Hérisssier of St. Saviour
Mr. M. Oliver (Panel Adviser)
Mr. M. Robbins (Scrutiny Officer)

Witnesses:

Senator P.F.C. Ozouf (The Minister for Treasury and Resources)
Mr. I. Black (Treasurer of the States)

Senator S.C. Ferguson (Chairman):

Welcome to the Corporate Services Scrutiny Panel on the forecasting of expenditure.

For the purposes of the recording lady, I wonder if you would like to say who you are, please.

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

Senator Ozouf, the Minister for Treasury and Resources.

Mr. I. Black:

Ian Black, Treasurer of the States.

Senator S.C. Ferguson:

Also for the purposes of the recording if we can just whip round the panel.

Deputy R.G. Le Hérisier of St. Saviour:

Roy Le Hérisier, Deputy of St. Saviour.

Mr. M. Oliver:

Michael Oliver, Economic Adviser.

Senator S.C. Ferguson:

Sarah Ferguson, Chairman.

Mr. M. Robbins:

Michael Robbins, Scrutiny Officer.

Connétable D.J. Murphy of Grouville:

Dan Murphy, Constable of Grouville.

Senator S.C. Ferguson:

Right. You have got to be away by 11.00 a.m. Please keep your answers succinct, if you will be so kind. Who holds the responsibility for the forecasting of the expenditure process?

Senator P.F.C. Ozouf:

Ultimately the States hold responsibility for making the decisions on expenditure but obviously it is a proposition that is taken to the States Assembly by the Chief Minister. I think there are some general points that we would probably like to get across in relation to the overall review of exactly what the problem is we are trying to solve and what can we do about it if there is a problem.

Mr. I. Black:

Forecasts are produced by the Treasury. They are based on figures produced by our Statistics and Economics Department, particularly on inflation quite often. But at the end of the day that provides a base forecast and above and beyond that is a political decision. It is primarily a political decision on whether to increase expenditure by say 2 per cent a year or to reduce it by 2 per cent a year. All we can do is work on the base assumptions for things like inflation, pay awards, cost of benefits.

Senator S.C. Ferguson:

So in actual fact you come up with a figure for the departments and say this is your ...

Mr. I. Black:

Base figure.

Senator S.C. Ferguson:

... estimated cash or your estimated budget for next year?

Mr. I. Black:

Yes. No, we do in gross ... I think in terms of forecasts you are asking about those forecasts that come to the States every year in the Business Plan. There will be another one coming in this year's Business Plan on expenditure. What we do is we produce the base forecasts which say all things being equal based on current policies and current trends and our estimates of inflation, this is what expenditure would move by. That is a starter then for political decisions because you get political decisions over and above that to, say, bring in the Williamson recommendations or to invest in Family X or to do something to upgrade your maintenance backlog. So we provide a base forecast and over above that, political decisions are taken by the Council of Ministers and the Treasury Minister and that is what is put to the States.

Senator S.C. Ferguson:

Yes. No, I think we are a stage further back than this.

Mr. I. Black:

Okay, sorry.

Senator S.C. Ferguson:

You will come up with a figure when you are looking at it to begin with and say to the departments: "This is what we estimate your budget for next year should be." I am going back a stage. You are starting to look at the forecasting. You are starting to look at next year's budget. Do you tell the departments or do departments say: "Next year we are going to need so much"?

Mr. I. Black:

The departments find out their cash limits for future years via a States decision which is once ... in terms of timescale now, the Council of Ministers are just arriving at indicative cash limit figures for future years and they have now been asked to work those through and say what the implications are. But that then feeds its way into the Business Plan and it is the States ultimately that decides on the cash limit for future ...

Senator S.C. Ferguson:

Yes, and we have agreed the cash limits so you have a cash limit for next year ...

Mr. I. Black:

That is right.

Senator S.C. Ferguson:

... which was effectively last year plus a percentage.

Mr. I. Black:

It could be if you take Health but next year's cash limit will also include a £3.9 million reciprocal health deal, £3 million for the *Williamson Review* because that is what the States has decided they want them to do, £800,000 for Family X. So there is a base figure plus political decisions over and above that.

Senator P.F.C. Ozouf:

I think it is important to say - we need to be clear on terms here - that Treasury does not forecast expenditure. We can forecast what we think the States is going to decide. We do not also - because we cannot - set limits. We cannot set overall expenditure

limits. What we can do with the Chief Minister's Department is we set or we try ... what we are trying to do this year is we are trying to set an envelope of a total pot of money that is available which then there is a discussion of the Council of Ministers of how that is divided up. There are lots of assumptions that you cannot ...

Senator S.C. Ferguson:

Back to the old-fashioned concept of: "This is what we can afford this year. Okay, folks, now we will discuss who is getting what."

Senator P.F.C. Ozouf:

The difficulty is that there is absolutely no power, no right to veto, that the Treasury Minister has in relation to that envelope. So the Treasury is always in an extremely difficult position in that it has got to propose a budget for a department, an overall limit, which we think the States is going to accept. The States always spends more money than is proposed in the Business Plan.

Senator S.C. Ferguson:

So that is obviously a problem.

