



Corporate Services Scrutiny Panel

Quarterly Hearing with the Minister for Treasury and Resources

MONDAY, 2nd MARCH 2015

Panel:

Deputy J.A.N. Le Fondré (Chairman)
Deputy S.M. Bree of St. Clement (Vice-Chairman)
Connétable C.H. Taylor of St. John
Deputy K.C. Lewis of St. Saviour

Witnesses:

The Minister for Treasury and Resources
Assistant Minister for Treasury and Resources
Treasurer of the States of Jersey

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[14:35]

Deputy J.A.N. Le Fondré of St. Lawrence (Chairman):

Welcome to the first quarterly hearing for Treasury. Obviously to all the people in the public gallery you know the notices on the sides about filming, recording and all that type of stuff. Obviously Minister, Assistant Minister and Treasurer, obviously you are aware of the sheet in front of you, which the Assistant Minister may have written, I do not know. Just to draw your attention. If we can kick things off. If we start to go around the time just for the purposes of the recording. Deputy John Le Fondré, Chairman, Corporate Services Scrutiny Panel.

Deputy J.A.N. Le Fondré:

Right, let us kick off. The first line of questioning is about Esplanade Quarter masterplan, which includes the Jersey International Finance Centre. Hopefully there are some reasonably short questions with, if we are lucky, some reasonably short answers. Do you agree, Minister, with the statements made by a Chief Minister to the effect there will be no risk to the public whatsoever in respect of the scheme?

The Minister for Treasury and Resources:

Sorry, repeat that again, no risk ...

Deputy J.A.N. Le Fondré:

No risk to the public whatsoever in respect of the scheme.

The Minister for Treasury and Resources:

I should think there is not anything in life that you could say there is no risk to.

Deputy J.A.N. Le Fondré:

As a principle, is the scheme meant to be?

The Minister for Treasury and Resources:

The scheme has been de-risked as much as is reasonable, I would suggest.

Deputy J.A.N. Le Fondré:

Do you subscribe to the principle that there will be either no or little risk to the public?

The Minister for Treasury and Resources:

I think that risk has been mitigated as far as it can reasonably be.

Deputy J.A.N. Le Fondré:

Do you subscribe to the principle, therefore, that the risk will be minimal to the public?

The Minister for Treasury and Resources:

That is a matter of an individual's definition.

Deputy J.A.N. Le Fondré:

What would your definition be?

The Minister for Treasury and Resources:

I would suggest that the risk is minimal, reasonably minimal.

Deputy J.A.N. Le Fondré:

Okay. So, you subscribe to the principle that the risk of the scheme to the public is minimal? It would be a yes.

The Minister for Treasury and Resources:

It comes down to definition, at the end of the day. There is no scheme that you could have, particularly of this nature, that has no risk associated to it whatsoever.

Deputy J.A.N. Le Fondré:

But, you therefore would subscribe to the principle that risk is minimal?

The Minister for Treasury and Resources:

It comes down to definition. How do you want me to quantify it?

Deputy J.A.N. Le Fondré:

Okay. Do you agree that effectively it is to deliver the Esplanade Quarter and which of phase one is the Jersey International Finance Centre?

The Minister for Treasury and Resources:

Yes.

Deputy J.A.N. Le Fondré:

Thank you. Can you confirm that site preparation has commenced for the first building?

The Minister for Treasury and Resources:

Some clearing work was undertaken, which was identified in the media, in terms of removing some trees. That is not part of the actual terms of the permit, in terms of construction. I think you just mentioned construction in your question.

Deputy J.A.N. Le Fondré:

Okay. I just said about site preparation.

The Minister for Treasury and Resources:

Site preparation, okay.

Deputy J.A.N. Le Fondré:

That is a yes?

The Minister for Treasury and Resources:

In terms of the removal of trees.

Deputy J.A.N. Le Fondré:

Okay. Can you also confirm that there has been a temporary car park created on the south side of the underpass?

The Minister for Treasury and Resources:

That there has been ...?

Deputy J.A.N. Le Fondré:

Has been a temporary car park created on the south side of the underpass.

The Minister for Treasury and Resources:

Work has started to that effect, yes.

Deputy J.A.N. Le Fondré:

Yes. Okay. Do you know roughly what the costs of those works were?

The Minister for Treasury and Resources:

Of the car park?

Deputy J.A.N. Le Fondré:

Of anything to do with site clearance, the car park and anything else related.

The Minister for Treasury and Resources:

I do not know the cost of the removal of the trees.

Deputy J.A.N. Le Fondré:

No.

The Minister for Treasury and Resources:

There was an estimated amount of money, I think, for the car park, which was somewhere in the region of about £360,000.

Deputy J.A.N. Le Fondré:

Okay. We said in the round somewhere between £350,000 to £400,000, that would be fair, taking everything together?

The Minister for Treasury and Resources:

Yes, I would imagine that the removal of trees is going to be significant.

Deputy J.A.N. Le Fondré:

Okay. Can you confirm that the Jersey International Finance Centre, if and when built, comprises approximately 470,000 square feet?

The Minister for Treasury and Resources:

That was approximately the figure, yes.

Deputy J.A.N. Le Fondré:

Okay. As of today, how many tenants have signed legally binding pre-let agreements with S.o.J.D.C. (States of Jersey Development Company)?

The Minister for Treasury and Resources:

I am not aware of any actual pre-let signatures at this stage.

Deputy J.A.N. Le Fondré:

Okay.

The Minister for Treasury and Resources:

Although negotiations are, as I have said previously.

Deputy J.A.N. Le Fondré:

No, how many have been signed, thank you. Just to confirm, for what area? In other words, at the moment nobody has signed up for any space?

The Minister for Treasury and Resources:

No. The negotiations that are undertaken are in relation to the construction of building 4, which has planning consent, as you are aware.

Deputy J.A.N. Le Fondré:

But, you have, therefore, confirmed that development has commenced, effectively, because site clearance has started and that has cost approximately £300,000 to £400,000. Yet, as of today, there are no tenants signed up to binding pre-lets. The question from the panel is: why has that cost been allowed to take place without pre-lets being in place?

The Minister for Treasury and Resources:

Clearance of the trees, as I pointed out a moment ago, is not constituting actual construction of the first building. Allocating space, as far as car parking is concerned, again, is not relative to the actual construction of the building.

Deputy J.A.N. Le Fondré:

It is surely related to its site clearance, its site preparation. You cannot start the first building until you have cleared the car park.

The Minister for Treasury and Resources:

The car park, if I remember correctly, has about 120 spaces involved with regard to the construction of the first build. That is the amount of places that would be lost. Those spaces, however, are still in use. So, the site car park is still operational. Aesthetically it has changed, clearly.

Deputy J.A.N. Le Fondré:

We have spent an extra £300,000 to £400,000 on what?

The Minister for Treasury and Resources:

Preparation of space for additional car parking, which, indeed if the rest of this goes ahead, will be needed. I do not understand your point.

Deputy J.A.N. Le Fondré:

The point is, at this stage, as of today, we have no tenants signed up in terms of pre-lets, but we are incurring costs still in terms of, I would argue that they are, construction costs. Obviously we will disagree on that. I would certainly argue that they are in relation to site preparation costs. So, the question is: does that tie into the principle of keeping risk to a minimum? In other words, not performing such work until such time that pre-lets are signed up and legally binding.

The Minister for Treasury and Resources:

You ask a really important question there, in terms of risk. Which is why at the beginning when you were trying to get me to identify whether it was a minimal risk or not and I said it is a matter of definition. Since S.o.J.D.C. was set up and established by the States of Jersey to do a specific job, which it has been seeking to undertake, of which we are discussing is part ... of course there have been somewhere in the region of £4 million, close to £5 million, we are talking about a few hundred thousand at the moment. There was between £4 million and £5 million that has been spent in terms of progressing their various initiatives. One might argue that that is wasted money if the development does not go ahead. Nevertheless, you cannot do nothing because you have to go through the process of seeking to get planning permission and so on and so forth. Obviously a significant amount of those costs have been in relation to professional fees, planning fees and so on. I am not quite sure the benefit of the questioning.

