



**Corporate Services Scrutiny Panel
Quarterly Public Hearing with the
Minister for Treasury and Resources**

THURSDAY, 18th APRIL 2013

Panel:

Senator S.C. Ferguson (Chairman)
Deputy J.G. Reed of St. Ouen (Vice Chairman)
Deputy S. Power of St. Brelade
Deputy R.J. Rondel of St. Helier

Witnesses:

Senator P.F.C. Ozouf (The Minister for Treasury and Resources)
Ms. L. Rowley (Treasurer of the States)
Mr. R. Foster (Director of Estates, Property Holdings)
Ms. D. Le Gresley (Director of Financial Planning and Performance)

Topics Discussed

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[14:33]

Senator S.C. Ferguson (Chairman):

Welcome to this meeting of the Corporate Services Scrutiny Panel for a quarterly public hearing with the Minister for Treasury and Resources. Now, you have a copy of the health warning, and I assume that you have read it.

The Minister for Treasury and Resources:

Many times.

Senator S.C. Ferguson:

Good, excellent. For the public who are here, I presume you are aware of the rules. Thank you.

The Minister for Treasury and Resources:

It does say "private hearing" outside.

Senator S.C. Ferguson:

It should not do. They have moved it from the other side just to confuse everybody. Right, for the benefit of the ladies who do the transcribing, if you could please say your name and title. Right, your department business plan, Minister, for 2013 refers to supporting the completion of the C.S.R. (Comprehensive Spending Review) process 2013 to 2016. What will the C.S.R. 2013 to 2016 look like?

The Minister for Treasury and Resources:

You say the C.S.R. 2013; now, the C.S.R. programme was designed to be a 3-year programme to deliver savings in 2010, 2011 and 2012. I have got the years right, have I not?

Treasurer of the States:

2011, 2012 and 2013.

The Minister for Treasury and Resources:

Sorry, you slightly have thrown me because 2013 is already agreed in the M.T.F.P. (Medium Term Financial Plan) as part of the third year of the savings, which are set out and agreed in the M.T.F.P. which have already been taken out of budgets. There are some Departments which need explicit States approval for some measures, like the Education one that is coming up at the next sitting. The Chief Minister has been discussing with Ministers what the reform programme looks like and it is an ongoing reform programme, but not just simply to save money; reforming the States is not about just simply saving money and doing things more cheaply, it is about also doing things better and providing a better standard of service.

Senator S.C. Ferguson:

What I am asking is supporting the completion of the C.S.R. process 2013 to 2016, what will C.S.R. 2013 to 2016 look like?

The Minister for Treasury and Resources:

Okay, yes. So the C.S.R. is about making sure that we deliver and support departments in achieving their C.S.R. objectives and budget reductions in 2013. Now, some C.S.R.s have savings, particularly Education's has gone further than 2013; Education has a number of budget reductions which will come out of budgets in 2014 and 2015.

Treasurer of the States:

That is right, and even into 2016, Chair, if you remember, because of the changes around grants for schools, Education came forward with a number of additional savings proposals to compensate for some of the £7 million that was lost as a result of not going ahead with the changes in the grant arrangements for all the schools. Those changes, the compensating savings, go all the way through to 2016. By 2016, there is about £3.5 million or so. So at the end of 2013, we will have delivered £56.5 million of C.S.R. savings; in fact, that £56.5 million is already factored into budgets now because it was part of the Medium Term Financial Plan. Then we would have another £3.5 million or so, which would just take us to between £60 million and £61 million by the time we get to 2016.

Senator S.C. Ferguson:

Right, so we are not going to make the £65 million?

The Minister for Treasury and Resources:

Senator Ferguson, you know that that is the case already, and that is a political question, and you know that the States have already agreed effectively what the C.S.R. was going to deliver by 2013. I have just pulled up on my iPad the decisions that we made in the Medium Term Financial Plan, of which there is a whole chapter on the Comprehensive Spending Review, and we also issued a statement of all the C.S.R. savings that we have made and were going to make. The only difference between the shortfall of the £65 million is because of the private school grant reductions not being agreed in large measure, because I recall that is worth about £7 million. Now, we have made some compensating additional savings within Education to deliver that.

Treasurer of the States:

Yes. There were two elements, Chair, if you recall: there was the grant-related element, but also the Deputy Vallois proposition, and the effect of those two added together was a reduction of £7 million against the original target, and Education managed to bring forward £3.5 million of compensating savings. You may recall that we brought papers to you previously which set out the detail of those things.

Senator S.C. Ferguson:

Yes. You have also indicated that: "Further spending reductions are going to be identified." How and when will those be identified?

The Minister for Treasury and Resources:

That is a fair question. The Treasurer and I agree, and this has been clear advice from Treasury, that what you should not do going forward is announce targets for savings for which you do not have the detail of how you are going to deliver them. I think we have seen many treasuries ... and indeed, we failed to deliver the £65 million because we delivered a target, and it was Corporate Services that asked that. We originally said we were going to deliver £50 million, we were then encouraged to increase the target. I am not saying we have not made our best endeavours to deliver the £65 million, because we did, but the States also, as we have just been reminded, did not accept the proposals from Education to deliver and chose to insulate schools, setting the politics of that aside. What you should not do is promise to deliver a target where you have not clearly identified how you are going to deliver it. It raises expectations, you are setting yourself up to fail, and we must remind ourselves - and I know perhaps we disagree on this - that we have taken the easy savings across the States of Jersey already. We did the Fundamental Spending Review, we then did the C.S.R. and we are much more advanced in terms of savings and efficiency, and there is not so much inefficiency that is going to be easy to take out. I do not disagree with you, and we do not disagree from a Treasury perspective that there are further savings and efficiencies that have got to be delivered, of course there have, and we have got to

deliver savings and efficiencies to limit the increase in spending, not to cut spending, but to limit the increase, because we have got spending pressures in Health capital expenditure and other service improvements, and boosting the economy and keeping people in work. We are going to work with the modernisation programme and we are working, I think, very productively with other Departments to deliver ongoing savings, and we are going to be looking for savings going forward in 2014, 2015, 2016 and beyond in every year. This work of savings does not stop, it is constant: lean efficiency reviews, procurement, checking the increase in salaries, restructuring, management; this is something that happens and is going to happen every year constantly. Okay, it has got to be done clearly and constructively.

Treasurer of the States:

If I could give you an example, Chair, of the different sorts of approaches which are required for generating future years' savings rather than what we have done so far. Just from Treasury, we generated £800,000 a year savings ongoing, so £4 million over a 5-year period, from retendering and renegotiating our insurance contracts for the States property, motor and public liability insurance. There are more savings to be made from insurance, but in order to ...

Senator S.C. Ferguson:

Is that the same cover?

Treasurer of the States:

It is better cover. What we are doing next is we are working with Marsh at the moment on looking at developing a captive insurance arrangement for Jersey. Now, you will appreciate that we can retender a contract in a matter of months, we cannot develop a proposal for a captive insurance arrangement for the States of Jersey in a matter of months; it is going to take us time to develop that proposal, to choose a supplier to work with and then to implement and bring that in in a sensible way.

Senator S.C. Ferguson:

Yes. Were you aware that Guernsey looked at the same concept and when they suggested this to their existing insurers, suddenly the premiums dropped? So they have not set a captive insurance company up in the end.

Treasurer of the States:

Yes. We think we have squeezed the current insurance arrangements fairly tight, but there is nonetheless more that we can do with a captive. But as you rightly say, we are doing the evaluation first, and presently we are doing some feasibility work on a captive and that will help to illustrate whether it will be value for money for us or not. But the reason I mention it is because in

the C.S.R. programme, as the Minister described, there are things that we can do which are not easy, but they are quick, and we can get on and do them.

[14:45]

For the next round of savings that we need to make, we need more time, we need more lead-in time, because we are making more fundamental changes, and I just use that as an illustration of the sorts of things we need to do.

The Deputy of St. Ouen:

Just following up on some of the C.S.R. comments that the Minister for Treasury and Resources has just made, we are well aware that the States deferred a decision not to take the savings and required further work to be undertaken and obviously we are still looking to see that work to be done. However, you seem to be silent on other areas where you are not going to deliver savings, and it is well known. One is the pay bill, salaries. First of all, we know that there has already been a movement away from the position that was taken by the Council of Ministers and proposed in the Medium Term Financial Plan on pay and pay increases, and we still have not got a resolution on what our employees will accept, ultimately. So we would like to know a little bit about how you plan to deal with that, the shortfall in the £14 million that is required to be delivered by 2013. Also, in procurement, there is still, as I understand it, approximately £3 million or £3.5 million that is expected to be delivered this year. Finally, I was interested to read in your year-end carry forward report that Home Affairs who, in fairness, already raised concerns about some of the savings that they were required to make, is now trying to use carry forwards to offset savings that were requested and required to be delivered in 2013. So perhaps you can just talk to us about some of these other matters which perhaps you have not spoken about to date.

