



STATES OF JERSEY

Corporate Services Finance Sub-Panel

FRIDAY, 9th OCTOBER 2009

Panel:

Senator S.C. Ferguson (Chairman)
Connétable D.J. Murphy of Grouville
Deputy T.A. Vallois of St. Saviour

Witnesses:

Senator T.A. Le Sueur (Chief Minister)
Mr. W.D. Ogley (Chief Executive, Chief Minister's Department)

In attendance:

Mr. M. Robbins (Scrutiny Officer)

Senator S.C. Ferguson (Chairman):

Welcome to this meeting of the Corporate Services Scrutiny Panel, Chief Minister and Mr. Ogley. I wonder if, for the benefit of the lady with the recording, if you could give your name and position.

Senator T.A. Le Sueur (Chief Minister)

Certainly. I am Senator Terry Le Sueur, the Chief Minister.

Mr. W.D. Ogley (Chief Executive, Chief Minister's Department):

I am Bill Ogley, the Chief Executive for the Chief Minister.

Connétable D.J. Murphy of Grouville:

Dan Murphy, Constable of Grouville.

Deputy T.A. Vallois of St. Saviour:

Tracey Vallois, Deputy of St. Saviour

Senator S.C. Ferguson:

Sarah Ferguson, Chairman of the panel. I assume that you have read the health warning paper in front of you.

Senator T.A. Le Sueur:

I have. I am beginning to know it by heart.

Senator S.C. Ferguson:

We will test you on it next time. As you know, we are looking at forecasting of expenditure, how the States does it, whether it does it, even. Do you think, Chief Minister, that there is a political will to determine overall spending and do you think it could work in Jersey?

Senator T.A. Le Sueur:

In theory, there is a political will to determine spending. It is easily expressed in a global sense, but it does not always seem to translate into individual projects and that is why we always used to have a situation where if you were going to suggest alternative spending, you were also supposed to suggest alternative compensation measures to bring it back to an overall spending envelope and I think that is a situation which we need to encourage, almost make mandatory. I will say "almost" because there are certain practical difficulties in having an absolutely fixed envelope. But the general principle of a spending envelope which is not broached is one which would ultimately enable us to set longer time horizons than simply one year. Forecasting expenditure when it is at a very uncertain level can be difficult for one year and treble difficult trying to do it for a 2 or 3-year cycle. But if one did have a framework whereby you could set an overall spending envelope and stick to it, I think that would be beneficial to the States and beneficial to the smooth running of government.

Deputy T.A. Vallois:

You say: "In theory, there is a political will" with regards to the expenditure.

Senator T.A. Le Sueur:

I do not know if the Chairman would like to have a soother.

Senator S.C. Ferguson:

I think it has gone beyond that, but thank you.

Deputy T.A. Vallois:

You mentioned the theory of the political will. How do you see possible improvements?

Senator T.A. Le Sueur:

Everyone says, particularly at election platforms, we have to curb States spending, we have to keep States spending under control and we all say that at one stage or another, I am sure, in our political manifestos. But then someone says: "Except that I think we ought to spend another £X million on this" perhaps for very justifiable reasons because sometimes priorities change. What we have to establish is the overall discipline of saying: "Well, if one priority has risen then something else has to slip off the other end" and that was where we are not having a connection.

Senator S.C. Ferguson:

Do you feel that the estimates we are making are reasonably accurate?

Senator T.A. Le Sueur:

Yes. "Reasonably accurate", of course, is a subjective sort of comment. There is some sort of expenditure which you can predict with a relatively high degree of accuracy, year on year. There are others which are going to be far more dependant on the economic climate or on factors outside of normal forecasting ability. If you get a sudden downturn in the economy, the effect on benefits, the effect on subsequent review or even the ability of people with disposable income to spend on alcohol and tobacco, all of these sorts of things can change as a result of the economic climate. You can forecast the economic climate to some degree but I do not think when we were doing the 2009 Business Plan back in 2008, we were forecasting what was going to happen towards the end of 2009. So, forecasting is always going to be subject to a degree of uncertainty. What you need to do, I think, is to try to minimise that level of uncertainty but then - I know this has been a contentious issue but I am coming more and more to the view - one has to have a contingency in order to deal with the unquantifiable variable elements, because I think it is far better to have a contingency within the overall spending envelope rather than have what we do now, which is an envelope with no contingency and then we need to go to the States for our Article 11(8) requests which, in theory, could be unlimited.

Senator S.C. Ferguson:

Yes, because in the Business Plan there are forecasts for the next 2 years.