Deputy J.A.N. Le Fondré:

I think one would argue that there is a difference between planning applications, which obviously one does need to obtain in order to progress the schemes moving forward.

The Minister for Treasury and Resources:

Quite so.

Deputy J.A.N. Le Fondré:

Then, at what point do you draw the line and say: "No further work and no further costs will be incurred to keep the risk to the public lower, before obtaining pre-lets."? Obviously the construction of the car park, temporary or otherwise ... I accept that cutting down the trees and bushes is not going to be that expensive, is not part of the planning process, it is part of another process. It is a physical taking on of costs. Therefore, the question is from a point of view of mitigating risk to the public: was it a necessary cost before obtaining the binding pre-lets? Obviously if you have binding pre-lets signed up, which is why we asked you did S.o.J.D.C. have any in place or not. Then you would be justified in defending that cost. No question.

The Minister for Treasury and Resources:

Let us be blunt about this. Even if there were binding pre-lets signed up that does not remove all the risk to the public.

Deputy J.A.N. Le Fondré:

No.

The Minister for Treasury and Resources:

This is not risk free. I suppose at the very heart of all of this is ... and the question, I guess, at the back of your mind is: was the decision right of the States to set up S.o.J.D.C. and give them the remit that they were given? From that moment forth they have been seeking to carry out the remit given to them by the States.

Deputy J.A.N. Le Fondré:

I think that will be a matter we will hopefully work through and get to in the general course of the review on the Esplanade Quarter. The point was, specific to the actual develop of the Esplanade Quarter masterplan, the principles of the risk and mitigation were, as I have always understood it, that costs of, I will use the word "construction", but effectively I would include that within site clearance definitions, would not be incurred until pre-lets are in place. Maybe that is something we are just going to have to move forward on. From the point of view of looking ahead and costs being incurred, what is going to be the position in terms of if extra costs have been incurred and pre-lets not in place from your point of view, because obviously as shareholder you take ultimate responsibility.

[14:45]

The Minister for Treasury and Resources:

Indeed. I am particularly concerned, as I have said, that between £4 million and £5 million has been expended by S.o.J.D.C. in order to get to this particular point, a point that was the remit given to them by the States of Jersey. There is already a liability that the public carries in that regard, if the development does not go ahead, which is why I have said publically that it is time to proceed on with it and remove the uncertainty that is currently putting at risk the investment made to date between £4 million and £5 million to get to this point. I think, to be fair raising the issue ... although I take your point, cutting some trees down and creating a car parking space for £300,000, £400,000 or whatever the total cost of that is. That, in a sense, is delivering something realisable. If you have additional car parking spaces created those can still be used, whereas all the work undertaken, largely to get planning consent and what have you, is not realisable unless the development goes ahead.

Deputy J.A.N. Le Fondré:

The argument is that the £4 million to £5 million, which I suggested was a sunk cost, because you cannot avoid ... obviously it is down to you to determine whether the costs have been properly incurred. Separate issue. Arguably that is a sunk cost and is not relevant to the decision going ahead. The decision moving forward is obviously the future risk to the public. The question we were raising was: the £300,000 to £400,000, was it a required expenditure to take place before pre-lets are in place? In your view, you are saying it was a justified expenditure.

The Minister for Treasury and Resources:

Yes. If it is on the basis of risk, as opposed to are they breaking any form of permits for development ...

Deputy J.A.N. Le Fondré:

No, I am not going to planning permits.

The Minister for Treasury and Resources:

It is purely risk you are referring to.

Deputy J.A.N. Le Fondré:

Yes, the principles of risk and mitigating the risk to the public.

The Minister for Treasury and Resources:

I do not feel that the work undertaken in regards to the bits you have just specifically referred to create a specific unreasonable risk to the public.

Deputy J.A.N. Le Fondré:

Okay. I am going to hand over to Simon briefly.

Deputy S.M. Bree:

Just to clarify one point before I ask another couple of questions. From what you are saying, you are fully supportive of the actions of S.o.J.D.C. in the clearance of the trees and the various bushes without pre-lets being in place, thus not enabling them to undertake any development work whatsoever? You are fully supportive of the actions they took?

The Minister for Treasury and Resources:

Not enabling them to undertake any ...

Deputy S.M. Bree:

Unless you have pre-lets in place you cannot develop the site. That is the planning permit. Effectively, I am merely asking: are you fully supportive of the actions of S.o.J.D.C. in the removal of the trees and the bushes prior to them having any pre-lets in place, which then enables them to continue the construction and development? You are fully supportive of their actions?

The Minister for Treasury and Resources:

I have no objection to the actions ...

Deputy S.M. Bree:

That was not the question I asked. A simple yes or no would suffice. Are you fully supportive?

The Minister for Treasury and Resources:

I have no objections to the action ...

Deputy S.M. Bree:

So, we can take that as a yes? Okay. Another question: obviously, within phase one of the masterplan for the Esplanade Quarter is included the sinking of La Route de la Liberation. Is that still going ahead? Is that still planned for?

The Minister for Treasury and Resources:

It is still contained within the masterplan.

Deputy S.M. Bree:

So, you are confirming that, yes, that is still in the plans that the road will be sunk?

The Minister for Treasury and Resources:

I am not aware the plan has changed ...

Deputy S.M. Bree:

Good. So, you are confirming, yes.

The Minister for Treasury and Resources:

It is in the masterplan ...

Deputy S.M. Bree:

Marvellous, because I know there was a question raised a while ago about that.

The Minister for Treasury and Resources:

By whom?

Deputy S.M. Bree:

A number of people who spoke to me and I said: "I am sure. Yes, it is still, if it is in the masterplan." You have just very kindly confirmed that, yes, the sinking of the road will be going ahead unless the masterplan changes. There is no reason it should not.

The Minister for Treasury and Resources:

Absolutely, it is in the masterplan.

Deputy S.M. Bree:

Fine. I would just like to take a step back, if I can, and ask a question about the pre-let situation. Obviously, as we have discussed and has been discussed in the past, development work is conditionally on legally binding pre-lets being in place. I would just like a bit of clarification from you as to the square footage of pre-lets that are required to be in place before development can go ahead? Could you clarify the actual figure, please?

The Minister for Treasury and Resources:

No.

Deputy S.M. Bree:

Why is that?

The Minister for Treasury and Resources:

Because there are a number of variables that would determine what the outcome is going to be. First of all, there has been some confusion with regard to ... and I think this dates back to S.o.J.D.C.'s predecessor, at the time when Harcourt was the preferred developer and therefore was a third party provider of the development. I think at that particular point there were suggestions that 200,000 square feet of pre-lets had to be secured before development could progress. Quite understandable in many respects with some of the history surrounding that organisation at that particular time and the fact that they were third party, as opposed to delivering the development effectively ourselves through S.o.J.D.C. The reason I cannot give you a precise figure at the moment, there is an issue around commercial confidentiality, obviously, but there are various input factors that will ensure the figures change. By that I mean this: it is obviously going to be dependent on ... first of all, going back to Deputy Le Fondré's comments about risk and mitigation. S.o.J.D.C. are doing this on a phased basis, building by building, to mitigate the risk to the public. Building 4 is the first one that was approved. Building one is the second one that was

approved. The intention is to get pre-lets on the first building signed up and secured. The primary aim is to ensure that the cost of the construction is covered through the pre-let arrangement. Obviously the value of the business, therefore, will vary depending on what the negotiated pre-let agreement is. In other words, what sort of rent? What is the yield going to be? What are the valuation parameters that are based upon? So, I cannot give you an exact figure, because those are matters that are commercially sensitive and are in confidence. The key issue is ensuring that before development commences to the build, the first shovel goes in the ground, that the cost of that construction is covered.

