



Corporate Services Scrutiny Panel

Medium-Term Financial Plan

TUESDAY, 21st July 2015

Panel:

Deputy S.M. Brée of St. Clement (Acting Chairman)
Connétable C.H. Taylor of St. John
Deputy K.C. Lewis of St. Saviour

Witnesses:

The Minister for Treasury and Resources
Assistant Minister for Treasury and Resources
Director of Treasury Operations
Head of Financial Planning

Also present:

Mr. S. Fair - panel adviser
Mr. M. Oliver - panel adviser

[15:33]

Deputy S.M. Brée of St. Clement (Acting Chairman):

Good afternoon, Minister, Assistant Minister, ladies and gentlemen and members of the public. If I could just draw your attention to the notices around the room and in front of you with regard to the proceedings of this public hearing. I am sure you are all familiar with them, but good form dictates that I remind you about them. For the sake of the recording, we will go around the table and introduce ourselves, if I may. My name is Deputy Simon Brée. I am Vice-Chairman of this panel. In the absence of the Chairman, for which he gives his apologies, I am acting Chairman of today's public hearing.

Deputy S.M. Brée:

Thank you very much. The purpose of today's public hearing is obviously to discuss the Medium-Term Financial Plan as lodged by the Council of Ministers. To commence with, if I may, Minister, you assured the Assembly on 14th July that Members would receive the department annex to the M.T.F.P. (Medium-Term Financial Plan) by the close of that State sitting. We still await receipt of that important document. Can you confirm why this has not been circulated as yet?

The Minister for Treasury and Resources:

First of all, Mr Chairman, I do not think I said the annex would be supplied by the end of that particular sitting. There were other documents, the Income Forecasting Group document, I believe, which was circulated. The annex itself, I was asked a question in the States and said I would come back to confirm the position, and I did speak to the questioner, Deputy Southern, and said it would be this week that the annex would be produced. It is on its way to the printers at the moment. There was a delay in that regard, and we do expect to have it by the end of this week. It will be distributed by the end of this week. That is the current target.

Deputy S.M. Brée:

Okay. Thank you for that confirmation. Moving to the Medium-Term Financial Plan itself, bearing in mind that the Medium-Term Financial Plan 1, the M.T.F.P. 1, the forecasts were proven to be inaccurate, would you agree the biggest problem was the over-optimistic forecasting of income?

The Minister for Treasury and Resources:

I mean, it is difficult to assess the position with regard to the past, former, or current, I should say, Medium-Term Financial Plan. Clearly, it has proven to be the case that the forecasts that were set have not proven to be accurate, or as accurate as was anticipated, but clearly there were some very significant global issues that arose, between the Eurozone crisis, which had an impact on those particular forecasts.

Deputy S.M. Brée:

So you will agree that the original forecasts were inaccurate, bearing in mind what happened over the life of that M.T.F.P.?

The Minister for Treasury and Resources:

Well, bearing in mind that forecasts are exactly that. They are forecasts, so it is not an exact number. But, yes, they did prove to be not as anticipated at the time that they were set out.

Deputy S.M. Brée:

Okay. So, moving on to the proposed Medium-Term Financial Plan from 2016 to 2019, do you, Minister, fully endorse the range of income forecasting presented by the Income Forecasting Group?

The Minister for Treasury and Resources:

We have established a new Income Forecasting Group, with a new structure and parameters. I am satisfied entirely with that process that is now being followed, and they have gone through in some significant detail various assumptions to arrive at the forecasts they have. As you know, there are a range of forecasts, upper, middle and lower, and I think the key is that the central forecast is a prudent or conservative forecast, in the opinion of the Income Forecasting Group, and I am happy to support their recommendation.

Deputy S.M. Brée:

So you are confirming that you endorse the range of income forecasting, as contained on page 47 of the M.T.F.P.?

The Minister for Treasury and Resources:

Well, it is not my role to endorse it. I accept what has been given.

Deputy S.M. Brée:

Moving on, if we may, what role do the Fiscal Policy Panel undertake? Are they advisers to the States or economic commentators?

The Minister for Treasury and Resources:

They provide advice and recommendations.

Deputy S.M. Brée:

So will you confirm that the revised economic assumptions as of April 2015 have been endorsed by the Fiscal Policy Panel?

The Minister for Treasury and Resources:

Yes.

Deputy S.M. Brée:

What form did that endorsement take?

The Minister for Treasury and Resources:

I am not sure of the actual form, in terms of whether it was written or not. Certainly, the economic adviser did receive the recommendations and acceptance from the group and, as such, transmitted that. I would suggest it ...

Deputy S.M. Brée:

So you are not aware what form the endorsement took, whether it was verbal, whether it was written, whether it was a telephone conversation?

The Minister for Treasury and Resources:

My understanding is that it will have been written, but I have not seen the document.

Deputy S.M. Brée:

All right. I will request then, formally, that you confirm whether it has been written or not. If it was written, that this panel can have a copy of that written endorsement.

The Minister for Treasury and Resources:

I see no reason why that cannot happen.

Deputy S.M. Brée:

Thank you very much.

The Connétable of St. John:

If I may, Minister, if as with the previous M.T.F.P., actual income does not meet the forecasts, what is your plan B for raising the level of income required to fund the proposed Medium-Term Financial Plan?

The Minister for Treasury and Resources:

Of course, the solution would not just be to raise the amount of income. There would be other options, to increase the level of savings, perhaps, being delivered, or to look at other matters, which could include charges, which indeed would be a revenue-raising issue, which is part of the question you have just raised. So, charges or fees would be one option to be considered. Boosting economic growth, which is the reason that a sum of £20 million has been put aside over the term of the particular plan.

The Connétable of St. John:

When you say "using savings", that is coming from the Strategic Reserve?

The Minister for Treasury and Resources:

No, no. Delivering greater savings than is currently anticipated would be one option, greater efficiencies.

The Connétable of St. John:

There is no mention of borrowing in the draft M.T.F.P. Is the Council of Ministers considering that option?

The Minister for Treasury and Resources:

Effectively, we are borrowing. The plan makes it clear that we are seeking to borrow for the short term from our reserves, which is consistent with advice received from the Fiscal Policy Panel, that in order not to slow down or jeopardise the economic recovery that we are beginning to see signs of that we continue to invest, particularly in terms of capital projects, so there are borrowings involved from our reserves.

Deputy S.M. Brée:

If I may, though, the question of borrowing is a slightly wider one than that, and I think what we are trying to establish is whether or not the Council of Ministers is looking to enter into the external debt markets again, and issue yet another bond to fund certain activities. Can you confirm whether or not that particular option has been discussed?

The Minister for Treasury and Resources:

That particular option has not been discussed with regard to operational revenue matters. It has been discussed as an option in very general terms with regard to major capital projects, and in particular I am thinking of the hospital.

Deputy S.M. Brée:

What external advice has been sought on that?

The Minister for Treasury and Resources:

It is too early to give any further detail on that. It is just a consideration. As you will be aware from the Medium-Term Financial Plan, the issue of the funding ... well, first of all, the site is yet to be established for a hospital. Indeed, the envelope of actual funding requirement has yet to be established, due to the work being undertaken by the consultant. Once that is fixed, then further consideration of how that might be funded and, indeed, what you are now asking, advice will be sought at that particular time.

Deputy S.M. Brée:

So, as yet, no external advice has been sought nor received with regard to issuing a bond to, for instance, build the new hospital?

The Minister for Treasury and Resources:

No.

Deputy S.M. Brée:

Thank you.

The Connétable of St. John:

The last M.T.F.P. had a range of plus or minus 5 per cent within the income forecasts. They proved to be incorrect, and in this M.T.F.P. the range is 9 per cent. I will just show you the graph, which I am sure you are aware of. Would you not agree that this demonstrates uncertainty about the accuracy of the forecasts?

The Minister for Treasury and Resources:

What, having a plus or minus 5 per cent?

The Connétable of St. John:

The previous time it was plus or minus 5 per cent. This time it is increased to plus or minus 9 per cent, so you have a bigger range. Does that not show a degree of uncertainty on your part?