The Minister for Treasury and Resources:

Silence in public does not necessarily indicate that there is not work going on on these issues because, as I counted up, I think there are 75 or 100 individual line items of savings which are being delivered in 2013 which were supporting departments. On pay, let us first of all be clear that the States has set the envelope for pay in the Medium Term Financial Plan. So almost while the Treasury is not responsible for pay, that is a matter for the States Employment Board. We are responsible for leading the debate and getting confirmation from States Members. Obviously, we had a debate in the States on the pay envelope. How that pay envelope is divided up is a matter for the States Employment Board, to a large extent, and they are responsible for setting pay. Now, I understand your comment that the employees or some pay groups have not accepted the pay offer, but obviously the negotiations for pay is a matter for the Chief Minister. I am informed and I am consulted on some aspects of that; I attend S.E.B. (States Employment Board) sometimes, but

I am not a member of S.E.B. I am not ducking it, but we set the envelope and the Chief Minister and other Departments have to live within that budget. In relation to terms and conditions, I am advised in Ian's statements yesterday in the States about the government reform programme, and Senator Maclean's involvement in that, that we are determined to deliver terms and conditions changes as a Council of Ministers in the next months, in the next years, new contracts for new staff. Obviously the Treasury is deeply involved in pensions, which is related almost to remuneration, which is a part of the overall pay bill. We will deliver, and the Council of Ministers has to deliver pay restraint and changes in terms and conditions.

The Deputy of St. Ouen:

But Minister, you have already said, or I have read somewhere that there is already a shortfall of about £4 million in the £14 million that you anticipated being saved between 2011 and 2013. I presume that did not take into account any agreement that has been reached with nurses, let alone the lack of agreement you have reached with the other employees. So the question is surely how are you going to meet those shortfalls?

The Minister for Treasury and Resources:

Well, they were in the M.T.F.P. The Treasurer can help me with the detail with the numbers.

Treasurer of the States:

That is right, Chairman. At the time of drafting the Medium Term Financial Plan, we knew that the pay offer that had been made would deliver £10.5 million of savings ongoing against the £14 million target, so Deputy Reed is quite right, there was a shortfall of £3.5 million as a consequence of that. I will also say that that £10.5 million is the ongoing savings. There were costs associated with the one-off pay awards that were made, the non-consolidated pay awards, which are separate from that. So we did have that £3.5 million shortfall but when we had drawn up the Medium Term Financial Plan for 2013, 2014 and 2015, we have been able to take that into account.

The Deputy of St. Ouen:

How?

Treasurer of the States:

Well, in balancing the budget overall, and so ...

The Deputy of St. Ouen:

So within the envelope that the States have agreed, you are saying that you are able to meet any shortfall or inability to deliver the savings that were required to be delivered by 2013?

Treasurer of the States:

That £3.5 million in relation to the pay bill, yes.

Deputy R.J. Rondel:

Do you have any contingencies in place if S.E.B. fail to deliver?

The Minister for Treasury and Resources:

We have contingencies, but we would not release contingencies. First of all, we have moved away from the general reserve allocations where the general reserve, which was the previous contingency which existed, was just spent. There is a process to release contingencies; I would think that we would need ... well, I will be clear, the States has made a decision about allocating the pay bill, therefore while in theory contingencies could be used - and by the way, they are not available for use because they are already earmarked for other issues, which I can go into - the States has made the decision for the pay envelope, and that is the envelope, and any decision to change that envelope I think would need to be a States decision, because the States has made a decision about how much money was going to be allocated, so to go against that States decision overrides it, yes, so it is not available. I heard Mrs. Southern on behalf of unions in the media last week justifying and questioning why the public sector should have a higher pay increase to get money into the economy. These underspends and contingencies are simply not there to justify a higher public sector pay award. Many people would say the public sector pay award, which includes 4 per cent next year, is a pretty good settlement in the current economic situation. Many people would say: "Why have you offered 4 per cent when you have got 2,000 people unemployed and private sector people have had a pay freeze for 5 years?"

Deputy R.J. Rondel:

So just to be clear, any contingencies, something else would have to be sacrificed if there is agreement?

The Minister for Treasury and Resources:

The only area which we will accept for a special case to be made, and we have made that specific commitment, is in terms of nurses, where there is a recruitment issue, and there has been an additional offer which we have discussed with S.E.B. and we have agreed funding where we have agreed an additional award for nurses.

Deputy R.J. Rondel:

Okay. Where would that come from?

Treasurer of the States:

Contingencies, Chairman.

Deputy R.J. Rondel:

Right, so that contingency was not earmarked for something else, for that specific ...

The Minister for Treasury and Resources:

No. Contingencies obviously at the start of the year are not earmarked, but I have a confidential ... and I am happy to give you that assessment. We have a list of calls that we expect on our contingency. I can tell you what some of those are: the Committee of Inquiry on Child Abuse, which we have issued some guidance on; there is the call on Freedom of Information, which is a States decision where there is no budget; carry forward has put in some money to set up the administration of it, the ongoing cost, which is very significant in Freedom of Information. While it is a political priority, I understand that, it is going to come at a very significant cost, which is unbudgeted, so we would have to look to contingencies. We are obviously uncertain of the ongoing economic position. We have to keep resources available for Departments that have no control over the amount of people who are going to be affected by ongoing job losses. While Social Security is budgeting well and we have a very good and clear relationship with them, we obviously are in uncharted waters economically and we have to have those contingencies. I do not want to be in the position of having to go back to increase budgets in the way that we previously did under Article 11(8); that is wrong.

Deputy R.J. Rondel:

Would you be willing to share with the Panel the information?

The Minister for Treasury and Resources:

Happily do so, of the list of calls on our contingencies.

Treasurer of the States:

Certainly, yes.

Senator S.C. Ferguson:

Going on from that and the talk about the uncertain economic position, are you quite happy then that we are going to make our totals on the income forecasts as in the Medium Term Financial Plan?

The Minister for Treasury and Resources:

I am very confident that we will meet the income projections. As you know, we are ahead of where we thought we were going to be at the end of 2012. The position that we have announced today in that report has got the end of 2012 numbers in, which you can see for the first time, if you have been ...

Senator S.C. Ferguson:

Well, yes, if we had them in time we could have looked at them before the meeting, but ...

The Minister for Treasury and Resources:

Chairman, I have given you a briefing of written papers for the first time so that you have got papers, and I hope you received that in advance of today's meeting. I thought I had been helpful.

Senator S.C. Ferguson:

Yes, but one day, when some of us did not get home until 7.30 p.m. last night ...

The Minister for Treasury and Resources:

Okay. Well, I was 12.30 a.m., if we are in competition, but I gave you those papers to help you.

Senator S.C. Ferguson:

The reason I ask about this is because in the *Evening Post* last week when you were saying that the unions were being unreasonable with wanting part of the underspends in the contingency for salaries, at the very end of that article it said that you estimated that we were looking at a deficit of £90 million this year.

The Minister for Treasury and Resources:

No. Let us be ...

Senator S.C. Ferguson:

So are you are saying that what the *Evening Post* picked up was incorrect?

The Minister for Treasury and Resources:

No. It is just that the way you explain figures needs to be clear, and deficits are different from what you are spending and the F.P.P. (Fiscal Policy Panel) analysis of what you are spending versus what you are taking out is two different computations, as I am sure you will know. The economic analysis of the F.P.P. ... and of course the timing of spend is important from the timing of the withdrawal from the economy. So, for example, if the Minister for Planning agrees tomorrow the police station, we have already allocated the amounts of money for the police station in the

budgets previously and in the Medium Term Financial Plan, and the last tranche of that money, it will be spent in 2013 and 2014. Now, with spending there is a timing difference from when it is allocated and when it is spent, and the economic analysis that we have made is that we are going to be spending £90 million more than we are taking out in the economy in 2013, because of timing differences.

Senator S.C. Ferguson:

So where the F.P.P. talks about an adjusted deficit of £74 million, you are saying it will be, in fact, an adjusted deficit of £90 million?

The Minister for Treasury and Resources:

I want to very careful that I answer the right question.

Senator S.C. Ferguson:

This is figure 2.22, page 46 of the F.P.P. report.

The Minister for Treasury and Resources:

Right. If you have a copy of it in front of you ... do we have a copy here? When we talk about accounting deficits, budgeted deficits ...

Senator S.C. Ferguson:

No, timing difference. I mean, the timing difference is effectively cashflow; come on.

Treasurer of the States:

We have not done an update of the calculation that is in the F.P.P. We would be happy to do that separately from this meeting, but the point that the Minister ...

Senator S.C. Ferguson:

As I say, in the paper it said: "The £90 million deficit" and I think perhaps in that case do you not feel that you might need to explain it more clearly?

The Minister for Treasury and Resources:

I always try, but newspapers are written to write articles and it is shorthand, it is not detailed analysis. The shorthand is ... and the *J.E.P. (Jersey Evening Post)* was right to report the fact that we are going to be spending in the region of between £70 million and £100 million more than we will be collecting in terms of tax.

Deputy R.J. Rondel:

Because of delayed projects.

[15:00]

The Minister for Treasury and Resources:

Yes. I would not use the word “delays” because some of it is intentional delays and planned delays because there are timings ... of course you cannot start a capital project, you cannot tender it until you have got the money in the bank. So the money has got to be allocated by the States ...

Senator S.C. Ferguson:

Yes, but Joe Public on the whole deals with cash accounting because he has a salary coming in, he has expenditure going out, so he will understand a £90 million deficit on his income and his expenditure, and if the deficit is going to be as high as £90 million, then that implies that the income forecasts are going to be down. So where are they going to be down?

The Minister for Treasury and Resources:

Right, now you are confusing people, if I may say. The income projections are absolutely going to be met over the period of the plan, we are already ahead. If you look at page 13 of my report published yesterday, at: “High Level Summary 2012 at a glance”, you will see that general revenue income at the budget business plan 2012 was expected to be £612 million and we have ended up with £628 million. So we have had more income than expected. I expect, upon advice ...