Deputy S.M. Bree:

You can confirm that you are looking at it building by building, as opposed to the site as a whole?

The Minister for Treasury and Resources:

S.o.J.D.C. are, yes.

Deputy J.A.N. Le Fondré:

Yes, but ultimately your responsibility ...

Deputy S.M. Bree:

Ultimately, you are the shareholder.

The Minister for Treasury and Resources:

Yes, shareholder, but there is an executive and a board to run the business.

Deputy J.A.N. Le Fondré:

Can I ask a question then? The query, I suppose, it does come up because you have referred to the 200,000 square feet. The 200,000 square feet was referred to in a statement to the Assembly by your predecessor. I can fully track down the original date as well. Anyway, it was confirmed in a statement by your predecessor and he also confirmed it in February of last year. He was asked if the position had changed in respect of the 200,000 square feet and he said not. Then he also stated: And I am absolutely clear of S.o.J.D.C. who had a board meeting with my Assistant Minister and Treasurer of the States [the day before this was asked] is that their buildings are to be progressed on a fully let basis in order to reduce the risk." Does that mean that where we are now is that we have gone from pre-lets of 200,000 square feet to buildings to be progressed on a fully let basis to buildings now not to be progressed on a fully let basis?

The Minister for Treasury and Resources:

Well, it is what you said at the beginning. It is about mitigation of risk to the public, which has been this terribly difficult balance, when effectively the public sector are getting involved in commercial activities and getting that balance right where a commercial operator would take a different position, I would suggest, to what S.o.J.D.C. has arguably been hamstrung with. That was at the core of P.73 in 2010. That was all about risk mitigation. Part of this risk mitigation is looking at the way in which the development as a whole is going to be delivered in order to mitigate the risk to the greatest extent. Phased development over a period of time, going on a building by building basis, is the view that will have the greatest effect of reducing the risk to the public.

Deputy J.A.N. Le Fondré:

Okay.

The Minister for Treasury and Resources:

So, you have in the cost of the building ...

Deputy J.A.N. Le Fondré:

Clarification one, which I hope we all agree on, is that there is not going to be speculative development taking place here.

The Minister for Treasury and Resources:

It is impossible, is it not?

Deputy J.A.N. Le Fondré:

Sorry?

The Minister for Treasury and Resources:

It is impossible under the terms ...

Deputy J.A.N. Le Fondré:

Okay, so we agree?

The Minister for Treasury and Resources:

Yes.

Deputy J.A.N. Le Fondré:

Yes, good.

The Minister for Treasury and Resources:

We have to, yes.

Deputy J.A.N. Le Fondré:

That is okay. Second question then is ... what you are stating is that the development is going to proceed on a building by building basis. Obviously within that lot I accept the point you cannot tell us due to certain matters, certainly publicly, on commercial confidentiality. Obviously if we get into that detail at some point in the future we will need to have a confidential discussion.

The Minister for Treasury and Resources:

Yes.

Deputy J.A.N. Le Fondré:

The question will be from your perspective is: how cautious are you going to be on making sure, for example, that yields are appropriate? For example, as I am sure you are aware, any variation in their yield or on the rental estimations could have quite a significant impact on the resultant value, which obviously will then have an significant impact on the potential costs that can be covered by that value.

The Minister for Treasury and Resources:

Which is the point I was alluding to make to Deputy Bree.

Deputy J.A.N. Le Fondré:

So I suppose the question is going to be: are you going to be prudent on those assumptions? On, for example, a building 67,000 square feet, I think is the first building, do you have any indication, even loosely, at this stage whether it is going to be 50 per cent the building has got to be covered or 40 per cent or 60 per cent, for the sake of argument, or is it 90 per cent? Can you give an indication at all or would you prefer not to?

The Minister for Treasury and Resources:

I cannot give you an indication at the moment. It is not that I cannot, I do not think it is appropriate. Once you start speculating on numbers, without giving a much more accurate figure, which would then lead me into areas of confidentiality from a commercial point of view. I am afraid we will go around in circles.

Deputy J.A.N. Le Fondré:

Yes. Shall we park that one for a discussion at some point in the future?

The Minister for Treasury and Resources:

That would be sensible, I think.

Deputy J.A.N. Le Fondré:

Okay. Kevin, do you have anything? Simon, do you have any follow up?

Deputy S.M. Bree:

Just one question. Obviously I appreciate that there are commercial sensitivities involved here. But, I am wondering whether you could confirm whether or not there have been any discounts offered to potential tenants on current market rentals? I am not asking for names. I am merely asking in principle: has S.o.J.D.C. been offering any form of discount on current commercial rental values to attract new tenants or any tenants into the proposed building?

The Minister for Treasury and Resources:

It is a difficult question to answer. I am sounding evasive, I know.

Deputy S.M. Bree:

Very.

The Minister for Treasury and Resources:

The reason I say it is difficult, and you may well be aware of this, there are a number of other competing schemes. There are ongoing negotiations with a number of parties. This is not unique to Jersey or indeed to the different parties here. Negotiations are undertaken by people in order to secure tenants of different levels. So, it would not be surprising that there are variations in the terms agreed. But, they will all be broadly aligned to where the market is. The market appears to be, from what I can see, hardening, which is encouraging. In other words, rental values seem to be slightly stronger now. Possibly as a result of the slightly stronger economy we have seen over the last 12 months, which is good news. Also, as a drip down effect from what is occurring in core centres like London, where we have seen rental values shoot through the roof over the last couple of years.

Deputy S.M. Bree:

I do not think you can compare London rental values to Jersey. It is a completely different market place.

The Minister for Treasury and Resources:

There is one point ...

Deputy S.M. Bree:

I merely wanted to know whether or not discounts had been offered. Obviously you are not in a position to answer that at the moment.

The Minister for Treasury and Resources:

I am not. But, if I could just make one point about London, it is relevant in one respect because of course one aspect of this development is the value of the buildings and the potential value to the public purse, as and when each building and the development as a whole is completed. What is happening in London at the moment, as rental values have gone up significantly, yields have gone down to, I think, 4 per cent or in the 4s. In certain parts of London capital values have risen but a lot of investors are now looking out of the regions more so than London for investment and Jersey has very much come on to the radar. There are other developments, not many, but one was very recently sold in January on the Esplanade to a U.K. (United Kingdom) pension fund. That is really encouraging to show there is interest and demand in Jersey commercial property of that type.

[15:00]

Deputy J.A.N. Le Fondré:

What was the yield on that building?

The Minister for Treasury and Resources:

I do not have the details on that particular building. I am just commenting on the fact that U.K. pension funds are now looking at places like Bristol, Manchester, and Jersey has come on to the radar with the pension fund purchasing an Esplanade commercial property. I think that is good news for the Island, more broadly. Notwithstanding the fact that it will help to underpin values in Jersey.

Deputy J.A.N. Le Fondré:

Chris, do you have any other?

The Connétable of St. John:

Nothing on that sort of topic.

Deputy J.A.N. Le Fondré:

Shall we move on to ...

The Connétable of St. John:

Moving on: Supply Jersey. Now that Supply Jersey is up and running, can you comment on how efficient it is proving to be?

The Minister for Treasury and Resources:

It is only operated to date with some pilots and I think it has, suffice to say, demonstrated already that ... first of all it has taken a significant period of time to get Supply Jersey up and running from the original concept through getting budget approval and development and all the rest of it. But it is certainly proving popular among departments and I think will drive efficiencies once it is deployed more broadly than just the pilot schemes that are out at the moment, of which there are 3. I was just trying to find my bit of paper because I could not remember which the 3 were. Treasury, Home Affairs ...