The Minister for Treasury and Resources:

Before I answer the question, I would simply say that we are living in a world that is a great deal more uncertain than it was at the time that it was created. But that is not the answer. The answer is that at the time that plan was put together there was a tunnel used, in effect. So there was a central forecast and then a 5 per cent plus or minus tunnel which went up over the period. The advice this time is that, over a period of 4 years for a Medium-Term Financial Plan, time represents risk. So the further out you go, the greater the level of uncertainty. So consequently, the forecasting group that has looked at this, and it has been through the F.P.P. (Fiscal Policy Panel) as well, has concluded that it would be very sensible that as the time goes out, the forecasts will reflect the fact that there is a greater level of uncertainty. The fact that it is 9 per cent is just coincidental. Nobody has chosen 9 per cent as a figure. The Income Forecasting Group has simply looked at the time as it passes and the additional risk that is associated to that longer time horizon, in the 3 levels of the higher, middle and the lower which it deals with.

[15:45]

Deputy S.M. Brée:

Can I just pick up on one question that you were talking about the ways of funding capital projects, and it really does revolve around, obviously, raising income? What asset sales are being considered at the moment by Treasury?

The Minister for Treasury and Resources:

There are some asset sales in the programme in the existing Medium-Term Financial Plan, in fact, 2013-2015, which are around property sales. That figure is about £9 million for 2015, off the top of my head. Outside of that, the only other asset disposals of note, in terms of business assets, would be contained within the recent approach which has been announced publicly about J.T. (Jersey Telecom) which is going through a process at the moment that may or may not lead to a sale. It may lead to a sale of part, which is what the offer is, for 25 per cent of the business, or indeed, it could lead to a sale of more than that, but that is yet to be concluded.

Deputy S.M. Brée:

So other than the proposed possible sale of the shareholding in J.T. there are no other asset sales being considered at the moment by the Treasury Department, is that correct?

The Minister for Treasury and Resources:

Not that I can think of. I am just looking over at Chris. Is there anything else?

Head of Financial Planning:

There is an ongoing review of assets as part of the asset management programme. So the Property Holdings Department is now in a position where it is effectively managing all the States assets which was not the situation before. They now have charge of the health estate, which is a change over the last year or so. So they are able to look across the brief now, and look at the assets that may or may not be in best use. Others may come up over the period but, deliberately, we are not plotting those into the Medium-Term Financial Plan as targets that we have to achieve. So anything that comes in will complement the existing process.

Deputy S.M. Brée:

Okay. Thank you for that confirmation.

Deputy K.C. Lewis:

Minister, given the current Eurozone crisis, would it not be sensible to lower the income forecasts to take account of the impact on the profitability of the banking sector that market instability creates?

The Minister for Treasury and Resources:

First of all, it would not be for me to lower it, because we have the independent Income Forecasting Group to make assessments, and they go through a set process. The key, as I have already alluded to, is that the assessment they have made, looking at all the various parameters, the impact on the economy and the economic performance of the Island, likely revenues such as income tax you were referring to, have been fed into their model and fully assessed, and they believe that that central forecast is prudent and conservative. I should just add on top of that that the recommendation also points out there are risks on the downside and that there needs to be suitable flexibility within the plan, and there needs to be the ability to react should indeed the central forecast underperform.

Deputy K.C. Lewis:

I refer to the diagram on page 47. Would it not be more prudent to take a midpoint between the middle and lower forecasts as the working assumption?

The Minister for Treasury and Resources:

The forecasting already contains 3 points, the higher, the middle (the midpoint) and the lower. So the feeling is that that is perfectly prudent. The key ... well, 2 points really, to make sure that your central forecasts are prudent and conservative in the way that they are assessed and, of course, then how you deal with your forecast. In other words, what contingencies do you have in place to deal with any underperformance? Of course, it is equally possible, as has happened in the past - it is not just recent times where it has underperformed - in the past, not many years ago, there were regular surpluses above and beyond forecast of considerable amounts, which I hasten to add, used to be criticised at the time, I believe. It would be very pleasant to be in a similar position, to be criticised for delivering a surplus. I hope we can return to that situation soon.

Deputy K.C. Lewis:

We all live in hope.

The Minister for Treasury and Resources:

We do indeed.

Deputy K.C. Lewis:

Over the period of this Medium-Term Financial Plan income from tax is forecast to rise by 18.5 per cent. Do you, Minister, really believe that such growth in tax income is realistic?

The Minister for Treasury and Resources:

The experts do. As I have said, it has been through some considerable levels of review and, as I have said, they believe that it is a prudent assessment of income, not just the income tax, but all the levels of revenue. Clearly, the personal income tax is the largest line you will see on your forecast there. But, yes, we believe that is prudent and sensible.

Deputy K.C. Lewis:

How is the additional income that is forecast under personal income tax going to arise?

The Minister for Treasury and Resources:

My understanding is that is largely around wage inflation over the period and job growth.

Deputy K.C. Lewis:

Page 135 of the Medium-Term Financial Plan states that: "No significant changes to G.S.T. (Goods and Services Tax) are anticipated." Would you define "significant"?

The Minister for Treasury and Resources:

I am not aware of any plans to change G.S.T.

Deputy K.C. Lewis:

So, would you say that there are no plans, there are no changes to G.S.T. whatsoever?

The Minister for Treasury and Resources:

I am not aware of any plans to change G.S.T.

The Connétable of St. John:

While we are on page 135, Minister, it states that you will publish your plans later this summer for the Island's property tax. Is it your intention to introduce this tax?

The Minister for Treasury and Resources:

The property tax review covered quite a number of areas, and it has just reached its conclusion. It is being assessed at the moment, so it would be inappropriate to make any comments about it now. As I said, it is going to be published towards the end of the summer.

The Connétable of St. John:

I understood that at election time the document was torn up in public and told it would not be introduced. So that is a change of position, is it?

The Minister for Treasury and Resources:

I believe, in fact I more than believe, I witnessed it being torn up by one of the candidates, who did not tear the whole document up, I believe, but tore up one element of the document. Clearly, if you want to know the reasons that individual did that, you would need to speak to them.

The Connétable of St. John:

As members of the public, I am sure they could not segregate which bits were torn up and which were not. It was symbolic. I am surprised to see that that is now back on the agenda.

The Minister for Treasury and Resources:

The property tax review was something that started prior to the elections, which is what you were referring to. It concluded, it carried on and concluded, and it is now being assessed. As I have said, the outcome of that is something that will be announced once that assessment is complete. I think that is the appropriate course of action. I think it would be wrong to have started something, not that it was something I started, but nevertheless I do believe the work was undertaken and, having undertaken the work, I think it is appropriate to draw some conclusions from that work and then publish those conclusions. As I have said, that is what will happen.

The Connétable of St. John:

Thank you.

Deputy S.M. Brée:

If I may, Minister, I would like to just press you on the property tax. It is of great concern to many members of the public that a new property tax would introduce certain elements of possibly capital gains, and certainly would increase the amount of tax paid over the current parochial rates system. I think that the public would like confirmation from you as to whether or not you intend to introduce proposals to introduce a new property tax. Whatever those proposals may be, the details, yes, I appreciate you will introduce in summer. But is it your intention to introduce such a proposal?

The Minister for Treasury and Resources:

It would not be my intention to predetermine the outcome of a review that is being assessed at the moment, Mr Chairman. I think it is absolutely appropriate that I get that advice first. I then consider it in a timely fashion and publish, as I have said, at the end of the summer. That is exactly what we intend to do. So to make any announcement today, in the absence of the facts, would I think be wholly inappropriate, however much you would like me to do so, with the greatest respect.

Deputy S.M. Brée:

Then I look forward to seeing your proposals. Thank you. If we move on to expenditure as contained within the Medium-Term Financial Plan. In very broad terms the Medium-Term Financial Plan as lodged shows a shortfall of £166 million between income and expenditure. Is this correct?

The Minister for Treasury and Resources:

What page are you on?

Deputy S.M. Brée:

We are looking at the overall difference, over the term of the plan, between the expenditure, total States expenditure, and the total States income which, if you add it all together ...

