

STATES OF JERSEY

Corporate Services Scrutiny Panel Fiscal Strategy Review

WEDNESDAY, 27th OCTOBER 2010

Panel:

Senator S.C. Ferguson (Chairman)
Senator F.D.H. Le Gresley
Deputy T.A. Vallois of St. Saviour
Mr. M. Oliver (Adviser)

Witnesses:

Senator P.F.C. Ozouf (The Minister for Treasury and Resources)
Mr. H. McGarel-Groves (Interim Director of Finance in Treasury)
Mr. M. MacGregor (Tax Policy Advisor)

Also present:

Mr. S. Le Quesne (Scrutiny Officer)

[15:04]

Senator S.C. Ferguson (Chairman):

Good afternoon, gentlemen. Welcome to this hearing of the Corporate Services Scrutiny Panel on the F.S.R. (Fiscal Strategy Review). There will be a £10 fine payable to charity for anyone whose mobile phone goes off, so I should switch them all off now. The health warning is there, but I think you have probably read it several times already. I wonder if you could possibly introduce yourselves for the benefit of the ladies who will be doing the transcribing.

The Minister for Treasury and Resources:

Senator Philip Ozouf, Minister for Treasury and Resources.

Interim Director of Finance in Treasury:

Hugh McGarel-Groves, Interim Treasurer of the States.

Tax Policy Adviser:

Mark MacGregor, Tax Policy Advisor.

Mr. S. Le Quesne:

Sam Le Quesne, Scrutiny Officer.

Mr. M. Oliver:

Michael Oliver, adviser to the panel.

Deputy T.A. Vallois of St. Saviour:

Tracey Vallois, Deputy of St. Saviour.

Senator F.D.H. Le Gresley:

Francis Le Gresley, Senator.

Senator S.C. Ferguson:

Sarah Ferguson, Chairman. One thing that we have noticed is that people are blaming the current deficit on the Zero/Ten. Are you able to tell the panel the specific areas of expenditure that have contributed to the £100 million deficit?

The Minister for Treasury and Resources:

The current deficit of £100 million is not caused by the introduction of Zero/Ten. The Zero/Ten problem of £100 million was responded to by the first Fiscal Strategy

Review with the original introduction of G.S.T. (goods and services tax), 20 means 20, other tax measures, and the boosting economy activity, which was the economic growth plan. We have published information that explains the £100 million in relation to the move to Zero/Ten. This problem relates effectively to principally there is a structural deficit of the £100 million in the region of £50 million. It is a structural deficit that will be £100 million if we do not take action on spending and rebalancing Jersey's books.

Senator S.C. Ferguson:

Sorry, I do not quite understand why with the £50 million structural deficit due to the difference between the revenue and expenditure you have suddenly got it up to £100 million.

The Minister for Treasury and Resources:

We have rehearsed quite a lot of this in the past and there is a lot of the background that has been published in the original Business Plan and now a lot of the documents that are being published today. The £100 million is the problem. There are 3 £100 millions in terms of explanation and it is quite important that we explain which one is which. The first £100 million is in relation to the Zero/Ten. There is a current deficit of £100 million this year because of the fall in terms of financial services profitability, the increased spending that is incurred this year, and there is going to continue to be £100 million, which is a different make up of this year's current £100 million deficit, by 2012, unless we take action. The last 2 are different in terms of their make up because we expect there to be some return to growth in the economy by 2012 and 2013.

Senator S.C. Ferguson:

So the big proportion is the increase in spending?

The Minister for Treasury and Resources:

No. The deficit by 2012 is mainly caused by a fall in profits in financial services as a consequence of the economic turmoil that has existed in the world. It is quite right to say there is some contribution by the States increasing spending, mainly 2 years ago but again last year, and also the States not accepting some duty increases and some tax raising measures last year. So there are a number of contributors to the total problem of £100 million. We have rehearsed some of these numerous times in the past.

Senator S.C. Ferguson:

The impôts, to be fair, we are only talking about £2 million or £3 million.

The Minister for Treasury and Resources:

£4 million that the States did not agree last year.

Senator S.C. Ferguson:

Yes, and probably by the estimates I have seen we are talking they are going to be down by £2 million or £3 million. So those really are not a great contributor to the deficit. What we are really saying, as I understand it, is that the biggest problem is the way the States keeps expanding its spending. Apart from the fact that we are not getting the income from the financial services industry, because portfolio values in

terms of the cash element of portfolios, the commission they get on those will be less because bank rates are all so low.

The Minister for Treasury and Resources:

If you look at some of the detailed papers that have been published last week you will see the full breakdown of the contributors to income and you will see that next year corporate tax receipts are likely to be in the region ... if you look at summary page C and also the breakdown of income on summary page B, page 74 of the budget, you will see the extent to which ... It is probably worth just casting your eyes over that at the moment. In 2009 company income was £214 million. The revised estimate this year is £79 million, of which £100 million of the shortfall is due to Zero/Ten; the rest of it is the economic downturn. The company forecast estimate for 2011 is £65 million, of which £100 million compared to that problem is Zero/Ten; the rest of it is the economic downturn.

Mr. M. Oliver:

Conceptually, because everyone still seems confused, imagine a pie chart and the pie chart is the deficit, whatever it is. Of that, there is some cyclical and some structural. As a percentage, what is cyclical and what is structural?

The Minister for Treasury and Resources:

Structural is about 50 in terms of ...

Mr. M. Oliver:

Fifty per cent, half?

The Minister for Treasury and Resources:

About, yes. But the rest of it, there has been expenditure drag, which is the thing that we are trying to check in terms of the growth in spending, but some of it, admittedly a small portion, is the duty increases. Also, we are putting our house in order in terms of our public finances. We are putting in place a contingency, £10 million a year, year on year, so that we do not go back to the States and increase the limit which we have said previously we are going to stick to. We have set out an envelope of States spending in numerous business plans and I and my predecessor have gone back to ask for more money for extra expenditure in the year. There always will be a pandemic flu, a foot and mouth, some area of expenditure which is unforeseen, so we are putting a contingency in place so that we do not have to go back with 11(8) requests. There will be strict drawdown arrangements in the Treasury on that.

Mr. M. Oliver:

So it is a positive structural problem in a way because it could be a structural issue. These things will come out of the blue but you are preparing for that?

The Minister for Treasury and Resources:

We are preparing for putting in place proper contingencies. We are preparing and paying for the 2 per cent increase in real health growth and we are funding the backlog in maintenance in terms of some aspect of the £100 million is catching up. It probably would be helpful if we did publish at some point ...

Mr. M. Oliver:

It would be wonderful, Minister, if you could do. I think for the public at large, if you had a simple pie chart and said this, this, it really would be very clear, because everyone is talking past each other.

The Minister for Treasury and Resources:

When I talk about the 3 £100 millions, I am not talking about £300 million, I am talking about 3 times, as I have explained, £100 million, and each time we are correct in what we say, we are correct in the breakdown of it, but we perhaps need to justify the breakdown of it to explain exactly what the problem is. We are forecasting, we are doing what most governments do not do, which is going forward in terms of a budget deficit completely transparently getting all of the unfunded problems and contingencies. I accept we have put everything in terms of that £100 million deficit.

Mr. M. Oliver:

But it does raise a bigger question, which no doubt we will come onto, of should everything be funded out of the consolidated fund rather than capital expenditure borrowing, et cetera. We will come onto that.

The Minister for Treasury and Resources:

We will come onto that, I am sure, yes.

Senator S.C. Ferguson:

You had a question about the contingencies.

Deputy T.A. Vallois:

Yes. You have mentioned the actual contingencies that you are proposing. That is the central allocations, I am assuming, that is shown in table A of the budget. Why is it that they increase year on year?

The Minister for Treasury and Resources:

Just to make sure we are talking about the right table: which one are you talking about?

Deputy T.A. Vallois:

Summary table A on page 50.