Treasurer of the States of Jersey:

Rocquier(?) and St. Clement.

Deputy J.A.N. Le Fondré:

Schools.

Treasurer of the States of Jersey:

Schools, yes.

The Minister for Treasury and Resources:

Yes, schools. I just could not remember which ones.

The Connétable of St. John:

Are you in a position to escalate or assess what the likelihood is in regards to savings of manpower?

The Minister for Treasury and Resources:

Not at this stage. I mean the question is predisposing that that will be the outcome. There are many other advantages. It is not necessarily just manpower where value is developed through this by a Jersey portal.

The Connétable of St. John:

So in other words, there are savings in money as well as hopefully manpower?

The Minister for Treasury and Resources:

Absolutely, yes. I mean the whole idea of the Supply Jersey portal is that it creates a uniformed way of getting catalogues on to a purchasing platform to make it easier for departments to procure the services, the products principally that they need and services. It also identifies quite, even at the early pilot stage, where there is duplication across departments and that in itself will help changing buying processes and drive down costs, which is obviously a significant aim.

Deputy J.A.N. Le Fondré:

Presumably there was not a valuation done before the test phase went out. Presumably there is some indication or a valuation of overall likely savings to come out of it as well as the overall cost of the project. Can you arrange for those to be sent to us at some point?

The Minister for Treasury and Resources:

Yes, there has been. We can get some background to you if that would be of help. There was a business case which was undertaken in ... I was answering the Connétable's question a moment ago, there was a business case undertaken, I think it was 2010. As you can see it has taken a period of time for the business case to get the funding and then obviously get the development of the system itself. But there is something in the region of about £250 million of purchase going through the system as a whole, which gives you the scope of savings that can be driven from ensuring greater consolidation of that purchase through the system.

The Connétable of St. John:

If we can then move on to public sector reform. Who exactly is in charge of public sector reform?

The Minister for Treasury and Resources:

Sorry, just before we go on to that, the 3 pilots that we have mentioned, the schools and the other 2, they are being reviewed at the moment before the rest of it gets rolled out, so there will be some more data to give to you once those reviews of the pilots for Supply Jersey have been assessed.

The Connétable of St. John:

Excellent. Thank you. So we will come back to who is responsible for delivering public sector reform?

The Minister for Treasury and Resources:

Public sector reform falls as a responsibility for the Chief Minister's Department, it falls under the Chief Minister, but clearly Treasury has a role in it and, as such, it has been agreed from a political point of view that both myself and the Chief Minister will lead on it politically. There is a team that exists prior to the last elections that were in place that were running the various work streams,

Lean, which you will have heard of, workforce modernisation terms, changes to terms of conditions, culture and so on. All that work, which is what one might describe as phase one of the reform or modernisation programme, is still ongoing. It does not stop. Lean is about embedding a new process for driving efficiencies through departments.

The Connétable of St. John:

How long has Lean been in operation?

The Minister for Treasury and Resources:

You can probably answer that one, Richard.

Treasurer of the States of Jersey:

It is 3 to 4 years when Health started, a year to 18 months after that with Social Security and then other departments have more recently undertaken the training. So you have got a spectrum of mature. Some departments are more embedded than others at this point.

The Connétable of St. John:

So over the last 3 to 4 years have you any idea how many posts have been identified as no longer being required and therefore reduced?

Treasurer of the States of Jersey:

Off the top of my head, no. Those would largely be to the extent they exist within Health and Social Services given that when I talk about 3 to 4 years ago, that is starting the training. But there is tracking within the programme and we will come back with that. If there are it is not many up to this point.

The Connétable of St. John:

I realise it is an ongoing scheme, but as with any scheme you have to have markers along the way. So what are these markers at the present time?

The Minister for Treasury and Resources:

What we do know to date, which is probably a relevant way of putting it, that approximately £500,000 has been spent on Lean since inception. The cashable savings, financial benefits if you like, are £370,000. Then the earlier question you asked about savings on posts could be captured as non-cash savings, and it has not necessarily resulted in a post being taken out but it has been where posts are perhaps now under-utilised because a Lean process has been carried out and there is a realisation that not as many people are needed for that particular function, whatever it might be, and therefore that post can be redeployed for another area that had a previous pressure

on it, if that makes sense. So £500,000 spent, £370 in terms of cash savings, and approximately an estimated value of about £240,000 of non-cash savings, so redeployment of existing resources in other ways.

The Connétable of St. John:

So there are no targets in manpower reductions set at the moment?

The Minister for Treasury and Resources:

There were no specific targets set through Lean in that area, no. Not when the programme started.

The Connétable of St. John:

Again, there are no actual interim targets during the progress of the scheme?

The Minister for Treasury and Resources:

Of Lean itself?

The Connétable of St. John:

Of Lean itself.

The Minister for Treasury and Resources:

In terms of people or in terms of value?

The Connétable of St. John:

Both. Either value and/or in people; posts.

The Minister for Treasury and Resources:

Lean is one part on one element of modernisation of the public sector that needs to drive costs. I would suggest that rather than looking ... in Lean it is not clear where the opportunities are until departments start looking themselves at the way in which they operate and discharge their various services. So it is more a case of looking at it from the other end of the telescope and saying we need to deliver a certain amount of savings. We need to reform and modernise the public sector in terms of identifying priority services, how they are going to be delivered, how they can be more efficiently delivered. Lean is just one of those mechanisms to get you to the end result. So it is a headline figure that we will be looking to take reductions to reduce the costs based on the available envelope of funding we have from revenues.

The Connétable of St. John:

Obviously labour is the biggest cost to the States and therefore that is an area in which savings can be made. I am frustrated as someone new into politics, in the private sector you are given 12 months, 18 months to make substantial savings of 5, 10, 15 per cent in manpower and here we are 3, 4 years down the line and we are talking of, in comparison, pocket money as having been saved on the overall picture. Do you not feel that you need to be a little firmer and put down some markers: "We need in the next 6 months, in the next 12 months to make X number of savings in manpower"?

The Minister for Treasury and Resources:

Savings, yes. It is a question of how those savings are going to be delivered. Your point about the most significant cost in the public sector is indeed manpower of the total spend; around about £350 million relates to manpower. So depending on the levels of savings that we need to deliver, and of course we are going through a process at the moment that you are familiar with, which will identify what the spending envelope - this is the point I was making a moment ago - we have got, that will dictate how much cost we need to take out of the public sector. It will drive towards the prioritisation of services that the public sector should be delivering and has to deliver, and I have said this previously, that there are some services therefore that will fall out. Consequently, I have also said that that will involve posts. We have in the public sector around about ... I think last year it was 8.6 per cent turnover of staff. It has been running for a number of years around about 8 per cent. I have also said previously that it is very difficult, one needs to replace key frontline services like nurses and doctors, teachers, and such like, as you would appreciate, but around about 3 per cent were assessed as non-core frontline. So there is flexibility there within natural turnover of the public sector to remove certain posts in that way. It may well be beyond that, as phase 2 of the reform and modernisation programme develops, but through phase 2 looking at restructuring, and that means restructuring of departments, do we need as many departments, how are we going to deliver services, what services are a priority and have to be delivered and what is the best and most efficient way to deliver them to ensure a fair return for every pound of taxpayers' money that is invested for that particular outcome. So you are right, and it is frustrating that in some respects, and this is not unique to Jersey, that the whole process and structure we operate and have operated under has meant that it has taken a bit longer for the public sector to reform itself but the key is to take people with you when you do it. A lot of work has been going on with staff and I am delighted to say there was a willingness with staff to participate in this process, and that is critical in order to accelerate, which is what we are going to need to do over the course of the next 3 years in terms of modernisation and taking out costs and ensuring we are delivering the right services the right way at the right price.