Senator S.C. Ferguson:

Hang on, the forecast in the M.T.F.P. was £624 million, so £628 million/£624 million is not material.

The Minister for Treasury and Resources:

Senator, the final approval was £625 million and the final figure was £628 million, so it is slightly higher. So in terms of that, the original business plan, that is the updated number from the Medium Term Financial Plan. So we are already ahead of where we thought we were going to be. In 2013, I am confident with the Treasurer, who is advised by her tax forecasting group, that we will be on track and indeed ahead of where we thought we were going to be in 2013. We fully expect that to be continuing, to be the case in 2014, and it is obviously too early to say what 2015 will be, but we have every confidence that if we deploy the economic growth strategy, if we deploy the financial services strategy, we will be delivering economic growth and income and we will meet 2015 numbers. So yes, I stand by ...

Senator S.C. Ferguson:

There are a few ifs in there, are there not? We are so dependent on the outside world.

The Minister for Treasury and Resources:

Senator, are you criticising or are you questioning?

Senator S.C. Ferguson:

No, I am just asking.

The Minister for Treasury and Resources:

Okay. I am telling you that over the period of the plan, I am confident and I stand by ... and of course, they are not my back of the envelope pencilled numbers, they are the formal advice from the Treasury and the tax forecasting group, including the Economic Adviser, the Comptroller of Income Tax, the International Adviser, Mr. Powell, and others, and I think that the Treasury has an extremely good track record. We are normally criticised for under-budgeting, not over-budgeting.

Senator S.C. Ferguson:

Right, so you are quite happy that we are going to make £647 million or more in income for 2013?

Treasurer of the States:

We are quite happy we will do that, Chair, within the ranges that we set out within the Medium Term Financial Plan, so we always project, as you know, a given level and we project a range within which we hope we will be. So for our planning purposes we do ...

Senator S.C. Ferguson:

Well, the ranges are a fan, are they not?

The Minister for Treasury and Resources:

Yes.

Senator S.C. Ferguson:

So it could be higher, it could be lower.

Treasurer of the States:

It could be higher and it could be lower, because we do not think we can forecast precisely what the level of income is going to be in any one year.

Deputy S. Power:

Can I come in here, Chairman?

Treasurer of the States:

But we do expect that the actual income that they will generate will be within the forecasting range that we set out within the Medium Term Financial Plan, so we do think we will be close ...

Senator S.C. Ferguson:

But remind me, it was plus or minus 10 per cent, I think, was it not?

Treasurer of the States:

It was not as much as that, no.

Deputy S. Power:

Is it fair to say, Minister and Treasurer, that in spite of all the financial uncertainty, the difficulty of F.P.P. forecasting, that Treasury receipts have held up for 2012 and they look as if they are going to hold up for 2013?

The Minister for Treasury and Resources:

Absolutely, and I am pleased with the result. It is encouraging to see that we have not seen the fall-off in income, that our lower end of the estimates and our downgradings that we feared in 2010 have come through, and that is extremely encouraging, and that is because more people have remained in work, and the fall-off in unemployment - in financial services particularly - has not been there. It is also, if I may say, the success of the strategy deployed by Income Tax to collect tax that is due and so our slightly more assertive tax department that has been holding people to account for making sure that tax is paid is proving to be worthwhile.

Deputy S. Power:

So the ongoing uncertainty and risks with regard to the change in competitive and regulatory environment, including U.K. (United Kingdom) and F.A.C.T.A. (Foreign Account Tax Compliance Act) negotiations, it is holding up?

The Minister for Treasury and Resources:

Well, obviously we are going to see the impact of F.A.C.T.A. probably in a couple of years' time, and the issues of deemed distribution and all these things all factor through. But, yes, there were considerable downward pressures. It is a very mixed bag of economy; there is feast and famine in a number of different businesses. I would also remind the Chairman that in the Medium Term Financial Plan we published the most detailed breakdown of where we thought income was going

to come than we had ever done. We published a tonne of data of the breakdown of every single item, split in ways that you have never seen before, about our tax forecasting. So it is not just a number, it is broken down by personal taxpayers, corporate taxpayers, allowances, the cost of different exemptions et cetera.

Senator S.C. Ferguson:

Yes. But I noticed last week or a couple of weeks ago that the banking profits this year are down 16.9 per cent on last year.

The Minister for Treasury and Resources:

Which data was that from?

Senator S.C. Ferguson:

The banking returns from the Financial Services Commission.

The Minister for Treasury and Resources:

There is a slight health warning that we are making sure that we are not talking two different languages again. The J.F.S.C. (Jersey Financial Services Commission) produces data on banking profits that could be within the 10 per cent or could be outside the 10 per cent. There are some aspects of banking profits that will be taxed at 10 per cent, others which will be within the zero, so they come with a significant health warning. We do know that the overall profitability of banks has been remarkably resilient, and indeed, that is where the corporate tax, the tax on companies, which is forecast ... I do not know what it has turned out to be, but £74 million was the forecast.

Treasurer of the States:

Just a comment on that, Chair, when we were doing the Medium Term Financial Plan ...

Senator S.C. Ferguson:

Do you mind? I am not a piece of furniture, I am a chairman. It is a generic title, and I am sorry to be a pain over it, but if you do not mind **[Laughter]** ...

Treasurer of the States:

Senator Ferguson, where we are, the work that we did last year when we were doing the Medium Term Financial Plan, we of course did not have all the tax receipts for 2012 at that stage, but what we were able to do was to ring the banks and to talk with them. They had closed their accounts, so although we did not know where they were, they knew where they were and our taxes office spoke with all our major taxpayers to see how well they had done in 2011 as compared with 2010, so that we were able to be sure that the projections that we were making for 2013 were

reasonable. As the Minister has said, our forecasts are very, very close to the actuals for 2012, we have generated £60 million more than the original budget, and we were able to factor that into our Medium Term Financial Plan for 2013, 2014 and 2015. So as well as doing the forecasting work that the Minister has just described that is set out in appendix 1 to the Medium Term Financial Plan, we also check that with real information of things that are happening in the economy, and so we talk to our biggest taxpayers about their actual level of business activity the previous year. So we have a sense check against the numbers that we are projecting. So we do our best to put a sensible projection into the plans.

The Minister for Treasury and Resources:

If I can just say, I would just refer you back to page 148 to 195 of the Medium Term Financial Plan which has table upon table of analysis of the underlying assumptions that are built in within the tax forecasting numbers, everything from property prices to interest rates, to the amount of people in work, to every single possible breakdown of that number. So we are very transparent about how we built up that number. When you said: "Are you confident in that number?" the Treasurer and I could talk to you all day about the breakdown of every single bit of assumption.

Senator S.C. Ferguson:

No, it was quite a simple question. It was a yes or no: "Are you confident?"

The Minister for Treasury and Resources:

Within the parameters of the statements that we have made and on the basis that the assumptions that we have made continue to be robust, and some will be up and some will be down, yes, and we are ahead of where we thought we were going to be, which is in a very good position for Jersey.

Deputy R.J. Rondel:

One of the areas you receive significant income from is from States-owned utilities, from their dividends. Their profits are notable and quite significantly lower this year, Jersey Electricity, Jersey Water, for example, yet they are maintaining their dividend.

The Minister for Treasury and Resources:

As they have all agreed, yes.

Deputy R.J. Rondel:

Yes, absolutely. But do you see that being maintained in the future? It is all very well this year, but do you see those profits increasing back to where they were?

The Minister for Treasury and Resources:

Yes. Yes, absolutely.

Deputy R.J. Rondel:

Because they are significantly lower than previous years.

The Minister for Treasury and Resources:

Well, I think we know why the J.E.C. (Jersey Electric Company) profits are down, because of the on-Island cost of generation, the fast-tracking of the new French cable and the switching of heavy fuel electricity generation into imported power will improve that position. We have agreed a reduction in dividend for Jersey Telecom to fund fibre which, while it has had its implementation issues recently, is absolutely still on track and the right decision for Jersey, and Jersey Water continues to perform well in relation to its activities. I would say also that Jersey Post, notwithstanding the difficulties that it has had with the loss of L.V.C.R. (Low Value Consignment Relief) has returned us an extra dividend and has returned to profit as a result of their restructuring, and their and the Managing Director and board's very good work. So yes, all is good in relation to that. In addition, you will have seen the publication of the S.o.J.D.C. (States of Jersey Development Company) accounts. Since S.o.J.D.C.'s accounts have been published, they have had some further good settlements in relation to the property matters within the Castle Quay arrangements and, indeed, they are continuing to perform well in progressing their own developments which will ultimately have substantial dividend repayments if we are successful in delivering their Esplanade Quarter developments.

Deputy R.J. Rondel:

Do you see any possibility of having any windfall payments ...

The Minister for Treasury and Resources:

The windfall payments may well be there, but I am afraid they will be used for the important capital projects that we have. At some point this afternoon I will perhaps update you, if you are interested, on the work that we are doing on funding the long-term capital programme, including the options that we are considering for external financing for both the Housing additional investments and the hospital, where we have been working, as is known, in public. We have said it before: we have been looking at various different ways of funding those future capital investments. I am determined, in the next 18 months of my term of office, to leave this term of office with a capital programme that is clear, funded and long term. The work that the Treasurer has done in relation to working up options of funding capital for Ministers to consider has been impressive, and we will be announcing our conclusions of funding the hospital certainly before the summer break, and it will be a feature of the budget later on this year.