The Minister for Treasury and Resources:

Yes. The contingency increases, provision for central reserves as it is called here, the provision is £8.8 million. It has been impaired because of the amount that was agreed in the Business Plan to fund the continuation of the G.S.T. bonus. That is why it is not a round number. The contingency is £13 million in 2012 and £17 million in 2013. That includes some of the provision for pay, which is held centrally.

[15:15]

Deputy T.A. Vallois:

Will that be foreseen to be dropping after 2013 or will we see a continual increase in central reserves going forward?

The Minister for Treasury and Resources:

I hope that we will not spend the contingency.

Deputy T.A. Vallois:

I am hoping that as well.

The Minister for Treasury and Resources:

It should not be an excuse not to take the difficult decisions on spending and tax but when we started designing the Comprehensive Spending Review, as I think we have rehearsed with the panel previously, we had advice from people who had been involved in comprehensive spending reviews from the I.M.F. (International Monetary Fund) and particularly one of the people that had been involved in the French *La révision générale des politiques publiques* and the U.K. (United Kingdom) previous spending reviews. Their advice was that you need to separate out expenditure into A.M.E.s (annually managed expenditure) and D.E.L.s (departmental expenditure limits) where you can hold departments to account for the things that they can manage but you hold centrally for release if necessary those things that are outwith the department's control. If Ian Gorst is faced with an extra 500 people asking for residential care home assistance he cannot say no. That is a contingency which you need to give Social Security. If it is poor management within department A, because they have not controlled their expenditure, that is an entirely different matter and the unforeseens like pandemic flu are in another category as well. So you need to break down, effectively, your contingencies and how you are going to allocate them. I was on Finance and Economics when we used to have something called the general reserve, which I have characterised as a self-service buffet account which, because it was put into States spending, there was a whole industry where departments knew that

money was there and they came and bid for it. It was one of the many reasons why we saw this continual drag up of expenditure. This is not going to be on the same basis as the general reserve. There are going to be strict rules and governance. We are still developing the governance structures; they will be obviously in place for next year when the first contingency is in place. This is the first time we have got a contingency in 2011 and we are going to be setting up rules, building on the rules that other countries have used in relation to drawdown arrangement: who decides, how they are published, whether or not there is an involvement in the States Assembly as a whole, whether or not it is simply the Council of Ministers, all the rest of it.

Mr. M. Oliver:

I suppose there is a temptation after a while, if you do not spend this reserve and it keeps accumulating, to top up the stabilisation fund if economic growth is not as quick as you hope it is going to be to give you the growth to top up the stabilisation fund.

The Minister for Treasury and Resources:

The slightly uncomfortable position for the Treasury - and the Treasurer and I have had long discussions about this in the days leading up to the finalisation of the budget - is the extent to which, notwithstanding the pretty tough budget in terms of spending and tax, the consolidated fund is published to be minus £10 million. In effect it is not minus £10 million in cash terms, because that is the unallocated amount of money. There is always about £150 million of unallocated cash that sits in the consolidated fund at any one time. For example, the police station was given capital funding over the last 3 years; we have not started building it yet. That money is sitting in the

consolidated fund. So it is not a case of running out of money; it is running out of allocatable money. But nevertheless we are running out of allocatable money and we are minus £10 million by 2013, notwithstanding the very difficult decisions on spending and tax we are putting forward. There is a degree of uncertainty on income tax receipts, which could be plus or minus £20 million. If tax receipts are worse than our central scenario then I am going to have to look at funding arrangements to deal with that unallocated cash problem and in those circumstances there will be a case for potentially drawing down for maybe one or 2 years from the strategic reserve but I would not want to have the central plan on that basis.

Mr. M. Oliver:

You carefully dodged my question. I said if the reserves continue to build through this contingency it is tempting to top up the stabilisation fund.

The Minister for Treasury and Resources:

If the contingencies are not spent then I would hope that after we have built a buffer of a contingency that you would then release that money back into the stabilisation fund. One can almost guarantee that the F.P.P. (Fiscal Policy Panel) are going to want to have something to say about that because they are the ones that have argued previously that there should not be too much of a balance on the consolidated fund and any surpluses should have been put in the stabilisation fund to require the discipline of a withdrawal down in economic times. We are not making any provision to put money back into the stabilisation fund over the next 3 years. So if we perform better in terms of not using contingency or - I am not going to say there is any high degree of certainty of this happening in the next 2 years - if we beat, for example, our

income tax receivable then that clearly would be money going back into the stabilisation fund.

Senator S.C. Ferguson:

The departmental underspends, are you going to carry on with the same policy?

The Minister for Treasury and Resources:

Departmental underspends will be treated differently when departments have the certainty of a 3-year budget allocation. At the moment, departments only get their money on a year-to-year basis and at the end of the year departments that have underspent their budgets have had their budgets taken away for plugging other departments that have seen overspends. This new structure for public finances puts a different motivation in place. Departments are all going to see reducing budgets, with the exception of one or 2, and in that reducing budget scenario they will be able to make their own decisions within the 3 years. They will pretty well know that if they underspend in a year they will be able to carry that forward. Now, obviously we need to put more rules in place because we cannot say a one size fits all, that we are going to guarantee all underspends absolutely to departments because you have to retain some flexibility, but generally speaking we should be trying to find a different motivation for departments spending right up to their limit and not being rewarded for good underspending behaviour, if that makes sense.

Senator S.C. Ferguson:

Yes, but going on from that you are obviously going to have to deal with the Business Plan next year. If we pass a proposition in the budget statement which says: “This is your envelope”, are you going to change the format of the Business Plan next year?

The Minister for Treasury and Resources:

The budget this year is different because it does ask the States to set an envelope of expenditure for 2012 and 2013 and it sets the target of the £65 million. Under the Public Finances (Jersey) Law the only time that you can set actual departmental cash limits is in the business plan for the next year, which is also something I have briefed the panel on previously. We are going to consider a range of amendments to the Public Finances Law in the early part of next year to change the ability of the States to set longer term cash limits. What I would like to do is to start work in the first few months of next year on departmental cash limits for 2014 and 2015, because the spending review does not end in 2013 and we have clearly indicated that as far as some reviews are concerned, including the terms and conditions review, that that has got to go further over a longer period of time. I would like there to be some certainty. In a year’s time there will be a new Council of Ministers, there will be a 3 and a half year term. I think the new States in the first business plan that it does in 2012 should be confirming its business plan limits for effectively the life of the Assembly, so in other words a 4-year term. While I have got views, wearing a different hat, about Senators and Deputies and all the rest of it, from a Treasury point of view we want to see 4-year planning, we want to see a 4-year term of the States and 4-year budgets, because then departments can plan properly. Three years is too short for good financial management; we would prefer 4 or 5 years.

Senator S.C. Ferguson:

Yes. Going on in the financial sort of vein, with the Treasurer here, have you gone back and examined the first principles of how the States run their accounts? Have you, for instance, reconsidered the prospect of borrowing in capital markets to fund capital expenditure?

The Minister for Treasury and Resources:

I said in the speech that I gave at the Town Hall last Friday that I have no objection to borrowing in principle and I have got no objection to borrowing for investment. What I am categorically against is borrowing to fund consumption. There is no difference in borrowing or using money from the strategic reserve. I do not mind borrowing for investing in capital; what I am not prepared to do is to borrow for annual revenue expenditure. We would have drawn down £158 million from the stabilisation fund by the end of next year. Your first question about whether or not we have gone back to the drawing board with fundamental principles, we have obviously, as States Members, had a number of drawing board discussions. We had a workshop on 12th March where Members were invited to discuss an appropriate envelope of tax and spending. We had a good attendance of States Members on that and we had some pretty fundamental decisions and discussions about how tax and spending should work.

Senator S.C. Ferguson:

So your 50:50, that was the basis on which you decided 50:50 tax and expenditure cuts?

The Minister for Treasury and Resources:

You have been part of all of those discussions about the 50:50 and we have had a 4-day ...

