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States Assembly

États de Jersey
Assemblée des États

Corporate Services Scrutiny Panel

Government Plan 2022 - 2025

Witness: The Minister for Treasury and Resources

Friday, 12th November 2021

Panel:

Senator K.L. Moore (Chair)

Deputy S.M. Ahier of St. Helier (Vice-Chair)

Senator S.W. Pallett

Senator T.A. Vallois

Witnesses:

Deputy S.J. Pinel of St. Clement, The Minister for Treasury and Resources

Deputy L.B.E. Ash of St. Clement, Assistant Minister for Treasury and Resources

Mr. R. Bell, Treasurer of the States

Mr. S. Hayward, Director, Treasury and Investment Management

Ms. H. Cunningham, Group Director, Finance Business Partnering and Analytics

Mr. A. Hacquoil, Group Director, Strategic Finance

Ms. F. Fraser, Deputy Director, Domestic Tax Policy

[13:02]

Senator K.L. Moore (Chair):

This is a Corporate Services hearing about the Government Plan with the Treasury team. Welcome to you all. We will start with our usual introductions. I am Senator Moore and I am the chair of the panel.

Deputy S.M. Ahier of St. Helier (Vice-Chair):

Deputy Steve Ahier, vice-chair.

Senator S.W. Pallett:

Senator Steve Pallett, member.

Senator T.A. Vallois:

Senator Tracey Vallois, member.

The Minister for Treasury and Resources:

Deputy Susie Pinel, Minister for Treasury and Resources.

Assistant Minister for Treasury and Resources:

Deputy Lindsay Ash, Assistant Minister for Treasury and Resources.

Treasurer of the States:

Richard Bell, Treasurer.

Director, Treasury and Investment Management:

Simon Hayward, director of Treasury and Investment Management.

Group Director, Finance Business Partnering and Analytics:

Hazel Cunningham, group director of Finance Business Partnering and Analytics.

Group Director, Strategic Finance:

Andy Hacquoil, group director of Strategic Finance.

Deputy Director, Domestic Tax Policy:

Fiona Fraser, deputy director of Domestic Tax Policy.

Senator K.L. Moore:

We are going to start by looking at the draft Finance Law briefly, if we could. Article 6 of that proposed law allows an I.T.I.S. (income tax instalment scheme) effective rate to be calculated by reference to the employee's expected earnings arising in what remains of the assessment year rather than an employee's expected income for the remainder of the year. Could you explain please, Minister, the differential of earnings and income and the necessity of this Article?

The Minister for Treasury and Resources:

Sorry, I have not got it in front of me, so I am not sure. You said Article 16?

Senator K.L. Moore:

Article 6, which reads: “is the estimated amount of the employee’s earnings for the remainder of the year to which the rate applies.” The question is about the need for this change and the difference between reference to earnings and income.

The Minister for Treasury and Resources:

Can I refer it, while I look for it in this massive file, to Andy or Hazel?

Deputy Director, Domestic Tax Policy:

It will be me. My apologies, I am just looking for my note to make sure that I explain it properly for you.

The Minister for Treasury and Resources:

I do apologise, but when it is specific legislation and we did not know that was on the list, so we have to ...

Senator K.L. Moore:

It is really about the differential between earnings and income.

Deputy Director, Domestic Tax Policy:

If it helps, under the current formula - apologies I am going to read from this to make sure I get it absolutely right, because I did not work on this measure - the employee’s income net of tax allowable expenses is used which sometimes result in an effective rate that is too high. So the aim of the amendment is to base the calculation on a higher income figure, which will result in more accurate effective rates. The amendment will also allow an effective rate to be calculated by reference to the employee’s expected earnings arising in what remains an assessment year rather than, as is the position at the moment, where the calculation looks at the employee’s estimated income for the remainder of the year. There is one more change. That the effective rate ceilings are also being amended to ensure that any arrears of long-term care contributions are taken into account.

Senator K.L. Moore:

So it is making sure that no expenses are included in that figure?