Senator S.C. Ferguson:

Well, if we can get on to capital matters, please.

Deputy R.J. Rondel:

In your ministerial response to the M.T.F.P., you advised the Assembly that you would subject the capital programme to formal review against the 3Ts by March. Has this been done or are you are about to give it to us?

The Minister for Treasury and Resources:

You have got it and it was two weeks after March, but I am pleased that we spent the additional two weeks on work, because we, I think ...

Senator S.C. Ferguson:

No. We are not having them until after the meeting, thank you.

The Minister for Treasury and Resources:

You have been sent it, Senator.

Senator S.C. Ferguson:

Yes, I appreciate that, but unfortunately, it was a States week, was it not, which makes it quite difficult.

The Minister for Treasury and Resources:

Well, if you have the papers, I will talk you through them.

Senator S.C. Ferguson:

We do not need to go into every ...

The Minister for Treasury and Resources:

Can I just maybe highlight three things?

Senator S.C. Ferguson:

Yes, please.

[15:15]

The Minister for Treasury and Resources:

We have subjected the capital programme to the close supervision and scrutiny that we said we would. I published also this afternoon, which you may be interested in reading ... capital spending is a really important part of economic stimulus, and why are we saying this matters? We are saying this matters because it has a multiplier effect on keeping people in work and maintaining the construction industry at a certain level. That is certainly ...

Senator S.C. Ferguson:

I think we may argue about the multiplier though.

The Minister for Treasury and Resources:

We may. The multiplier may be higher from small states than you believe it to be, but all the advice I have had from small state economics is that the multiplier is higher and it works, and our policies in relation to ...

Senator S.C. Ferguson:

What are you told that it is?

The Minister for Treasury and Resources:

We have had this conversation before.

Senator S.C. Ferguson:

Yes. I just wonder what multiplier you are working on.

The Minister for Treasury and Resources:

I will have to tell you exactly what the figure is; we have already published it. I do not have these things in my head. Suffice it to say that we have published today, and you will see an analysis of actual spend on the capital programme this year. If you turn to pages 7 and 8 you will see a quarter by quarter analysis of money being spent in the economy. Do you have that?

Deputy R.J. Rondel:

We have not got that.

Treasurer of the States:

Senator Ferguson, we received your questions on Friday for this meeting and we sent out at 11.00 a.m. yesterday a batch of papers, which we have brought further copies of.

Senator S.C. Ferguson:

Well, if the Minister can just ...

Treasurer of the States:

You were sent out a batch of papers yesterday which included an update response to the Fiscal Policy Panel, attached to which is a full analysis against the 3Ts of the capital programmes for 2013, 2014 and 2015. So we have those here. If you do not have them handy - and I understand the issues about being in the States - we do have them here.

The Deputy of St. Ouen:

I appreciate, Treasurer, that you have provided the information, albeit late in the day. I would like to remind perhaps you and the Minister this is a public hearing where we have identified a number of areas which we would like to question you on, and this is the opportunity for the Minister to give a brief response to questions that we raise on different subjects. Absolutely, it is useful to have the information, but this is not a private briefing, this is a public hearing and we are wanting to get a flavour from the Minister about any issues and challenges around, in this case, the capital programme.

Deputy R.J. Rondel:

Perhaps you should just go through a few things without referring to ...

The Minister for Treasury and Resources:

Can I just check: did you receive the written papers that we sent yesterday?

Deputy R.J. Rondel:

Electronically.

The Minister for Treasury and Resources:

Right. So you do not have copies of them?

Deputy R.J. Rondel:

No.

The Minister for Treasury and Resources:

Right. May I please ask ...

Senator S.C. Ferguson:

Yes, but no, neither has the press.

The Minister for Treasury and Resources:

The press has got them because they were published yesterday.

The Deputy of St. Ouen:

All of the papers ...

The Minister for Treasury and Resources:

They were all published yesterday.

Senator S.C. Ferguson:

Did you get them yesterday? All right. Okay, even so, perhaps you could just give us a flavour and just go through it as if nobody had received it.

The Minister for Treasury and Resources:

It is rather frustrating, because we work very hard to give data and we respond to questions quickly, and I have spent a great deal of time with the Treasurer making sure that you have data to assist you in your discussions and it is somewhat frustrating, when we go to such massive efforts to answer your questions and give you breakdowns, that you are not even prepared to look at a table so that I can talk you through it. It is rather frustrating, but I will try. I have published yesterday an analysis, as I committed to do so in the F.P.P., a quarter by quarter analysis of every single capital project that is underway in the States this year, and also when that expenditure is likely to hit the economy in quarters 1, 2, 3 and 4. That analysis shows that we are going to be spending £63 million directly in capital projects, not including repairs and maintenance and not including our other external operations - which I will discuss in a second - in projects. I am very keen that Departments, when they get their budget allocation for capital, spend it, so I see an additional task of the Treasury ensuring that the actual money is spent, and that it is spent wisely, spent cost-effectively, but spent. So we are putting an additional control on Departments by asking them to budget their actual spend. Of course, I do not want to commit to doing this for ever, because I think this is just an economic downturn issue, and it is a lot of work to do it, as I am sure you can imagine. We will then also check what the actual spend has been by Departments compared to the budget spend. That will mean that, for the first time, we have got some handle on not only just allocating and then letting Departments just get on and spend it, but looking at when the timing is going to be for it to be spent. This has been something that I think is new and innovative; I do not know any other government or any treasury that has done this, but we are doing it, and we published that report yesterday. So we have gone over and above what the F.P.P. said. So I am two weeks late in my report, but it has got significant additional granular detail of exactly where the money is being spent.

Senator S.C. Ferguson:

Yes. Because I can remember Deputy Reed a number of years ago coming to the Treasury and saying: "Okay, we have done projects, we have got money left over, bits and pieces here and there from different projects. The project is finished and we have got a bit of money left over." Now, the sort of process you are describing will give you a running total on spending and whether there is any left over when the project is completed.

The Minister for Treasury and Resources:

We already do that, we already have a ...

Senator S.C. Ferguson:

No, I think it is something that should be continued, not just used now.

The Minister for Treasury and Resources:

Hold on, that is different. Shutting down capital projects and seeing whether there is any unavailable budget is a different point.

Senator S.C. Ferguson:

No, it is just an extension of the work you are doing. I was just congratulating you on it.

The Minister for Treasury and Resources:

Okay, thank you. But we already do that and we already have a list of projects ...

Senator S.C. Ferguson:

Do I have to beat my head for you to accept ...

The Minister for Treasury and Resources:

We will continue to look at capital projects of budget versus actual and then releasing ... and we have this struggle with Departments that they have a budget project of £10 million and they spend £9.5 million, and they think the £500,000 is theirs to spend on something else, when that has got to be reallocated centrally, which is what we do. That is a different point, and we do that, and Deputy Reed was right about that, and that is a good and useful piece of work that we do. We are, I think, more up-to-date than ever before in looking at that. In relation to the quarter by quarter spend, that is just the timing of when the projects are being literally deployed, shovels in the ground. It is a struggle because in this report that we have published, we have also explained our end of year financial position for 2012, which shows a better position because of income being higher and spending being less. The Treasurer has also included again some information that is not in the public domain yet, which is the performance of the Common Investment Fund at the end

of 2012, and I warmly congratulate the Treasury on their performance in relation to the way that they have managed States assets, it has been excellent. More importantly, it is beating the benchmarks of the targets, so the new arrangements which are overseen by Deputy Noel and the Investment Advisory Committee that we have, has performed really extremely strongly. That gives me more confidence when I am answering the question of the F.P.P.: "If you need to do more to support the economy throughout a protracted downturn, would you do more?" For the reasons of the end of year financial results in 2012 and the performance of the underlying Common Investment Fund, of which obviously the Strategic Reserve is part, but we cannot access that money without extant States approval, the F.P.P. said: "Prepare to do more if necessary." Well, we are first of all making sure that we are doing everything we can to spend the money that we have got wisely and prudently on projects, and I hope the Minister for Planning passes the police station tomorrow, because that is a good example of getting on with that. I think we have got Belle Vue passed now - Deputy Power will remind me - we have got an approval for that. That is great, we can get on. In fact, I saw the boardings going up at the weekend. We are ready to do more where necessary if the economy calls for it. But my problem is that we do not have projects to fund.

Deputy R.J. Rondel:

That is what I was going to ask: what concerns do you have? You have got the capital projects but what concerns of delays do you have that Departments will not be able to spend? Are you reliant on the Planning Department and people like that?

The Minister for Treasury and Resources:

We are reliant on a number of things. I think we are reliant on ensuring that we have got project management, I think we have put excellent project management in for fiscal stimulus and then the Housing projects, we have put a dedicated team of officials together to make sure that the fiscal stimulus money was spent timely, and that was spent. That is good. Yes, by the way, we have got a small additional sum of residual money available as a result of fiscal stimulus; I think we have identified some £600,000 from one fiscal stimulus project that is going to be released ...

[Laughter]

Senator S.C. Ferguson:

Not if the Treasurer can help it.

The Deputy of St. Ouen:

With regard to fiscal stimulus projects and potential projects, one thing that was agreed in the Medium Term Financial Plan, I think as part of the 10th amendment, as it happens, was that the new sea cadets headquarter would be provided for. In the Medium Term Financial Plan again it

says that there was a potential to deliver the facilities to the sea cadets without the need of further funds. However, obviously it depended on a third party and joint venture at the Les Galots site. Then there was a commitment made that if that was not successful the Council of Ministers would support the inclusion of, I think it was, £800,000 in the 2014 capital programme to deliver this particular project. The brief question is what has happened?