Senator S.C. Ferguson:

I have done a lot of reading since then.

The Minister for Treasury and Resources:

We have originally consulted on the Fiscal Strategy Review on the basis of a 50:50 split of 50 tax and 50 spending. We heard the clear message from States Members, promoted by the panel, arguments, and put them into a revised target of savings of £65 million. I think the £65 million is going to be difficult, I think it is going to be challenging but I think it is necessary, but I do not think it stops at £65 million after 2013. Treasurer, you were going to say something.

Interim Director of Finance in Treasury:

I would have said something on the first question if there had been an opportunity but I think we have moved on.

Senator F.D.H. Le Gresley:

Could I just ask a question of the Minister about the consolidated fund? In your budget statement you say that any amendments to the budget statement may result in the consolidated fund being overdrawn. Any amendments require an alternative funding option. That all makes sense within the budget but you have just explained that there is unallocated funds totalling, I think you said, £150 million or thereabouts.

So how does that marry with what you say in your statement that no amendment should be brought forward without finding an alternative funding option?

The Minister for Treasury and Resources:

One of the reasons why there has been quite a large committed but not spent balance on the consolidated fund has been the Energy from Waste plant, which has obviously been through a stage payment. I do not exactly know where we are in terms of paying it. What the States do is they allocate money in the capital programme so that cash is sitting in the consolidated fund to be drawn down when the project actually happens, and the police station would be a good example. The police station had, I cannot exactly recall, some tranches of £10 million going back 2 years ago.

[15:30]

That is not drawn down. There will be quite a lot of capital programmes, including the police station, which will occur next year. Funnily enough, I was at a lunch today explaining to the people in the construction industry and they were asking about how the capital programme allocation works in the budget compared to the actual spend and I took away from that that we need to do some cash flow projections of when we are spending in capital. We have spent quite substantially this year in terms of capital and that £150 million, or whatever that unallocated amount is, we can explain what it has been allocated for. It is all money that is committed and at the end of the day you cannot spend it twice. Maybe that is the thing that States Members are going to find difficult to understand, that there may well be cash there but it is committed and you cannot spend it twice. So that is why there is a problem in relation to you cannot

under the Public Finances Law. The Public Finances Law is quite right in saying that you cannot commit money. Does that make sense?

Senator F.D.H. Le Gresley:

Yes, it does. Thank you.

Interim Director of Finance in Treasury:

Other funding sources was also referring to opportunities to perhaps collect dividends from utility companies and cash that we know is sitting in certain places that could tide us over to avoid that overdrawn position which under the law you are not allowed to have.

Senator S.C. Ferguson:

If the Green Paper consultation exercise for the F.S.R. showed anything it was that the public has grave misgivings concerning any proposed increase in G.S.T. How have you managed to factor those concerns into your final proposition?

The Minister for Treasury and Resources:

The consultation from the F.S.R. was responded to very well by Islanders. In the early stages of the F.S.R. they perhaps were not very well attended but at the latter end we had very good attendance and I think there are over 1,000 responses to the online survey. The one message that I took from that consultation is that the public wanted spending cuts first and taxes second and this has certainly shaped all of the discussions that we have been having in relation to C.S.R. (Comprehensive Spending Review). I am not surprised that none of the options in the F.S.R. were a favoured

option by the public. The independent group Involve that looked at all of the responses that we got from the F.S.R. I think concluded that there was not one single solution that they identified from the consultation to find the problem as a solution for the tax increases. What we were trying to do in the F.S.R. is to find out from Island community residents and businesses of what the almost different tradeoffs of different taxes would have in their impact on the economy. Ultimately, these things are proposed by the Treasury Minister and debated by the States. I am clear that nobody wants to pay more taxes. We have all, in our political statements, expressed things that does not say that we want to increase taxes. People's manifestos and their statements, including me, have said things about G.S.T. in the past and I understand the concern that there is within the public about any taxes, G.S.T. included. I have been speaking to people in industry in the last day or so about the increase in Social Security increases and explaining and, hopefully, allaying some concerns about that. Ultimately, I am faced with a very difficult position. We have got a deficit that is real that I do not believe the resolution of which can be put off. The deficit is certainly bigger than was expected than even anybody would have envisaged 3 or 4 years ago and it has got to be tackled and I have got to persuade the States that the package of measures I hope, including G.S.T., as unpopular as it is, is necessary because the worse decision would be to dump the dealing with the deficit or to pretend it does not exist.

Senator S.C. Ferguson:

In the midst of you looking at taxes and so on, did you ever think of going back to a sort of a blank sheet of paper and say: "Right, if I was setting up a country, what tax system would I put into place? How would I do it? Am I going to concentrate on

indirect or direct taxes and the balance between the 2?"? Have you ever gone back and said: "Okay, let us look at this radically"?

The Minister for Treasury and Resources:

Well, I think one can spend an awful lot of time on endeavours that are not going to necessarily find solutions to the problems that are here and now. If I may draw a parallel, one of the things that we found from countries' experiences and comprehensive spending reviews is when you asked countries to do that exact "white paper" analysis of where they would spend the money. South Africa did it and ended up having spending demands which are 4 times the available amount of taxes that they currently received.

Senator S.C. Ferguson:

No, I was talking about the tax system. The actual system and not the amount the collected but the actual system. The New Zealanders, in 1984, went back to square zero and said: "Right, we will have a 19 per cent lower limit, a 33 per cent upper limit and a 10 per cent G.S.T. and just ..."

The Minister for Treasury and Resources:

How much G.S.T.?

Senator S.C. Ferguson:

Ten per cent?

The Minister for Treasury and Resources:

Ten per cent.

Senator S.C. Ferguson:

They just went back and said: “This is what we are going to do.” They totally overhauled their system and said: “This is a better balance.” Did we ever think about that?

The Minister for Treasury and Resources:

We think about where we should be ending up and my time horizon is not elections in 2011; it is not 2015. My time horizon, I hope, is where Jersey is going to be in 2020 and 2030 and I am clear that the conclusion from the F.S.R. is that the 20 per cent rate of tax has been a cornerstone of our statements of stability over the last 40 years and we tinker with it at our economic and financial detriment. So having considered and looked over the alternative of introducing a higher rate of tax, I have concluded that 20 per cent is vitally important. I think that ...

Senator S.C. Ferguson:

I am sorry to keep interrupting.

The Minister for Treasury and Resources:

It is all right.

Senator S.C. Ferguson:

It is rude of me. Where do you see it in 2020 and 2030? There is a 20 per cent rate of tax.

The Minister for Treasury and Resources:

No, a 20 per cent rate of personal tax.

Senator S.C. Ferguson:

Yes.

The Minister for Treasury and Resources:

I envisage that Jersey needs to continue to deliver tax neutrality to the customers of financial services but needs to charge financial services companies that actively are regulated by the commission which is the definition we use. Ten per cent on financial services is the competitive rate that I think is a reasonable competitive rate for Jersey in the longer term. Obviously, the Social Security Minister which I think we should introduce into the discussion in the payroll taxes and Social Security contributions ... currently, Social Security contributions are low in Jersey and they are obviously capped up to the earnings limit. I would not envisage dramatic changes in Social Security, although the Social Security Minister does need to be making some changes to the pension scheme in the longer term because we are all living longer and he has got to introduce the residential care scheme which, in Guernsey, is about 1.25 per cent on employees. We need to deliver tax neutrality and if we balance our books in the manner in which I am suggesting, then G.S.T. ought to be able to remain at its single digit low levels compared to other places.

Senator F.D.H. Le Gresley:

Could I just ask you a question, Minister, because we did speak to the Minister for Social Security on Monday about the Social Security changes and he did mention that they might be looking at Social Security contributions on unearned income as well as earned income? Is that something that you have initiated and how do you feel about that?