Senator P.F.C. Ozouf:

I do not think there has ever been a decision that the States has decided, no, we are going to not spend that much money. They always spend more and there is a fundamental tension between the Treasury needing to control or desiring to control public expenditure and other Ministers who are service providers who want to spend

money to provide more services and States Members with their own pet projects and pet ideas in relation to also providing more services.

Senator S.C. Ferguson:

Is that your biggest problem then or what other problems would you see with regard to trying to forecast expenditure?

Senator P.F.C. Ozouf:

The word “forecast expenditure”, I think forecasting is perhaps the wrong word because we can privately, between the Treasurer and myself, sit down and forecast what we think the States is going to agree. That is our forecast for expenditure but that is not an expenditure cap or an expenditure limit.

Mr. I. Black:

That is quite right. Forecast is the wrong word probably. You can forecast your income. You can determine expenditure. If there was a will, you could fix expenditure for future years and keep to it. There would be consequences to it. But it is not forecasting; it is deciding.

Mr. M. Oliver:

But you do forecast the growth of public expenditure over a 2 or 3 year period and then you look at outturns. Whether or not that is wrong word or not, I take your point, but that is the word that we would commonly associate it with, a forecast. But public expenditure will grow by 6 per cent or 7 per cent. Sometimes the outturn might be 12 or 13 per cent for reasons you do not like.

Senator P.F.C. Ozouf:

The Comptroller and Auditor General has obviously provided quite an interesting report in relation to the forecasts that the Treasury put in years going forward. Those forecasts - 1 year, 2 years, 3 years out - could probably be accurately described as the Treasury's desirable expenditure cap. The fact that they have always been breached indicates that there is a disconnect between what the Treasury would like public expenditure to be capped at in years going forward and the political realities of the year before and the pressures that then weigh on the shoulders of the Council of Ministers - previously Policy and Resources - that then decide to spend more money, of which we have absolutely no power apart from the power of persuasion. I am trying this year ... obviously this is a new process for me but I am trying to be tough with departments. I am trying to say to the Council of Ministers that this is the realistic envelope of money that is available and we are going to have to decide how this is going to be divided up. Let there be no doubt that there are enormous tensions. The Council of Ministers met last week on Thursday all day in order to discuss this and there were some very difficult conversations and there are some irreconcilable differences.

Deputy R.G. Le Hérisier:

To what extent do you try and, what one might call, set up an intelligent debate? For example, it has been well known for years that rent rebate and Social Security supplementation are open-ended items and they are growing and growing and growing, and similarly with staffing in some departments which are very staff intensive in the way they are driven and so forth. To what extent do you say: "We

need to look more intelligently at this. We need to look at the options because this budget we can save postage stamps and paperclips and so forth and so on but budgets like these are essentially running out of control”? To what extent do you get involved in an intelligent debate about these items?

Senator P.F.C. Ozouf:

Can I just answer that before Ian? The difficulty there is also a disconnect between I think the view that people may have from the outside that the Treasury is this all-knowing, all-powerful organisation with floors of accountants in Cyril Le Marquand House that give us data and research and comparative information about departments, about what they should be spending. The reality is the Treasury in terms of its corporate finance advice consists of ...

Mr. I. Black:

Ten, but that covers a whole myriad of things. Ten staff, it covers all States investments, States accounts, States Business Plan, States Strategic Plan, answering all States questions, all the comments on propositions, States manpower goes in there as well, States financial standards, States financial directions. So that analysis you are asking for is over and above those things essentially.

Senator P.F.C. Ozouf:

So there is no Corporate Centre Intelligence Unit which is effectively doing that bit of work to say to departments, and to challenge departments: “No, rent rebates should be cut by £2 million or £3 million.” There is an internal debate at the moment going on ... and I have to say I know you are interviewing the Chief Minister next. We are

working I think on this spending run much more co-operatively with the Chief Minister's Department and we are going to try and be tougher with departments. Politically there has got to be ... I think the extent of the available resources going out for 2 or 3 years means that we are going to have to be. But we are simply not tooled up to do that; either the Chief Minister's Department or the Treasury. We have to rely on departments to make their bids and to be co-operative and open and completely transparent and to represent to the Council of Ministers an appropriate prioritisation of their expenditure. They are not though I suspect. It is a game of who gets the most and Ministers and departments do, as you would expect, defend their own territory.

Senator S.C. Ferguson:

So if the Treasurer's role was more akin to a finance director there would perhaps be a greater ability to make chief officers think corporately instead of in silos and perhaps force a little more financial discipline on the whole.

Mr. I. Black:

We mix together 2 things here. One is greater central control of finance directors and that may be worth looking at. The other is about having a central unit that can do the sort of intelligent analysis that Deputy Le Hérisier has talked about. Yes, if you make that investment you might get a return. We are doing some things though to come back to the Deputy's previous question. We are attempting to produce better information in those tight resources. For instance, we are going to produce G.A.A.P. (Generally Accepted Accounting Principles) accounts. It reduces the potential to have opaque accounts and at least we will know what we are spending money on. We are doing analysis on things like our infrastructure which has identified this huge backlog.