The Minister for Treasury and Resources:

The Director of Property Holdings?

Director of Estates, Property Holdings:

Yes. Thank you, Deputy. About a month ago a ministerial decision was signed by the Assistant Minister for Treasury and Resources, who has responsibility for property matters, to progress with an exclusivity period for this third party to undertake a formal feasibility study for two projects in parallel: one to look at a scheme that included some commercial development alongside community assets in order that we can deliver the scheme within the restrained funds that are available. That group will also look at a community-owned based solution, so if the first project falls away, we will have the feasibility study completed for the second project, which may require us to come back to the States in the budget for additional funds, the £800,000 you discussed. But that is now underway.

The Deputy of St. Ouen:

When do you plan on having firm proposals available for the States to consider or the Minister to consider?

Director of Estates, Property Holdings:

The expectation is to have the feasibility study undertaken and completed in the next 6 months.

The Deputy of St. Ouen:

So it would be completed within 6 months?

Director of Estates, Property Holdings:

The feasibility study will, yes, with an expectation to be onsite early next year.

The Deputy of St. Ouen:

So the good news is that the sea cadets at last will find themselves closer to the sea than currently.

Director of Estates, Property Holdings:

Absolutely. One way or another with one of the schemes, either a scheme cross-subsidised through commercial development or not, the scheme will progress.

The Deputy of St. Ouen:

That is good. Moving on, but linked to the sea cadets' current location, can you perhaps briefly update us on what is happening with Fort Regent?

Director of Estates, Property Holdings:

I will update you, if it is possible, Deputy. The steering group continues to sit and, in brief, the steering group is split into two distinct functions: one looking at ongoing improvement works to the Fort. The report that went to the States identified a number of ongoing improvements to the working of the Fort: signage, website, marketing et cetera, and the other is working on land. The wider improvements to the Fort is the strategic use of the Fort in the future. It is being considered by another separate part of the working group, and we have included the resources that S.o.J.D.C. have to putting impetus into this part of the project to move it forward more quickly so that we can engage with the market. There is a piece of work that is currently being undertaken, which hopefully will be completed within the next three months, to produce a concept which can then be widely taken to the market through the appropriate bodies, the Regeneration Steering Group being the key deciding group.

The Deputy of St. Ouen:

I am just interested to explore the involvement of J.D.C. (Jersey Development Company).

Director of Estates, Property Holdings:

Their articles of association allow them to be utilised for certain projects in the public good. They have a skillset which is appropriate for developing proposals so that there can be engagement with the market on a commercial basis. It is very appropriate that that skillset is being used. They have some downtime at the moment - and I use that term advisedly - while the decision on the Jersey College for Girls former site is being considered by Planning, using those resources effectively to work up a proposal for the report.

[15:00]

The Deputy of St. Ouen:

Are they exploring all the sites that were identified in the interim report that was issued at the end of 2011?

Director of Estates, Property Holdings:

They are primarily looking at the site as a whole. There will be certain elements of the site, for instance the Norman's Timber Yard, where we will be undertaking ... in fact, have undertaken a review of the physical structure of that site to try and bring forward quickly proposals for development of affordable housing, probably social housing, on that site.

The Minister for Treasury and Resources:

The benefit of now having S.o.J.D.C. within the Treasury family is that the close working relationship between Property Holdings and S.o.J.D.C. is a more efficient use of resources; we do not have to bring in any consultants now to, for example, look at the potentially very exciting Norman's Timber Yard as a housing site. That is being done almost inhouse by S.o.J.D.C. and I think that is excellent, I am really pleased with the progress that has been made on that, that is saving money by not having to go out and get consultants to do it. Yes, they are having to employ specialists on the rock face et cetera, but it means that we are using expertise in-family, and we are not incurring additional costs and we are making progress. Those 5 sites, including all those steps that were rightly set out in the note that you say, is making progress.

The Deputy of St. Ouen:

Can I ask, just one final point, with all this work going on, which is great, when are we likely to see concrete proposals that either the public or the States or whoever can consider and realise ...

The Minister for Treasury and Resources:

I like to under-promise and over-deliver. Deputy Noel is leading on this. In the note that was sent out to Members, there were short-term deliveries and there were the longer-term deliveries, so I would just say that, and then, Ray, if you want to just say when do you think the big property stuff might be able to be discussed by Deputy Noel?

Director of Estates, Property Holdings:

I would think we are looking at the last quarter of this year or the first quarter of next year to have something that is worked up to a level where we can have a detailed discussion. It may be possible to provide information in advance of that, but it really depends upon how the market engagement is undertaken and what the options for procuring third-party investments are.

The Minister for Treasury and Resources:

There are two other exogenous factors which are going to guide this: there is first of all the Green Paper on Sport, which is also discussing the nature of the sporting facilities, which I maintain and declare an interest in; strong supporter of sports at the Fort, enhanced not removed, but obviously within maybe refreshed facilities and relocated facilities perhaps, getting good access by Snow Hill

and all the rest of it, and secondly Planning have committed also to do some planning guidance with that area, which is going to particularly look to South Hill and that whole area of town in terms of some planning and overall guidance, which we are going to find quite helpful.

Deputy R.J. Rondel:

Perhaps following on from that, are you able to update us on the office strategy movements?

The Minister for Treasury and Resources:

I am very pleased that the office strategy is making tangible progress. If we get the police station through, which has taken a lot of time and effort - as I am sure you realise - that is going to be a project that is now in implementation as opposed to planning. The Maritime House answer that I gave yesterday is tangible examples of real progress on property rationalisation in a meaningful way and I share the Panel Chairman's views on the importance of property leading reform. If we can get people in happy, working environments, in better work environments, that is going to help our reform agenda. The further phases of the office strategy are going to be delivered, but this time on a deliverable project by project basis.

Deputy R.J. Rondel:

So your only firm examples that can be given are release?

The Minister for Treasury and Resources:

Well, the police station releases Rouge Bouillon, Sacre Coeur and has the attendant then release of significant amounts of land for social housing. That is a very good example. The Maritime House ...

Deputy R.J. Rondel:

Are there any other examples?

The Minister for Treasury and Resources:

Maritime House, centralising Property Holdings in Maritime House, emptying some bits of South Hill, Piquet House, making better use of airport accommodation by the Harbours and Airports, lots of corresponding. There are a number of dominoes that come into place.

Director of Estates, Property Holdings:

Perhaps another couple, if I may, Madam Chair. We moved recently the Economic Development Department into Cyril Le Marquand House, into the ground floor, to make better use of the area there, so reduce the reception area and you have got quite a dense but pleasant office accommodation in that part of the building. We are looking ...

Deputy R.J. Rondel:

Is that where E.D.D. (Economic Development Department) are in the divided reception part?

Director of Estates, Property Holdings:

That is correct, yes.

The Minister for Treasury and Resources:

When you say, Director, they were removed, they were happily welcomed into Cyril Le Marquand House.

Director of Estates, Property Holdings:

Indeed, indeed. We have undertaken a review of Morier House to look at its utilisation and accommodation. There is going to be pressure, and mention was made of the Freedom of Information and there are other needs for the groups that are currently within Morier House. We are looking at trying to open the building up into more usable, open-plan space. This is a cultural as well as a physical challenge in the office strategy, but we are engaging positively with all members within that building. That is a couple of examples. I may have one further example of releasing of space. The work that is ongoing at the moment in relation to the St. James Church, to move and relocate the youth service facilities will release that site for further affordable housing development towards the end of 2015.

The Minister for Treasury and Resources:

Can I just add one thing, if I may, on fiscal stimulus, because that was the original thing you spoke about. Housing are obviously a major demander of capital and activity in terms of construction, and the Chief Minister and the Minister for Planning's announcements yesterday about planning supply is absolutely important to us in Treasury in terms of we will help Housing and we will helping housing trusts and we will help parishes where they have housing projects that are going to be able to be delivered, so we want and encourage a pipeline of sites for social rented and affordable homes. I thank the Panel for their report on the deposit loan scheme. I agree with the Panel about the supply side issues, which have also been made by the Health, Social Security and Housing Panel that supply is important. We are determined to increase supply. We have looked at all our States-owned sites to see whether or not we can deliver any States-owned sites earlier. We are progressing with J.C.G. (Jersey College for Girls) and what the Minister for Planning is going to be coming up with ... with, if I may say on the record, a very tough planning obligation that is going to be a part of that planning rezoning proposition, and let the message be very clear that the planning obligation is going to be tough - and tougher than any planning obligation before - where the right to develop land is going to become the obligation for delivering social houses and

affordable homes in a way that is further strengthened and further takes land value for the benefit, and that is very clear. But we want the pipeline.

Deputy R.J. Rondel:

How will that affect sites like J.C.G. then?

The Minister for Treasury and Resources:

It does not. It means that we need them all. We want J.C.G. We need all of the supply and we need more in terms to meet the Minister for Housing's social housing numbers.

Deputy S. Power:

Chairman, I did take the trouble to print off the programme for 2013, and the question I have, which is a brief question, is how effective is it for the fiscal policy, how effective is it to test the 3Ts when you have massive projects such as the hospital or the police station, some of the Education projects? Is it that helpful to test them as timely, targeted and temporary when you are dealing with these massive capital programmes?