The Minister for Treasury and Resources:

Well, I hope that the Social Security Minister and I are going to be saying the same things. I would refer you to what I said in my remarks on Friday. I said that I will be exploring with the Social Security ways in which income for Social Security purposes could potentially be more widely defined and anti-avoidance measures from the existing regime. If you do lift the cap, I think there is this examination that is required for unearned income and we have got a lot of work to do on that. The Social Security system has served us very well in Jersey for the last 40 years but it does need to be reviewed. He and I are committed to reviewing that for a fairness objective that you do not create avoidance by effectively turning earned income into unearned income by all sorts of ways and there is a lot of work to be done in relation to that. We have done the calculations on the objective of raising £7.5 million from employers - and that is net of the States - and £8 million for employees and we think that that is about 2 per cent. Two per cent is what is in the budget over the cap. We have got to look at the issue of self-employed people because there is an issue there and there is going to have to be the consideration of whether or not that is capped in any way and, if so, at what level? We need to look at the competitive situation in relation to Guernsey and the Isle of Man and our competitors that we are competing with.

Senator F.D.H. Le Gresley:

It is interesting that the solution you have come forward with - the 2 per cent above the ceiling - was not in the consultation paper.

The Minister for Treasury and Resources:

That is right and because I listened and took seriously the representations that I had in relation to if you simply lift the cap to say £65,000 or at a certain level, earned income would be not suffering any social security above that so this was, I think, a fairer way in relation to that objective of raising about £15.5 to £16 million from Social Security. What we have been quite clear about is that this is an income raising measure. The effect of it is to reduce the States supplementation costs. That is how it pans out in terms of States accounting. At the moment, we pay approximately £66 million a year in supplementing those people whose earnings are not sufficient to meet the costs of Social Security.

Deputy T.A. Vallois:

In terms of efficiency, the O.E.C.D. (Organisation for Economic Co-operation and Development) advice suggests that Social Security contributions are less growth friendly than consumption taxes and taxes of immovable property, so can you explain in your analysis as to why Social Security should go up if we are looking for some form of growth of that?

The Minister for Treasury and Resources:

I have got a problem of £100 million to deal with. I have not got a problem; we have a problem of £100 million to deal with but I have got to propose measures to deal

with it. There is obviously a range of measures designed to achieve the objective of filling the £100 million hole and, as I have said, I think that change in terms of Social Security and increasing Social Security contributions from incomes above £44,000 is a more competitively friendly policy than considering which has clearly ruled out by most of the correspondence that was received in the F.S.R. from introducing a higher rate of tax. I think that it would be helpful for me to cite some of the Social Security rates that exist for employees and employers in other places that compete with Jersey. Guernsey has got full Social Security contributions. When we did the consultation, it was up to £80,000. They have recently lifted that, I think, to £115,000 and there are full employee/er Social Security contributions up to a cap of £117,000 in Guernsey.

[15:45]

So competitively, we are much better placed in terms of payroll taxes than our nearest neighbour. As far as the Isle of Man is concerned, they have got, obviously, National Insurance at 12.8 per cent with no ceiling and they have got a 1 per cent now because they replicate the U.K. numbers of 2 per cent above their ceiling which, this year, in the U.K. will also be about £40,000. So from a competitive point of view, I hear all of those comments about being a tax on jobs and if you are uncompetitive, affecting the economy but I have to propose measures to raise money, so this is designed to raise money from employers and employees but only above the cap and it is still very competitive compared to our near neighbours and the other competing jurisdictions. I recognise it is still money into the Treasury which is going to come out of wage packets but it is also deferred for a year in order for employers and employees to factor that into their wage settlements for next year.

Mr. M. Oliver:

Can I just take you back to your answer you gave the Chairman earlier about 2030 and you see Jersey still with a 20 per cent income tax? Many Finance Ministers would argue over the long run, even if they are not around, that they would like to see income tax being lower. Why not 15 per cent, 12 per cent and then an increase burden which many of the supporting documents would argue for a shift towards indirect taxation and a greater emphasis on G.S.T.?

The Minister for Treasury and Resources:

I think the world is moving and we do not set a tax policy which other countries will follow. We are not the United States and we are not the U.K. so we have to reflect the competitive world around us.

Mr. M. Oliver:

So why still have a tax rate that was in existence 30 or 40 years ago then?

The Minister for Treasury and Resources:

Well, because I think it has been a cornerstone of what has made Jersey successful and I think we are successful because we sent out a strong statement of stability. If I am absolutely candid, I would have liked to have kept G.S.T. at the rate that it was being introduced at.

Mr. M. Oliver:

What about income tax? What would you like to do with income tax in the long run? Would you have an objection to reduce it to, say, 15 per cent and, at the same time, a counterbalance to increase G.S.T.?

The Minister for Treasury and Resources:

You have to take your communities with you and I am sure the economists, of which you are one, would advise that the most competitive way forward is to increase indirect taxes and to decrease personal taxes and, ultimately, the economic advice is that businesses do not pay tax, people do, but you make decisions with the consent of your community.

Mr. M. Oliver:

I am asking you, not the economists.

The Minister for Treasury and Resources:

Well, my view is that I think G.S.T. has been difficult enough for the Island community to accept. I am going to be engaging with as many people over the next few weeks in the budget to explain why G.S.T. is proposed to increase to 5 per cent. I have certainly got some explaining, some reassuring, some justifying and some regret to express that it is the measure that it is being proposed and I hope that there is going to be an acceptance of the overall package of measures that are set out. I do not expect to be popular about it but I think it is necessary.

Mr. M. Oliver:

I must press you further. Would you be effectively more popular - if you are after popularity - to say: "Okay, no, but it will work."?

The Minister for Treasury and Resources:

I am not after popularity and I think you have got to do the right thing.

Mr. M. Oliver:

But if you were and said: "Let us go for an income tax rate of 15 per cent." It sounds good.

The Minister for Treasury and Resources:

I think that there may well be a short-term political high in promising tax cuts but, ultimately, we have got spending pressures which have got to be paid for. If you are suggesting that we cut the basic rate of tax to 15 per cent, I am not sure how that would cost me ...

Mr. M. Oliver:

In 2030 I am talking about. I am not talking about the next 5 years. I understand your point.

The Minister for Treasury and Resources:

My view is that, knowing what I know now, I think we can plan competitively to keep Jersey's tax rate at 20 per cent. I hope we do but everybody has been surprised at the scale of the financial problems that we have seen in the world. I suppose the only good thing going forward for Jersey is that we have more diversified income into the

Treasury from a range of taxes and I would not want to see a return back to a focus solely on income tax which is why I think, as difficult and unpopular as it is, you need indirect taxes and the £48 million that is currently raised by G.S.T., £7 million is paid for financial services so they are taking some strain as well in the 5 per cent because of the I.S.E. (International Service Entities) fees being increased and we will continue to make sure that as many non-residents pay G.S.T. as possible by boosting our tourism industry and by boosting our commercial visitors et cetera.

Senator S.C. Ferguson:

But if you drop taxes, then people see no reason to avoid them and your tax take goes up. Have you done any work on the sort of breakeven that might occur here? I think various countries have done work on the top rates of tax. I know we have not got a top. Yes, we have got a top rate of tax at 20 per cent. Various countries have done work on it to see where the sort of tipping point is.

The Minister for Treasury and Resources:

Well, I do not think it is 20 per cent, Chairman, and I think that we can be fairly clear with our Tax Department that 20 per cent is low, it means 20 per cent at a certain point of income and one of the things that the Interim Treasurer and I have also been doing in recent months is looking at the structure and the collection arrangements of the Tax Department. There is going to be quite a lot in the budget speech on 7th December about our conclusions of the future of the Tax Department and certainly our targets in terms of the extent at which there is avoidance in Jersey at the moment and what we are going to do about that. I would suggest, Chairman, that those countries are at the tipping point of those countries with tax rates of well in excess of

our 20 per cent. I think that 20 per cent is a competitive rate and my conclusion is it should stay at 20 per cent.