The Minister for Treasury and Resources:

Right, so that is what you are doing.

Deputy S.M. Brée:

... produces a shortfall of £166 million. I merely want you to confirm my or our calculations are correct.

The Minister for Treasury and Resources:

It depends, because that includes capital. So, I think if you go to Medium-Term Financial Plan ...

The Connétable of St. John:

Page 138 and 139.

Deputy S.M. Brée:

Yes. I was just trying to remember the page numbers. If you look at summary table A: "Proposed States Income Targets 2016-2019", and then you look at summary table B: "Proposed Total States Net Expenditure for 2016-2019", there is a shortfall of £166 million. I just wanted you to confirm that that was correct.

The Minister for Treasury and Resources:

That is correct. Chris, could you just give me the page for that? Because there is £180 million ...

Head of Financial Planning:

There are other ones that come into that figure, depending on what you are going to do, but the broad figure is in, I think, in the right region, yes, after the sustainable measures.

Deputy S.M. Brée:

I am merely asking the question just for confirmation, so we are quite clear on what we are reading here.

Head of Financial Planning:

Taking those 2 separate pages, yes.

Deputy S.M. Brée:

Yes.

The Minister for Treasury and Resources:

Yes. If you total up all the expenditure over each of the years, and the expenditure earned and you subtract it, you get £166 million. The other point I was making was that includes capital in it but, yes, from that strict interpretation, that is correct.

Deputy S.M. Brée:

I was merely to get some clarification on this document that we asked that question.

The Minister for Treasury and Resources:

Yes, that is fine.

Deputy S.M. Brée:

Thank you. Now, again, just the clarification point of view, if you turn to page 63 of the Medium-Term Financial Plan and you look at figure 25, again, we are merely asking for clarification of this point, it suggests, figure 25, that an additional 260 full-time employee positions will be created by 2019 in various departments. Are these new additions in full-time employees above the current head count of those departments?

The Minister for Treasury and Resources:

No.

Head of Financial Planning:

It is not head count. It is full-time equivalents.

The Minister for Treasury and Resources:

Yes. There is a difference. Head count could be a number of people filling one role or a number of part-time roles.

Deputy S.M. Brée:

Okay, then let me put it another way. Are the new additions in full-time employees above the current full-time employee numbers for those departments?

Head of Financial Planning:

Before any savings measures in 2017-2019 ...

Deputy S.M. Brée:

Yes. Just, are they in addition to ...

Head of Financial Planning:

Before any other savings measures in 2017-2019... yes.

Deputy S.M. Brée:

... the current head count for full-time employee number levels?

The Minister for Treasury and Resources:

Yes.

Head of Financial Planning:

Before any savings, I should think.

Deputy S.M. Brée:

Right. So we are increasing, effectively, within the various departments as listed, the number of full-time employees, not decreasing the number of FTE... just looking at this table so we can understand it.

Head of Financial Planning:

You need not to look at that totally in isolation.

Deputy S.M. Brée:

Yes. That is what we are trying to do, just look at this.

Head of Financial Planning:

Ignoring the saving .

Deputy S.M. Brée:

Okay.

The Minister for Treasury and Resources:

That is just for clarity and for the records.

Deputy S.M. Brée:

Yes. I merely want to clarify what we are looking at here because, obviously, our role is to attempt to inwardly digest and understand this document, and it is purely for clarification.

The Minister for Treasury and Resources:

No. That is absolutely fine, but just for the record, the majority of those F.T.E. (full-time equivalent) posts that are identified on that particular page relate to Health and Education, which are the 2 areas receiving considerable investment. So that is in part the reason and how it is accounted for, but as Chris pointed out, it does not include any savings that need to be delivered and other posts that will be taken out as part of the process.

Deputy S.M. Brée:

Now, we understand that the total head count of the States of Jersey in 2015 is 7,277 employees. What will the total number of employees be in 2019?

The Minister for Treasury and Resources:

I could not tell you that at this particular point. If you are getting at how we are going to make the savings target, on the basis that £70 million of the £90 million of savings relates to staff, it will equate to quite a number of individuals and, of course, that will have a value associated to it. But of course, at the end of the day, it is about the total figure, not necessarily the number of employees. That is not the most relevant point.

[16:00]

But it is very early in the process, and this is part of the reason why we have split the Medium-Term Financial Plan into 2. So you have the detail for 2016 and then you have 2017 to 2019, because we have only just started the process, for example, which is the first phase, of voluntary redundancy. That just closed and there have been in excess of 320 applications for the voluntary redundancy programme. How many of those will be accepted and what number that will put towards, both in terms of head count or F.T.E. but more importantly cost savings is yet to be determined. So I cannot give you the number of individuals by 2019. What you have got, which is the relevant factor from our perspective and in terms of the plan, is that the target is £70 million of savings. Now, whether that is through V.R. (voluntary redundancy), V.S. (voluntary severance), or compulsory redundancy at some point, has yet to be identified. The number could change, the number of people, individuals, posts, could change, but the actual cost target is £70 million. So we

could achieve that with lesser individuals or we might achieve it with more. It depends on the value of each individual role.

Deputy S.M. Brée:

It is merely trying to understand whether or not you have a target in mind and whether or not that target has been arrived at from detailed studies of how you are going to make those savings. That is all that we are asking. Obviously, at the moment, I appreciate what you are saying. However, one would have like to have seen perhaps slightly more detailed information, and studies being done as to how you are going to save that proposed £70 million in direct staff costs. Anyhow, if we move on.

The Connétable of St. John:

Yes. On page 92 of the Medium-Term Financial Plan it proposes in paragraph 2 to cap States grants to the Social Security Reserve Fund at 2015 levels. What studies have been undertaken to assess the impact that such a cap would have?

The Minister for Treasury and Resources:

There have been some studies in the past, not directly related to this particular cap but to the Social Security Reserve Fund full stop. Indeed, during the course of this Medium-Term Financial Plan, Social Security will be undertaking a review of that particular fund and, indeed, its sustainability. In fact, previous reviews have identified that the fund currently has enough contained within it to sustain itself until 2045.

The Connétable of St. John:

So, would you give your assurance that such a cap will not impact on the ability of the Social Security Reserve Fund to meet its current and future pension liabilities?

The Minister for Treasury and Resources:

Well, I cannot give my assurance to that. There will be an impact, but the view is the impact will be very slight indeed. That is the assessment that has been made.

The Connétable of St. John:

So, should any study identify a shortfall in the fund, will the Minister give his assurance that mechanisms will be in place to fulfil the shortfall?

The Minister for Treasury and Resources:

The review will be looking at the long-term position of the fund, and its ability to pay out, and the profiling of an ageing population, and suchlike. Indeed, that will come forward with some views in

the future. For me to give assurances, sitting here, would be inappropriate. The impact of this particular measure, though, is virtually nil. Can I put it into a further context? Because, just for greater understanding, there is a total contribution of I think it is of £280 million over the MTFP into that fund that is the taxpayer contribution. So, in effect, that is being reduced by £20 million a year, so that is the level of difference over a very short ... it is just a 4-year period. So it is very small indeed in terms of the impact.

The Connétable of St. John:

Okay. Thank you.

The Minister for Treasury and Resources:

The fund total, by the way, is currently £1.3 billion, so that is 5 years' worth of annual expenditure, so plenty in reserve.

Deputy S.M. Brée:

I appreciate that, as a percentage figure of the fund, the cap is ... I believe the figure you use is less than 2 per cent of the Social Security Fund over the period of the Medium-Term Financial Plan. However, bearing in mind your comment about the ageing population, surely now is not the time to be reducing the grant to fund when, effectively, with an ageing population, your pension liabilities extend further out?