Unfortunately, the outcome of that is probably more spending rather than less but at least we are producing the information. He also mentioned things like supplementation and income support. The trouble with those things is once the States agree a policy, there is very little you can do in the short term. If an unemployed person walks through the door then you will pay the benefit if someone comes and claims. So what they do in other places is some of these things that are totally out of direct control in the short term, like in the U.K. (United Kingdom), they take them out of their standard budgeting process and you have longer term debates then on policy as opposed to try and manage supplementation year by year. So they are 2 things we are doing; better information and we are looking at - we will do - taking some items of demand driven expenditure out of the annual budgeting process because they skew things somewhat. You still have the problem. You still have to make tough decisions about cutting income support or whatever but you cannot deal with that on a year on year basis.

Deputy R.G. Le Hérisier:

You keep alluding all the time as if they are the demons of the piece; the States Members who have this sort of almost anarchic approach or populist approach, we must run a proposition on this and that because it will make us look good. But in terms of the additional costs, are these propositions the real issue or is the real issue that the system is just growing and growing and growing, particularly in terms of staff costs? We have seen, for example, the incredible increase and incredibly highly paid positions in the Chief Minister's office. Every one of them has been justified in individual terms; we need a tax consultant, we need an H.R. (Human Resources) director of this calibre, et cetera, et cetera. There is always an individual justification

but the end result is we end up with a much bigger department, for example, than we ever envisaged.

Senator P.F.C. Ozouf:

I think it is unfair to highlight and to identify additional posts in the Chief Minister's Department when a few minutes ago we were talking about the need and some of your questions ... the answer to some of your questions is a better Corporate Centre in order to deal with it. I think we have been penny wise and pound foolish almost in the Corporate Centre. Departments have had the money that they wanted in Health and Education and Home Affairs. For years in my 10 years in the States of Jersey, these so-called frontline service departments have had an inexorable rise in money. I think we also need to be clear, supplementation is also a very significant percentage of the increase in States expenditure. One debate about public expenditure, which is a legitimate debate, is do you share the proceeds of economic growth with the community by allowing public expenditure to grow to the economic growth rate? If you believe that you can provide a better community and a better society by growing the economy and putting people in this Corporate Centre which is designed to grow the economy, which is why the Director of International Finance, the Director of International Tax, are all positions designed to grow and to increase our long-term economic prosperity. That is a good investment. It is insignificant compared to the overall level of public expenditure. The Chief Minister's Department, what is its budget? That is not the problem. Where does taxpayers' money go? In this year it is proposed that Health has a budget in the order of £170 million. Education is £120 million. Supplementation is £70 million. States Members love to pick on the

Corporate Communications Unit at a cost of £600,000 yet they grow health expenditure by £20 million in 3 years.

Senator S.C. Ferguson:

Yes, but surely we are perhaps overlooking the fact that 46 per cent of the budget is manpower costs. The other big one, supplies and services and Social Security and health insurance funds. But the big one is the manpower costs.

Senator P.F.C. Ozouf:

Yes, staff.

Senator S.C. Ferguson:

Apart by the review by the Auditor General, has there ever been any serious evaluation of services or manpower, particularly manpower? Have there ever been any serious zero-based budgeting efforts?

Senator P.F.C. Ozouf:

I am very keen to drive efficiencies and to support initiatives to make departments do more with the same amount of resources. I am new to the political realities of the States Employment Board and the former Established Committee in Human Resources; all I know is that there is a disconnect between the way that salaries were set and the departments themselves. We all know the comparisons of States salaries in different areas. It is always incredibly frustrating when you hear highly paid civil servants across the States of Jersey. It is just not true in all cases. Our nurses, our policemen, our prison officers, our teachers are very well remunerated compared to

the U.K. benchmarks and certainly Guernsey. In other areas that is not so. Our manual workers are paid above market rates in terms of the skill level that is paid. Why is that the case? Arguments have been put forward to, I imagine, successive human resources committees that recruitment would not be possible into the Island if you did not set recruitment and pay in ratios at those significantly higher levels. Certainly the presence of the finance industry in Jersey does create a particular pressure although the pressure also exists in Guernsey and other comparable places.

Senator S.C. Ferguson:

But if we are going to seriously look at productivity then surely we do need to evaluate the manpower that we have; the level of manpower.

Senator P.F.C. Ozouf:

But it is the big departments, of which the Treasury has no power apart from the power of polite persuasion over. It is the Education Department that employs ... the numbers, I have not got them in front of me but the numbers of people in Health and Education, that is where States money is spent.

Senator S.C. Ferguson:

So are you saying that really in order to forecast better and budget better, you are going to need more powers at the Centre?

Senator P.F.C. Ozouf:

I think there is a debate to be had about the way that the Corporate Centre runs and the authority that the Corporate Centre has over other departments. But there will be

enormous battles if there is a suggestion that the Corporate Centre's powers are increased over satellite departments.

Senator S.C. Ferguson:

Yes, but on the other hand ...