The Minister for Treasury and Resources:

Well, that is what the F.P.P. ask and if the F.P.P. ask, I think I need ... and I understand why they are doing that, because what they were trying to do is they were saying: "Your capital projects, if you are going to ... we did the fiscal stimulus package. We then did the further Housing, £27 million of Housing investments." The economic downturn is lasting longer and is deeper internationally than we thought, so what we are doing is we are now attuning our capital projects and capital thinking to the fiscal stimulus approach. Where we can bring forward a capital project, we should, so St. Martin's School, thanks to Senator Le Gresley, we brought that forward, so that is why even though some of them are quite big, you should still think about whether you can break them down and deliver some earlier. The 3T analysis is helpful in thinking and training us to think about how we can get the biggest benefit for the economy as well as improving the sort of service stock.

Deputy S. Power:

Okay, but in terms of one, the overall review of the general hospital and the replacement in whatever shape or form that is likely to be, how do the 3Ts bring that forward in 2013? How is that working, because it is such a huge project. What is temporary about that?

The Minister for Treasury and Resources:

No, we are not doing a 3T analysis of the hospital, because we have not got that as a capital project yet. We are still working on that, Deputy, now, and this is commanding and going to

command a lot of our time in the next few months as we now make sure we make the right decisions for the location and the budget for the hospital.

Deputy S. Power:

It is in the list.

The Minister for Treasury and Resources:

Not with a 3T analysis. The 3T analysis, I know you have only had a chance to briefly read it.

Deputy S. Power:

We have only had a few hours.

The Minister for Treasury and Resources:

We have only done the 3T analysis on appendix 1, page 28, for the £56 million of 2013, so we have done an analysis of the 3Ts only on the 2013 spend.

Treasurer of the States:

But we did on the 2014 as well on page 17.

The Minister for Treasury and Resources:

Yes. So looking forward, is it going to be useful for fiscal stimulus next year if we need it, then those analyses of the 3Ts will be appropriate. But what we are signalling ...

Deputy S. Power:

The biggest figure there again is Housing.

The Minister for Treasury and Resources:

Yes, and that is the thing we have broken down in its project parts. We can apply 3Ts, and we are putting project management into Housing, supported by Property Holdings in a way that perhaps we have not. We want these projects to deliver and they are delivering. One other brief point just about the capital programme, just on this hospital thing, I am pleased ... the reason why we included the Common Investment Fund analysis is that we have got significant calls and I know a lot of people are worried about how we are going to fund the hospital. That is a real big concern for us.

Senator S.C. Ferguson:

Hang on a minute. We have not decided where we are going to build it yet, have we, because there are projects to put ... I know there are people calling for the Esplanade, people calling for

Overdale Hospital, people calling for somewhere on a greenfield, and people calling for a planned redevelopment of the actual site on Gloucester Street.

The Minister for Treasury and Resources:

That sounds like a very sensible approach, if I may say. While final decisions have not been made, a planned redevelopment on the hospital site is something that must surely be a very clear ... if it can be delivered ...

Senator S.C. Ferguson:

It ticks more boxes.

The Minister for Treasury and Resources:

... it might tick more boxes, yes. I am not sure that I would personally, and I speak only in a personal capacity, whether or not it is going to have to be a pretty high bar for me to agree - I am not the decision-maker, but as part of one of the decision-makers - it is going to have to be a pretty high bar to persuade me to use a piece of valuable commercial land that we can get a return and a dividend back to pay some of the costs of the hospital to use on the Waterfront.

Senator S.C. Ferguson:

Yes, but if it is a planned redevelopment, a bit at a time, it is not going to require £400 or £500 million in one big fell swoop.

The Minister for Treasury and Resources:

You make a very good point, Chairman. We do not agree on everything, but we agree with that and ...

Senator S.C. Ferguson:

But anyway ...

The Minister for Treasury and Resources:

No, you make a very good point, and that is exactly ... I have no desire to put the Island on a path of one massive capital project which ... we have got a history of capital projects - not recently - of going overspent. I think a capital project which is broken down that can be delivered and perhaps delivered earlier that can make a difference to patients' experiences and patients' lives earlier has a lot to say for itself. How we are going to fund that, the reason why I am so pleased with the performance - markets are obviously with us to some extent - but the reason why I am particularly pleased that we are beating the market benchmarks on the Common Investment Fund is that if we are able to make returns on our investments, then that helps us potentially reduce the amount of

borrowing and external financing that we may have to make, come what may for the hospital. The idea of going and borrowing £400 million would be a ...

Senator S.C. Ferguson:

The market is frightening.

The Minister for Treasury and Resources:

Well, we could borrow £400 million, as the States of Jersey, and ...

[15:45]

Senator S.C. Ferguson:

Yes, I am sure we can, but ...

The Minister for Treasury and Resources:

... we could get some cracking good rates, but whether or not that is the right political thing to do, and we are going to be having that conversation with Members and the Island about how we fund, but what I am pleased about is that we start from a good position, we start from a position where the Treasurer's focus on managing not only budgets and revenue expenditure, but looking after the balance sheet is paying us dividends. I can say that I think in the first three months of this year, some additional £40 million has been added to the value of the Strategic Reserve. If you look at the numbers that I calculate, published yesterday, that makes the Strategic Reserve not far off £700 million. It is a bit short of that and obviously markets will go up and down and you should not take the profits, but on that basis also people with their Social Security funds, we are responsible for investing Social Security: £90 million made as a result of the investment strategies on the Social Security Fund in the first 3 months. That is a really first-class performance of our investments. Looking after the balance sheet is something that we said we would do, and my goodness me, that is working. That is a strong position to be in and that is going to offset, I think, people's concern about the huge capital requirements that we have got. It may well be that we will look to some of that capital to pay for some of those investments in capital going forward, and I signal that as one of the options. Borrowing has been considered, but also internal borrowing from some of the investment returns that we have had.

The Deputy of St. Ouen:

Hearing the comments that you have just made regarding the Social Security Fund and the significant increases going through appropriate investment, can you tell us how that may or may not affect the long-term care charge that is supposed to be introduced by next year or the end of this year?

The Minister for Treasury and Resources:

Yes, that is a very good question. Obviously the Social Security Fund is there for pensions and for the other contributory benefits and the Health Insurance Fund is there for medical benefits, and when we are talking about long-term care, that is a new benefit. The Constable of St. John has found it difficult enough to accept a small extension of the Health Insurance Fund. We cannot just put a new benefit in the Social Security system. It is a standalone fund, so it has got to wash its face, but I fully accept that we have still got work to do on the long-term care proposal. Again, that is a partnership job that we are doing with the Minister for Social Security. We have an oversight group of Ministers, the Chief Minister, Treasury, Social Security working together on long-term care. I am very concerned that we ensure that long-term care is brought in on an affordable way, that we are not setting up a scheme that cannot be afforded into the longer term. Again, I am very pleased with the work that Social Security have done, because we will be no doubt called upon to be the collector of the contributions of long-term care, so that we have an efficient mechanism of collection based upon all income as opposed to just wage-earner.

The Deputy of St. Ouen:

So basically, just to sum up, are you saying that regardless of that we are gaining great improvements on our current reserves, regardless of the fact that we are generating - I think in your words - significant underspends from the budget, plus other additional funds, that the taxpayer is going to be required to make a further contribution for long-term care?

The Minister for Treasury and Resources:

That has got to be the case, has it not, because it is a separate and a standalone issue and there has got to be a matching of income and the expense, and those two remarks I made earlier, the investment returns that we are making on Social Security will mean that we are in an even better position to be able to deal with the ageing society. We all know that we are all getting older - that is obvious - but we have got a bulging of an age group. Senator Le Sueur, who put forward those increases in Social Security contributions, it means that we are building reserves in the Social Security scheme to pay for ... I think that I am the youngest politician here, I was born in 1970 ... am I, Richard?

Deputy R.J. Rondel:

Absolutely, just.

The Minister for Treasury and Resources:

Thank you.

The Deputy of St. Ouen:

I think, Minister, I will be about the median. We are just questioning how you fund it, especially when we have what the public has been told, significant underspends, extra money in the reserves, we have got growth on our Strategic Reserve that is £700 million and still - and bearing in mind we are in an economic crisis at the moment - it seems that the public at present are going to be required even in the short term to contribute to a further scheme so that they can provide for the long-term care in the future.

The Minister for Treasury and Resources:

Of course they are, and that is where we have not bled into trying to pay for ... we have not merged and compromised the integrity of the separated ringfenced funds that we have. Social Security increase in valuation means that pensions can be paid for longer at the same rates. Better returns on investments means that we are going to have to borrow less for our capital programme in the longer term. So while I am saying in one sense it is good, it just means that the costs recovery that we need to make for these various buckets of spending that we have got is going to be limited. So the fact that Social Security is a better position means that pensions can be afforded for longer without increasing rates; increases in investments, that we may have some other ways of funding capital than going out and getting a bond of £300 million for the hospital. Long-term care is a benefit. It is a benefit that people are going to get, that senior citizens are going to get immediately. It has to be paid for and we are asking for people to make a contribution. The distributional consequences of long-term care is something that I have been looking at and discussing with the Minister for Social Security. It is wrong, is it not, that we allow a benefit ... or we must be careful to introduce a benefit which has a generational impact. Young people are going to be paying into a scheme which older people are going to benefit from straight away, and we just have to make sure that it is fair.

The Deputy of St. Ouen:

Yes, I hear all that. I suppose though are you on course for implementation of the long-term care charge by the time set for you by the States?