Deputy Director, Domestic Tax Policy:

Or if they are, they are used at 2 different stages of the formula. I think previously what happened is they were added in at one stage and then were not added back at another stage, which is what potentially resulted in the higher effective rate for some taxpayers. This should mean that it is a more accurate calculation going forward.

Senator K.L. Moore:

What has been done to communicate this to members of the public so that they know what is required?

Deputy Director, Domestic Tax Policy:

As I understand it, we have had a lot of soundings with employer groups as well as our usual stakeholder groups for revenue change but, beyond that, the specifics, it might be better if I came back to you with a list, if you prefer, of who we have spoken to.

Senator K.L. Moore:

Yes, that would be very helpful. I do not think we have heard previously about the stakeholder groups that Revenue Jersey have so if you could provide us also with that list it would be most interesting. We have a couple more questions in this area. Next is about Articles 10 through to 13, which make a number of amendments concerning tax relief on borrowing interest and the purchase of land and buildings used in commercial letting business. Could you outline for us please why these amendments are proposed?

Deputy Director, Domestic Tax Policy:

This is part of what we call a business interest relief review. It started back in 2019 and there were a number of meetings with key external stakeholders which, for these purposes, were accountancy firms, tax agents, the Chartered Institute of Taxation and the J.S.C.C.A. (Jersey Society of Chartered and Certified Accountants) and at that time the discussions were around what the review should do, what was not working for business interest relief because the industry have a number of concerns and there are a number of extra statutory concessions in place. So come forward to deciding how to take it forward after, of course, COVID, and it was decided that the review would be undertaken in phases. This is phase one, which is going to be implemented if the States pass the legislation in the Finance Law. What it basically does is tackles specific areas which industry have told us in the past are either in concession and should be in statute or do not perhaps work the way ... certainly the legislation that is there does not work the way that it should do without concessions. We have a number of provisions. As you can see, they are quite detailed tax technical ones, which will remove a number of existing concessions if this becomes law. Then phase 2 of the review is really a much bigger part of business interest generally, which will be tied up with some other work on corporate taxation, and that will decide whether ... or look at and then hopefully decide what is an appropriate business interest regime for Jersey. It almost will not be the same as the complicated regime that is in place in the U.K. (United Kingdom), for example, but it also will not be what we have before you in this Island's law and nothing else because there are other areas which almost certainly do need to be tackled.

Senator K.L. Moore:

Surely that would require some political direction and I see that has not been given as yet. Is that something that the department will wait until after the election perhaps?

Deputy Director, Domestic Tax Policy:

We have been to the Revenue Policy Development Board previously, I believe, with business interest but, yes of course, we will not be looking now to further the second part of the review until after the election.

Senator K.L. Moore:

Going back to the amendments in this year's draft law, are there any calculations as to the potential additional revenue that might be generated by removal of those?

Deputy Director, Domestic Tax Policy:

I do not think, because at the moment what happens is that the law says X and then the concessions are allowing slightly different treatment to ensure that the law does work and reflect what happens in practice. So we do not see this as being a revenue-raising set of provisions at all because it is just basically putting on the strategy footing, which is absolutely the right thing to do, what currently is not in the law. It is an extra statutory concession. I am just looking if I ... no, there are no figures at all. I would not expect this to be about revenue raising because it is legislating concessions.

Senator T.A. Vallois:

You mentioned about this business interest relief review that started in 2019. I understand that it has now moved to a statutory, so it is a legal concession, but when reviewing this what determination or impact was made when considering that - I am just rewarding the Article here, so I apologise: "A a person is entitled to tax relief on interest on incidental costs on borrowing incurred for the purpose of acquiring land, acquiring or extending a building, acquiring shares in a company whose assets consist of land or buildings or paying off other equivalent borrowing." I ask the reason for the impact because of course we only have so much land and we have the Island Plan debate, and we have issues with housing. What impacts were considered around therefore this is definitely the right way to go and to make it a legal concession?