Senator T.A. Le Sueur:

Yes.

Senator S.C. Ferguson:

But if you look at them in detail, they tend to be just a percentage increase on this year and they do not always take into account the departments where there are spending pressures, for instance, Customs or this sort of thing.

Senator T.A. Le Sueur:

I would like to think that they do take that into account, but also recognise the fact that we do not have an unlimited pot and until we can maybe review our spending priorities in a more holistic way, I am not sure how you can say: "Well we need to spend more money on Customs and we are going to take it off A, B or C" because A, B or C will say: "Our priorities have not diminished. What are the States prime strategic objectives?"

Senator S.C. Ferguson:

Yes. Do you think that the politicians are making forecasting almost impossible by bringing amendments to the Business Plan without commensurate savings?

Senator T.A. Le Sueur:

They are making sticking to forecasts impossible. Forecasting itself is not impossible. It is the adherence to that which is, I think, causing us the difficulties and which has caused us the difficulties in the past 3 or 4 years

when we have seen at the end of each year, the overall spending greater than we first envisaged.

Senator S.C. Ferguson:

Yes.

Senator T.A. Le Sueur:

I do not know if Bill would like to add to that.

Mr. W.D. Ogley:

Just one comment, really, which is that the current system really does not have an incentive for long-term forecasting in that the States agrees cash limits in the Business Plan, one year firm and 2 year indicative and there is no requirement on chief officers or Ministers to live within the 2 indicative years. Now, if you had the ability to fix 3-year cash limits and you made it very clear to people that those were going to stick and that was what they were going to have to live within, then you would have created a much better incentive for people to really look forward 3 years and forecast what was going to be facing them. So I think you have to look at both sides. You have to look at the better forecasting allied with much greater control and then the flexibility to manage within that control. I think then you will start to get all of your incentives lined up and that is why I know that the Treasury Minister has been talking to you about the idea of a comprehensive spending review which aligns a lot of those incentives. I do not know if that is helpful.

Deputy T.A. Vallois:

Out of curiosity, you just mentioned the comprehensive spending review, going alongside that, will the Chief Minister's Department be looking at doing a comprehensive manpower or resource review?

Senator T.A. Le Sueur:

I do not know if it would be alongside it. It would be probably a part of that spending review. But the answer in broad terms is yes.

Mr. W.D. Ogley:

It is called a comprehensive spending review, but it is really looking at the resources that are consumed.

Deputy T.A. Vallois:

It is just that I know that every time when anything comes to the States or whenever anyone wants more money, it is always: "Well we need more money but we need more people to do this job, et cetera." So, it just makes sense to do it all together.

Senator T.A. Le Sueur:

I think that it is almost inevitable, if you look at States spending, at least half of it is on wages on manpower. At one stage we used to have a cap on head count, which is a bit potty; we really want a cap on wage spending, but that is why I am saying it is a consumable resource just as much as any other resource.

Senator S.C. Ferguson:

On the other hand, departments used to really play games with that, did they not, because they would take people on a temporary contract and then that did not count as the head count?

Senator T.A. Le Sueur:

I think that may well have been the case at times. It was not always an easy reporting system and it did not fit to any particular guidelines. I think what we want to do is that - people will play games if there is nothing better to do - if one can have a system where management can get on with managing a budget on a 3-year cycle, they do not need to play games, they need to do what they have planned and just deliver it over those 3 years.

Senator S.C. Ferguson:

But to get that sort of discipline and to change the time frame, you are going to have to bring in amendments to the Public Finances Law, are you not?

Senator T.A. Le Sueur:

I suspect so, yes.

Senator S.C. Ferguson:

When do you think that that will come to the States?

Senator T.A. Le Sueur:

Once we have an agreement as to which way forward we want to go. I think you consider your preferred solution first and then you say: "If this is acceptable, we will have to change the Public Finances Law to reflect that." I do not think you can change the Public Finances Law and say: "Well, now we have that changed, let us see if it can be applied to this" because it might be a solution to our spending problems but it goes in a totally different direction. So I think you address the spending issues first and then change the law to enable that to happen.

Senator S.C. Ferguson:

What policies do you consider you have in place to assist with forecasting?