The Minister for Treasury and Resources:

They do, indeed. But we have to balance out a number of issues that need to be managed, one of which is the advice we have had to continue to be able to fund our capital programme. Let us be clear about that. We were talking about the shortfall a moment ago, the £160 million that you were referring to, the £180 million that perhaps we were referring to, and it is clear that we need to continue to ensure that the economic recovery takes hold, and so investing in the short term is right. The advice was to look at our reserves, and we have looked at the full suite of reserves that we have available. As you would be aware, there is no longer any funding available from the Stabilisation Fund, which was set up for the purpose and in the future must be, in my opinion, and I am determined to ensure this happens, replenished. But at the moment we have a Strategic Reserve, we have the Health Insurance Fund, we have the Social Security Reserve Fund that we have been referring to. These are our principal reserves, and so we have been looking first and foremost at those to provide the funding to allow us to invest in the way that we have been advised it is appropriate to do, in the short term, to ensure the economic recovery, and to balance our budgets by 2019.

Deputy S.M. Brée:

So, just to confirm what you are saying, you believe it to be prudent and wise to effectively cap the grant going into the Social Security Reserve Fund, from which pension liabilities are drawn, both current and future, in order to stimulate or attempt to stimulate economic recovery, and to fund capital programmes. Is that correct?

The Minister for Treasury and Resources:

That is one and the same thing. Investing in capital programmes is one of the key pieces of advice in terms of supporting the economy. In other words, if you have expenditure to do on capital, bring it forward. Do not wait, bring it forward now. So we have looked at our reserves, because we were advised that looking at reserves was the most appropriate thing to do, and I have just given you a list of the reserves that we considered, and this clearly is one of them. What I must be absolutely plain and clear about is that this particular fund has £1.3 billion in it and, indeed, it has a life expectancy, based on past reviews, out to 2045, and the view is that the time horizon will see virtually no impact as a result of this particular measure. It is only a one off short-term measure to be applied during the term of this Medium-Term Financial Plan. This is not an ongoing plan.

Deputy S.M. Brée:

When will then the additional amount of money that should have been paid, or not should have been but would have been, into the Social Security Reserve Fund, should you have not taken this step, or propose to take this step, when will that additional funding be replaced into the Social Security Reserve Fund?

The Minister for Treasury and Resources:

By 2019.

Deputy S.M. Brée:

How do you propose to fund that?

The Minister for Treasury and Resources:

No. I am wrong, am I?

Head of Financial Planning:

No. The planned repayment is to the Strategic Reserve rather than to the Social Security reserves.

The Minister for Treasury and Resources:

Yes. The Social Security Reserve Fund is not intended to be repaid at this stage.

Deputy S.M. Brée:

So you are not intending to repay any funds back into the Social Security Reserve Fund at all? Is that correct?

Director of Treasury Operations:

During this Medium-Term Financial Plan, the Social Security Department will have the actuarial review, which will give them the numbers that they need in order to plan ahead. So, within this next 4 years, they will have the plan in terms of how to make sure the fund has sufficient value to it.

Deputy S.M. Brée:

What if the actuarial review comes out with the fact that the Social Security Reserve Fund is underfunded for its future liabilities?

Director of Treasury Operations:

Then we would expect them to bring forward suggestions in terms of how to rectify it.

Deputy S.M. Brée:

That is the point we are trying to get to. If you are not going to pay the money into the fund, and then a study or review is done that shows that the fund cannot meet its future liabilities, because of an ageing population, which we all accept, the question we are asking here now is how are you going to fund the shortfall?

The Minister for Treasury and Resources:

Let us be clear about this. The reviews undertaken to date have shown that the fund will be exhausted by 2045. That is where we currently are. Now, this particular measure will have a very small impact on that, virtually negligible, so the review that I have mentioned that is going to be undertaken by Social Security will be bringing forward, first of all, a reassessment of that date, assuming we have done nothing, and some recommendations as to how we can deal with any shortfalls that may exist and, indeed, the timeline that will exist. That will happen anyway but, nevertheless, we have a short-term problem over this Medium-Term Financial Plan that needs to be rectified, and this is deemed to be one small measure that can be taken and is appropriate to take.

Deputy S.M. Brée:

Okay. Let us move on from that subject, if we may. A more general question, if I may, about expenditure. What effective financial management controls are you, Minister, going to introduce to minimise the current high levels of contingency and carry forwards to negate the need to make suboptimal political decisions?

The Minister for Treasury and Resources:

The latter part is an opinion, I take it?

Deputy S.M. Brée:

Perhaps.

The Minister for Treasury and Resources:

I think, to be fair, the process that we have gone through and are going through, through the Medium-Term Financial Plan, will ensure that, first of all, carry forwards will be less than they have historically been. Certainly, over recent years, we have seen on average around about £20 million of carry forward requests from Departments. There are occasions, by the way, it is important to point out, that it is perfectly appropriate to allow carry forwards. You could have a department like T.T.S. (Transport and Technical Services). It has funding in-year. I realise one of the panel members is an expert on this subject, so I have probably chosen a bad example. T.T.S., who have a project which is in their budget, which is more appropriate to deliver in winter than in summer, and they get to the end of the third quarter and realise that they are not going to be able to complete it within the period, so they have money left over to finish the project and seek approval to carry forward into the next year, and so that is perfectly reasonable. But I think, as we continue the reform programme and we are seeking savings and efficiencies and redesign of services from departments, that we will automatically get a greater focus and more of a move towards clearer and more effective and transparent budgeting, which will ensure that (a) you will get less in terms of carry forwards but, indeed, the overall outcome of financial management will be much stronger.

Deputy S.M. Brée:

Would you not agree then, that the use of carry forwards in accounts can be inflationary?

The Minister for Treasury and Resources:

No, because it is one-offs. It is basically money that is due to be spent in one year, where a department is asking for permission to carry it forward to complete a project or to undertake a project it was not able to complete in the preceding year. It is not going into the base budget, so it is not inflationary. I would not view it as inflationary.

Deputy S.M. Brée:

With regards to a number of items, if we may, under expenditure which, if you like, require greater clarification from you, the Medium-Term Financial Plan as lodged proposes that £5 million each year of the plan, be made available under the heading “Economic and Productivity Growth”. Will the Minister kindly explain what that means?

The Minister for Treasury and Resources:

It means exactly that, although there is no detail there at the moment. If that is what you are asking for, the detail is yet to be worked out. What we have simply done is we have recognised the fact that there may need to be additional investment over the term of the Medium-Term Financial Plan in order to sustain the economic recovery. We have ensured that first of all a funding allocation is put in place. It is not a fund, but a sum of money is put in place that is held centrally, and not handed over to a department I hasten to add, but held within Treasury. It has a clear parameter and process around that particular funding, and any application ... it could come from the Economic Development Department, for example, some of the initiatives for inward investment or something of that note. It could, indeed, come from Education, if it has developed a skills agenda. The key is that this funding is one-off but supports jobs and growth. It is for projects and activities within the term of the Medium-Term Financial Plan and, critically, it is not funding that is going to end up going into any department’s base budget.

Deputy S.M. Brée:

So who will decide how it will be spent?

The Minister for Treasury and Resources:

There will be a Ministerial Oversight Group set up. Ultimately, a recommendation from that will come back to the Minister for Treasury and Resources and, if approved, it would go forward to the Council of Ministers. That is the basic line.

[16:15]

Deputy S.M. Brée:

So who will sit on the Ministerial Oversight Group?

The Minister for Treasury and Resources:

That is yet to be clarified, but it is likely to include Ministers and officers from Treasury and Resources, the Chief Minister’s Department and Economic Development. I would be happy to come back to you with the exact makeup of that group in due course.

Deputy S.M. Brée:

If you could that would be appreciated. So we understand a little bit more. So who will be accountable for it? Will it be you, as Minister for Treasury and Resources?

The Minister for Treasury and Resources:

Ultimately, yes, from a political point of view, in any event.

Deputy S.M. Brée:

So why is this money being made a contingency? Surely it is either needed or it is not?

The Minister for Treasury and Resources:

No. As I said a moment ago, it is quite simply, we believe, sensible to put resources aside. If it is proven to be the case that we need to further support the economic recovery, which we are beginning to see, then the money will be invested appropriately, as I said, on a one-off basis. If it is not needed, then quite simply it will not be spent, and we are absolutely clear about that.

Deputy S.M. Brée:

Would it not have been more sensible to make it part of a departmental budget, such as Treasury and Resources, rather than just putting it down as a contingency?