Senator S.C. Ferguson:

Thank you, Minister. What risk analysis have you undertaken with regard to the impact that a rise in G.S.T. will inevitably have on Income Support payments?

The Minister for Treasury and Resources:

You have probably discussed this with the Social Security Minister. When G.S.T. was introduced at 3 per cent, Income Support payments were up rated and adjusted when G.S.T. was introduced on 5th May 2008. It is possible to calculate the impact of G.S.T. increasing on Income Support claimants by looking at the Income Support components that attract G.S.T. In 2008, £1.75 million was allocated to fund the rate changes in 2008. That was set out in the Business Plan in 2008 and a similar calculation has been done for the proposed 2 per cent increase in 2011. The full year cost is in the region of £1.5 million for a 2 per cent increase. Social Security includes an amount of £863,000 for the increase in Income Support due to G.S.T. in 2011. That was calculated at the full cost of £1.5 million for 7 months.

Senator S.C. Ferguson:

Has the Treasury done any work on looking at the retailers' prices after G.S.T. came in? Have you done any work to see whether retailers kept their increases just at the 3 per cent or whether they sort of rounded it up significantly or anything like that?

The Minister for Treasury and Resources:

Formally, as far as the Treasury is concerned, no. Informally, did I spend time going up and down King Street? I think I was reported on having given some examples of those retailers that were including V.A.T. (valued added tax) and those that were not and those that absorbed G.S.T. et cetera at the time. It is quite difficult to do any formal analysis of that. The body, in my view, that is important in this whole area of consumer awareness is the Consumer Council. They have got a really important job to do. They used to do a "Fair Play" page in the *J.E.P. (Jersey Evening Post)* which was, I know, read very well by Islanders and the sort of naming and shaming of retailers of those that charged V.A.T. and then added on G.S.T. on top of that, consumers need to be made aware of. My own informal conclusion is that certainly a proportion of the G.S.T. increase was absorbed. There are some very high profile retailers that charge the same price for a pair of trousers in Edinburgh, Douglas, St. Peter Port and Jersey including U.K. V.A.T. and their prices did not change for the U.K. V.A.T. price. They did not add G.S.T. on top of those prices and we all know examples of those. I am not going to name any. We all know who they are the consumers need to vote with their feet. I suppose the point to look at constantly is the differential in the rate of R.P.I. (Retail Price Index) X & Y in Jersey compared to the proper R.P.I. in the U.K., not the Harmonised Index of Consumer Prices which is a different measurement of inflation. One of the problems is that the U.K. now publishes, as their central rate of inflation, the European model of inflation. I do not understand why that is always lower than R.P.I. We publish R.P.I.

Senator F.D.H. Le Gresley:

Can I just come back to how we are going to protect low income families from the effect of the G.S.T. increase? We understand that those on Income Support would

receive protection as the G.S.T. bonus will protect people who do not pay any tax. But you have a table in your report on page 58 with the effect on a pensioner couple where the effect looks very regressive as opposed to progressive. I wondered whether you had given any thought to increasing the tax exemption limits for single pensioner and married pensioner because they are only receiving a 1.1 per cent increase along with everybody else in those limits. If you had considered raising their exemption limits, you would have perhaps helped to mitigate the effect of a G.S.T. increase.

The Minister for Treasury and Resources:

For those pensioners that are in receipt of a Social Security pension, we must not forget that our Social Security pension is considerably better than Social Security pensions in other places and while Vince Cable and others may talk about a universal pension provision in their statements in the last few days, we already do what the U.K. would dream of doing which is not only having a decent living pension funded from Social Security but we increase it by earnings, not the midpoint between earnings and R.P.I. and not R.P.I. I fully recognise that pensioner households on Social Security have received only a modest increase in their Social Security pension because earnings have been flat. We must not forget that, 10 years previously, when earnings were substantially above R.P.I., pensioner households had their position improved considerably. I think that I want to try and avoid further complexity in the Income Tax system. The tables on page 58 do indicate that the percentages are different for different households. Single people are most affected by the changes. Nobody can suggest that I am self-interested in that regard because single people are the people that are targeted the most in relation to the budget and those on higher incomes. I want to engage with the Senior Citizens' Association to understand if

there is anything that we can do. At the end of the day, we have to raise revenue and revenue has got to be raised from across the board. We cannot protect everybody from the changes in taxes to fund services.

[16:00]

Senator F.D.H. Le Gresley:

But you did not answer my question. Did you consider raising the pensioner thresholds?

The Minister for Treasury and Resources:

I did consider it. We considered increasing a whole range of thresholds. You used the word “thresholds”, not “allowances”. I would not want to increase allowances, because that affects all pensioner households. I have only increased allowances across the board for 1.1 per cent. I am happy to do some calculations in relation to the exemption limit for pensioner households and to see the distributional aspects of that but my view is that we should continue to make sure the Social Security pensions can be funded at the generous levels at which they have been, compared to other places.

Senator F.D.H. Le Gresley:

The G.S.T. that relates to international services entities where you were raising it or doubling it to £200 producing £3 million, could it have been trebled instead of doubled?

The Minister for Treasury and Resources:

We did a consultation on company fees and this puts Jersey company fees higher than comparable jurisdictions but we think that that is what we can deliver in terms of maintaining a very competitive market position for Jersey. We need to be very mindful of competitor jurisdictions and what they are charging. Guernsey does not have I.S.E. fees. We went for I.S.E. fees instead of company fees because it is over a larger amount of entities. It is entities that are registered in Jersey and not only those incorporated companies that are designed to widen that gap and £3 million is an important amount of revenue to put forward and I would be concerned about raising that in this year's budget by a greater amount than that which is proposed. There is just no point in me proposing measures that effectively put economic development and the rest of the economy into an uncompetitive position. It might make us feel good in saying: "We are going to get more money out of businesses" but what if we end up getting less? One of the problems I have got in relation to questions from States Members is that they ask me questions about: "How much would this raise based upon last year's income?" I need to constantly say to them: "Well, it is all very well you asking me what the calculations for a 30 per cent rate of tax are but the amount of income that you will raise will be less because we will be uncompetitive." But I am happy to give you some detailed background of the reasons why the I.S.E. fee was proposed as it was. There was quite a substantial consultation run by International Tax and Economic Development on that.

Deputy T.A. Vallois:

In terms of the competitiveness side of things, the G.S.T. competitiveness, there was supposed to be a case study done on the impact of tax rise on wages with the

introduction of G.S.T., has that been completed? That was from the supporting research which has been published ...

The Minister for Treasury and Resources:

Which report is that?

Deputy T.A. Vallois:

June 2010, it is supporting research.

The Minister for Treasury and Resources:

Just to remind me what that ...

Deputy T.A. Vallois:

4.4.29 page 63.

The Minister for Treasury and Resources:

Yes.

Deputy T.A. Vallois:

It was: "The recent introduction of G.S.T. in May 2008 should ..."

The Minister for Treasury and Resources:

What page, sorry?

Deputy T.A. Vallois:

Page 63.

The Minister for Treasury and Resources:

63, yes.

Deputy T.A. Vallois:

It states: “The recent introduction of G.S.T. in May 2008 should, in due course, provide a case study of the impact of a tax rise on wages.”

The Minister for Treasury and Resources:

That is all information that is available because we will have seen the impact on earnings and wages being one part of the earnings increases. If you would like a chart which documents that, they are all the outings of the public domain stats published this and the Economics Unit published that. All that information is now ... we know what the impact on wages was. Well, let us be very clear; that is talking about how wages did ... were wages increased in Jersey to compensate for the introduction of G.S.T? Well you cannot see that by just looking at the increase in earnings, you have got to look at the increase in earnings in other places and you have got to do quite a lot of diagnosis in relation to that. I mean the good thing is is that when we did introduce G.S.T. originally the inflation outlook was flat and obviously I was pleased to see the inflation published last Friday also flat and I do not think that anybody is concerned in the immediate output for inflation for the next 12 months. I know that G.S.T. is a very difficult vexed highly-charged political debate ...