Senator P.F.C. Ozouf:

But if you want to control public expenditure then give the job to the Treasury Minister to set budgets on an annual basis and then also get the States Assembly to agree that they have got to support the Treasury Minister or the Treasury Minister has a veto on increases and you will control public expenditure. But in a system where the Treasury Minister has to walk over eggshells with political colleagues on the Council of Ministers who are making the most strenuous representations of the necessity to increase budgets and a States Assembly which regularly turns over the Council of Ministers in terms of increased expenditure, or the Council of Ministers in the past brings forward propositions, because it knows it is going to lose, in terms of nursery care or child care ... there is a clear political wall of opinion that meant that the States were going to agree that. The Council of Ministers made a decision, we are going to lose it; the States is going to want to spend this so we will bring forward a proposition to do so. But in our system there is no Treasury veto and there is no ability to get anything because of our political system ... I am not saying it is the wrong thing but there is no ability to set it and to make it stick.

Senator S.C. Ferguson:

But how can you rely on the departments to come up with realistic forecasts of their expenditure when as we saw in the ...

Senator P.F.C. Ozouf:

Forecasts or requirements?

Senator S.C. Ferguson:

Budgets.

Senator P.F.C. Ozouf:

Because if you ask them to forecast ...

Senator S.C. Ferguson:

Budgets. Okay, let me finish, if you will excuse me. The C. and A.G.'s (Comptroller and Auditor General) report on the structure of health, for instance, pointed out that they have no idea of their management costs. How can you rely on their estimates of their requirements for funding? How are you going to cope with things like that?

Senator P.F.C. Ozouf:

You have got to rely on the department but ultimately it is the Ministers who will work with their departments and who must be responsible, effectively playing a corporate game in terms of being responsible. I do not want to highlight anybody in particular but the new Education Minister has a reputation of extreme hawkishness in relation to expenditure, having been a member of your Public Accounts Committee, having taken through numerous amendments to the Business Plan to control public

expenditure. I am not criticising him but he seems to have metamorphosed into something quite different as Education Minister who is now defending until the end his budget and will state that his budget is insufficient to deliver the services he wants. Is he wrong? Was he wrong previously or is he wrong now? I do not know. All I know is the tune has changed very significantly.

Deputy R.G. Le Hérisier:

On Education, and back to what the Treasurer said that you did not have the capacity to do what you might call the analysis, are you able to ask questions like on the Capital School Replacement Programme, for example. I know all these things have slowed up but there seemed to be a standing joke that at the 25 year point every Jersey school seems to have physically collapsed and needed replacement. Do you ask questions about the direction of the capital plan, how it is sequenced, what is the necessity for schools that are put forward for refurbishment or replacement? Who asks these kinds of questions?

Mr. I. Black:

I think that the capital plan is more challenged than many other areas. Because they are very distinct schemes, it is quite easy to get a grip on them and challenge them. We do have a person who does vet them. We do have standards of requirements in terms of planning for them and they are being squeezed. So I am quite aware of the education schemes coming forward and I know that they have been challenged. Education will argue if anything that we are moving back into underinvestment in our capital stock.

Senator S.C. Ferguson:

Is the prioritisation fixed at the Corporate Management Board level? How much gets argued at Corporate Management Board level before it comes to the Council of Ministers?

Senator P.F.C. Ozouf:

Let us be clear, it is the Council of Ministers that do decide on the Business Plan.

Senator S.C. Ferguson:

Yes, but how much of it is fixed by the time it gets to you?

Senator P.F.C. Ozouf:

Nothing is fixed because it is only ever indicative figures. The Corporate Management Board is only advisory. Ultimately the power rests with Ministers, period. Obviously the Corporate Management Board is working up options for Ministers and sets forward their own views on prioritisation, et cetera. I have to say that the fact that there is a Corporate Management Board now is conducive to much more corporate working among chief officers. But that is an operational matter. They rightly do not operate in the political sphere.

Senator S.C. Ferguson:

So the sort of old F.S.R. (Financial Stability Rating) process has metamorphosed into the Council of Ministers meeting.

Senator P.F.C. Ozouf:

Yes, and it is now ... I have been through F.S.R. and F.S.R. ... I mean there is a real debate that I am having with Ian and others about how we do construct a process which is a non shroud waving process. The real difficulty with F.S.R.s is people are defending their territories and they will be ... you would expect them to. I am not saying this is anything overly critical. People find it very difficult to think and to act corporately and to surrender resources that they have got. I know as Economic Development Minister I will have made the most strenuous attempts to defend my budget and defend the resources because I believe that more money into Economic Development would yield better business services which would boost economic activity. All Ministers will believe the same.

Senator S.C. Ferguson:

What would you like to see then in the sort of forecasting and budgeting process? How would you like it to work if you really could wave a magic wand and say this is how we are going to do it?

Senator P.F.C. Ozouf:

The problem is to increase the intelligence of the Corporate Centre requires more resources in the Corporate Centre. That is a very difficult line. Deputies like Deputy Le Hérissier will have a field day in the States if there were moves to increase the power of the Corporate Centre. They will be most vigorously opposed by both the departments and a view that the States of Jersey is becoming too centralised. But if you want to control expenditure - if you want to - and if you want to be tougher and you want to be requiring departments to work within budgets and to not have the easy

escape slide of getting more money then you have got to give more power to the Centre. But it is extremely ...

