

2014.09.09

3.1 Deputy J.A.N. Le Fondré of St. Lawrence of the Minister for Treasury and Resources regarding the significant changes in the income forecasts for 2014 and 2015:

I will say it is good to be back. When was the Minister first made aware of the significant changes in the income forecasts for 2014 and 2015?

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

The Income Tax Forecasting Group known as the I.T.F.G. meets to agree an income tax forecast which then informs each year's annual budget. The I.T.F.G. report, written to inform the 2014 Budget, was issued in September 2013, and as the Deputy will know, from written questions I answered in February, this includes lower forecasts compared to the M.T.F.P. (Medium-Term Financial Plan) figure which was in turn based upon an Income Tax Forecasting Group conclusion made in the early part of 2012. Members had a copy of this information prior to the debate on the 2014 Budget last year. A preliminary updated I.T.F.G. report for this year's Budget was produced in May 2014, although it was only finalised on 30th June, to inform the conclusions of the early Budget this year. This resulted in the 2014 forecasts being again revised. These forecasts have led to the development of the proposed measures to balance the Consolidated Fund, which are included in the Budget. In summary, I was therefore aware of an emerging issue in certainly late May. The Council of Ministers was updated on 11th June, although none of these estimates were confirmed until the meeting of the Income Tax Forecasting Group on 30th June.

Deputy J.A.N. Le Fondré:

Before I go on to supplementary. When the Minister said "late May", did he mean late May 2013 or late May 2014?

Senator P.F.C. Ozouf:

No, this year.

3.1.1 Deputy J.A.N. Le Fondré:

I am trying to match up 2 statements there. One was that, I believe the Minister said that Members were informed prior to the Budget of last year. Could he just clarify exactly when and what terms and was it from ... something directly from Treasury because for example, summary table A of the Budget for 2014 contained and continues to contain the optimistic figures? The Consolidated Fund forecast remained in the black using those figures. If the revised forecast had been used it would have been put into the red, and that is why it is quite crucial as to when this was all sent through.

Senator P.F.C. Ozouf:

I understand why, perhaps, Members are just confused about this issue: it is quite simple. The M.T.F.P. contains the forecast in revenue, which was approved by this Assembly in October 2012, of the Income Tax Forecasting Group conclusions and the rest of the Treasury income which was made in March of that year. Those numbers are not revised. They are not formally revised in terms of a revision of the M.T.F.P. The only things that have changed in the M.T.F.P. income is when this Assembly changes a policy. So there are 2 issues: there is the income tax forecast that was done in 2012, which was always going to be a long-range weather forecast which was going to change. What we have done is we have updated Members of the latest information and I was quite clear in last year's Budget and that is why

Members had a full copy of the full report which has not been published because it contains a lot of granular detail of our income. All Members had a copy of the income tax forecasting conclusions last year, and I will be doing that again this year, by giving Members the full details of the Income Tax Forecasting Group conclusions.

3.1.2 Deputy J.H. Young of St. Brelade:

What date was that report given to us?

Senator P.F.C. Ozouf:

Which report?

Deputy J.H. Young:

The Minister for Treasury and Resources said that Members were given a full copy of the report prior to the Budget of 2014, i.e. the one that we debated in December 2013. So when was that report provided to Members?

Senator P.F.C. Ozouf:

I do not have the precise date but a copy of that report was issued to States Members by email, I will get the date, and in advance, prior to the Budget debate, and the supplementary note, which is included in the actual published documents, obviously has all of the forecasts in 2013-15.

The Deputy Bailiff:

The Minister will provide the date to you.

Senator P.F.C. Ozouf:

Exactly, but it is all there. There is some revisionism going on, I think.

3.1.3 Deputy J.H. Young:

The Minister has referred to making the States aware of this major shift in our income tax forecasts and that these were published, he says, at the time of the 2014 debate. Could he help us? I see that a report was in fact lodged, R.149/2013, on 3rd December 2013. Could he remind us when we approved the States Budget - on what day - and how much time we had had an opportunity to look at that detailed report with his revised forecast?