Deputy T.A. Vallois:

I understand. I am just asking on a factual basis. We have had supporting research and I am just asking if you have looked at that data? Because it says that it is inconclusive as to whether there was a change to the international competitive position or found as a result of the introduction of G.S.T. I was wondering if you had looked at that and whether that was the case or not?

The Minister for Treasury and Resources:

As difficult as it has been to propose the increase in G.S.T., the conclusion, the advice from Economics, the advice from the F.P.P., is that it is the least economically damaging tax to rise because it maintains the competitiveness with the caveat of I.S.E. fees because, as the Chairman said earlier in her questioning, the O.E.C.D. favours taxes on indirect taxes and property taxes. I ruled out increase in property rates because of the complexity of having to create another system of support for those that find themselves in, through no reasons for themselves, find them with ... a widow living in the family home and not having the income to support the increase in property tax. I mean after discussions with the Constables it was quite clear that we would be creating another bureaucracy in terms of an income support system to deal with the unintended consequences of that. It was simply better to use the existing Income Support system that we have that is already capable of insulating those people on Income Support. If you want a specific chart, I mean all of these competitive issues have been discussed ...

Deputy T.A. Vallois:

I just wanted to understand because that is the last research that we have had and obviously we have got no analysis on say the 2 per cent above the actual rate because that is the difference to what was proposed in the Green Paper.

The Minister for Treasury and Resources:

Yes.

Deputy T.A. Vallois:

So it is just understanding exactly, from your point of view, where you have got the proposals from really.

The Minister for Treasury and Resources:

I have heard and listened to the issue of competitiveness and concluded that ... I mean the Social Security was consulted on the basis of raising the ceiling on employers and employees completely which would have raised £30 million. We are proposing to raise £15.5 million from the change in Social Security and to split that between employees and employers because I am concerned about this issue of competitiveness.

Senator S.C. Ferguson:

Would you please outline what you deem to be fair in terms of the distributional impact and inclusiveness of the tax system?

The Minister for Treasury and Resources:

Yes, you have moved on in some of your questions.

Senator S.C. Ferguson:

We are jumping around just to confuse you.

The Minister for Treasury and Resources:

Okay, that is okay. That is all right. I have some aid memoirs but I do not often speak from a script because it is probably more interesting: progressive, the better off pay a larger proportion of their income in taxes than the less well off; inclusive, everybody should be expected to contribute with the burden distributed relatively with the ability to pay.

Senator S.C. Ferguson:

Yes, so what would you define as fair in itself? You have often used the description: “I want the system to be fair.” What would you really say was fair?

The Minister for Treasury and Resources:

Well you have got to start from your current system and you cannot ... as much as one would like to start from a blank sheet of paper, as we discussed earlier, you have got to make incremental changes to your tax system. Now, I have heard and accepted the arguments that have been put forward by many people, including many Members of the States, that the fact that people do not pay social security contributions above the £44,000 cap, currently £42,300, is unfair and I have responded to that by the proposal in the Social Security proposal. Now I accept that there is an important debate to be had about social security, which we need to have, and we have certainly got some big debates to have in the next 12 months on the future of the social security system but if

you ask me what “fair” looked like I think that it has to be fair that you do pay a proportion of social security contributions above the cap. I think that fairness means protecting those that cannot afford to be compensated for Income Support payments.

Senator S.C. Ferguson:

So “fair” means, effectively, we are talking in terms of redistribution?

The Minister for Treasury and Resources:

All societies, all advanced societies, redistribute income from those that can pay to those, for whatever reasons, cannot pay and we redistribute and we do so proudly. We look after those that need assistance. We have a strong safety net in Jersey. We are, I think, fair to taxpayers in ensuring that those people that can work are motivated to do work. Do we need to do more in terms of ... we spend £99 million a year on Income Support. There are still some things to do in relation to incentivising people to work; work should pay. You should be better off in work than you are on benefits. Income Support, I think we are now in the third or fourth year of its introduction. Despite all the opposition that it has had it is still a much better system than the myriad of 22 different benefits but it needs to be constantly improved and constantly refined. Fairness also means the public sector taking its share of dealing with the deficit, that is what fairness also looks like and, as difficult as it is ... and I am going to be having with other Ministers and the Chief Minister lots of meetings with staff over the next few weeks to explain, to give the background of the reasons why we are making the decisions on public sector spending cutbacks, fair also means that we, as elected politicians, put our own house in order in relation to the spending that the States makes but I have got to do that respectfully to our public sector workers

because we know that there are hundreds, thousands of public sector workers that get up every morning, work through the night and deliver high quality services sometimes in very difficult positions and in very difficult circumstances and we need to ensure that they are respected and we value what they do. Sometimes ... I feel quite sorry for our public sector workers when they are constantly on the receiving end of endless political statements that we need to cut spending and the whole of the public sector is inefficient and all the rest of it, it is not. There are some redirecting of money. There are some people whose salaries are inexplicable but there are some other salaries and many salaries that are absolutely justified.

Senator S.C. Ferguson:

Yes, well going on from that and the sort of degree of redistribution that we ought to be doing, is there, in your view, a States debate to be had on the benefits of big government big spend and small government low spend?

The Minister for Treasury and Resources:

I think we have had these debates and we will continue to have the debates. The big elements of political discussion here or anywhere else in the world is tax and spending. We are a low tax nation.

[16:15]

We are very successful in building a very strong economy on the back of it and the advantage for being a strong economy, in terms of G.D.P. (Gross Domestic Product) activity per person, is that you can afford better services because the cake is bigger

and you have got more people in work and you have to do less redistribution. It is important as politicians that we continue to ensure that the economy performs strongly. This notion of big governments are really ... they may fill newspaper columns and they may fill debates in the States but we are a low tax relatively high spend economy which is the envy of most places in the world.

Senator S.C. Ferguson:

I know that it has been part of the C.S.R. but do you not think there is further to go on looking at what the government does and saying: "Hang on a minute, we should not be doing this"?

The Minister for Treasury and Resources:

I think this is a never-ending debate about ...

Senator S.C. Ferguson:

Have we had it enough?

The Minister for Treasury and Resources:

Well we have had more of it in the last 12 months, Chairman, than we have had in my political time in the States and we have had more real discussions about it. I think we have made a real move in a positive sense about aligning taxpayers' money into the areas that it should. People told me 12 months ago: "Do not do a Comprehensive Spending Review. Put off all those difficult decisions" when we realised that there were some really difficult decisions to be taken during 2009 which have come as a surprise to all of us. Some of the advice that I had from people was: "Just put it off."

We have not put it off. We are tackling our problems head on. We are balancing our books within 3 years and I very much hope that the budget is going to be approved. There will obviously be some amendments and that is a healthy thing and there will be some amendments to be put forward. But if we get through the budget in the second week of December we can then enter the Christmas period and start the new year with absolute confidence that we have tackled our problems, we have got books balanced and we can go out and start building and continue to build economic activity and we can put it in. But does that mean that the never-ending improvement of allocation of money stops? The problem with the last Fundamental Spending Review it was regarded almost as a sort of a one-year policy which then the pressure was moved off. I am going to be quite clear with people; as far as being positive about economic activity, I want the Comprehensive Spending Review part 3 in the first 6 months of next year to start implementing the plan that we have done in C.S.R. 1, ensuring that we can deliver part 2 so that we can get the Business Plan approved next summer for the 12 and 13 and then give the clear direction of where we are going in 14 and 15 and making the further savings on top of the £65 million, which I think the public expect us to do, and then banking those savings, putting the money back into strategic reserve so that we are in a position that we can then deal with the next problem which will occur probably at some point in the next 20 years and we will not have to borrow and we will not have to go to somebody else to say: “Can you take us through this storm?”

Senator S.C. Ferguson:

Yes, so if you look at big government big spend, small government small spend and, if you say, small government zero, big governments 10, where do you come on the scale?