The Connétable of St. John:

Can I say that personally I think it is very, very slow and I would suggest that perhaps the senior management do not wish to go any faster? Perhaps the politicians need to set the policy and set targets themselves rather than allowing the senior management to do it and that senior management should be a little more firmly instructed as to making some savings especially with regards to manpower.

The Minister for Treasury and Resources:

I think when delivering any form of modernisation in any organisation you look at the entire structure and you decide the ways in which you can take out costs and concentrate your resources, your available resources, on the priorities that you have as an organisation. I think for the public sector it is always more difficult. It can take more time. I do not think, as many people suggest, that it is the civil servants wagging the tail. It is not the case. I think one of the problems that we face is the relatively short electoral cycles which make it more difficult to drive decisions and combining that importantly with the structure under which we operate so the departmental structure ... people have talked in the past about silos and the departmental structures have created a silo which makes it more difficult to drive changes fast, as it should be.

[15:15]

But make no mistake, there is a position now that we need to address and that is going to, more than anything else, ensure that the changes that are going to be necessary to put public finances back on a sustainable footing ... I know my colleague and Assistant Minister here does not like the word "sustainable" in certain contexts, but it is important to ensure that public finances are not put on the same footing and as such there will be an acceleration through phase 2 of the modernisation, which I think we will get to, Connétable, if I may say, where you are, and we will alleviate hopefully some of the frustrations that you have felt to date; and you are not alone in that area.

The Connétable of St. John:

Can I beg to differ because I think this is an area that needs to be driven very, very much faster because without public sector reform and without a significant reduction in middle and senior management levels I cannot see that this Island is going to be able to afford the services that we are obliged to supply to the members of the public.

The Minister for Treasury and Resources:

I do not think we are disagreeing with each other at all.

The Connétable of St. John:

Good, let us have a timetable and let us stick to it; a short timetable.

The Minister for Treasury and Resources:

The timetable we have, as far as I am concerned, is the Medium-Term Financial Plan that is in the stages of preparation at the moment.

The Connétable of St. John:

For the next 3 years, good.

The Minister for Treasury and Resources:

Actually it is a 4-year period, the Medium-Term Financial Plan covers the period from 2016 to 2019 and that is going to give you your outlying timetable. But we do need to move on with phase 2 of the modernisation of the public sector, caption what you have talked about, but it is much broader than just that. Identifying as part of this, as I have said, the services, the priorities that we need to fund and ways in which we are going to fund it is right up there at the top of the agenda.

The Connétable of St. John:

Are the other members of the Council of Ministers alongside you in your programme?

The Minister for Treasury and Resources:

I would certainly hope so. I suppose the proof of the pudding will be when we get to the point of lodging the Medium-Term Financial Plan.

The Connétable of St. John:

I look forward to the pudding.

The Minister for Treasury and Resources:

But I would certainly hope so. I think the current Council of Ministers is working to date very well together and understands the challenges that we face and what needs to be done in order to address them.

Deputy J.A.N. Le Fondré:

I just want to ask a question while we are on the topic of public sector and reform. Can you just remind me how many civil servants we have in place? I suggest you look to your right probably.

The Minister for Treasury and Resources:

I am not sure that is a fair comment necessarily ...

Deputy J.A.N. Le Fondré:

No, I was hoping Richard might have the number to hand somewhere.

Treasurer of the States of Jersey:

Civil servants or public servants?

Deputy J.A.N. Le Fondré:

Public sector, sorry. Roughly.

Treasurer of the States of Jersey:

The number is due out soon, is it not? It is 6,000-plus, is it not?

Deputy J.A.N. Le Fondré:

That is full-time equivalents, is it?

Treasurer of the States of Jersey:

It depends on your definitions, as I am sure you are well aware.

Deputy J.A.N. Le Fondré:

What I was going to ask because it is a query, and I suppose just log it for future if you get us some greater data, is the difference between the number for full-time equivalents and obviously those on zero-hour contracts or in any form of consultancy role as opposed to a medical consultant's role, if you see what I mean.

Assistant Minister for Treasury and Resources:

The H.R. (Human Resources) Department will have all that.

Deputy J.A.N. Le Fondré:

Okay, great. Perhaps you could put the request to H.R. and send us some information if possible. Sorry, Chris, are you done?

The Connétable of St. John:

I am finished, thank you.

Deputy S.M. Bree:

With regard to delivery of services one of the things that you have set great store in the past is eGovernment. Now we read in the media that there are some serious issues with the delivery of

the eGovernment programme. Some reports stating it is going to be set back at least 6 months. Could you please give us an update on that?

The Minister for Treasury and Resources:

First of all, with the greatest respect to our media colleagues in the room, one should not necessarily draw conclusions solely from that.

Deputy S.M. Bree:

That is why you have the opportunity to answer the question.

The Minister for Treasury and Resources:

Absolutely right. Yes, the eGovernment project is part, bearing in mind our earlier conversation, in fact I would say it is not just part it is at the very forefront of the modernisation programme because we talked about Supply Jersey of course. Supply Jersey is arguably an eGovernment project and it will prove to be a very successful example of eGovernment. I have used the quote before of 7.5 per cent of services only being delivered online by a government citizen whereas the target we are moving to is 75 per cent. What you are referring to is one small part of the eGovernment project, which was the partner that was required for the main infrastructure bit across the middle, the spine, the bus I think it is called. That went out for tender and unfortunately through the tender process it proved not possible to appoint a partner for a number of different reasons. These I.T. (information technology) projects can be quite complicated and there are many examples on a global basis of where significant money has been lost as a result of not getting it right. Having gone through that tender process not being able to appoint a third party partner, and I hasten to add that there is a £7 million budget allocated for eGovernment. This was a small fraction of that, around about 10 per cent or so of the total costs, so it is one part of it, not the whole project. So what has been decided now is to focus the programme on some areas where we have a specific need, and this was correctly mentioned in the media, between putting a new tax computer system in and aligning to a greater extent tax and social security collection systems and so on. It has basically been a refocusing of the project. We have also in the past, I think this is an important point, chief officers have been given responsibility for different elements of the reform modernisation programme and have effectively been doing it off the side of their desks. It is critically important that we drive, as I have just been saying to the Connétable of St. John, we have raised the pace of the whole modernisation reform programme. To demonstrate that, this particular project of eGovernment has now been given a specific resource to drive it forward as opposed to a Chief Officer doing it off the side of his desk. As I said, although some time has been lost, probably to the tune of 4 to 6 months, partly I may hasten to add because of the election period, because the tender was coming up towards the end of the last political term and then the elections hit and then there was the problem with the tender that I just briefly outlined.

So to reset it all we had to wait until everybody was back in place. So there has been a loss of that period, but it is going to catch up ... the key is that we need to catch up and that is the intention.

Deputy S.M. Bree:

What are the cost implications of the 4 to 6 months delay then? Because with any project like this there are always cost implications when delays creep in. How much is this delay costing?

The Minister for Treasury and Resources:

I am not sure I could give you a number here and now.

Deputy S.M. Bree:

You would accept that there are additional costs involved?

The Minister for Treasury and Resources:

I was going to say not necessarily because we were at the point where the tender process had been completed but there is a cost arguably in the fact that one had to go through a tender process. I do not have a sum associated with that. That has now been withdrawn for the moment and the project has been refocused as I have explained. The intention is to catch up for lost time so I am not sure if you look at the overall scope of the £7 million put aside for eGovernment that I could identify a specific figure. I would suggest it is probably relatively small in the overall scheme of things.

Deputy S.M. Bree:

When will online tax returns be available to members of the public?