The Minister for Treasury and Resources:

No. Because we wanted to go through a proper process, a proper evaluation and, as I have said, I would not want it to go into any department's budget.

Deputy K.C. Lewis:

Minister, it is suggested on page 62 of the Medium-Term Financial Plan that - the centre paragraph of page 62: "If either savings or income forecasts fail to reach the proposed target, the level of additional funding will need to be revisited." What does this mean?

The Minister for Treasury and Resources:

Quite simply, in fact, in a similar theme to that which I have been describing with the economic growth funding, that sum of money, together with the growth money for departments, again, is held with Treasury. This is a departure from the past, from the last Medium-Term Financial Plan, where departments received their growth money in advance, and another reason behind the split of this Medium-Term Financial Plan into 2016 and then the following 3 years. Quite simply, there are undertakings from departments to make savings, efficiencies, and redesign services. By the way, these efficiencies will not happen without service redesign. It is absolutely critical. If those

savings, when identified, are not delivered on, then the growth funding will be withheld, or the option is available to withhold growth funding, so there is a degree of control over it.

The Connétable of St. John:

All right. If we move on to making savings, are you, Minister, confident that the £90 million identified in staff and non-staff savings in the public sector is achievable?

The Minister for Treasury and Resources:

I am confident I have been given good advice to tell me that it can be done.

The Connétable of St. John:

Let us hope it is done.

The Minister for Treasury and Resources:

It has to be done.

The Connétable of St. John:

Thank you. What forecasting analysis has taken place about the social and economic impacts of proposed public sector savings on the wider economy? For example, a number of people losing their jobs, or coming out of the public sector, that is less money in the economy. If we are hoping to save £70 million in wages that is £70 million coming out of the economy, not being spent in the shops, restaurants, and so on. What impact study has been done on that?

The Minister for Treasury and Resources:

There has been some work done and undertaken by the Economics unit, the economic adviser. I believe, if I recollect the numbers correctly, there was an assessment in the region of about ... the potential impact and, of course, there is quite a degree of uncertainty with this because it is ... one cannot be exact about numbers and so on ... that the impact could be up to £3 million. But the point is made very clearly, and this is, in my opinion, very important, that one has to look at the broader economy to draw a conclusion, and by that I mean that we are seeing the early stages of a recovery, we are seeing jobs being created. Financial services alone has created 400 jobs in the last year. Indeed, a survey of the financial services industry is showing that 1,000 new jobs are expected to be created over the next 3 years. That is an industry survey. We have also seen the construction industry being much more positive in recent surveys about future employment opportunities. There is quite a lot of development going on, which is being evidenced around the Island. The point I am making with this is that if the private sector is beginning to recover, is beginning to show genuine signs of recruiting, then for a move between public and private sector, that would certainly lessen the impact or remove it, possibly.

The Connétable of St. John:

So, if there is business growth going on and they are taking on more employees, why is - I forget how you term it - companies tax not going up in a similar proportion?

The Minister for Treasury and Resources:

We hope to see tax receipts generally increase because, if the economy recovers it is not just the company tax, of course, it is the ... individuals will hopefully, in due course, see the benefits of such an increase. But there is of course a lag in our taxation system, so we would expect to see that in due course, and we hope we will see that. Indeed, the Fiscal Policy Panel has endorsed the assumptions of growth over the next few years, although they caution that the growth level will return to zero in 2018-2019. So we are seeing a short-term recovery, an increase in economic activity, the creation of jobs, and that is very positive. Certainly, as a public sector, we are going through a process and period of perhaps jobs reduction, then there is a hope that some of these can transfer into the private sector.

The Connétable of St. John:

I am not convinced, because wage levels may not be the same from one sector to the other, so the income tax is likely to decrease.

The Minister for Treasury and Resources:

Well, that is an assumption, but it is not ... there are wage differentials, you are absolutely right, and there are some surprising areas where those differentials exist and it is not as some people might imagine.

The Connétable of St. John:

Because quarter 1 forecasts this year are down on ... receipts are down on forecast, are they not?

The Minister for Treasury and Resources:

Yes.

The Connétable of St. John:

2015?

The Minister for Treasury and Resources:

Yes.

Deputy S.M. Brée:

Sorry, if I may just ask, you mentioned that an impact study had been done. Would it be possible to have a copy of that?

The Minister for Treasury and Resources:

Of the previous point?

Deputy S.M. Brée:

Of the impact study of the social and economic impacts of the proposed public sector savings.

The Minister for Treasury and Resources:

I see no reason why not.

Deputy S.M. Brée:

It would be interesting for us to see that sort of study, to understand a little bit more about the rationale behind it. Just one more point, if I may. Do you not feel or agree that if, say for example, out of the public sector workforce at the moment, a large number of people either choose to take redundancy or are made redundant, that trying to build a direct correlation between that and the increased demand for jobs in the finance sector is naive and possibly misleading? Because the skill sets required are completely different, and should someone move out of, say, the public sector workforce, it is highly unlikely they will have the skill sets and qualifications required by the finance industry at the moment, to move immediately into the private sector. Do you not agree with that statement?

The Minister for Treasury and Resources:

No, I do not. I think that it is perfectly reasonable that there will be some members of staff within the public sector that can transfer across to the private sector, and have relevant skills. There will, I accept, be a number that will need to perhaps consider some re-skilling and retraining, looking at other opportunities in some other areas. It does not have to be financial services. That may be our largest sector by employment, but there are other sectors that are developing, like the digital one, where there are opportunities. In fact, I am aware of some individuals from the public sector that have gone through training for a digital career, and I think that is a very positive move, and I think there must be opportunities in other areas as well.

Deputy S.M. Brée:

So, as part of the costs that are forecast for the whole redundancy programme, if one can call it that, are retraining costs included in there for staff or not? Or do you expect staff members who leave public service to be paying for their own retraining?

The Minister for Treasury and Resources:

There are some very generous packages available as part of the V.R. programme, or the various programmes that are there, which would provide some funding which could be used for skills retraining and what have you. It really depends on what level. Clearly, if a staff member or staff members are choosing voluntary redundancy, the key word is “voluntary”. They have chosen to do that and there is a payment involved, and they may choose that, or to use some of that money to retrain and not necessarily go into retirement, but look for other opportunities. Numbers that have left before, in the previous Comprehensive Spending Review, moved on to careers elsewhere.

The Connétable of St. John:

Page 82. You identify £12 million of savings and benefit changes that need to be delivered in 2015. You then go on for another £26 million to be delivered in 2016. Are you confident that the 2015 and 2016 savings are deliverable?

The Minister for Treasury and Resources:

I am sorry, did you say 2015?

The Connétable of St. John:

The 2015 and 2016, yes, giving a total of £38 million of savings, on page 82.

The Minister for Treasury and Resources:

Yes. The 2015 savings are being analysed on a monthly and quarterly basis, and we are halfway through the year and there has been no indication that departments are not in a position to be able to deliver on their savings, including the ones here, as far as I am aware. Yes. Yes. So, yes, I am very confident in 2015, based on what we have seen to date. That is being closely monitored, as you would expect. Obviously, looking into next year ...

The Connétable of St. John:

You would expect the savings to be met in 2016 as well?

The Minister for Treasury and Resources:

I would expect the savings to be made in 2016. They have to be met in 2016 but, obviously, there is a greater deal of uncertainty the further out you go, and whereas I can be very confident where we are at the moment because we are in this year and we are assessing it on a monthly basis, and we can give an opinion based on fact as to where we are.

Deputy S.M. Brée:

Further to recent statements made by you, Minister, to the local media, will you advise which public sector services have been identified to move into the private sector?

The Minister for Treasury and Resources:

Have I been advised?

Deputy S.M. Brée:

Will you advise us which you have identified?

The Minister for Treasury and Resources:

No.

Deputy S.M. Brée:

You will not advise us?

The Minister for Treasury and Resources:

Which private sector ... which public sector functions?

Deputy S.M. Brée:

Services.

The Minister for Treasury and Resources:

Services.

Deputy S.M. Brée:

Have been identified to move into the private sector?

