

2.16 Deputy M.R. Higgins of the Minister for Treasury and Resources regarding the impact of cuts in Jersey to public sector spending:

Does the Minister for Treasury and Resources consider, in the current economic climate, that it is correct to engage in £65 million of cuts in Jersey to the public sector spending, and will he give assurances to the Assembly that if his proposals push the Jersey economy back into or prolong the existing recession in the Island that he will delay the cuts until the economic conditions enable him to adjust the threshold?

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

I think it is vitally important that we take difficult decisions now to return our public finances to balance by 2013. I would refer the Deputy to the answer to the written question 5734 where I responded to Deputy Southern and I said the C.S.R. savings, as I said earlier, represent 1.8 per cent of G.V.A., significantly less than most other countries. There is a phasing-in of savings, that means that there is much reduced risk to economic recovery. The Stabilisation Fund will be exhausted this year and we will still run a deficit of £50 million in 2011. We will take on board advice that any tax increases should minimise the impact on competitiveness. We have a clear and credible strategy for dealing with the deficit and returning finances to a sound medium term footing, and Islanders and businesses can have confidence in that plan to plan for the recovery ahead. So I do not believe that the proposals will push the economy back into or prolong the economic downturn. However, I can assure the Deputy that I will continue to take economic advice, including that of the F.P.P. (Fiscal Policy Panel), and should the downturn in Jersey last longer than expected, or finances turn out to be worse than expected, I will look at all options to ensure that the policies we implement are supportive of the future economic success of the Island.

2.16.1 Senator S.C. Ferguson:

If the outside economy does anything like go into double-dip or the Americans do not pull out as quickly as we hoped, does the Minister for Treasury and Resources contemplate the use of the Strategic Reserve and under what circumstances would he do this?

Senator P.F.C. Ozouf:

I think that a very good question. The C.S.R. and the budget proposed later on this week proposes that there will be in the region of a £50 million deficit and a return to balanced budgets within 3 years. I am pointing out that by the end of 3 years we will have withdrawn the full £156 million from the Stabilisation Fund. Our estimates are the mid point of what we expect income to be in the next 3 years. If it should be the situation that there is a downturn, a double-dip, which I do not expect, and all of the economic advice that I have heard does not anticipate, then there could be circumstances within 2 or 3 years where we would make some sort of withdrawal from the Strategic Reserve in order to deal with those exceptional circumstances. However, the midpoint of what is being proposed is to balance the books within 3 years, and I certainly do not think that we should be planning, at this stage, to make any further withdrawals from our savings.

2.16.2 Deputy G.P. Southern:

Can the Minister state by when, if he receives information that we are in double-dip or that the economy is not recovering, he will address the issue of potentially using the

Strategic Reserve? At what stage and with what indicators will he know whether we are in a deeper recession than he expects and will he, therefore, act?

Senator P.F.C. Ozouf:

The first thing that should be done is to maximise the job creation and the economic activity within Jersey. We may think, and we like to think, that we are incredibly an important nation state in our own right, and we are, but we are not the size of 300 million or 400 million people in the United States or the United Kingdom, *et cetera*. Therefore, a relatively small amount of activity generating new business in the developing markets of the Middle East and Asia Pacific can have a very important significant impact on the local economy and, therefore, we need to be nimble on our toes and go and get that greater amount of businesses in Jersey. In the event - and I do not contemplate a double-dip in the U.K. or the U.S. (United States) - there could be circumstances in 12 months' time where we would make adjustments to our forward projections if income tax was to fall short of where we thought. But we should not be planning that at the mid central point of our plans within the next 12 months.

2.16.3 Deputy G.P. Southern:

I ask the question again I asked him before, but does he have any evidence that we are coming out of recession yet?

Senator P.F.C. Ozouf:

The evidence is borne out in the Labour Market Survey, in also the Business Tendency Survey and in all of the discussions that I have with businesses. Yes, things continue to be difficult. Yes the economy is in the recession. But we are planning for the C.S.R. for activity in 2012 and 2013. The Deputy wants to put any consideration of public sector spending reductions off. That is the wrong thing to do. The right thing to do is to plan for balanced budgets on our mid-term forecast by 2013.

2.16.4 Deputy M.R. Higgins:

Obviously Jersey's economy basis is largely on finance, is export driven, and we are very much dependent on what is happening in the rest of the world. When we see what is happening in the United States and in Europe where the economies are depressed and could go into a double-dip recession, does he not think that the question of timing of his cuts could have a major impact on the economy? If the world economy is not recovering, and he cuts now, we may not get the growth that he is talking about and we could get into a worse situation. Does the Minister not think that he needs to be extremely careful before he cuts any money whatsoever and makes sure we are coming out of the recession?

Senator P.F.C. Ozouf:

The Deputy needs to look at the figures. In the period in 2011 public spending will be, to most departments, and from a net revenue expenditure, flat or slightly increased in some areas. He should not confuse the withdrawing of money in some areas, the reallocating of money planned, with the investment that is also being planned in services both this year, next year and the year after. In order to ensure that we can find the 2 per cent growth and more for Health, there are reductions in areas elsewhere. He needs to look at the net revenue expenditure and I look forward to taking him through some of the figures in the budget presentation on Friday.