The Minister for Treasury and Resources:

I cannot give you a time at the moment. All I can say is that it is a priority, as I have said, that the programme is focusing ...

Deputy S.M. Bree:

I mean is it 6 months, a year, 2 years? You must have some feeling for it, surely.

The Minister for Treasury and Resources:

Richard.

Treasurer of the States of Jersey:

Thank you. **[Laughter]** Is it your tax return because I will do that tomorrow? I would say that ... we are a long way from getting to the point of doing tax returns online. One of the first questions we have is whether we are going to move to self-assessment online or whether we are just going to go with tax returns online. Even indeed if we say we are going to self-assessment whether we will do an interim position of online. So that is the first decision. It is suggested we are going for online assessing. We are a long way ...

Deputy S.M. Bree:

The question I asked is online returns not online assessing. That is a separate subject. I really want to know about online returns.

Treasurer of the States of Jersey:

So I am saying, and I am trying not to avoid the question, definitely not evading the question because ... **[Laughter]** But in terms of that initial decision as to whether our plan is to go to assessing rather than online returns. My expectation is that online, whichever of the 2 it is, will be the highest priority within what we would like to achieve. Big ticket item-wise in the Tax Department. But I would expect because that is not as straightforward, as it may seem, to get it right 2 to 3 years before with a ...

The Minister for Treasury and Resources:

Well ...

Treasurer of the States of Jersey:

But in the meantime we will have a lot of lower ticket gains to be made across the States.

The Minister for Treasury and Resources:

I think to be fair, we do not know the answer to your question. But we had a briefing with Jonathan Williams who has got the lead now on the eGovernment project, and what I tasked him with when we met was to go away and assess timescales and revised budgets. He is going to come back within 4 weeks and give us some details on that. So I think at the end of that period, very happy to update you on those aspects. That will answer hopefully your question.

Deputy S.M. Bree:

Yes, we would greatly appreciate an update when you receive it.

The Minister for Treasury and Resources:

To be fair, he is only just in post so it is unreasonable but obviously we are setting targets and we want to make sure that they are realistic. So we have asked him to look at what needs to be undertaken in order to deliver on that first phase, and indeed the rest of the project as well.

Deputy S.M. Bree:

Thank you.

Deputy J.A.N. Le Fondré:

Next, on to Simon for user pays.

Deputy S.M. Bree:

At a previous hearing you did confirm that as a measure of last resort you would have to review the current taxation system, whether direct or indirect - indirect through user pays charges - to address the possible deficit. What work have you carried out so far or indeed as planned to be undertaken with regard to any potential changes in the current tax system and introducing user pay charges?

The Minister for Treasury and Resources:

As I made hopefully clear last time, that was a very low priority and it was certainly at the very end of considerations after other measures had been undertaken. So the answer is very little. There has been some outlying work undertaken in departments in 2 areas, which I mentioned last time, and rather regretted that I had, simply because I mentioned health in particular, and also liquid waste and, of course, there was a lot of excitement around liquid waste and I spent the following 2 days answering questions about liquid waste. It was just an example because it was a big capital project as an area where there could be consideration as opposed to there was consideration. Hopefully that has been picked up. So succinctly as possible, I think, Deputy Bree, the answer is that no great work has been undertaken in terms of charges because the focus very much at the moment is getting on with the detail of looking at the Medium-Term Financial Plan, also details flowing from the Fiscal Policy Panel report, looking at the out-term from last year and looking at the actual state of the public finances as to what measures need to be put in place with regard to growth, savings and such like. So any form of tax changes are much further down the road, so no great work has been done on that.

Deputy S.M. Bree:

But you will confirm your stance once again please, just for the panel's notice, that should all other avenues fail you will consider either increasing tax or introducing or increasing new user pay charges; is that correct? If all else fails.

The Minister for Treasury and Resources:

If all else fails that will be a matter that will have to be given some consideration, and ultimately of course will come to the States for you to give your views on.

Deputy S.M. Bree:

Okay. You are quite in agreement that the process that you will follow is that prior to any increases in any form of taxation, direct or indirect, you will bring propositions to the States to discuss that.

The Minister for Treasury and Resources:

Well, it is the budget process that we follow so ...

Deputy S.M. Bree:

Yes, okay, fine, so you can confirm there will be no increases in G.S.T. (Goods and Services Tax) or any other indirect taxation without proposals being brought forward to the States?

The Minister for Treasury and Resources:

That would have to be through the budget process.

Deputy S.M. Bree:

Fine, good. No, I just want to make that quite clear.

[15:30]

Assistant Minister for Treasury and Resources:

It is all in the legislation as well, so it would have to legally, via the States, be done through the States agreement.

Deputy S.M. Bree:

Now, talking about the balance sheet, if you want to call it that, of the States, you have gone on record on a number of occasions recently saying how healthy our balance sheet is, because we have over £5 billion worth of assets. If I may, I would just like to ask a couple of questions about that. Firstly, if I may be so bold as to suggest, very few of those assets (1) are realisable, or (2) can be used as any form of security against any borrowing that the Department for Treasury and Resources might look to make. For example, and I am just reading off the financial report in Accounts 2013, £1.1 billion of those assets was tied up in highways, drainage and sea defences. Can you explain for my benefit, because I am not an accountant or an economist, why you feel that that sort of fixed asset, which is in itself a liability because you have the maintenance costs

associated with it, could be deemed to create a healthy balance sheet, and how you would look to use those assets to rebalance the problem that you have between income and expenditure?

The Minister for Treasury and Resources:

Well, I do not think we will be selling sea walls and highways and such like, and that does form part of the overall figure, but you have picked out that as an example. Of course there is the significant property estate that forms part of that figure, and I think it is about £3 billion ...

Deputy S.M. Bree:

£3 billion as at the end of 2013, and those are the last audited figures we have available to us. I will run through it with you. £1.1 billion of £3.3 billion, not £5 billion, is highways, drainage and sea defences. Social housing £672 million. Marine, airport and other services £277 million. Other property £967 million. So are you saying that you are seriously looking at a programme of divesting States property to raise capital, or are you saying that you are looking to utilise States property, which is owned by the public of the Island at the end of the day, as security against any future borrowing in the debt markets or otherwise?

The Minister for Treasury and Resources:

I think no is the short answer, but just to elaborate on that, I think the point that was being made was that the balance sheet was strong. Okay? Now, that does not mean, as I have said a second ago, that we will be seeking to sell highways, sea defences or such like, but what you are describing there is a requirement under tax rules to ensure transparency, that we identify what the assets are of the State. The points I have made about the strength of our balance sheet are that we have very little debt. There are realisable assets in there. There is a property element, whether it is £2.1 billion or £3.1 billion, however you wish to do it. There are realisable assets within the balance sheet, and that is a fact.

Deputy S.M. Bree:

Realisable in what sense, though?

The Minister for Treasury and Resources:

There is property that could be sold. Not the highways.

Deputy S.M. Bree:

So the hospital, for example, is a property that could be sold?

Assistant Minister for Treasury and Resources:

There has always been the intention. The d'Hautrée School site, for example, has always been one that is in and out of Island Plans all the time. At the moment it is a protected site, but there are pieces of land or buildings that are owned by the States that should it be agreed in a capital programme for example, but the capital programme does come to the States, that something significant can be sold. J.C.G. (Jersey College for Girls) is an example of where S.o.J.D.C. are ...

Deputy S.M. Bree:

So you can confirm that you are actively looking at the States portfolio, looking at those realisable assets that could be sold?

The Minister for Treasury and Resources:

No, I think you are conflating a general comment that I have made when talking about the state of the public finances, and commenting on the fact that the balance sheet is strong. That is a fact. It was not anything more than that. There is a strong balance sheet there. We have significant assets and reserves, cash reserves, the Strategic Reserve, for example, which has got £750 million, and those are assets that many jurisdictions do not have the advantage of.