Senator T.A. Le Sueur:

Really, the policies have to flow from the Strategic Plan, but I think you have to really say: "What are the underlying principles of the Strategic Plan?" If your priorities are in certain areas, is that going to generate an increase in spending year on year? If you have a policy which is living within your means, how do you achieve that? If your key target, for example, was to increase Health spending by 10 per cent per year - and that was your absolute key strategic objective - and you knew that your revenue was only increasing by 1 per cent per year, then you would have to say: "Well, that is not achievable by itself, we have to take some other measures as well." In terms of forecasting, if that is your key strategic objective, then, in the absence of anything else, your expenditure is going to go up by 10 per cent per year. So that would be your first cut of your financial forecast. You then say: "Well, that is not

deliverable, so if that is our absolute key objective, we must do that 10 per cent increase in Health at any price.” Then you have to say: “Well, what else can we do in order to achieve an overall balance?” I was looking at it as an example really to say that it should be driven by your key strategic priority objectives. If, equally, your strategic priority objective was spending should stay at exactly the same level year on year for the next 3 years and that was the agreed policy of the States, then you would say: “Well forecasting is a doddle now” and just repeat the figure the next 2 years.

Senator S.C. Ferguson:

Well, would you take it as a percentage of something like a percentage of G.V.A. (Gross Value Added) or something like that?

Senator T.A. Le Sueur:

I would not like to because you tend to make a G.V.A. 6 months to a year after the event, so we now have the G.V.A. figure recently for 2008. So would I base 2010's or 2011's spending on a 2008 G.V.A. which said the economy was growing by 2 per cent? Would I have based this year's on the G.V.A. interest of 7 per cent, which is what we have seen the year before? If I did, then I think the States would say: “Well, how are you going to pay for that, Senator?”

Senator S.C. Ferguson:

I suppose the average Joe Public sort of says: “Well my income next year is forecast to be X, therefore I will spend X minus one.”

Senator T.A. Le Sueur:

Yes. I do not think you can forecast in simplistic ways like that. You can use that, maybe, as a guide to the economy. We can say: “All the indications are the economic growth for 2009 is going to be something like minus 4 per cent. What effect will that have on the economy? It is going to decrease our tax take. It is going to put pressure on our benefit system. Those are the areas where we can forecast, maybe, an above-average change. Is it going to have any effect on the number of school leavers? It will probably have to have an effect on the number of people into Highlands. So there will be an additional expenditure pressure forecast for education. Will it have any effect on the number of policemen required? Not necessarily”. So, it is on those sort of analyses ...

Senator S.C. Ferguson:

Yes. How much of this do you think departments are doing already and how much are you going to have to educate them to do that, do you think?

Senator T.A. Le Sueur:

I think, generally, they are doing it to a large extent already, to the extent that is within their capability of doing that; things like economic advice is done at a central level by the Economic Advisers' Unit; statistical information is provided by the Statistics Unit. I know if we were talking about forecasting income that tends to be done by the Treasury as a result of different indications. Forecasting expenditure on other areas; I think Social Security will look at

demographic changes. So I think, yes, as far as they are able to, they will plan for changing circumstances.

Senator S.C. Ferguson:

Have we been pushing them hard enough to be more sophisticated in their forecasting approach or is this something that should be led more by the Treasury?

Senator T.A. Le Sueur:

I think it is probably up to departments. If they are lax in their forecasting, then they will find difficulties maybe in achieving their objectives. If Education does not appreciate the changing birth rate or the changing number of pupils in primary or secondary schools, then they would have difficulties in staffing, let alone funding, those changes. So I think, realistically, departments are aware of these things and do address them. I would probably have to ask Bill for an officer point of view, whether he shares my confidence that departments do do this.

Mr. W.D. Ogley:

I think the fact that, again, I keep coming back to the comprehensive spending review, and the idea that we must look better at the next 3 years, indicates that we think that there are significant improvements to be made and, within the papers we showed you, the concept that we start having in-depth reviews of spending, forecasting and opportunities for making savings that are joint activities, not just by the departmental management, but that there is a central involvement in that, preferably from the Treasury and probably some external expert. So that you have, perhaps, a Treasury person, if you look at Health, a Health person and an external Health expert to do some in-depth analysis of where we spend Health money, what we get for it, where the real opportunities are, where big costs drivers and savings drivers are, indicates that probably there is something for us all to learn and that we will get better if we can do that and that is, again, part of that discipline. Let us unpick it, let us learn what the real cost drivers are, let us do that together rather than the department do it and then other people having to try and find out and then get into a cycle where we do that regularly; regularly being, say, every 3 years rather than try and re-do it every year, as we now do and spend all that effort.

Senator S.C. Ferguson:

Yes, because the Auditor General made a point that he felt there should be a tougher Treasury team with regard to challenging departments on their spending plans. How do you see getting ...?

Mr. W.D. Ogley:

Whether "tougher" is the right word ...