The Minister for Treasury and Resources:

No. Chris, have you anything ... there is nothing there, is there? No.

Deputy S.M. Brée:

So your statement, as reported in the *Bailiwick Express* on Friday, 17th July this year, carries no validity?

The Minister for Treasury and Resources:

I do not know what was reported. I do not know how closely it reflected what I said. If you would like to quote exactly, then I might give you a bit more information.

Deputy S.M. Brée:

You were talking about the essential concept was the effect of offering the managers of existing public sector services to ... one that was mentioned was the partly controlled service, to effectively buy that service and move it into the private sector under a contract for a short period of time and see how it goes. We are merely asking, the comments attributed to you, are they true, and which services have you identified as being available to move into the private sector?

The Minister for Treasury and Resources:

Right. Thank you for clarifying that. Now I know what you are talking about, and I can give a little bit of clarity around that. That was a question that was raised by that particular media as to whether indeed ... or how we were considering redesigning services. Part of that, I commented on the fact that, indeed, some functions the Government was currently undertaking, it may in the future no longer be cost effective to continue to deliver. It may not be appropriate, or it may be appropriate that it is delivered in a different way or, indeed, outsourced, and an example I gave was, you could have a function that could be outsourced. I was asked to give some examples, which I declined, apart ... and I was asked again, could it be something like X, Y and Z?

[16:30]

I simply said that it could be any number of services, but no decisions had been taken yet and, indeed, that work would be done in due course. So the conclusions that may or may not have been made are another matter altogether, but the principle is right that, as part of the redesign of services and part of the redesign of the public sector, which is critical to delivering savings and efficiencies will be a need to look at some services the Government currently carries out, and to ensure that in the future they are to be delivered in a different way including perhaps outsourcing. I did give one example of a service that had been through that process, and I was able to do so because it was in my former role as Economic Development Minister where, through the last Comprehensive Spending Review, we looked at ways in which we could redesign services and deliver efficiencies. One was the beach lifeguards, which met a significant amount of opposition at the time, but we realised it was not a sustainable service, because it was run by one individual, and so we went through a process that led to award the R.N.L.I. (Royal National Lifeboat Institution) the contract to deliver that service. It cut costs, delivering efficiencies. It is now recruiting. More than 90 per cent of the lifeguards, boys and girls, are from the local market, which in the past was nil, and they are exported now in our wintertime, to go and provide lifeguard services in Australia and South Africa. So that is an example of a service that was originally being run in-house - we bought the machinery, we maintained it, we employed the staff - to one that was outsourced under contract to the R.N.L.I. So that is an example, if you like, and I used that with

the media that you were referring to, and I would hope that it was reported but perhaps it was not, based on what you have just said.

Deputy S.M. Brée:

So you can confirm that you are looking at all public sector services to see whether or not savings can be made by, if you like, outsourcing to the private sector? Is that correct?

The Minister for Treasury and Resources:

What I can confirm to you is that departments, all departments, are looking at ways in which they can redesign their services and, as I have said, some of the services they currently provide may not either be provided any longer or may be provided in a different way including possibly outsourced. All options are being considered. No conclusions have yet been made. Again, that was a reason for splitting the medium-term financial plan, because that work has yet to be concluded. It cannot be done quickly, as I am sure you can appreciate, and it has to be done properly so that it is sustainable.

Deputy S.M. Brée:

Thank you.

Deputy K.C. Lewis:

Minister, by 2019 it is suggested there will be a surplus in the States account, will this mean there will not be a structural deficit by the States?

The Minister for Treasury and Resources:

In principle, yes.

Deputy S.M. Brée:

We may just quickly move on to capital projects. Just for confirmation, during the cycle of this proposed Medium-Term Financial Plan, as there is no allocation, do you not expect to begin the indicative projects such as the Future Hospital and Les Quennevais School?

The Minister for Treasury and Resources:

No, they do. The fact that they are not identified ... well, there are 2 separate things. First of all ... did you say the hospital, did I hear?

Deputy S.M. Brée:

Such as Future Hospital and Les Quennevais School.

The Minister for Treasury and Resources:

With regard to the hospital, that work, as I have already alluded to earlier on in this meeting, is yet to be concluded in terms of identifying a site and a cost envelope for a hospital. Once that is concluded then we need to look at the funding options and it specifically was not put in the plan because simply we do not know what we are dealing with at the moment. That will have to be dealt with separately. As far as the Les Quennevais School, there are plans contained within here to borrow money and, as I have said already, we have borrowed from our reserves, and in this case there is funding from the Strategic Reserve in order to commence the building of Les Quennevais school, or there will be, assuming the States approve it of course as that matter has to come before the States.

Deputy K.C. Lewis:

Minister, page 67, fourth paragraph. Could you explain why there is an increase in expenditure or growth bid as a result of the new police station? We thought the new building was meant to save money.

The Minister for Treasury and Resources:

Yes, there is a small increase in cost of the new police station.

Deputy K.C. Lewis:

We thought the new police station was supposed to save money; be cheaper to run.

The Minister for Treasury and Resources:

Well, in the long run it ~~will~~ would be cheaper to run if it was the same size and specification; it is a newer building. But more importantly it is providing modern fit for purpose services that are required and that is the reason, as I understand it, that decision was originally taken.

Deputy K.C. Lewis:

It has been suggested that there are less custody cells and a small custody suite because of a steep ramp which had to be rectified, is this correct?

The Minister for Treasury and Resources:

No. In fact I believe there are more custody cells than were originally anticipated and in fact my understanding is that there was a proposal to put 2 ramps in originally, one down and one up. Instead the scheme was varied to include a traffic light system for in and out and that has allowed for additional custody suites and it is believed to be a far more effective and efficient system. I should also say that in the past, one of the problems, and perhaps where there has been some confusion over this police station, is that historically there has never been proper accounting or

provision for proper maintenance and the old police station of course is very old and dilapidated, whereas for the future there is going to be proper funding for ensuring maintenance is kept up to date. So what you see now for this police station is a sensible and prudent approach and forward planning to ensure that we do not have any shocks in the future.

Deputy K.C. Lewis:

You are saying the increase in cost was due to lack of maintenance to the old building?

The Minister for Treasury and Resources:

No, I am just making an observation that in the past the old buildings - and this was a fact for a significant amount of assets around the States portfolio - maintenance was a budget that was always the first to get hit and all that does is it solves a short-term problem but builds up a long-term issue. I think this Medium-Term Financial Plan does effectively deal in a sensible way with the issues that in the past have arisen which we do not want to see happening in the future, and that is why there is additional investment in key areas.

The Connétable of St. John:

Right, Minister, if we could move on to contingency provisions, which are outlined on page 141. The total provision of £37 million seems to be quite large. Contingencies are usually there to cover unknown costs but you seem to know most of those costs. I am just wondering why they, first, are not allocated to their own departments, and why such a large figure is given as a contingency?

The Minister for Treasury and Resources:

Well part of this we have covered before, certainly with regard to the economic growth. We have got £5 million in there for economic growth. There is £5 million in each year but in the year in which you are referring, where there is £37 million in total, we have got the economic growth, we have got also the Committee of Inquiry at £4 million - that is not a usual item - which bolsters the figure, and we have also got the redundancy provision, I think is the other one, which makes £19 million in total. So effectively you have £19 million greater level of central contingency than you would normally have, based on those extraordinary items that I have just referred to.

The Connétable of St. John:

How are the figures for the department expenditure limits and the annual managed expenditure arrived at?

The Minister for Treasury and Resources:

Well, they are assessed based on the risk level but basically it is 2 per cent, if I remember my figures correctly.

Deputy K.C. Lewis:

Page 141.

The Minister for Treasury and Resources:

Right, it is 2 per cent for A.M.E. (Annually Managed Expenditure); that is of a total base budget of £100 million, so that is £2 million. That deals with benefits, income support and so on where there is a greater degree of volatility, and the D.E.L. (Department Expenditure Level), which is 1 per cent of £500 million, so it is £5 million, and that deals with department normal expenditure that you would expect; every day stuff. So, 2 per cent for A.M.E. and 1 per cent for D.E.L.