Deputy J.A.N. Le Fondré:

I think the comment would be that, yes, we accept that competitors in other jurisdictions, the fact that we have got a balance sheet that is in a positive mode rather than a liability mode, is a plus.

The Minister for Treasury and Resources:

Exactly.

Deputy J.A.N. Le Fondré:

I suppose the query was because £5 billion to Joe Public, if that is the right expression to use, or the man in the street, would think: "Well, we have got no problems. Why do we have to save money? We are in a very strong position." I think the message we just want to eke out from that is of course the £5 billion is a notional number on paper and it is stronger than other jurisdictions, no question about it, but if one was to try to delve into that number and use it for any particular reason the realisable side of that is significantly less than that. It is still positive and as you have analysed for us we obviously do know that there are sites out there that will be realisable, and obviously the Strategic Reserve represents realisable investments, and cash items et cetera. That is fine, no question about it, but obviously it is not the £5 billion, it is not the £4 billion, it is going to be a lesser amount than that. I think that was really just a clarification I wanted to try to make.

The Minister for Treasury and Resources:

That is absolutely fine. I have also said in public statements aside from the fact that the balance sheet is strong that over the short and medium-term we have income and expenditure challenges that we need to face, and I made that clear at the time of discussing the output from the F.P.P. (Fiscal Policy Panel) in their recent report, which identified the probability of a structural deficit at the end of the Medium-Term Financial Plan.

Deputy J.A.N. Le Fondré:

The focus really at the moment is, let us call it, the imbalance between expenditure and revenue, rather than necessarily asset position?

The Minister for Treasury and Resources:

Yes. I commented on the asset position, which is quite appropriate to do, but I have also made it plain, and I have said this publicly, that we do face challenges in terms of balancing our budgets.

Deputy J.A.N. Le Fondré:

Okay. One question is along the lines of if we do go down the last resort of tax increases and user pays, or is it too early to state, is there a preference to basically increase existing measures or to introduce new measures?

The Minister for Treasury and Resources:

It is probably too early to state, really, but I suppose departments will typically, when asked to look for savings, look at ways in which they can raise charges. We have made it clear that is not something that should be at the top of the list, the same rationale but it is a much easier process for a department to look at the charges. There are, to be fair, across departments, areas where either they have not charged in the past or indeed have undercharged, arguably. Some of those imbalances have been addressed over recent years, but overall one has to look at the cumulative effect across all departments of any form of change that might be effected.

Deputy J.A.N. Le Fondré:

Do you happen to know the level of charges that we presently get in terms of departmental income? I am going to look at Richard as Treasurer. Ballpark figure?

Assistant Minister for Treasury and Resources:

We had £114 million in charges in 2013 on the accounts. It is stated on there. That is classed under accounting rules of course as charges.

Deputy J.A.N. Le Fondré:

Okay. That gives us an indication. Thank you. I have got a couple of other points, but Chris, do you want to come in on anything? Are you okay?

The Connétable of St. John:

No, I do not think so.

Deputy J.A.N. Le Fondré:

Simon, do you want to come in?

Deputy S.M. Bree:

Yes. On the question of user charges, could you give us an update or a bit of background as to the status of the sustainable funding mechanism for health?

The Minister for Treasury and Resources:

It was under the comment that I made earlier. I cannot give you much of an update on it, but I think what I have said previously and the Minister for Health and Social Services has also said, that with the pressures that health are facing and currently that is identified in round figures of about £50 million for the Medium-Term Financial Plan, that if we are not able to drive out the necessary efficiencies and reduce the cost, health is clearly a priority and it may therefore, if there is still an imbalance, require some way of funding that, and that has been termed as a sustainable funding mechanism. You can read that as a charge, as one option.

Deputy S.M. Bree:

What other options would there be?

The Minister for Treasury and Resources:

Well, not doing certain other things. So in terms of ...

Deputy S.M. Bree:

So either a reduction of services or level of services provided, or a user pays type charge? Those are basically the 2 options?

The Minister for Treasury and Resources:

Yes. We are going to have to increase our revenue line, which is economic growth but that is going to be more of a continuation of what has been happening in the past. It is good to see the economy now beginning to grow again. We have got to see revenues come in on the back of it, and that is why further investment in the economy is so important in terms of generating more

revenues and more jobs and all the rest of it. More revenue coming in will help to close the gap that we are referring to. When I say “gap”, likely gap, depending on what the spending plans of departments are through the Medium-Term Financial Plan. £50 million for health is one example of those future funding pressures that we have to find solutions for, and a charge is one option that will possibly be required for consideration.

Deputy S.M. Bree:

So what proportion of the deficit is due to health?

The Minister for Treasury and Resources:

That really depends what else is going to be included. The question is a little bit early with regards to the Medium-Term Financial Plan, the 4-year 2016 to 2019 period. For that I will give you an example: capital projects. There are bids currently of £266 million over that ...

Deputy J.A.N. Le Fondré:

Let us stick to revenue.

The Minister for Treasury and Resources:

Yes, but it comes out of revenue, effectively. It has got to be funded, so it is the same problem, so £266 million is what the sum is over that 4-year period. So it really depends whether that full amount is dealt with in that period, or whether lower sums are allocated for that particular outcome. There are a number of other variables in terms of expenditure for departments that will either create the structural deficit scenario that is a possibility referred to by the F.P.P. or not. We do not necessarily have to have that if we spend a lot less. Part of the way we can spend a lot less is, as the Connétable was alluding to earlier on, ensuring that we deliver a modernised public sector operating at a lower cost.

Deputy J.A.N. Le Fondré:

If I can just ask, you just referred, Minister, an additional expense from health of £50 million. That is revenue, is it not? It is not being mixed up with capital? That is an ongoing cost on the revenue line?

Treasurer of the States of Jersey:

By 2019.

Deputy J.A.N. Le Fondré:

Yes, so if one just applies that £50 million on the revenue line, is our deficit or likely deficit, “only” £50 million, in other words it is all attributable to health, or is health part of the problem, albeit a

significant part of the problem, and there are other factors that are likely to contribute to the deficit if we do not make the savings that we are talking about?

The Minister for Treasury and Resources:

There are other factors.

Deputy J.A.N. Le Fondré:

Yes, so there are other elements to it?

The Minister for Treasury and Resources:

Yes, there are. Perhaps I was not clear enough. There are other factors, but it largely depends on the decisions that we make for the Medium-Term Financial Plan as to the extent of those.

Deputy J.A.N. Le Fondré:

Okay. I think we will go on to utility companies. Simon, again.

Deputy S.M. Bree:

It is me again, I am afraid. It has recently been reported that one of the areas that you are currently looking at is the sale of shares in States-owned utility companies, either wholly or partially owned. If the utility companies are to be sold either in part or in full what process are you going to go through to ensure first of all that the sale is appropriate and sensible to undertake, and what studies are you going to undertake to ensure that there is a maximum return to the Treasury on the sale of any such utility company shares?

The Minister for Treasury and Resources:

It is probably jumping the gun a little bit in terms of concluding that you are predisposed that there is going to be a proposal to sell part or all of something.