The Minister for Treasury and Resources:

Yes. It is the Minister for Social Security's job, but ...

The Deputy of St. Ouen:

I just want to move on and sort of look at one other particular subject. You said that one of your priorities for the year would relate to the implementation of a financial services strategy. What is your personal role or your role as a Minister in this particular area?

The Minister for Treasury and Resources:

Senator Gorst has asked me to lead on the McKinsey implementation plan, so whereas financial services is going to be centralised within the Chief Minister's Department, I will have an additional role in order to lead the implementation of financial services and some changes within financial services. At the same time, Senator Maclean is going to be leading on some of the Government reform areas, but I regard this as the Cyril Le Marquand three Ministers effectively working much more closely together, effectively sharing and dividing up tasks in a slightly different reorganised way. If the Chief Minister asks me to do something, I will do it.

The Deputy of St. Ouen:

Does that mean that you will be directly responsible for the development and implementation of a financial services strategy ...

The Minister for Treasury and Resources:

With the Chief Minister. That is what he envisages, but with him, for him.

The Deputy of St. Ouen:

But you say ... sorry, just to be clear, he said he has tasked you with a job, so how does that mean "with him" then?

The Minister for Treasury and Resources:

Well, he is responsible for financial services overall, but as he has explained and I have been instructed is that he has asked me to deal particularly with the implementation of the McKinsey financial services strategy, which we are going to share with Members next week.

Senator S.C. Ferguson:

Can we get a copy of it before the meeting?

The Minister for Treasury and Resources:

There is not one report, but yes, we will try and ... it is a Jersey Finance consolidation of effectively what the strategy is going to be, but yes, I will attempt to do that.

Senator S.C. Ferguson:

Thank you.

The Deputy of St. Ouen:

Minister, you have indicated that tax modernisation needs sorting out in quarter 1 of this year, which obviously has now passed. Has it been?

The Minister for Treasury and Resources:

Treasurer?

Treasurer of the States:

We have a taxes transformation programme group. The work that we are doing at the moment is very much focused on the implementation of long-term care, which is why we are able to say confidently that we will be in a position to implement the long-term care charge by 2014, if that is the intention of the relevant Ministers. So our work on taxes transformation is focusing on that at the moment. Just recently, one of the outcomes that you will have seen from our work is that businesses can now file their tax returns online. Of course that is much more administratively efficient than it was hitherto. We are about to extend that facility to tax agents who are acting on behalf of individuals, and of course what happens is we are receiving all the information electronically. We do not have to have people sitting there typing information from forms into our system. We will soon be ready ... once we have implemented the tax agents, the next stage will be to make that facility, the online filing facility, available to the general public. You will appreciate that we want to make sure that it is really robust before we take that next step.

Senator S.C. Ferguson:

What about modernisation though from the point of view of looking at flat taxes and stuff like that, making it simpler?

Treasurer of the States:

I think we showed you ... we were not able to show you our little video, were we, which explains in three minutes the current tax system and explains the marginal rates of relief in three minutes?

Senator S.C. Ferguson:

Yes, I know, but I am talking about going with sort of flat taxes and things like that, modernisation.

The Minister for Treasury and Resources:

Senator, a political question. I think we have one of the most sophisticated and targeted tax systems of any jurisdiction in the world, and while it appears to be complicated, we have got to just learn to explain it more simply. What the Treasurer spoke about, which is our three-minute video, done by our own staff inhouse, has explained ... I do not know how many hits it has had on YouTube, but I have had some great feedback from people saying: "Oh, that is how it works." We have just not explained it perhaps in a way that people ...

The Deputy of St. Ouen:

Is that part and parcel of your tax modernisation programme?

The Minister for Treasury and Resources:

Yes, absolutely. So tax modernisation is communicating better. It is communicating what we do and how we do it and why we do it, and so we are trying to communicate better. Sometimes obviously I do not succeed in that endeavour, but we do try, and we are being more communicative in telling people what we are doing, justifying how we are doing it. We are not proposing ...

The Deputy of St. Ouen:

So we should not be looking at changes in the tax system?

The Minister for Treasury and Resources:

No, I am not going to say for one moment that we are going to move ... I know some economic observers of certain political persuasions favour flat taxes. Flat taxes, if applied across the board, hit the poor. Our marginal system is extremely careful and targeted at directing benefits to those on relatively low incomes. My team and I have just been discussing the budget 2014 and we were just having a reprise of previous decisions that we made, and we were speaking about the particular increase that we did in childcare relief, where we trebled the allowance to £12,000 and that was targeted to people on low incomes. I do not want flat taxes. They hurt the poor.

Senator S.C. Ferguson:

Yes, I am afraid I think you have misunderstood my approach on this. I agree with you that just a straight across the board flat tax is not the optimal solution, because you must have some allowance for people at the bottom end of the scale, which is your personal allowance of sufficient height and size to take these people out of the tax take. But I am just saying that a simple tax is so much better.

The Minister for Treasury and Resources:

If it is simple and it hurts people on lower incomes, then that is not going to work.

Senator S.C. Ferguson:

No, I am not saying it should be. That is how you have designed it.

The Minister for Treasury and Resources:

But there is no better design. If I may say, I do not think there is a better tax system in the world that is as simple but as sophisticatedly targeted as our marginal versus 20 per cent rate. It is

brilliant in terms of Deputy Southern asked me a question: when there was the furore in the U.K. about people on higher incomes paying less effective tax rates, he asked me a question, a written question, and we set out the distribution or the effective tax rate of people on different levels of income and what the effective tax rate is, and it went like that, and it went like that for lower incomes and it was like that for higher incomes, obviously flattened off after the 20 per cent, of course, because of the way the marginal system works. Now, modernisation means the assessment should be online and automatic, and so there should be a front end where I think the Treasurer and I look forward to a system you have a G.U.I. (graphical user interface) interface, which is a simple interface where you put your numbers in and the computer in the back then calculates what your tax is, explains it to you and you pay it.

[16:00]

You see it, but you see the calculation of how much you would pay on the 20 per cent and how much less you pay on the marginal rate, and modernisation means automating that process so we do not have to have ... pensioner households that have just had a pension and perhaps a small amount of bank savings, I do not want to see them filling out a tax return. I want it automatic. I want Social Security to be able to send all the information to the tax department, the bank to return the amount of money that they pay on interest, for that then to be popped in the tax return and then for doing it silently. We can take thousands of pieces of paper out of the system. That is modernisation. I do not want to modernise and ask people on lower incomes to pay more tax, so I want to do both. That is what I mean by modernisation.

The Deputy of St. Ouen:

But the truth is, Minister, that although you indicated that you wanted tax modernisation sorted out by quarter 1 this year, it is not quite there yet.

The Minister for Treasury and Resources:

No, that is not what the Treasurer told you. The Treasurer told you that the tax ...

The Deputy of St. Ouen:

It is completed?

The Minister for Treasury and Resources:

No, no. It is dynamic, it never stops. It is going to be a modernising that is going to take 3, 4, 5 years, where we are going to make certain steps. Shall we offer the Panel a briefing on the tax plan?

Treasurer of the States:

Certainly.

The Deputy of St. Ouen:

I think that we just need to be clear, Minister, as we finish, that when you use language that you want it sorted out by a particular time that we need to understand and you need to explain perhaps what that means, because obviously the anticipation is that these matters will be dealt with within a defined period.

The Minister for Treasury and Resources:

Okay. Ministers do policy, officers do implementation. The policy is clear. It is now being implemented diligently and to time and to budget by the tax transformation team and we will be bringing to the Assembly various different changes in law which will facilitate the bringing into force of the tax modernisation programme and investments will be made in systems to allow that online, as the Treasurer explained, to happen. But my job is over in relation to tax modernisation. It is over to the team to implement.

Senator S.C. Ferguson:

I think there was just one question on procurement, was there not, Sean?

Deputy S. Power:

I am not quite sure how much time the Minister has left.

Senator S.C. Ferguson:

About half a minute.

The Minister for Treasury and Resources:

As long as you wish.

Deputy S. Power:

Well, we did have a question for you, Minister, and that was we do understand that the £3.5 million in procurement savings would need to be found in 2013. How close do you think you might be to achieving that?

Treasurer of the States:

I think we will struggle to make the whole £3.5 million. Funnily enough, we had a meeting about this only last night, and as you know from our previous briefing before you on procurement, there are two ways in which we are delivering procurement savings, or two ways in which procurement

savings count. They can count towards the achievement of departmental C.S.R. savings and they can count towards the delivery of the £6.5 million corporate target, the collective target for the States as a whole. We are doing very well in terms of the delivery of our procurement savings in practice. The difficulty that we are having is in getting Departments always to share the savings that are generated from their activities, and I fully understand that, with some of it going towards the corporate target, and what we do not want - and I had this conversation last night with the procurement team - to do is to say to Departments: "Well, if we deliver that saving, we are going to have that saving towards the corporate target" because the important thing for the States as a whole is that the saving gets made, because if the saving gets made, it helps the States overall. It matters less whether the saving counts towards the corporate C.S.R. target for procurement or towards the C.S.R. target generally. So what I am encouraging the procurement team to do is to support the Departments in delivering as many savings from procurement as possible, whether or not they count against the corporate target of £6.5 million. So what we are trying to do, because the Minister will not let us off the hook in terms of delivering that £6.5 million, is to look for alternative ways in which we can generate the whole of that £6.5 million. That is why we have brought forward the savings on insurance to help, so Treasury has outperformed its own departmental savings target by three times, and that is to help make sure that we can outdeliver that corporate target. We are bringing forward the thing I mentioned to you earlier, which is the captive insurance idea, and we are doing that so that we get as close to that £6.5 million as we can deliver, and other things that we are doing, so last night we looked ... we have been very successful with generating savings with the work that Property Holdings have done. The work that we have done through Property Holdings on energy savings has really paid off and we showed you those charts before, where you can see the energy savings between 2 fixed points in a year, and they have really worked. So last night we were looking at ways in which we can find one-off monies to do more of those energy-saving projects and deliver savings in that way. We are going to do more work on water, because we had a successful visit to Jersey Water a little while ago and we met a colleague there who had all sorts of ideas as to how we could be reducing our water consumption. They were quite simple, straightforward things, rather than big heavy investments, and so we are going to pursue ...