Senator S.C. Ferguson:

Well "challenging" I think was the phrase.

Mr. W.D. Ogley:

But a Treasury team that has the time to do it and the expertise to do it and the authority because at the moment that authority needs to be accorded to them to be that challenging.

Senator S.C. Ferguson:

How are you going to do that?

Mr. W.D. Ogley:

That is why we started the work, as you saw, on the comprehensive spending review, working with all chief officers, accounting officers, finance directors and Ministers to try and plan that together and get that commitment. Certainly, in terms of the process, there is a clear commitment to it, because I think everybody can see the benefits of allying good forecasting, tight discipline, but also the freedom to manage within that tight discipline. If you can create that cycle, everybody can see a benefit and there is something for everyone in it.

Senator T.A. Le Sueur:

I think the Treasury Minister, earlier in the year, indicated he was going to carry out a review of the structure and function of the Treasury and part of that review, I would imagine, would see how capable they are of making the sort of inquiries that we are talking about.

Senator S.C. Ferguson:

As the Auditor General said before, beefing up.

Senator T.A. Le Sueur:

Yes.

Senator S.C. Ferguson:

Because they seem to be spread a bit thin. That is why they are all so thin and elegant; they are working too hard.

Senator T.A. Le Sueur:

That is probably a backlash of a general States policy towards spending on social expenditure and cutting back on central management.

Senator S.C. Ferguson:

Yes.

Mr. W.D. Ogley:

If I could just add, I think Treasury are too thin; there is no doubt about it. To do the job that we all want them to do; to be a finance director for the States, managing the States overall spending and challenging departments and introducing better forecasting, needs to have, to be quite honest, more people with more expertise in the Treasury to do that. Certainly when we are talking about trying to introduce first time round a comprehensive spending review, we really are going to bring people in to help us do that, because we just do not have enough people on the staff to do it and we are just trying to plan that through at the moment. At this stage, it is going to be a shared endeavour.

We will probably lead a lot of the spending review from Chief Ministers, literally because there are not the resources in the Treasury. We will do it with the Treasury and hopefully with as many secondments from finance directors and/or book people brought in to help us do that. It is going to be quite a challenge, that.

Senator S.C. Ferguson:

Yes, because things like the income support system, how do you forecast expenditure when there are no substantial unemployment figures available to base the assumptions on?

Senator T.A. Le Sueur:

I am not sure what you mean by “no substantial unemployment figures”.

Senator S.C. Ferguson:

Well, there are the figures where people sign up because they want to get the exemption for their ...

Senator T.A. Le Sueur:

Contributions?

Senator S.C. Ferguson:

Contribution. Sorry, I was going to call it “stamp”.

Senator T.A. Le Sueur:

I still understand what you mean. Call it a stamp.

Senator S.C. Ferguson:

It is a pretty old-fashioned term, I am sorry.

Senator T.A. Le Sueur:

I am old enough to know what they look like.

Senator S.C. Ferguson:

But the people who perhaps are made redundant, leave the Island, all these ... we do not have a figure for those.

Senator T.A. Le Sueur:

I think that that belittles the amount of information we do have. One thing that we have seen in last year's unemployment statistics, is how there was a blip when income support came in, because that suddenly raised the unemployment levels simply because people were then registering as unemployed for benefit purposes as well as for contribution purposes. So I think what we have is a much more reliable indication of unemployment levels. It does not give an indication of the total number of people out of work because there will be people who choose, voluntarily, to be out of work and not be looking for a job; semi-retired and decide to work for 6 months of the year only. You align that to the manpower figures, which the Statistics Department produce 6-monthly, and that shows overall trends of employment within the Island - the employment levels there - and a combination of those, I

think, gives you enough of an indication as to unemployment figures themselves. What it does not do, of course, is to indicate what sort of people are necessarily unemployed and the effect that that might have on things like benefit payments, on tax revenues and so on. You can to a certain extent look at sectoral unemployment by looking at the manpower figure analysis and seeing if there has been a rise or fall in total job numbers; which particular industries that is in. If there is a large drop in finance industry employees, it does not necessarily mean a significant number of benefit claims because it may well be that those people will come to the U.K. (United Kingdom) or somewhere else. If there was a large drop in retail staff or agricultural staff, then that might well cause an increase in benefit levels. So, I think you can get a tremendous amount of information. It does not, I accept, alter the fact that forecasting those sorts of things tends to be inexact.

Deputy T.A. Vallois:

With regards to the comprehensive spending review, could you explain a little bit more in detail exactly what your role as the Chief Minister's Department is with regards to the review; exactly what it is, just so I understand?