[15:45]

I suppose the most obvious, simply because I mentioned publicly that J.T. (Jersey Telecom) was the asset that we were looking at, and we were talking about assets earlier on, by the way, the assets that we would look at first and it started by looking at the arrangements that we have as Treasury, governance arrangements, ways in which we manage the relationship between ourselves and the assets and what sort of capacity and capability we have in-house in terms of being able to do that, the Memorandum of Understanding that defines the relationship between ourselves, the purpose for holding the asset in the first place. Is it there for revenue? Is it there for capital growth? Is it there in the public good? How do we balance all these economic and social

considerations for J.T.? It is a good one to think about as an example, because it falls under all those various areas. Indeed, the final one, and we were talking about this earlier on, is risk. How do we manage the risk of a trading company that is no longer just fixed line business? Jersey Telecom, J.T. as they are now called, used to be simply a fixed line business. It was relatively straightforward. Now more than 50 per cent of their revenues come from outside of Jersey. They have invested in other businesses. Telecoms as a sector one might describe as slightly racier than investment in certain areas, and it is understanding that risk and managing it. So for all these reasons we are looking at the relationship and the role of Treasury and the State as an owner of an asset of that type. Then beyond that we are looking at the value of the business. I am not sure if it was in the accounts or how it was valued, but there was certainly a valuation figure that I think has been in the public domain, but I am hesitating because I am not sure if it has been. Has it?

Treasurer of the States of Jersey:

You have got me on that one. I think it has in terms of J.T. themselves.

The Minister for Treasury and Resources:

Yes, okay. In that case I'll say it. There was a valuation, I think it is a book valuation to be fair, of £183 million for J.T. So we need to consider very carefully all the aforementioned elements and in deciding upon the right advice there was a considerable amount of research undertaken some years ago when J.T. was going to be sold and in fact, Mr. Chairman, I think you were in the States at the time.

Deputy J.A.N. Le Fondré:

I was in Treasury at the time.

The Minister for Treasury and Resources:

You were in Treasury at the time, so you knew all about it.

Deputy J.A.N. Le Fondré:

As was the Treasurer.

The Minister for Treasury and Resources:

Yes, so there was a lot of work undertaken and a considerable amount of money spent, I hasten to add, in getting professional advice looking at the options and opportunities around a disposal. That was ultimately pulled at the eleventh hour, so I think in some respects we would need to look again. We have started to look at all the original data around that to see what is still relevant today and we will be making decisions on what additional advice would be necessary to ensure that we

are properly informed and able to make a decision and therefore progress how we deal with that particular asset. The same applies to the others, but to perhaps a slightly lesser degree.

Deputy J.A.N. Le Fondré:

I will come in quickly. I am just keeping an eye on the time at the moment. I suppose the query is that accepting you are not that far down the line, so trying to establish some parameters or some principles around it, if one did make a decision to sell part of any utility and it raised a number of millions of pounds, a lot of millions of pounds, hopefully, what would you do? What would be the principles applied to those funds raised? Would it be treated as a capital sum that might be put in a S.I.F. (Social Investment Fund) and therefore use the investment income to do things with, would you look to use it to fund the short-term revenue deficit that we have got, for the sake of argument, or would you ...

The Minister for Treasury and Resources:

That is a trick question, is it not?

Deputy J.A.N. Le Fondré:

I am looking at where your thinking is. I am hoping you will say no to one part of that, but if we can get some parameters or at least lay it out in markers to say what you are thinking about if you did go down that line, not committing to do it, but what would be your view as to what you would use the funds for?

The Minister for Treasury and Resources:

Okay. One thing I can be absolutely clear about is that if there was any disposal in part or all from an investment of that nature then those proceeds would not be used for revenue expenditure. Okay?

Deputy J.A.N. Le Fondré:

Good.

The Minister for Treasury and Resources:

That I can be clear about.

Deputy J.A.N. Le Fondré:

Yes, but I think also the question would be would you be looking, for the sake of argument, to ensure that presumably, depending who it was, they generate a certain level of income return at the moment? Would you be looking to ensure that that income return or some form of saving to the same magnitude is achieved? So for the sake of argument you have got a dividend of £5

million, you have got to replace that income from somewhere, if you were to sell the whole asset that generated that £5 million.

The Minister for Treasury and Resources:

In principle I suppose it is broadly yes, but I guess ...

Deputy J.A.N. Le Fondré:

There are no trick questions.

The Minister for Treasury and Resources:

No, it is fine. It is just that it comes back to the very heart of the original determination about the reason why we are holding the asset. Is it just for dividend? In recent years the dividend return from J.T. has been less because of the decision that was taken to go for a certain element of growth, and that is part of what we are appraising at the moment. Is that the right decision to take?

Deputy J.A.N. Le Fondré:

Or can that change at some point in the future in terms of that policy as well?

The Minister for Treasury and Resources:

It has in the past and it could again. We need to consider that overall. Indeed what you do, if you were to sell, if we were to sell part or all of it, what do you do with that asset in terms of the return that you get?

Deputy K.C. Lewis:

Following on with utilities, Minister, when I was Minister at T.T.S. (Transport and Technical Services) I was in the process of putting together a new sewerage plant for the Island. As there would be year-on-year of savings it was my brief there would not be a sewerage tax involved. I have now been informed that that is no longer the case. Is the Minister aware of any impending sewerage tax or any intention to sell off, dispose or otherwise hand over a sewerage plant and/or system to a third party or another utility?

The Minister for Treasury and Resources:

Well, it is not a Treasury issue per se. I mentioned previously that simply as a choice because it is a capital item in terms of funding a new liquid waste plant, which you would know considerably more than I about, that a charge is an example of one area where a charge could be considered, because in most other jurisdictions similar charges are applied. Jersey is obviously not one of those. Beyond that, I cannot really add very much more as to what departments are considering,

from a structuring point of view, about the delivery of services that they need. When that is more worked up, if there is some work being undertaken in the areas that you have just outlined, I will look forward to hearing some detail when it has been worked up.

Deputy K.C. Lewis:

I am looking time-wise. Public Finance Law change, the panel understand that the Minister is proposing changes to the Public Finances (Jersey) Law 2005. Can the Minister explain the changes being proposed and how they will affect the Island?

The Minister for Treasury and Resources:

I am not sure that I have made an announcement about any changes to the Public Finances (Jersey) Law 2005.

Deputy K.C. Lewis:

Would you like to?

The Minister for Treasury and Resources:

The Public Finances (Jersey) Law 2005 has been amended on a fairly regular basis over the years. The only thing that I have mentioned is in relation to I think the Fiscal Policy Panel's report where they made some comments about flexibility of the Medium-Term Financial Plan process, and so we are looking at the flexibility within the Medium-Term Financial Plan that might require some changes to the Public Finances (Jersey) Law 2005, but at this stage there is no further detail that I can really add.

Deputy J.A.N. Le Fondré:

Is that in relation to at the moment you cannot take the M.T.F.P. (Medium-Term Financial Plan) deficit in any one year? Is that a potential shift to over the economic period, for example?

The Minister for Treasury and Resources:

Yes, that is one possible area, but I suppose the greater focus was around capital and where you have to have, before a capital project can commence, all the money has to be voted and so you could have £40 million and £10 million a year is being put aside, but you cannot start the project until all £40 million is there, which means a 4-year lead time before you can start the project. This is applicable to large projects, not small, but in terms of the advice that we had from F.P.P. about getting the money into the economy and using the construction industry to do that one of the problems is that it has taken longer to get some projects started because of this requirement. The downside of course is we run the risk, therefore, of having a large number of capital projects or big ticket items, not large in terms of lots of them, but capital value-wise coming to the market at the

same time, which can have unintended consequences, inflationary pressures on costs and so on. So not ideal. That was one area, as an example, that we were considering.

Deputy J.A.N. Le Fondré:

Okay. You will keep us apprised on that?

The Minister for Treasury and Resources:

So basically phasing the projects on a cash basis. You would need to ensure that you have the necessary checks and balances in place in order to do that. There is a very good reason why it is structured in the way that it is. Like all these things there are pros and cons and unintended consequences.

Deputy J.A.N. Le Fondré:

Anyone else? We are actually 3 minutes in advance, so I think you survived the question process. We kept it reasonably timely, and at this stage thank you very much.

[15:56]