Deputy S.M. Brée:

If we may now move on to proposed funding mechanisms? When will you, Minister, or indeed the Council of Ministers bring proposals forward to the States Assembly on the user pays charges?

The Minister for Treasury and Resources:

The detail for charges and fees are going to be worked up in the intervening period between now and the early part of next year, with a deadline that was agreed, indeed, with your panel, for the presentation of the remaining 3 years of 2017 to 2019; so that will come as part of that consideration.

Deputy S.M. Brée:

So you can confirm that any proposals for any new user pays charges will be placed before the States Assembly prior to 30th June 2016?

The Minister for Treasury and Resources:

Any new charges have to go before the States.

Deputy S.M. Brée:

I am asking about the date. You can confirm it will be before 30th June 2016?

The Minister for Treasury and Resources:

If we want it included in the Medium-Term Financial Plan, or it will not happen.

Deputy S.M. Brée:

Fine; just trying to clarify things here.

The Minister for Treasury and Resources:

Yes, absolutely.

Deputy K.C. Lewis:

Minister, what plans are there for a sustainable funding mechanism for health?

The Minister for Treasury and Resources:

Well, it is under the same category that I have just referred to, to the chairman. That work is yet to be complete so I cannot give you very much detail. There has been some speculation but I think it inappropriate to really comment any further on that until the process has been completed. Obviously you are familiar with the capital sum in terms of £35 million, which is the amount that is aimed to be raised from the funding mechanism of a new health charge.

Deputy K.C. Lewis:

When will the Council of Ministers be bringing this forward to the Assembly for debate; the same as you have just stated?

The Minister for Treasury and Resources:

Yes.

The Connétable of St. John:

Staying with that, on page 138, you have got under "Proposed States Income Targets", the mechanism to pay States rents, which allows for £1 million. When will you be bringing it forward and explaining that mechanism?

The Minister for Treasury and Resources:

Well, certainly within the same timeframe it is going to be included; so all the details will be in that timeframe. It may well be that there will be some announcements prior to that. Clearly as one goes through a process there may well be, for certain charges, some form of consultation or other work undertaken. So it will not necessarily wait right until the end to be announced and come forward for a States debate; it may well be trailed long before that, as the process is undertaken. I think this is made clear in the document that before the introduction of rates, for the States to pay rates, there needs to be a compensating revenue source identified.

Deputy S.M. Brée:

You are not prepared to give us any indication at the moment?

The Minister for Treasury and Resources:

No, because that again is an area that has got to be worked up.

The Connétable of St. John:

I hope this burden is not like the last time, based on the smaller Parishes for the benefit of the larger Parishes. I am speaking as a Constable from a smaller Parish.

The Minister for Treasury and Resources:

Connétable, I would perish the thought.

The Connétable of St. John:

I will hold you to that.

Deputy S.M. Brée:

Again, a similar sort of area; has any international best practice informed the proposed changes to benefits payments?

The Minister for Treasury and Resources:

Good question.

[16:45]

The proposed changes to benefits have been brought forward by the Social Security Department. I am not familiar with the exact work they have undertaken in order to arrive at those, other than the principle that all benefits must be fair and targeted and I know that is the principle under which they have operated, to ensure that benefits get to the people that really need them and that they are fair. I do not know what underlying work, off the top of my head, was carried out by Social Security, but I am sure we can get some information to you to clarify that point.

Deputy S.M. Brée:

If you could do that it would be most helpful for us to understand the rationale behind the various changes being proposed. With regards to benefits payments, there has been a lot of unrest caused by the proposal that the Christmas bonus payable to O.A.P.s (Old Age Pensioners) will cease. I know as a Deputy I have had a number of calls. How much do you pay out every year as a Christmas bonus to O.A.P.s?

The Minister for Treasury and Resources:

Society Security pay out £1.5 million to old age pensioners for their Christmas bonus and of course one of the considerations Social Security have had with regard to bringing forward this particular proposal is that with an ageing population that sum is going to increase significantly over the coming years becoming unaffordable and again they have looked, as I have said, at the high level principle of fairness and the targeted nature of that particular benefit. There are quite a number of people that receive it who genuinely need it, appreciate it, but there are equally a number who get it who are perhaps very wealthy and perhaps do not need it and it is a question of trying to ensure fairness, and that is what I think was underpinning Social Security's assessment when they looked at that particular benefit, realising it is highly emotive of course. They are also proposing that as part of that £1.5 million of saving, if indeed that were to go through, £200,000 of that would be reinvested into Westfield, which obviously gives benefits to those on lower incomes in terms of certain health benefits.

The Connétable of St. John:

Just expanding on that, if you cannot target these bonuses to those who need it as opposed to everybody, does this not show a lack of data control within the Society Security Department?

The Minister for Treasury and Resources:

Well I think the underlying point you are making, Connétable, is absolutely right; that in the future, as we develop our technology, our eGovernment programmes, and bringing together data across departments, then there will be a far greater ability to target in a more effective and efficient way and that is why it is so central to the delivery of the ultimate reform and modernisation and savings and efficiencies through the States.

Deputy K.C. Lewis:

Minister, in the whole scheme of things, do you not think that taking the Christmas bonus away from senior citizens is the thin end of the wedge?

The Minister for Treasury and Resources:

Departments have had a difficult job in terms of assessing their own expenditure and, as I have said, Social Security have done the right thing from the point of view of looking at all the benefits that they reduced and ensuring that they are fair and targeted and if they are not they have sought to do something about it and bring it forward in terms of changes. This one is clearly highly emotive; I understand the sensitivities around it and we will have to see how it progresses. I certainly was in a position where I was asked to go on to the esteemed BBC and talk about the Medium-Term Financial Plan and I felt like Scrooge by the end of the programme because the

entire programme virtually was all about the Christmas bonus, so I understand the sensitivities around that particular subject.

Deputy K.C. Lewis:

There are also rumours of course the BBC licence as well, so senior citizens feel they are under attack at the moment.

The Minister for Treasury and Resources:

Yes, I am sure from a Social Security point of view that is not the intent but they have quite rightly had to look at some of the funding that they had put in and see what is sustainable and what is not in the longer term, particularly with demographics and with the ageing population. It is an important point; it does need to be debated and I think at this stage that is probably all I can add on that particular one, apart from ... sorry, it just came to my attention that there were some other sensitivities around T.V. (television) licences. I think I would just take the point for the over-75s, to clarify that they are not being taken away from the over-75s that already have that benefit; indeed they can retain it for as long as they wish, but for new entrants, if I can put it that way, they would not qualify under the proposals being put forward. There were some reports that it was being taken away all together from over-75s; that is not the case. Those that currently benefit from that particular benefit will continue to do so.

Deputy K.C. Lewis:

But one sort of benefits to senior citizens ... are we sort of relying more and more on kind-hearted people like Mr. Kirch who gives £100 at Christmas time and that we have become more and more reliant on good causes?

The Minister for Treasury and Resources:

Yes. I mean certainly from what I understand and what I have seen, in no way does Social Security look at the fact that a very generous individual benefactor was giving money to, I think it is the over-70s, I cannot remember the age. I do not think it is the same age group but it is close. I think it is the 70-plus. But in any event that was not consideration at all. As I have said, Social Security purely looked at what was fair and what was targeted.

The Connétable of St. John:

Moving on then, if you look at page 138, you are looking at personal income tax, which is the tax paid by individuals. It is supposed to be increased from £359 million to £434 million, which is an increase of £75 million, plus you are looking at £35 million of user pay charges, at the bottom, under the proposed health funding. This equates to £110 million, which effectively means that the average tax payer is looking at a 30 per cent increase in tax; a 30 per cent increase in what they

are paying, the average man or woman, tax payer. Do you really believe that the average family on this Island can afford that?

The Minister for Treasury and Resources:

I am not sure I concur with your calculations to begin with. You are suggesting that personal income tax means an increase in tax. I think what I was mentioning earlier, when asked about the increase in income tax, how that was justified, and it was justified by the Income Forecasting Group. The main rationale behind the increase was wage inflation and job creation; so that is not additional tax of £75 million that you have just referred to at the top.