Deputy Director, Domestic Tax Policy:

It will not even be a concession because it will be the law. It will be a statutory provision. Again, as I understand it, the workshops that were held back in 2019 with representatives of the accountancy firms looked at: "This is what we have currently. Is it fit for purpose?" In some respects it was not, even leaving aside the fact that it is in a concession. But I honestly do not know the answer. I cannot recall having seen review material, for example, that says: "Are we going to get rid of this one?” My understanding is these concessions which are being legislated this year are concessions that are accepted as needed, if you like, by those that use them. It is putting our statutory footing what currently is not on a statutory footing. So I do not have an answer about some of it. I am sure that thinking was done. One option of course is, you are right, just get rid of the concession. We do not legislate and the law would have remained as it is, which would not have allowed for this type of interest relief. But again, my apologies, because I was not part of the workshops in 2019. As I understand it, there was never anything other than a consensus that we should keep that concessionary treatment but the Revenue’s position is that it should be in statute then, and that is what phase one has looked at. Does that help at all?

Senator T.A. Vallois:

That is helpful. I was just a little bit concerned - maybe the Minister from a political point of view - what is the Minister’s expectations in terms of determining the appropriateness from an impact point of view on behalf of the public what this does or does not mean? Or is it just the case that we do reviews and carry on doing things that others think is appropriate rather than looking at it from a political standpoint, a strategic standpoint? Is there a concern there?

The Minister for Treasury and Resources:

Not from my point of view because I feel that we are constantly updating legislation. We have to. It has to be looked at all the time because a lot of it has been neglected over the past 20, 30, in the case of independent taxation, 100 years. So we constantly have to look at it and update it. I do not see that there would be ... and we have said politically that the Finance Law, which I think is what the chair was talking about in the first place, will be reviewed all the time and updated.

Senator K.L. Moore:

Thank you. Staying with the Finance Law, Articles 14 to 18 begin to construct a legislative tax residence and framework. Why is that being introduced in particular this year, Minister?

[13:15]

Deputy Director, Domestic Tax Policy:

Yes.

Senator K.L. Moore:

Sorry, we did ask the Minister because clearly it is a Ministerial direction to focus on the issue of tax residency, so it would be helpful perhaps if you could give us the context and the rationale behind your decision first.

The Minister for Treasury and Resources:

Again, tax residency has been in question for a long time as to what is residency; what length of time, if you like. It is just a matter of updating it. Fiona could probably put because she has been dealing with it all.

Senator K.L. Moore:

Is it updating or is it providing clarity on the time?

The Minister for Treasury and Resources:

A combination of the 2.

Senator K.L. Moore:

What is your wish in terms of the time and why this year, in particular, was it considered to be important?

The Minister for Treasury and Resources:

Again, it is something that has been waiting to be updated for quite a long time and, yes, we want to get on with it. It is not particularly this year, it is just because we want to re-legislate or change the legislation, update the legislation to deal with current circumstances.

Senator K.L. Moore:

What is it about the current circumstances that you deem to be inadequate and in need of change?

The Minister for Treasury and Resources:

There is nothing specific. It is just that one has to determine what tax residency is. So to explain what that statutory determination is basically. So it is to clarify. But, as I say, Fiona has been part of all of this so she can answer the legal determinations of it.

Deputy Director, Domestic Tax Policy:

If it would help, again as I understand it, part of the personal income tax reform - and it was announced in last year's Government Plan - that part of that would be looking at personal income tax residency. There is an internal steering group that was set up within the Government and that is at a senior level to make sure that we, in Revenue Jersey, stayed in line with some other key policies that would impact on people coming to the Island or leaving the Island. So that happened. Again, we have been to the Revenue Policy Development Board to talk about the scope after we got a steer from our steering group internally. They agreed, again, that we should do something this year because I think the Minister just started to say that there was very little in law about tax residents. Again, it is not really a very satisfactory position, there is so much that is in extra statutory concession, so one of the goals is to get something in the statute books. Make sure Jersey is competitive internationally, make sure that it is clear for people, it is a robust system, and making sure it is manageable this year. Again we are looking at faces. We have been working very closely with industry. We had a roundtable and a working group that the J.F.L. (Jersey Finance Limited) very kindly facilitated. We looked at what the scope should be. There were a couple of bits that they were a bit more cautious than we were about. We said we are going to speak to drafters and when we started working with our drafters we said: "Look, you are right." There were a couple of bits that we dropped from phase one because they are really quite complicated to put into legislation to take out again. So what we have ended up is a relatively modest package, which again legislation of some longstanding concessions, which really should be in the primary legislation if they are going to stay, and we have begun to build the framework for - it is all very nerdy - but for day counting. We have defined what a day is now for those purposes for tax residents. Again phase 2 will be a bigger piece of work, which will take longer.