Senator S.C. Ferguson:

You mean if I put my bricks in the cistern?

Treasurer of the States:

Well, yes, if you have got enough bricks. So Ray will be pleased about this because he was not at the meeting last night, but we are going to find some more one-off money to fund some more energy saving projects because we can count that towards the corporate target. If I was really

pressed at the moment, I do not think we will make less than £5 million. I think you will struggle to get to £6.5 million.

Senator S.C. Ferguson:

Thank you very much indeed.

Deputy S. Power:

That is a fair comment.

Senator S.C. Ferguson:

Thank you, Minister; thank you, Madam Treasurer and thank you, Mr. Director.

The Minister for Treasury and Resources:

Chairman, can I just add two more things that just might be useful for you to know? I think just this is a quarterly hearing and it is just important things that we are doing, and there are two things I will just mention.

Senator S.C. Ferguson:

These are things for the public?

The Minister for Treasury and Resources:

Yes, yes, absolutely. First of all, I do not think anybody was able to attend; I was the only one to attend, the Treasurer could not even come with me, which was a shame. The Minister for Treasury from Guernsey addressed the I.O.D. (Institute of Directors) the day before yesterday, and - and I do not know whether anybody was there - we had the Minister for Treasury of Guernsey, who I sat at the table with, talking about co-operation between Guernsey and Jersey Treasuries in a way that I think would have been unimaginable 5 years ago, and the progress that the Treasurer has made and I have made personally with the Minister for Treasury is really heartening. He spoke about the joint approach that we took with F.A.C.T.A. - and F.A.C.T.A. has been out in the public domain - and he explained how we negotiated F.A.C.T.A. together, where we both had tasks, we both agreed communications, we knew exactly who was doing what, who was communicating and how we were negotiating together with the U.K. internal audit departments, the way the Treasury in Jersey has been helping, assisting, advising the way we run our own entities and the way that we are going to ... he said that there were no bounds of co-operation, no bounds. All the baggage has been left in the past, there is no baggage and that is brilliant and I would welcome the opportunity of you being briefed perhaps on Guernsey. On tax, the last quarter, and it is only right that I tell you this, a great deal of my time has been spent on working with the Chief Minister on the whole F.A.C.T.A. agreement, and it is something that you,

as Corporate Services, should be perhaps more aware and we should be briefing you on some of our thinking.

The Deputy of St. Ouen:

Minister, you have brought us and circulated a whole load of information to us. Is that information contained in the papers?

The Minister for Treasury and Resources:

No, because you did not ask me any questions on it.

Treasurer of the States:

But we do have that.

The Deputy of St. Ouen:

I mean, I am slightly disappointed that although, as I say, we perhaps did not focus on that particular matter, if there are issues that you want to raise to the Panel, if you could circulate the information, even whenever, that would be useful.

The Minister for Treasury and Resources:

It is really disappointing to get a rebuke when I am trying to share.

The Deputy of St. Ouen:

I appreciate it, Minister, but ...

The Minister for Treasury and Resources:

It is really disappointing, James. I am trying to help. I am trying to tell you things that you might not be aware about, so I would hope that you would take ...

Senator S.C. Ferguson:

Well, we are aware that F.A.C.T.A. is hoped to be signed off in May. There are still a number of discussions going on.

The Deputy of St. Ouen:

We can have a meeting and we can discuss this privately together, because there are and may be questions about F.A.C.T.A. that perhaps cannot be discussed in public that we would like maybe to challenge you on.

The Minister for Treasury and Resources:

I was trying to be helpful in telling you exactly what we have been spending our time on and why sometimes we cannot always tell you what we are spending our time on in public, but now I can discuss it and I can reflect to you the success I think that we have had in negotiating F.A.C.T.A., not only with our relationship with Guernsey and the Isle of Man, but as you have seen from international development just this week and today about Luxembourg, about Austria and about the general move to F.A.C.T.A. and automatic exchange, just how well Jersey has timed and got its agreements. I just wanted to share that with you, and while the agreements we are still negotiating on some detail, and I know that there has been a great deal of concern about F.A.C.T.A. within the finance industry, within the Island about the impact on our future - and you were questioning before, I think Deputy Power said: "Is this going to impact on your revenues?" - I think the way in which we have successfully concluded F.A.C.T.A. and the detail of the non-dom carve-out, the timing of it, the choreography with Guernsey and the fact that Luxembourg has now agreed for automatic exchange of information and there is pressure being applied to Austria, I think proves that we have done a reasonable job, and our part in the Treasury in assisting in those negotiations have been successful. I am happy to share that with you. You did not ask me for questions on it, Deputy Reed. I am happy to talk to you about that and the importance, because these decisions, the F.A.C.T.A. decision ... and I raise it because the decisions that the Chief Minister and I made on that are probably some of the most important decisions that we have ever made in Jersey which are going to affect our financial services industry in the longer term. We need to share that with Members so that they understand.

Senator S.C. Ferguson:

Yes, because, Minister, if we are talking about this, the big discussion that I think we need to have is the fact that the shape of the finance industry is going to be quite different going forward, just as the shape of our economics is going to be different going forward, and we need a very clear and open discussion about the effects.

The Minister for Treasury and Resources:

I agree with you and I think that is why the Chief Minister has asked me to ...

Senator S.C. Ferguson:

But anyway, I think at this point ...

The Minister for Treasury and Resources:

Fine, okay. That is exactly right, and next week when we brief you on the financial services strategy and the McKinsey work that we have done, I think that you will appreciate just how much work we have done to understand that.

Deputy R.J. Rondel:

Would it perhaps be possible to have a separate briefing on maybe this and Guernsey?

The Minister for Treasury and Resources:

Yes. That is why I offered it. So next week briefing, I think on 24th April we are briefing States Members on McKinsey work, financial services strategy, addressing exactly the point that you make. I do not want there to be any fear that a changed world is going to mean that we are going to not be successful in the future. The world has always changed. We are ahead of the curve, we have hit it right and we are going to survive and more than survive and that is just what I wanted to say to you, because we are now ready. We have done a lot of work, we have spent a lot of time on looking at F.A.C.T.A. and all of these implications for Jersey, and now we are ready to share that. We have negotiated, I think negotiated timely, and now we are ready to share with you exactly where we think that strategy is going to be.

[16:15]

It is going to be a different future, you are absolutely right, you are absolutely spot on, and we want to share with you ...

Senator S.C. Ferguson:

Of course I am right.

The Minister for Treasury and Resources:

Well ...

Deputy S. Power:

Can I just also say before you close the meeting, Chairman, that we did get bogged down in certain areas, but I was quite particularly interested in how your pension presentations were progressing, which we cannot talk about now. But because there is a list here, I was particularly interested in how you would have got on with the T.T.S. (Transport and Technical Services) shop stewards and so on in terms of the reform of P.E.C.R.S. (Public Employees Contributory Retirement Scheme), so perhaps we can discuss that again, because it is an important area.

Treasurer of the States:

We will send you a note.

The Minister for Treasury and Resources:

If you wanted to have some future briefings of the detailed granular work that we are doing, we will share with you the financial services strategy, and that is now linked closely. I am not doing this as Minister for Treasury, I am doing this as a Minister, but it is because it matters for the economy and finances that the Chief Minister has asked me to do it, and I am happy to do. I will do it. We should talk to you about the tax modernisation. I know why Deputy Reed was saying about Q1, because that was on my blog and that was Q1 about tax modernisation and all the tax stuff. Yes, I spent most of Q1 on tax, F.A.C.T.A., that is what that meant.

Senator S.C. Ferguson:

I think we need probably a bit of discussion about definitions too, because ...

The Minister for Treasury and Resources:

That is fine.

Senator S.C. Ferguson:

... my definition of modernisation is not the same as yours.

The Minister for Treasury and Resources:

Fine. Fair enough.

The Deputy of St. Ouen:

I thought it might have fitted with the question that I asked you about the financial services strategy, but obviously you consider that to be separate from that.

The Minister for Treasury and Resources:

It is all one. It is all one.

The Deputy of St. Ouen:

But anyway, obviously we have gone way past timing.

The Minister for Treasury and Resources:

Yes, pensions also.

Deputy S. Power:

We had an excellent presentation on pensions. You have got a three-minute video and so we need to see the other video as well, the one you are referring to. I did not get time to look on YouTube, but ...

Treasurer of the States:

It is on YouTube, yes.

The Minister for Treasury and Resources:

It is very quick. Have a look on your iPad.

Senator S.C. Ferguson:

Okay, thank you very much indeed. The meeting is now closed.

[16:17]