The Minister for Treasury and Resources:

I am not going to say it is a ...

Senator S.C. Ferguson:

It is all degrees, it is one of these sliding-scale things.

The Minister for Treasury and Resources:

With respect, it is a bit of an empty question really for me to answer in a sense ...

Mr. M. Oliver:

Can I try to further?

The Minister for Treasury and Resources:

Go on.

Mr. M. Oliver:

You might have had the 12 months of debate about big government small government, well you have not had the debate about yes, is value for money from the public sector? You have alluded on several times on fairness to the taxpayer and the value of money they are getting. You cannot be happy with that because of the tightening you are doing in terms and conditions and a whole raft of other things.

You are obviously concerned about that, how much further do you think you can progress at getting better value for money and how are you going to measure that?

The Minister for Treasury and Resources:

Mr. Oliver, I do not think it is right to say that we have not had a discussion about value for money. That is what has been commanding my attention for the last 12 months in terms of spending and I think we have made more progress in reining in States spending than we have done in recent years.

Mr. M. Oliver:

What about value for money? Not reining in the spending, how do you know you are getting world class services?

The Minister for Treasury and Resources:

But some of that is value for money. We have shone the torch into areas of public spending that have not been shone for many, many years and we are delivering efficiencies. We are delivering ... we will announce next week the conclusions of the voluntary redundancy scheme; the voluntary redundancy scheme which is very generous in terms of its settlements, but it is ... I have inherited all sorts of problems, one of which is a very generous voluntary redundancy scheme. Was it the right decision to use the current scheme to make necessary changes in terms of manpower this year or negotiate for a new voluntary redundancy scheme and then simply defer them and not take any decisions this year? I think it is better to go with the scheme that we have got for the first stage of the V.R. (voluntary redundancy), make those changes in the public sector that need to be ... but this must be a never-ending mission

of the States and if I can be successful in also getting in the Business Plan debate next year, an envelope of spending for 14 and 15, not guesswork, as I was maybe being encouraged in some quarters to do. I have only done the envelope when I have been sure that we can deliver it and I would like to set the envelope for 14 and 15 and lift that target to £65 million and I think that we need ... we have lived a charmed existence in Jersey. We can continue to have a charmed existence but we have got to be more frugal and we have got to be more careful with our spending.

Mr. M. Oliver:

Are you saying you have got to sweat your assets more, as the Americans would say, to get the value for money that you obviously want?

The Minister for Treasury and Resources:

Yes, we have not had to. If we are honest we have not had to. Now we must and if we are not going to ask taxpayers to take the full £100 million worth of tax increases we have got to make economies. When you have to do it you do it and I hope that ... there are many business people that I speak to that say: "5 per cent? We do 5 per cent every year and have done for the 10 years." They also perhaps are different to us. We provide services which the public need and when you are dealing with issues like healthcare spending it is not like running administrative of a widget factory or running a financial services industry, there is one direction that healthcare demands are, that is upwards. More drugs, more treatments, longer life expectancy and we are all living longer which means we have got to find more money for Health.

Mr. M. Oliver:

Are you getting value for money from the current Health spend?

The Minister for Treasury and Resources:

I think there is a lot of work to be done in the Health Department and that is why we are commissioning a specific review on health and there has got to be more work done on education. There is clearly a live debate about this issue of private schools, that is a debate that has to also have some real political discussion about it. There are lots of proposals within the C.S.R. on which there has to be a lot more work to do. They are individual Ministers' proposals but they have got to be tested, they have got to be scrutinised and they have got to be decided in the Business Plan next year.

Senator S.C. Ferguson:

Yes. Can I quote you though? You say that Health cannot be looked at like a widget factory. In *The Economist* this week it said that: "The hospitals with the best management practice, analysed as if they made things rather than curing people, also ranked best on a standardised measure of medical success: death rates among emergency patients experiencing heart attacks were lower. That score works across countries and cultures and has unambiguous results." Then they go on with the 5 characteristics associated with the management of successful hospitals. One was competition, or the perception of having competitors.

The Minister for Treasury and Resources:

You have got an advantage over me this week, Chairman, because I have not read my *Economist* this week because I have been rather preoccupied with budget matters. I will be reading it.

Senator S.C. Ferguson:

I was waiting for a plane. But I think I have always talked about the hospital as a widget factory, as you well know.

The Minister for Treasury and Resources:

My point on the health spending is not that it should not be focused on driving value for money for each unit of production which it should, and we should be comparing the cost of a hip operation or a procedure you can name. The top 100 procedures that happen in the hospital, they should be costed. We should be asking the question whether or not it is right to continue delivering them in the way in which we do; whether or not you could deliver 200 hip operations by contracting with the best hip operation hospital in the U.K. While some people will want to have their hips replaced on Jersey, you could have a proportion of people having their hips replaced at the centre of excellence in the U.K. and having a relative attend with them, and you probably could do it for less because of the sheer scale of operations in other places. But the problem with healthcare spending is we need to spend more, not because the procedures themselves are costing more, it is because there are more procedures that are needed.

Senator S.C. Ferguson:

No. The real problem is getting value for money, which is back to Michael's point. Are we getting value for money out of what we spend?

Mr. M. Oliver:

That is the point I was trying to make.

Senator S.C. Ferguson:

You know, this is the real problem. But anyway, I think we are getting off the F.S.R.

The Minister for Treasury and Resources:

Health is one of the areas that there is now a steering group set up under the Council of Ministers on which the Chief Minister and I sit, Social Security and the Minister for Health and Social Services, just to give weight to the importance that we are doing on the review of Health. Health waited for I do not know how many years for New Directions. You, Chairman, were on the Health Committee. I have never been on the Health Committee; so you probably know more about Health than I do.

Senator S.C. Ferguson:

That is why I am the only person in the Island with a management structure of the hospital.

The Minister for Treasury and Resources:

I think the Comptroller and Auditor General has got one.

Senator S.C. Ferguson:

But anyway, we are getting off the point. There is a table in your Fiscal Strategy Background Paper, on page 2 of the Green Paper also, which talks about spending pressures and proposed fiscal, non-fiscal measures, and you talk about a number of significant areas of public spending yet to be costed. Have you got a figure for that?

The Minister for Treasury and Resources:

Those are all part of the 2014 and 2015 discussions that we have got to have. First of all, I am quite clear that we have funded all the things that we need to, out to 2013, and we have put in place contingencies and all the rest of it. We have done the proper job in relation to that. Obviously, looking forward to 2014 and 2015, there are a number of other issues that we will be looking at. Those are the discussions about the future of the Liquid Waste Strategy and a number of other capital projects that we have got to consider how we are going to introduce funding arrangements for those.

Senator S.C. Ferguson:

Super. I suppose some of the feedback we have seen and heard is that there is a concern with the public that the F.S.R. proposals are just about plugging holes. Do you see them as plugging holes or as part of the way forward?

The Minister for Treasury and Resources:

It is very difficult when you are dealing with the scale of problems in our terms that we have been talking about to say that everything is wrong in Jersey. People are reading the problems that we have got locally and thinking that they are the same scale of problems as the U.K. or other places. We are in a very strong position. I am proposing to rebalance books. That is not what the U.K. is doing; they are just stopping the problem getting any worse. The C.S.R. is, as we have discussed throughout the last hour or so, an almost once in a decade opportunity to look at where you are spending money and how you are spending it, to strengthen financial management, to deliver value for money, learn from the previous experiences that we

have had on spending and set a long-term course for efficient delivery of public services. I would hope that the C.S.R. part 1, part 2 and part 3 that has now got to be planned will mean that it can be said of us that they were long term in their thinking.

Senator S.C. Ferguson:

I was referring to the F.S.R. Is the F.S.R. just plugging holes? How are you going to drive it forward, the tighter purse strings?

The Minister for Treasury and Resources:

Well, we are confusing perhaps 2 different things. F.S.R. is about taxes; C.S.R. is about spending.