Senator S.W. Pallett:

All these question are around G.S.T. (goods and services tax). Articles 28 to 39 of the Draft Finance (2022 Budget) (Jersey) Law amends the Goods and Services (Jersey) Law 2007. Could you please outline why you have decided on the reduction from £135 to £60 for the import G.S.T. *de minimis* from 1st January 2023, and why was this particular date chosen?

The Minister for Treasury and Resources:

From a tax situation, at the beginning of the year is where we aim to change any tax situation. We were looking at removing the G.S.T. *de minimis* completely because Europe and the U.K. have already done that to tie in with their measures but decided, on consultation, that we would reduce it from £240 *de minimis* to £135. Then rather than jumping to remove it completely we would then ... the decision was between £40 and £60 and the general consensus was that it should be £60, with a view to removing it completely at some stage in the future.

Senator S.W. Pallett:

Any particular reason you did not consider 1st January 2022?

The Minister for Treasury and Resources:

We have only just reduced it to £135 so I think there is a certain amount of consideration given to effecting the carrying of it. Obviously it is customs and immigration that have to collect it. So they have to move from £240 to £135 and then they have to move from £135 to £60, so it is a process basically that will take the time to adjust to.

Senator S.W. Pallett:

So there were no political considerations in regards to not bringing it forward to 2022?

The Minister for Treasury and Resources:
No.

Deputy Director, Domestic Tax Policy:
It is the suppliers to allow them to get their systems in place.

The Minister for Treasury and Resources:
Effectively it is a difficulty.

Senator S.W. Pallett:
What stakeholder input did you receive to influence the decision? You mentioned consultation. Who were the stakeholders, what did they say to you?

Deputy Director, Domestic Tax Policy:
There is a list at the back of the published report, which I am afraid I do not have with me, but there is a list of stakeholders I believe because it was quite wide-ranging, and then confidential discussions with the largest offshore retailers.

Senator S.W. Pallett:
In terms of the feedback you got from stakeholders, was there a consensus of opinion around the direction you should take?

The Minister for Treasury and Resources:
As Fiona said, there is a list of stakeholders and also importers, which is probably not best to mention particular margin quarters, but I think everybody will understand who we mean, there was concern because when they exported/imported into Australia it was very difficult to change the *de minimis* level and some imports into Australia were stopped. So we did not want to fall into that category. Equally, we wanted to work with E.U. (European Union) and U.K. on the whole thing. So there was massive consultation with Jersey Post, who of course their biggest income at the moment is now parcels rather than postage, with customs and immigration who have had to employ additional staff to deal with it.

Senator S.W. Pallett:
In terms of some of the stakeholders, I do not think I will be far off the mark by saying Chamber of Commerce were working to see the *de minimis* level removed. Why did you not consider that and really bring in a pure level playing field?

The Minister for Treasury and Resources:

We did consider it. We had talks with Chamber and I know that is their view.