Senator S.C. Ferguson:

That is your first sort of ... what else would you like to see?

Senator P.F.C. Ozouf:

I think that an attempt not to create some ... you have got to create a sense that all Ministers and States Members care about the corporate result at the end of the day as opposed to defending their own territories and to give up resources if they think there is not a priority in one sector or the other. Thinking corporately is the way that departments have got to operate and individuals have got to operate.

The Connétable of Grouville:

Sorry, I am just trying to catch the eye of the Chairman.

Senator S.C. Ferguson:

You did.

The Connétable of Grouville:

I was going to ask you, in that respect we do seem to come across under-spends every so often. Would it not be a system to use the under-spends; put them into a fund which could be used later on? I do appreciate the fact and I sympathise with you about the Health Reciprocal Agreement, the *Williamson Report*, things like that where they hit you with it out of the blue and they are not catered for. But if you had a fund

where the under-spends were quietly put away somewhere in order to mitigate this kind of situation, would that not be an idea?

Senator P.F.C. Ozouf:

There are a couple of questions in there. I am going to deal with some of the questions that you had here. They are good questions and important. There will always be unexpected expenditure during the year. There will always be a reciprocal health issue, a flu pandemic. I am not saying another Haut de la Garenne but there will always be areas of unbudgeted expenditure. In the good old days before the new finance law there used to be the general reserve.

Male Speaker:

Supply days.

Senator P.F.C. Ozouf:

Before then there used to be supply days which was a sort of a self-service buffet arrangement where there was an amount of money and people would bid for it. What the Treasury has got to do is it has got to make it very difficult for departments to access money to increase their expenditure. We have done that this time by effectively having no contingency and having a requirement that the Treasury Minister - and only the Treasury Minister - can take forward a request for increased additional expenditure. That is effectively quite a deterrent because if you want more money or you need more money you have got to persuade the Treasury Minister and then you have got to persuade the States. There is a debate whether or not we should put into the overall States accounts a contingency amount of money, mindful of the

fact that there will always be unbudgeted or unknown, unforeseen expenditure which is legitimate that you have to budget for. The second thing you said is about under-spends. Of course there will always be under-spends in different departments. Some departments ... the way Education runs its accounting in relation to the school year versus the calendar year means that there is some under-funding or it looks as though it is under-funding at the end of the year. You want to create an environment in which departments do under-spend and they have got an incentive to under-spend their budget. If you take away any under-spend at the end of the year and give it to the over-spenders then you have created no incentive to save. If I was the Minister for Education and I knew that if I under-spent my budget by £2 million or £3 million by the end of the year and all of that was going to go, I would spend up to the limit. I would be providing services. I would buy some more computers. I would buy some more chairs. I would go and provide an extra service.

The Connétable of Grouville:

We have seen that all the way through. You see it on P.A.C. (Public Accounts Committee) as well as here. But is there not some way you could incentivise them in order to under-spend?

Senator P.F.C. Ozouf:

Let them keep their under-spend.

Mr. I. Black:

It is a difficult one. I can understand that the public expect the States to work in a corporate way. If the money is provided for a service and not needed, they expect the

money to go back into the pot. I subscribe to that view generally but I also have long experience that people do respond to incentives. The good example given, if you consistently take money away from Education who are careful with their money and give it to another department that overruns every year, the incentives you create is over-spending is a good thing and under-spending is a bad thing.

The Connétable of Grouville:

That is a matter of judgment for the Treasury Minister and the Treasurer to make surely at the end of the day, I think.

Senator P.F.C. Ozouf:

We have got no power.

The Connétable of Grouville:

We saw the police budget. Was it 2 years ago, Chairman?

Senator S.C. Ferguson:

Three.

The Connétable of Grouville:

Three years ago where all of a sudden in the middle of December there was a sudden rush of new computers, new furniture, new cars, being used up right up to the penny of the budget. Most of it I would assume was not 100 per cent necessary. It was just spend it ...

Mr. I. Black:

It is a good point. I have got to say a number of things. First of all, in the last 10 years States departments' budgets have got much tighter. I remember we had an under-spend of nearly £14 million one year. This year we are down to an under-spend I think 0.5 per cent of States spending so £3 million, something like that. The squeeze is being put on. People are struggling to survive within their budgets, let alone having money washing about. I think that is a thing of the past.

The Connétable of Grouville:

Are you saying they should be allowed to keep their under-spends and carry them forward?

Mr. I. Black:

What we are doing is we are asking departments now every quarter to forecast their expenditure to the year end. If they forecast through their careful use of money and under-spend, we will allow them to keep it. If they have a windfall saving which they never saw, suddenly get to year end and something happened, then that will be removed and used for other priorities. That system is the same as works in the U.K. The U.K. Government - obviously they are in deep financial trouble - works on the same system. They have decided incentives are worthwhile. It is a difficult one though, I accept.

Senator S.C. Ferguson:

Should we lock public sector pay into the forecasting process; forecasting, budgeting, forward planning?