Senator T.A. Le Sueur:

I suppose, primarily, one of co-ordination. I think the mechanics of the comprehensive spending review are probably still not finalised. It may well be that you need to ask me that question in 3 months' time and you might also need to ask the Chief Executive from an organisational point of view how he sees that coming into fruition. Do you want to add anything, Bill?

Mr. W.D. Ogley:

I think the point I made before that, really, the first time we try and do this it is going to have to be an "all hands to the wheel" exercise, because we know that there are not enough people in Treasury to run a comprehensive spending review. It is very much something that we are just planning between Chief Minister's and Treasury at the moment, led by the Treasury Minister and answering to the Council of Ministers and the Chief Minister. What we would envisage would be creating a central team. There needs to be a central team of people that will take on - as there is for business planning at the moment - that exercise of both requiring departments to put forward information, setting out the rules under which you would carry out both the review and then you would manage expenditure once the review has been completed and put in place, and also doing the challenge bit that we were talking about; challenging departments when we are looking at in-depth reviews. Certainly, I am expecting there will need to be about a handful of people in a central team to make that happen if we are seriously going to put proper challenge and proper structure, and then a proper management structure in place. We are just going to, first time round, have to find people that can do that.

The Connétable of Grouville:

Should that not be part of Internal Audit? Could it be tapped on to internal audit?

Mr. W.D. Ogley:

I think you would find Internal Audit will say to you, particularly if you look at the principles under the Institute of Internal Audit, is Internal Audit must be independent of management decisions. Their job is to stand to one side and to assess and report on. I think they can help us and, indeed, are already helping us find individuals who could assist with the challenge, so they will have a part to play in this and, I hope, an important part to play. But do not think they are driving it because a part of it is also to determine what the levels of spending are going to be which needs, first of all, to be a political decision on that and then, effectively, spending reviews are about allocating the resources you have.

Senator T.A. Le Sueur:

I think if one looked at the Comptroller and Auditor General's review of spending last year, he identified potential areas but said: "Ultimately, it is a political position over to you as Ministers or States Members or officers; these are some suggestions. It is your political choice what you implement and what you do not." I think, in the same way, the decision has to be one for us to make and not for either Internal Audit or the C.A.G. (Comptroller and Auditor General).

Senator S.C. Ferguson:

Yes, he pointed out that the big savings will come in the cost-cutting issues, the resource issues and, I think, somewhere in another report you said: "Are we using what we have effectively?" I think I.T. (Information Technology) was top of the list on that one.

Senator T.A. Le Sueur:

Quite right, again. I think that is the sort of thing I would like to see coming out of the next 9 months of comprehensive spending review; are we using our resources effectively?

Senator S.C. Ferguson:

Yes, because that was what we were going to ask you. In doing these reviews and so on, one of the things that came out in our review of the Business Plan was that we would like to see some provision made for a possible structural deficit in next year's Business Plan. Are you going to get all these various reviews done in time?

Senator T.A. Le Sueur:

I would like to think that they will be sufficiently far advanced that it can enable us to start setting policies for the longer term because I have been in politics for too long now not to know that every time we set a deadline it tends to get missed by a month or 3. But I think we, certainly as Ministers, recognise the importance of tackling the structural deficits as soon as possible. That is why I think we are going to be prepared to plough a lot of time and effort into these reviews, because the sooner we start finding a solution the better.

Senator S.C. Ferguson:

Yes.

Mr. W.D. Ogley:

I believe the commitment given by the Treasury Minister in the terms of reference for the fiscal review we sent to you, is that it intended to complete the process in time for the 2011 Budget.

Senator S.C. Ferguson:

Yes, we have not gone through all the papers in detail, and he is coming back to be re-grilled by us over it and to brief us in detail.

Mr. W.D. Ogley:

But that is the time, so I think you are absolutely right, we would probably be deluding ourselves if we thought we could carry out the level and number of in-depth reviews you would have to have to have a very strong degree of certainty in the Business Plan, given that the Minister needs to publish something by June, Scrutiny will need to have a real opportunity to engage with that and take it apart. When you start working back from that, the timescale to do something as big as we are talking about really becomes impossibly tight. So what we need to do is take a first step in the Business Plan, improving things beyond where they are, but carrying out the review process so that the spending review and the fiscal review, the review of taxation options, come together. I understand the timescale for that is, as you say, for the budget so that consultation can take place with States Members and publicly - but particularly the States Members - over the summer period, in time to start forming a budget for 2011.