Assistant Minister for Treasury and Resources:

It has been with the *de minimis* right the way along, a lot of it comes down to finance. Right from the beginning when we collected the *de minimis* it was pitched very much at a level where it was financially viable. There is no point us claiming tax if it is then going to cost us even more to collect it. So as it goes down and as the technology appears and as we get the things in place to do it, or the E.U. are moving towards where the big people, such as Amazon, et cetera, will collect it for us and pass it over, that will happen because once the E.U. begin to put the pressure on, and the rest of the world puts the pressure on, they will do that. The general view from Jersey Post is that they would not have a problem doing that for us either because once they have got their systems in place to do it for everybody else, to do us would not be difficult. Once that comes to be, yes, we probably will go to zero. But at the moment it would cost us money every time if we were doing it for £10 coming in, the amount of processing, et cetera, and staff we would need, so there is no point collecting tax if it is going to cost us more than the tax collector to implement that.

Senator S.W. Pallett:

Accepting that that is your decision, what work will need to be done to prepare businesses and Islanders for the change in *de minimis*? What will you do to prepare businesses?

Deputy Director, Domestic Tax Policy:

I have just been looking to get the report up again. Again, the Comptroller has been more or less leading on this particular measure with an external consultant; a G.S.T. expert. But they have been writing regularly to a list of on-Island stakeholders as well as the work for the review, which obviously involved off-Island retailers as well. I can get you details but there seems to be regular comms with our on-Island stakeholders. We are also putting a number of updates, and please look out for sort of communications in a leaflet that is going to go out to people in January. I do not know that this will be included but it may be. But there certainly is a programme that works about communications for different groups of stakeholders.

Senator S.W. Pallett:

In terms of general public, you will be putting out some type of leaflet to explain what those changes will mean to them?

Deputy Director, Domestic Tax Policy:

I will not say for sure - I will check for you - but there would certainly be something. This law that you have before you would not change the *de minimis* of course. That requires something else. I would expect before that point, before that direction is made that, yes, indeed, people would be ... I think "socialised" is the term we are using at the moment - I do not particularly like - but make sure people understand it is coming.

Director, Treasury and Investment Management:
Could I just add, from a shareholding perspective we have also facilitated dialogue directly between Jersey Post and Customs and Excise to manage the logistics of this?

Senator S.W. Pallett:
That was going to be my next question.

Director, Treasury and Investment Management:
So that parcels are not retained for a significantly long period of time. That has been extremely fruitful on both sides because I think it demonstrated that at times Jersey Post's understanding of how the system worked was not quite the same as it did work. They have been very complimentary of the shareholder team within Government who have helped to facilitate that. They will continue to work towards a smooth transition.

Senator S.W. Pallett:
As part of that work, I mean did you include any modelling to understand what those impacts in G.S.T. would have on Jersey Post and customs?

Director, Treasury and Investment Management:
I think that is exactly what they are doing.

Senator S.W. Pallett:
Doing or done?

Director, Treasury and Investment Management:
It is a live ongoing consultation. Jersey Post have the statistics on number of packets/parcels that they manage, Customs and Excise clearly have the data on the level and the value, and between them they are working through the challenges that might arise to ensure that the public see as little impact as possible.

Senator S.W. Pallett:

We have mentioned offshore retailers but you have spoken of a list of the top 10 offshore retailers in regards to Revenue Jersey's review of G.S.T. Could you give us an outline of who those 10 are? We can probably guess who the number one is.

Deputy Director, Domestic Tax Policy:

I am not sure that we can. For commercial reasons I am not sure that we can. I am sure I can get a list but I am not sure what the line has been, if that makes sense, about whether or not it is commercially sensitive.

Senator S.W. Pallett:

Could that be provided in confidence to the panel? Thank you. In terms of those negotiations or those discussions with those retailers, what were the exact roles or seniorities of the stakeholders you spoke to around G.S.T. *de minimis* in businesses? I will mention one because I think it is probably the most obvious; Amazon. At what level did you have discussions with those offshore retailers?

The Minister for Treasury and Resources:

The Comptroller had lengthy discussions.

Deputy Director, Domestic Tax Policy:

The Comptroller from our side, I do not know the answer from ... again, I can probably look back through the files and we can provide that in confidence to you. But it was certainly the Comptroller that was speaking to all of the stakeholders.