Mr. I. Black:

Sorry, this will sound like deflection but who is going to determine the public sector pay award in the current year? It is going to be a political decision. What you can do is you can build an amount into budgets and then if the pay award comes in above that you can decide to cut services. That is one possibility.

Senator P.F.C. Ozouf:

But it is a political process. Pay by definition now has become ... the States Employment Board has examined the case for public sector pay increases this year and against a market which is pretty well in pay freeze mode and with the inflation outlook being at zero or thereabouts, we have determined that it is acceptable to propose a pay freeze. I am going to bring forward a proposition in order to remove the inflation figure that had been put in when the outlook for inflation was very different last year. But even before I have put that proposition to the States, we have got 2 propositions - one by the Deputy of St. John, one by Deputy Southern - to pay everybody a flat rate of £400 and £1200. I notice the Deputy of St. John's proposition basically says that public sector workers should be insulated from G.S.T. (Goods and Services Tax). If we insulate everybody from G.S.T. then we will be ... I have said I am not going to increase G.S.T. but we will just ... the spiral of increased taxation and increased spending.

Senator S.C. Ferguson:

Yes, but from the point of view perhaps of the accounting officers ...

Senator P.F.C. Ozouf:

Pay is set by the States Employment Board not by individual ...

Senator S.C. Ferguson:

Yes, and the accounting officers ... what was it? Last year or the year before the States came up with a different figure and the accounting officers were scrabbling around because this was - as I think it said - an exogenous factor which they had no control over.

Senator P.F.C. Ozouf:

What happened there I think is inflation rose so the pay settlement ended up being higher than originally budgeted because the outlook for inflation changed. It was settled at a higher figure and the Council of Ministers said we are not going to take in a proposition ... the Treasury Minister at the time said he was not going to take a proposition for increased spending, departments have got to absorb it. It was not really scrabbling. It was the fact that the amount was shared across departments and they had to absorb the cost.

Senator S.C. Ferguson:

So the accounting officers were legally liable for something over which they had no control and in fact they had obviously stopped spending on things like maintenance or they would not fill vacancies. Is it fair to bring something like that into the ...

Mr. I. Black:

I understand that problem as one of those accounting officers myself.

Senator S.C. Ferguson:

Yes.

Mr. I. Black:

But one of the positive things about that is people knew there was a consequence to a pay award. The consequence to a high pay award was a reduction in services. I famously remember - I will not mention the pay group - a few years ago before we built pay awards into cash limits, someone pushing for a much higher pay award for their staff - their members - and them saying on the radio ... the interviewer said: "Does that not mean that less will be available for these essential services if you, the staff, get more?" This person said: "No, no, it comes out of a different pot." This was the mentality. There is only one pot of money and every penny that goes on pay awards necessarily means a penny less to spend on services. One way of killing off that mentality was to build pay awards into cash limits which is a problem, particularly we talked about the pay award was settled very late in the year which meant the accounting officers had to find the savings in a very short period of time.

Senator S.C. Ferguson:

Yes, and it was tough and they were legally liable which is worse.

Mr. I. Black:

Yes, but I am not sure that I know a better system.

Senator S.C. Ferguson:

What influence does the F.P.P. (Fiscal Policy Panel) have on forecasting of expenditure?

Senator P.F.C. Ozouf:

Again, we need to be very careful about the forecasting word because the F.P.P. now, who are obviously new and have only just produced their second annual report, have been set up to set and to advise on overall fiscal policy. They will be a very useful new voice in relation to that concept that I mentioned earlier about the available envelope of money to spend. They will certainly express a view on an overall figure of increasing public expenditure vis-à-vis inflation and they will look at that figure in the context of the outlook for the economy, whether or not any interventionist policy should be taken. In the last few months we are aware obviously they have said that we should be injecting money into the economy. Going forward I think they will be a very useful, new voice of financial good practice or good economic practice, good economic advice, which maybe has not been there before. Certainly they were ignored by all of us in relation to their recommendations for public sector expenditure last year. But all governments face pressures in the run-ups to elections to provide more services for voters.

Senator S.C. Ferguson:

At what stage in the process do you have the input from the Chief Minister's Economic Adviser's Group?

Senator P.F.C. Ozouf:

The Economic Adviser is the economic adviser for all Ministers. They happen to sit in the Chief Minister's Department but they are as much advising the Treasury as they advise any other ... principally, but they do a lot of advice for obviously Treasury and Economic Development. They sit within the Chief Minister's Department, nothing particularly special about that. They are working with the F.P.P. and they provide data to the F.P.P., to which the F.P.P. then make their own conclusions.

Senator S.C. Ferguson:

Yes, but do they not have any input to the expenditure forecast?

Senator P.F.C. Ozouf:

Overall the expenditure forecasts going forward are certainly discussed with the Economic Adviser and what he thinks is prudent and what he thinks is sensible to spend as an overall increase. The F.P.P. will not get into and neither will the Economic Adviser get involved with the individual detail. They will only comment on the overall envelope.

Senator S.C. Ferguson:

Yes, so you have already had the discussions with them on the envelope?

Senator P.F.C. Ozouf:

Yes. Certainly but it is not ...