Deputy T.A. Vallois:

Just quickly on that, you just mentioned about the public involvement. With regards to comprehensive spending review and basically finding, I suppose, an area which we need to find what level of service for spending, how will the Council of Ministers be consulting with the public and how will they drive forward to involve the public in the comprehensive spending review?

Senator T.A. Le Sueur:

Quite a lot, I think. Indeed, I was talking to union representatives this morning and trying to share with them the problem and inviting them to help contribute from their point of view to finding a solution. I think that will happen from a variety of groups but, clearly, that does not take away the need for us as Ministers and as officers to take the lead and make sure that there is an understanding of the scope of the problem.

Mr. W.D. Ogley:

I think, as well, when you talk about consulting with the public - I think we are all trying to do this in real time, so you received the papers almost as soon as they were ready - for real consultation to take place, people have to understand the consequences. It is very easy to have a consultation about spending: "Would you like more spending on this?" Well, the answer is almost always: "Yes. Thank you very much."

Deputy T.A. Vallois:

It is more a case of giving them realistic choices then, surely.

Mr. W.D. Ogley:

Exactly. That is why there are the 2 exercises: spending and fiscal; spending and tax, basically. Because it is only until you have done both that you can see the choices in the trade-off. That is why I was drawing out the point that, really, you cannot do that in time for the ...

Deputy T.A. Vallois:

So the consultation will come after the reviews?

Mr. W.D. Ogley:

That was the intention.

Deputy T.A. Vallois:

Okay.

Mr. W.D. Ogley:

So that you can put the whole lot together: "Here are the options. These are the implications" and then you have to have some real consultation on that because otherwise it just becomes a little bit of a meaningless exercise. That is why I do not think we are going to get it all done in time for next year's Business Plan but we will have made great strides; we have made strides.

Senator S.C. Ferguson:

You are learning; do not commit to a timeline.

Mr. W.D. Ogley:

My apologies.

Senator T.A. Le Sueur:

There is an old Chinese proverb about a long walk is the start of a short step.

Senator S.C. Ferguson:

Yes, we have had an awful lot of unforeseen expenditure during the last year or so, what are your plans for the future, either to prepare for it or prevent it?

Senator T.A. Le Sueur:

Unforeseen expenditure is, I suspect, an inevitability of life so I think what you have to do is to make proper preparation for it and I think that probably takes us back where we first started, talking about a spending envelope and contingencies. With the caveat, I hasten to add, there is no obligation to spend the full contingency every year. It is something which, ideally, should not be spent but is there so that we can ensure that we live within our spending envelope. In recent years there has been a tendency to say: "If that is our spending envelope we will spend it, not one penny more and not one penny less." I think we have to be realistic and say ... I would like to be optimistic and think if you have a contingency fund which was not spent, it could be put into a stabilisation fund because, clearly, our present stabilisation fund is going to be all but used up - or probably all used up - over the next 2 or 3 years. I am not convinced how we can replenish it in years to come

looking at our current forecasts. It may well be that if we have a contingency fund then we could put in the surpluses from that fund year by year to start building up that stabilisation fund. It may well be that other measures will put us, hopefully, in a much stronger economic position and we make a realistic contribution to that fund and bring it back into a healthy state.

Senator S.C. Ferguson:

Yes, we are talking about forecasting expenditure, how are we going to get a situation working so that when the Treasury Minister says: "That much and no more" not only the general public but the Members of the States Assembly can say: "Well, okay, fine." I mean, what was it, 4 years ago, the P.A.C. (Public Accounts Committee) tried to bring a reduction in spending of £12 million to the Business Plan ...

Senator T.A. Le Sueur:

Yes. I remember it well.

Senator S.C. Ferguson:

We might as well have been asking people to jump off the cliff and cut their throats. How are we going to get around the general perception that if the Minister says no: "Well, we can probably squeeze a bit more out"?

Senator T.A. Le Sueur:

Ultimately, it is up to States Members to show responsibility. If one has to have legislation in order to ensure that, then you would have to have something in law which says that having set a spending limit, there would be no way of exceeding it. We have said at the moment Article 11(8) can be used in exceptional circumstances because we have no contingency fund. Now if you have a contingency fund, you could then say: "Well, we could now make it mandatory that States spending must not exceed that envelope but if there are unforeseen circumstances, they will have to come out of the contingency fund. If the requests on that contingency fund outstrip the amount in the fund, I am very sorry but something is going to have to be cut, some existing budgeted expenditure will have to go because we have to live within that spending envelope." I think, also, if one has 3-year budgets, it gives departments a much better opportunity to plan over a 3-year period. Twelve months is a very artificial constraint; even 3 years may be a constraint but perhaps less of a constraint. Many of the things that we are told is that it will take time to implement this change. Departments have to have the ability to know that they can make those changes within the 3-year period, provided that they stay within their envelope for those 3 years.