[16:30]

Certainly, the response to F.S.R. is dealing with a proportion of the deficit that has arisen because of the global downturn and the increases that we have seen in spending in the last few years. It is shared from tax and spending, I would hope that we can put Jersey's public finances on ... I hope that the Comptroller and Auditor General when he does a report in 2020 will not publish the same report that he published 2 years ago of the expenditure drift going up. I would hope that it is going to be flat in terms of its increases in real terms, or if it is above that it is going to be because we delivered economic growth in the early part of the 2010s.

Deputy T.A. Vallois:

The current level of public expenditure, would you say that was chosen by society, and if so how?

The Minister for Treasury and Resources:

Is it chosen by society? What society are you talking about? Small society?

Deputy T.A. Vallois:

It is here in the document: “The principal aim of the tax system is to finance the level of public expenditure chosen by society.” If the current level of public expenditure is chosen by society, how exactly have you got that scale of decision making by society to give you the level of public expenditure that we have? It sounds very confusing.

Senator S.C. Ferguson:

It is your document.

The Minister for Treasury and Resources:

It does. You set taxes, but it is unrealistic to suggest (and I am not saying you are saying this) to just sort of say: “Oh, if we start completely with every option, every lever that you could do, would you be spending in all the areas that you are currently doing?” You would not. We have got legacy spending in terms of supporting legacy sectors of the economy; we are supporting public sector wages in some areas, which are very high because of the disconnect of the previous Establishment Committee from the Finance and Economics Committee or the Treasury, and we are paying for that. Society at the end of the day runs on the democratic tradition of returning people that say they are going to do some things, and sometimes when they get in office, me

included, you find that you have a challenge that you do not expect. David Cameron had to eat his words in relation to child allowance; I have had to eat my words in relation to G.S.T. The public will decide ultimately in elections as to whether or not they want certain politicians to be discharging functions. I certainly am going to aim to meet ... and I look forward to your meeting in St. Saviour's parish hall in a week or so. I am going to try and meet literally tens if not hundreds of Islanders to try and explain why we are doing what we are doing in terms of tax, because you need to take people with you. Of course, politicians will ride on the crest of public opposition to promises to do things in the short term. We are going to have a difficult debate in relation to the budget. I have got no doubt at all about it, and we should because this is democracy in action. Ultimately the public decides the people that they put in, and the political philosophy in the way that you end up with the government that you do in Jersey. I have never stood on a high tax-high spend platform. I have stood on a keep taxes low platform.

Deputy T.A. Vallois:

I was just trying to understand exactly the statement that was made on there with regards to the level of public expenditure chosen by society. It is easy to make a statement like that but exactly how is it chosen by society, to explain a detail like that. A lot of people out there who are currently paying for spending pressures, the legacy problems that you have just described, do not understand, and that is why maybe in regards to G.S.T. there are problems with people not understanding the situation we are in and you are saying taking people with you. It is getting that message out there, the principal aim of the tax system.

The Minister for Treasury and Resources:

The easy thing for the public to say is that they do not want any more taxes but every time ... that is why I am talking to lots of groups of people, whether it is single mums at the Bridge, or whether it is parents from the Childcare Trust or senior citizens or Standing Conference of Women's Organisations. If you share with people what your problem is and you explain to them, they do need to know that you are delivering value for money, but there is a choice of the society which you have. Do we want a society which looks after people to the best standards of healthcare, that gives life expectancy, that looks after people, that prolongs life even in the very difficult twilight of life sometimes that you have because of certain illnesses? We fund drugs for people's extension of life to a greater extent than they do. We choose to do that. We have an education system, which obviously can always be improved, that does promote social mobility; that takes people from a certain background and propels them into a higher standard of living in first and second generations. We are all beneficiaries of this economic miracle that we have created in Jersey. Of course, there will be very highly-charged debates about increases in taxes. As politicians we have got to be absolutely transparent with people and say what the problem is that we have found, and what we are going to do to do it, and to say to people, not to promise people unrealistic things. We all are a part of this political system that we have got. It is not only my decisions. I have got to convince a majority of States Members to accept the proposals that I am putting forward.

Senator S.C. Ferguson:

Michael, anything else? Yes, just one small thing. Is it not possible to, for instance, take a pause on an increase in G.S.T. for a couple of years and use some of the interest that has accumulated on the strategic reserve to cover that, just for 2 years?

The Minister for Treasury and Resources:

You worry me, Chairman, when you say that, because we have drawn down £158 million from our savings to get us through the economic downturn. It is possible that we may well, if tax receipts fall to a greater extent than I am proposing as the midpoint, have to draw down monies from the strategic reserve to deal with what would then be an extended double dip problem or other problems. I am not expecting them but I would not want to say that they are never ... never say never. I think the responsible thing for us to do as States Members, as challenging as it is going to be for our community to accept these political decisions, is to make the right decisions now, not to put off the problem for a subsequent generation. The problems that you are seeing in other countries are because politicians have not faced up to their immediate challenge. If you believe that Jersey should have a significant reserve then you would not be drawing down from the strategic reserve at this juncture. You would not be planning to do it. It may be popular in the short term, but ultimately it is the wrong thing to do. My own view is the strategic reserve for a small island such as Jersey should be being grown, not depleted. I am confident about Jersey's future, but I think we can be more confident if we never have to consider asking a third party to deal with a problem. You can do that if you have got no debt and you have got savings. We are vulnerable as a small community and a dependency on a sector, which is why we are trying to diversify it product-wise. But I think that it is not our

money either. The strategic reserve was put aside. The last allocation that we put in the strategic reserve was when?

Senator S.C. Ferguson:

Before my time.

The Minister for Treasury and Resources:

Yes. Okay. We did put away money in the stabilisation fund, certainly since you and I have been in the States, and we have spent it all. Now, that money is not our money. It should not be current taxpayers' solution for consumption in the next 2 years, which is why, respectfully, I will resist withdrawing money from the strategic reserve. The Public Finances Law gives the powers of the Minister for Treasury and Resources only to propose a withdrawal, and I am not going to withdraw money from the strategic reserve to fund consumption. I will propose withdrawing it if our tax revenues fell to a greater extent next year, or I would find another alternative funding source. I think that is the responsible thing to do.

Senator S.C. Ferguson:

We are fairly safe looking at a £100 million deficit that we have got to cover?

The Minister for Treasury and Resources:

We round these numbers up, obviously. The actual deficit as published in the documentation is in the region of £115 million, but that is by the time you get to 2013. There are all sorts of caveats associated with that. We have been through the contingency issue; we have been through the uncertainty of revenues; we have been

through ... I have been talking for the last hour and 40 minutes. Do you want to say anything?

Interim Director of Finance in Treasury:

I was just going to comment on the strategic reserve. It is invested for long-term growth. There is very little interest anyway. It is almost all in equities. There are some dividends, fairly small, because it is invested for capital growth. So, that source is not really there anyway; so you would be eating into the capital as soon as you drew anything significant out of it, and that is the Island's savings.

Senator S.C. Ferguson:

It is a question that has been asked and I felt I had to put it to you.

The Minister for Treasury and Resources:

If I set an objective, I would say that the strategic reserve and stabilisation fund should be by 2020 in real terms £750 million, not £560 million, or nearing £600 million. I think we should be aiming for putting money back into our reserves as soon as the economy returns to growth in 2013, 2014, 2015. We should be putting money back into our savings account and making sure that we can then weather any further contagion that would happen in the next 20 years.

Senator S.C. Ferguson:

So we probably really need a couple of years' expenditure sitting there.

The Minister for Treasury and Resources:

That would be the very prudent. I am suggesting it should be more than a year's expenditure, and certainly if we have got one year's expenditure we should be aiming for more.

Senator S.C. Ferguson:

Right. Anything else, Michael? Tracey? Thank you very much indeed, Minister, Hugh, Mark.

[16:42]