Senator S.C. Ferguson:

For 2010.

Senator P.F.C. Ozouf:

Yes, but again it is not rocket science really. Unless you are in particularly stressed economic times, you do not want to be allowing the government expenditure to be rising above trend growth or inflation. It is a political choice. We can run this Island on the basis of being a higher spend of percentage of G.D.P. (Gross Domestic Product) Island. That is a political choice. You can ask the F.P.P. or the Economic Adviser what the consequences of that are but ultimately it is, as the F.P.P. have been very careful to point out, a political choice as to what sort of Island and what sort of economy you want to run. Jersey has - as I answered to a question of the Deputy of St. Mary last week - a very low percentage of government spend as a proportion of G.D.P. Most other governments - most other Treasury Ministers - would be sitting here with a halo around their head on public expenditure compared to most other places. That is a good thing.

Senator S.C. Ferguson:

Yes, absolutely. Excellent.

Deputy R.G. Le Hérisier:

On the issue of the Economic Adviser's Department, the point was made that we had been somewhat belated in reading the economic signals that there was going to be a fairly serious recession and there were, in some people's minds, over-optimistic views being expressed and then all of a sudden the brakes were applied and obviously less optimistic views were expressed. What do you look to the Economic Adviser's

Department to do? Do you look to them to monitor world or global economic trends and tell you this is how they are going to impact on Jersey?

Senator P.F.C. Ozouf:

We are very off the agenda subject with that question.

Deputy R.G. Le Hérisier:

Yes, sorry. In the sense that obviously if the economies or the economic trends are looking fairly negative, it is bound to have an impact as you, yourself, have stated on several occasions recently. It is bound to have an impact on income and, therefore, an impact on expenditure.

Senator P.F.C. Ozouf:

But there is not a sort of a formal process that the Treasury Minister asks the Economic Adviser what he thinks is going to happen with the economy. This is a constant iterative process based on discussions by E.D. (Economic Development), my own constant contacts with business people. My current view is that we are going to facing some leaner economic times in the next 2 to 3 years and, therefore, we should control public expenditure. There is going to be a necessity to control public expenditure, even more than perhaps has been the case in the past. You will also be aware of my political views. You will have, Deputy, with respect, a very different view of the proportion of G.D.P. that should be spent on services. You will be a more traditional tax and spender than perhaps your colleague on the panel, the Constable of Grouville. That is the political process. That is the irreconcilable problem that the

Treasury has is how do you set public expenditure in an Assembly that has seriously divergent views on spending and tax?

Mr. I. Black:

Just to go back to your previous question. I believe we have probably got more sophisticated economic forecasting than any Island of a comparable size. Certainly the ones I know of, we are ahead of the game having a decent economics unit, a decent statistics unit and Fiscal Policy Panel. I do not know anywhere else that has got those. No, we did not see the credit crunch but we are producing projections a few years ahead I have not seen coming from sister Islands. So I think we have got better information than others.

Senator S.C. Ferguson:

However, if we got back to the 3 year cash forecast and you look at the figures ...

Senator P.F.C. Ozouf:

Is that the Comptroller's report?

Senator S.C. Ferguson:

Yes.

Senator P.F.C. Ozouf:

Shall we turn to the same page?

Senator S.C. Ferguson:

I have no idea what the same page is. Wait a minute. My graphs are all sort of ... sorry, it is the one of the composition of the forecasts of net revenue expenditure. Your forward forecasts ... I think it is Appendix ...

Senator P.F.C. Ozouf:

Two.

Senator S.C. Ferguson:

No, I think it is 3. No. Sorry about that, 6, page 17. If you look at the composition on the forward forecasts they are pretty constant. The Chief Minister's Department is always 2.7 per cent of net revenue expenditure.

Senator P.F.C. Ozouf:

Despite the inexorable rise in highly paid individual civil servants. **[Laughter]**

Senator S.C. Ferguson:

Yes, absolutely. They have not been accounted for.

Senator P.F.C. Ozouf:

Of course £16 million includes the H.R. and I.T. (Information Technology) departments. The actual Corporate Centre of the Chief Minister's Department is miniscule compared to the colossus of Health and Social Services at £150 million rising to £170 million.

Senator S.C. Ferguson:

Yes, that is slightly off the point though. What I am saying is that all you ...

Senator P.F.C. Ozouf:

I make the point that if you are serious about controlling public expenditure or you want to limit the growth, you would really need to concentrate on where the majority of spending is spent. Talking about the States Communications Unit, it is a rounding figure. It is less than 0.1 per cent. The real figures of public expenditure are: Education is £100 million, Health and Social Services is £160 million and Social Security is £160 million. Everything else is insignificant.

Senator S.C. Ferguson:

It is staff costs of 46 per cent of total expenditure.

Senator P.F.C. Ozouf:

Within those departments ...

Senator S.C. Ferguson:

But what I am saying though, if we get back to the point before you try to divert me, is that the forward forecasts are just percentages of the total forecast and there is no allowance made in that for any spending pressures building up. For instance, Home Affairs is a constant 7.7 per cent of the total. Now we know there are spending pressures at Home Affairs. Social Security, fairly constant but there are going to be spending pressures there. The forecasting does not vary the percentage of the total to take account of any of the spending pressures.