Deputy T.A. Vallois:

How would that sit with the Strategic Plan? I think there was a part in the Strategic Plan that was to be used for borrowing within the States. How would that fit inside ...?

Senator T.A. Le Sueur:

You would probably need to agree any borrowing as part of that 3-year process. Present policy, I think, is very sound. You would only borrow if there

is an obvious means of repaying that borrowing through an income stream. So, as long as your borrowing is matched by an income stream then you would say at the start of the year: "Yes, I will spend another £50 million on a sewage system. I will borrow that money because there will be a sewage charge of £5 million per year which would enable us to pay off that borrowing interest." If you said: "I would have £50 million borrowing and no income stream" then I would say: "That is a recipe for disaster."

Mr. W.D. Ogley:

I know you said the Treasury Minister is going to come back and be grilled in more detail, but if you ...

Senator S.C. Ferguson:

In order to get him to explain it in more detail. I am sorry.

Mr. W.D. Ogley:

But if you look at the elements that make up the structure of a - I keep calling it "comprehensive spending review" and we have looked at South Africa, Australia, Canada, France and England as places that do this and tried to learn the lessons - then you have a process that starts from a political decision of what it is the Island can afford to spend, based on what the political will is to allow taxes to be levied. So you start from a spending envelope, the process then allocates that by looking in depth at the opportunities within services: to improve, to cut, the need for growth. So you are then allocating within a fixed total over a 3-year period and you very clearly set those 3-year cash limits and you do not each year come back and review them and have another thorough re-jig of all of the elements. You say: "Those 3-year cash limits are fixed. Now you, Ministers and Chief Officers, must manage to those." But you need to give them the ability to manage, so you do need a contingency arrangement in there. But all of the experiences from those countries are: you make it very difficult to access the contingency. It is not a badge of pride to have received contingency money, there is a penalty; maybe you have to pay it back or it is known that you were not able to manage your budget, so contingency is strongly controlled. You build into it end of year flexibility but clearly constrained, so that people know that by good management they can build up their own departmental contingency for their own unforeseen problems; that is really very important. You would probably build into it a small pot that people can borrow against - within the States, not externally - to fund the improvements they can make, whether that be redundancy because they can manage something with a lower head count, or whether it is because they do need to invest in technology. The C.A.G., you are right, has said: "We do not invest enough to get the real return from the technology we use."

Senator S.C. Ferguson:

I think I said: "We do not use it effectively."

Mr. W.D. Ogley:

Well you said both of those and at least ...

Senator S.C. Ferguson:

I subscribe to the second one, certainly.

Mr. W.D. Ogley:

I subscribe to both, to be honest. But if you put all of those elements together, you start to get a mechanism for dealing with the unforeseen. But you probably have to put them all in place. If you do not put them all in place, you just create the incentive for people always to be gaining or tucking money away.

The Connétable of Grouville:

Do you think it is wise to let them have a departmental facility as well, rather than just have the whole thing centralised? The temptation has to be to spend it, is it not, if it is departmental money?

Senator T.A. Le Sueur:

I do not think it is; not if it is a 3-year budget. I think that is the difference.

Mr. W.D. Ogley:

Strict 3-year limits that you cannot exceed and making it very clear that people have to manage their own risks. They should find their risks and manage those.

The Connétable of Grouville:

Yes, but you have given them the facility, you have given them the cushion before they ... they should not have a cushion. I am sorry, I would take a harder line than you are and say: "There is no cushion, but there is a central ..." they would have to come on their bended knees to try and get something out of the Treasurer or whoever.

Deputy T.A. Vallois:

That is what they are doing at the moment, though, is it not? That is the problem.

Mr. W.D. Ogley:

You create a world where people have an incentive to go and ask for more whereas if ... I am not talking about putting a cushion into people's budgets. I am saying: "Create the contingency within the cash limit you are given."

Deputy T.A. Vallois:

It is about putting responsibility back into the department.

Mr. W.D. Ogley:

Real responsibility.

The Connétable of Grouville:

You give them the responsibility for making their own contingency out of their own budget then.

Mr. W.D. Ogley:

Oh, yes. Oh, yes, absolutely.

The Connétable of Grouville:

All right.