The Deputy Bailiff:

It is a matter of public record, Deputy.

Senator P.F.C. Ozouf:

It is not a memory test, I do not have those dates in my head but I know that the revised forecast ... there is this misunderstanding, I think, that the baseline numbers that are approved in the Assembly to base the Medium-Term Financial Plan, those are not changed. They are what they were at the time and of course they will change with the benefit of hindsight, and I am getting lots of questions today about a revised forecast down. I happen to have had lots of questions in 2011 and 2012 where apparently also the forecast was different when in fact there was £27 million more revenue and in 2012 there was £30 million more revenue. These numbers will change. Forecasts are forecasts. The nearer you come to the time, the more accurate they will become; they are like weather forecasts, and the fact is there is now this extrapolation that there is some sort of major issue and problem. These numbers will change based upon latest economic information, which is, a lot of it, completely outside the Island's

and the Treasury's concern. I do not make the weather, I do not make the forecasts; they are what they are.

3.1.4 Deputy J.H. Young:

Supplementary, Sir. The Treasurer spoke about these forecasts as weather forecasts. Would he not accept that the weather for the last 30 years has been that our income tax forecasts have been underestimated and that we have always overachieved it and therefore a change to a deficit situation is something he should have highlighted up front on page one and at Budget time and with all the papers?

Senator P.F.C. Ozouf:

Absolutely not, and this whole debate that seems to have emerged over the summer that first of all there is somehow a problem with a deficit, that there is somehow a problem with income tax forecasting, is simply, I think, revisionism. It is just not the reality. The fact is that the Income Tax Forecasting Group has, in previous times... and Members have seen this chart; sometimes, yes, the Treasury is prudent but in previous recessions the Treasury did overstate income. It is not a criticism, and the forecasts, somehow to now say that forecasts which were done in 2012, because the income is not being met, is somehow a criticism of the Income Tax Forecasting Group is unfair. The world changed between the beginning of 2012 and later on. The Eurozone, double-dip in the recession, problems in the U.K. (United Kingdom). Of course the income was going to change. The key question is what would you do about it?

Deputy J.H. Young:

The Minister said I was criticising the Income Tax Forecasting Group and I want it put on record that is not the case.

The Deputy Bailiff:

Thank you, Deputy. Final supplementary, Deputy Le Fondré.

3.1.5 Deputy J.A.N. Le Fondré:

The Minister has tried to say that the forecasts are like weather forecasts but it was very, very clear in 2012, and I refer to comments he has made in the press and the media recently and the Chamber of Commerce, that particularly Scrutiny, you have got some eminent advisers on advisement, identified the issue of the forecasting in 2012. They raised extreme concerns, and in 2013. Surely now the M.T.F.P. is basically in tatters because of the state of where we are, and surely the Minister, by ignoring the warnings that came through, must accept some form of responsibility for that.

Senator P.F.C. Ozouf:

The Minister takes complete responsibility for looking at forecasts and I use the analogy of the farmer at the Chamber of Commerce. The farmer does not make the weather, does not make the forecasts, neither do I. There is a difference between long-range forecasts and short-dated forecasts, and what you do is you respond. We knew that the economy internationally was under serious threat. What do we do? We then deliver more fiscal stimulus, more help for the economy. When those income forecasts went up in 2011, the first thing I did was bring a proposition to this Assembly to spend more money - on £27 million - for the Housing Department. Where was Deputy Le Fondré criticising then the fact we had overachieved the number? What a prudent Minister for Treasury and Resources, like an informed farmer does, is he takes action, and if you think the weather forecast is going to be wrong economically you get the fertiliser out, you get the irrigation pipes out and you

stimulate the economy. He says that Scrutiny has observers. **[Approbation]** Well I take my advice from the F.P.P. (Fiscal Policy Panel), people like Dame Kate Barker, Joly Dixon, and they are saying the Budget is absolutely right. Do not compromise the recovery; help it and run deficits, and we are doing that because we have got responsible politics and this Assembly has supported not having a structural deficit which means we can invest and we should invest. Is that a problem? I do not think so.