Senator P.F.C. Ozouf:

But decisions are not made on these figures. These are interesting figures. They are interesting figures as a result of the outturn of what expenditure is currently and is forecast to be or potentially could be but that is not the way that decisions are made. A decision is never made of: "Oh, Health will get 27 per cent of the total pot." Decisions are never made that way. We have got the list of unencumbered ...

Mr. I. Black:

Two comments on that. One is that if you think about it, all those allocations of money were arrived at over the years by States decisions. Behind that are hundreds of States decisions on their priorities. You would not expect radical moves in a short period of time. That is what we know about. If we know about a States decision to grow in the Strategic Plan, we build it in. But what is not in there and it is interesting when we do those figures in a few months' time ... what we are going to find when we produce the Business Plan is that those 2010 percentages are going to change a reasonable amount. It will be interesting to see why and it is because there is going to be a massive increase in spending on health and an increase in spending on Social Security and an increase in spending otherwise on very little other than infrastructure maintenance. The money on health is going to Williamson, £3 million; it will go on reciprocal health, £4 million; it will go on Family X, £1 million; it will go on costs arising from the historical child abuse inquiry. It could be that health expenditure grows very significantly in the Business Plan and its percentage increases. But the interesting question I put to you is when we produced those figures a year ago, could we possibly have predicted historical child abuse inquiry, reciprocal health agreement,

Family X and Williamson? No, you could not have. That is the problem with these projections.

Senator S.C. Ferguson:

Yes, the exogenous stuff.

Deputy R.G. Le Hérisier:

Just on that point, Ian. There is this exercise that has been started called Emerging Issues. Some of those issues you could well argue could have been picked up; that services have been operating at a lower level. The prison is another one where it was operating at a lower base than has now proved necessary, for example. So this idea that all these things have come out of the woodwork which in a way excuses the lack of forecasting, I am not sure I accept your reasoning.

Mr. I. Black:

When we have these discussions it always feels like a throwback into the political domain but it was a political decision to run our prison services at a low level for many years. It was also a political decision to run our Social Services at a low level for many years. We have had political decisions in recent years to enhance the prison - often in reaction to something happening - and a political decision now to enhance dramatically our Social Services spend. How we are supposed to forecast a change in a political view on these things is quite difficult. I mean that is what drives ...

Deputy R.G. Le Hérisier:

I am not sure it is a change. Sorry, it is not a change in political view. Admittedly this feeds into what the Minister for the Treasury was saying that we may be tax and spend people. It is not a change in political view. It is a change in the fact that services are having to answer to higher standards, for example, higher expectations. We are getting that with care of the elderly. We are getting this sort of slow burn approach to, for example, residential care and how we are going to meet the cost of residential care. We know it is a major, major issue. It is going to have another impact on the health budget.

Mr. I. Black:

So what you are suggesting is that we be a high tax/high spend community. That is a States decision. I am not sure how I can forecast that into our future. There may be others around the table who disagree fundamentally with that.

Deputy R.G. Le Hérisssier:

I take your point. Even Britain is described as a country that wants Scandinavian social services with U.S. (United States) tax rates. We have heard that phrase a few times.

Mr. I. Black:

I am getting very close to ... my personal view is Jersey would like standards of services of the U.K. and better - there are lots of things we provide that the U.K. do not have - but wants taxes at half the level of the U.K. It strikes me that that view is possibly not sustainable.

Deputy R.G. Le Hérisier:

Yes, you may be right.

Mr. I. Black:

You have got to decide which way or other you are going to go.

Senator S.C. Ferguson:

Just as a very quick one because it is time you were off. Is the current system that we are operating at the moment for forecasting suitably robust to deal with the decisions necessary if we are going to incur a structural deficit of £50 million or thereabouts?

Senator P.F.C. Ozouf:

First of all there is a health warning over the structural deficit which we have already rehearsed well at this panel previously. I am absolutely clear that I take on board the F.P.P. advice that if there is a structural deficit that is likely to happen, corrective action must be taken within the next 12 to 18 months to deal with it, i.e. after the period of this year's Business Plan. My commitment to accepting the F.P.P.'s recommendation is clear. There are 3 ways out of that structural deficit. There is either seeking to grow the economy as we have successfully done in the past which can grow your way out of a structural deficit, you can cut expenditure or cut taxes. Cut taxes is my last option and my clear commitment has been given on G.S.T., et cetera and have not changed.

Senator S.C. Ferguson:

You mean increase taxes?

Senator P.F.C. Ozouf:

Increase, sorry, yes. **[Laughter]** Our decisions, are we capable and are we structured appropriately, I refer back to the conversations we had earlier on in the discussions which is that if States spending is to be capped - is to be limited - then there is a debate to be had about the power of the Corporate Centre to veto increases and the ability for the Treasury to be more corporate in its approaches and have more ability to influence and get information out of departments. That is, however, a very controversial issue which we explained and explored earlier.

Senator S. C. Ferguson:

Thank you very much indeed, Minister. Thank you very much, Mr. Black.