Mr. W.D. Ogley:

Departments do know what the forecast unforeseen are. Things they cannot define are going to happen next year, but we know something is going to happen on the increase or the reduction in numbers of students going to university and hence the demand on maintenance grants. So you cannot be specific in any one year but you know over a run this is going to have to happen and you have to create yourself a balance. Do not come back to the States for that because you know that is what you have to manage within your cash limit.

Deputy T.A. Vallois:

Just out of curiosity, the comprehensive spending review will be based over 3, possibly 4, departments, as we understand.

Senator T.A. Le Sueur:

Primarily on those ones but I would not like to say that any departments are immune.

Deputy T.A. Vallois:

So it may go across all departments?

Senator T.A. Le Sueur:

I suspect so, but you have to be realistic in terms of resources available and if you use them you are most likely get the biggest reward.

Deputy T.A. Vallois:

Because this is quite an important piece of work and this means understanding a bit better where the money is going, really. So, I am just thinking, if we are looking at all of the departments but focusing on the main 3 big spenders then, fair enough, but if we are just looking at the 3 big departments, it is not really going to give us a big overall view of everything, is it?

Senator T.A. Le Sueur:

It will not give you a big overall view of everything but if you reckon that those 3 departments count for probably 75 per cent or 80 per cent of total States revenue, it gives you a pretty broad view. If there is going to be any significant dividend from your investment in change that is where it is going to come from.

Mr. W.D. Ogley:

What we want to do is start to do this and then carry on with this process. Not every year, because if you review every year you just spend all your time on that, so every 3 years, get on and manage in between. The focus on the 3 departments will have reviewed those 3 departments then, clearly, you will

follow those on with reviews of others. The intention would be that the structure of 3-year cash, all of those bids, would apply to all departments but the others would not be subject to, in the first year, that detailed search and review. Because you really want to put your money and your effort where most of the money and effort is being spent, so in the slide-back at the back and - by no means, it is not intended in any way to be definitive - but there is an outline of how you might set a structure which would have a standard expectation of 2 per cent per annum reduction in spend for everybody. It is built into their cash limit so it is not "soft" in that sense, it is very challenging but you say: "You have 3 years to deliver it." So you would apply that to everybody. In the first year you would look at the big 3 and you would just check out that 2 per cent was really deliverable or whether more than 2 per cent was. So you would focus on that.

Senator S.C. Ferguson:

I think the Canadian experience felt that the across the board percentage cuts were not really as efficient as looking at things in depth.

Mr. W.D. Ogley:

They used both and, if you remember, theirs was an attempt to ... it was almost an austerity programme. They had to reduce spending because they were running a very unsustainable public structure. I think that they reduced total spending by something like 10 per cent in real terms over a 5-year programme, which is almost unheard of in government structures and they used 2. They used a bigger than 2 per cent per annum expenditure reduction target for every service, allied with an in-depth review. So the in-depth review mined out more but everybody had to deliver the standard percentage year on year, so they used both levers. We still have a long way to go to design how we do this, but it is all of those levers you need to make it work.

Senator S.C. Ferguson:

Yes. The other thing that, I suppose, really, has obviously come to the fore, given that the collective bargaining process is the usual method of dealing with pay round, do you have any ideas about stabilising expenditure in that area?

Senator T.A. Le Sueur:

I think the ideas would very much mirror other spending. Whether one could achieve 3-year pay deals is a matter of negotiation with the parties concerned but, certainly, I think 2-year and 3-year deals enable all parties to budget in a far better way. I think if they are going to have this sort of spending envelope, we have to try and design a means of achieving that for a pay structure as well. The alternative is to take pay out of the entire process and put it in a separate compartment. I am not sure yet that that is necessarily a good approach. I think I would far sooner try to get the longer-term budgeting approach. That is the thing I would like to talk to employee groups about to see if the extent to which we commit to this 3-year stability, they would be prepared to commit to something as well. It is, at the moment, very early days; in fact, for me, too early to indicate whether that is a possible line of approach.

Senator S.C. Ferguson:

Yes. You may not have been able to see from where you were sitting on Wednesday evening, but I would estimate that about 60 per cent of the people in that room were either subject to a pay cut or a pay freeze. It was a substantial number.

Senator T.A. Le Sueur:

Yes. That does not surprise me because their survey indicated something very similar.

Senator S.C. Ferguson:

Yes. Does anyone have more questions? Thank you very much indeed, Chief Minister.

Senator T.A. Le Sueur:

Could I take up a minute or 2 more of your time, please?

Senator S.C. Ferguson:

Yes, indeed. The public part of the meeting is now over.