The Connétable of St. John:

So you are saying that this is not individuals being more heavily taxed, you are envisaging more people in work paying tax?

The Minister for Treasury and Resources:

Or them earning more money.

The Connétable of St. John:

Or them earning more money. That would then be reflected in increase G.S.T. because if there are more people then there will be more people spending money, buying clothes, eating food, et cetera, all of which is taxed. G.S.T. does not increase in line with the personal tax?

The Minister for Treasury and Resources:

No, it does not and that is a very good question and the reason I think it is a particularly good question is because I asked it myself of the Income Forecasting Group and the response I got was that we are seeing, and if you look at the Jersey Post annual accounts that came out recently, you will see the dramatic increase on online purchases, so purchases coming from off-Island. So the belief is, although people have more money to spend based on these figures, the trend of continuing to spend more proportionally off-Island, and you can see that some of that being evidenced through Jersey Post numbers. This accounts for the fact that G.S.T. is not rising to the extent that it should be; not that it should, but you might expect.

The Connétable of St. John:

We do see a marginal increase of ... a quick calculation of about £900,000 on imported G.S.T., so you are not expecting an awful lot to come through the post.

The Minister for Treasury and Resources:

Well we have the *de minimis* level as well to take into consideration; that brings up the whole debate about *de minimis*.

The Connétable of St. John:

So going back to personal tax, your calculations are that the increase in personal tax is as a result of more people in work with higher wages?

The Minister for Treasury and Resources:

That is the conclusion of the Income Forecasting Group, yes.

The Connétable of St. John:

Very interesting, thank you.

Deputy S.M. Brée:

Just on one other matter, if we may. If I could refer you to page 41 of the Medium-Term Financial Plan, the panel have noted that the change in accounting policy towards income tax generates an additional £60 million. Could you explain how this is achieved?

The Minister for Treasury and Resources:

Yes, I will do my best to do so. It is to do with the assessment of tax that is collected the prior year versus current year. So we have 2 groups of taxpayers. All new taxpayers come on to a current year basis. Everybody else is on a prior year basis. So as we go through the process and over the passage of time, we will eventually move to all being current year. What that effectively means is that we have a certain amount of money sitting in our Consolidated Fund, but under current rules we cannot use that money until the following year. So what we sought to do is to change the policy so that that money can be recognised in-year; so it is sitting there and we want to be able to recognise it in that year and therefore use it in that year. It is a one-off measure. It can only be done once but it did seem a sensible accounting move to make. It has been talked about for a number of years but it seemed appropriate to progress that.

The Connétable of St. John:

You have a figure of £60 million; presumably that is just a rough figure. Do you have the actual figure?

The Minister for Treasury and Resources:

I will defer on that.

Director of Treasury Operations:

What we did was we looked at historical numbers to assess any future years adjustments made to make sure that the previously prepaid amount was amended materially. So by doing that process that then gave us the number basically that would be recognised as income. The Tax income number would change by £60 million.

The Connétable of St. John:

Surely you should have an exact figure because if your accounts up to date have been from 2006, when it was introduced, the new I.T.I.S. (Income Tax Instalment System) to the present day; if you have proper accounts they should be shown as pre-payments or in some separate manner to just general reserves?

Director of Treasury Operations:

Yes, we do.

The Connétable of St. John:

So you should have that figure?

Director of Treasury Operations:

We know how much is pre-paid at the end of 2014, which gets released. Obviously in 2015 we do not know the answer yet until we come to the end of it, as it were.

The Connétable of St. John:

No, but you know the exact figure for 2014?

Director of Treasury Operations:

We do, yes.

The Connétable of St. John:

Could we have that?

Director of Treasury Operations:

The exact number, yes, of course.

The Connétable of St. John:

Thank you.

Deputy S.M. Brée:

I mean I have to say that with regards to the changing in accounting policy, I am slightly concerned by the last statement at the bottom of page 41, and if I may read it: "As a result of the measures and the accounting policy change, the forecast balance on the Consolidated Fund at the end of 2015 is estimated at approximately £45 million." So does that mean that without the accounting policy change the balance would have been negative £15 million?

The Minister for Treasury and Resources:

Well, it is interesting because ...

Deputy S.M. Brée:

Now my understanding is that you are not, by law, allowed to take the Consolidated Fund into a negative position at the end of the financial year.

The Minister for Treasury and Resources:

Correct.

Deputy S.M. Brée:

So miraculously there is an accounting policy change that you are able to do that suddenly puts it positive £45 million. I am sure you will understand that I am slightly concerned.

The Minister for Treasury and Resources:

Chairman, if I may say, there is nothing miraculous about it, as I said a moment ago; this has been considered for a number of years as I understand it. It is rather strange in some respects when people consider that the Consolidated Fund is going to be exhausted or has no money in it. The Consolidated Fund is, of course as you know, our current account under another description. At any one time on average it has got around about £200 million sitting in it. The trouble is we cannot use that because ... there is usually about £100 million or so sitting there of unspent capital projects and there is other money there like this sitting there that cannot be used in-year because of the way it has been treated historically, which is not similar to most other jurisdictions. If you look at the U.K. (United Kingdom) and elsewhere this would not be the way that they would account, so it did seem sensible to modernise it.

[17:00]

So there is plenty of money there, we just cannot use it. There are more people moving to the current year; it has gone from 4 per cent in 2006, I think it was, to 34 per cent by 2014. So you have got a shift. So we will get there anyway over a matter of time; so just a pragmatic decision,

which is sensible. There is nothing odd about it at all and it seems the most appropriate time to be doing it. The money is just sitting there so you might as well use it.

Deputy S.M. Brée:

So would you say that this change in accounting policy reflects international accountancy best practice standards?

The Minister for Treasury and Resources:

Yes.

Deputy S.M. Brée:

So in effect until doing this you were not operating at best practice standards?

The Minister for Treasury and Resources:

You could draw that conclusion quite reasonably.

Director of Treasury Operations:

You will be aware of the fact that we run under the J.F.Re.M. (Jersey Financial Reporting Manual), which is our sort of financial rules, if you like, to reflect how Jersey treats things within I.F.R.S. (International Financial Reporting Standards), the international standards, and previously we had made an adjustment to the U.K. F.Re.M. (Financial Reporting Manual) to say that we would not recognise current year, because at the time when we were doing this there was an insufficient amount of current year taxpayers, it felt more appropriate to make the change from the U.K. F.Re.M. to Jersey and since then we have been looking at it and as more and more are coming on board in the current year; the decision was to change that.

Deputy S.M. Brée:

Okay, thank you for that clarification.

Director of Treasury Operations:

As you commented about the £45 million and the Consolidated Fund being negative without the accounting policy change ... I think you mean we do have a plan? If the accounting policy was not agreed, and I would say that Audit Committee saw it yesterday, and obviously we have been working with external auditors on this as well to make sure that they are happy with it. We have a plan to balance the Consolidated Fund without this.

Deputy S.M. Brée:

I just have one quick question, if I may. It goes back to what we were talking about earlier on, about the endorsement of the Fiscal Policy Panel. Just for clarity here, just my understanding. Did they endorse the income forecasts or did they endorse the economic assumptions on which those income forecasts were drawn?

The Minister for Treasury and Resources:

The latter.

Deputy S.M. Brée:

So they endorsed the economic assumptions, not the actual income forecasts themselves?

The Minister for Treasury and Resources:

Yes.

Deputy S.M. Brée:

It was to understand where they fit in the picture.

Head of Financial Planning:

The terms of reference of the group are in the M.T.F.P.

Deputy S.M. Brée:

Okay, thank you. I have tried to read every page but sometimes my eyes blur. At the moment we have no further questions. I would like to thank you very much for your time and for helping us. We do however, as a panel, notify you that we reserve the right to recall you in front of us at a public hearing, depending on whatever information we may receive from various sources, but I would like to thank you very much for your time and hopefully we will discuss this in much greater detail in September.

The Minister for Treasury and Resources:

Very good. Thank you very much.

Deputy S.M. Brée:

Thank you. Ladies and gentlemen and the public, thanks for attending.

[17:03]