The Minister for Treasury and Resources:

He did say that - now that you have mentioned Amazon - were very positive at helping us.

Senator S.W. Pallett:

If you could let us have some information, not just for this panel but for the sub-panel as well that is looking at that. How can we expect the regulation enforcement of *de minimis* to change over the coming years? For example, will additional weight will be placed on online retailers to process G.S.T. and remove V.A.T. I stress the "remove V.A.T." bit as well.

Deputy Director, Domestic Tax Policy:

This provision is for the largest, as you know, offshore retailers where the taxable supply is more than £300,000 in a 12-month period but there is a voluntary provision. If people are smaller and want to, if they did a lot of business with Jersey, they are still able to register for the new scheme, and absolutely part of paying directly the G.S.T. is that they would not be charging V.A.T. Again, I understand anecdotally that there are issues on-Island that I think there is a consumer choice. The Comptroller has always said if people are charged V.A.T. and the person that is charging it refuses to waive it they are wrong to do so and not using them might send a strong message. But certainly everybody who wants to be compliant with our law is going to be able to do so if the States pass this legislation. They do not have to be the biggest.

[13:30]

Senator S.W. Pallett:
Thank you. I am going to pass over to Deputy Ahier.

Deputy S.M. Ahier:
Continuing on, on page 87 of the annexe Import G.S.T. Resource Requirement and G.S.T. Resources are to be allocated £365,000 in 2022 and £350,000 in the years thereafter. Please could you explain why funding is required in 2022 when the further reduction of import G.S.T. *de minimis* level to £60 is not anticipated until 1st January 2023?

The Minister for Treasury and Resources:
I think, as we have mentioned in answer to Senator Pallett's question, it is to put the mechanism for dealing with it in place. It takes a while to change all the computer systems and the allocations and the customs and immigration question, that is why the funding allocation has been made.

Deputy S.M. Ahier:
Is this to accommodate the changes to the CAESAR system?

The Minister for Treasury and Resources:
Yes, and the employment system, and employees.

Deputy S.M. Ahier:
How many extra customs officers will be required?

The Minister for Treasury and Resources:
I cannot answer that.

Deputy S.M. Ahier:
We understand that it may be 8 and that is incorporated within that funding.

The Minister for Treasury and Resources:

It is. That is what the funding is for but I do not know that it is 8.

Deputy S.M. Ahier:

Please could you confirm what the business case costs relate to specifically in the G.S.T. Resources project, which is 014-04, page 87?

Treasurer of the States:

What was your last question, sorry?

Deputy S.M. Ahier:

What the business case costs relate to specifically in 014-04?

Treasurer of the States:

There are costs in here in terms of additional customs officers. There are also costs in here relating to improvements to the customer portal in CAESAR, which is the collection system that people have to access ahead of that. So there are also advisers for Customer and Local Services ahead of the implementation as well and office assistants, as laid out on page 87.

Deputy S.M. Ahier:

What will be done to ensure the reduction of *de minimis* to £60 in 2023 does not unduly impact Islanders?

Treasurer of the States:

The answer there relates to improvements to the CAESAR portal. Part of this has been the conversation across the stakeholders, as is made up in the report that is embedded ... it has a hyperlink from the draft Finance Law which lays out, for example, the Consumer Council form part of that stakeholder group, as well as businesses through Chamber, as well as those off-Island retail groups. Part of that conversation has been about the balance, including conversations with customs and immigration. Part of that is not just about the impact on customs, it is about thinking through its deliverability on the perspective of consumers.

Deputy S.M. Ahier:

I will pass back to Senator Vallois.

Senator S.W. Pallett:

Could I just ask one question? Sustainable well-being is a phrase that is used throughout the Government Plan. But in terms of the impact it might have on lower income families on the Island, have you done any modelling in terms of what reduced *de minimis* might mean to lower income families because many of them do order online and potentially it will have an effect on those people?

Treasurer of the States:

If I can answer it from the opposite end of the telescope in this case. The Island Parliament has decided to have G.S.T. across the board, recommended to by officers and Ministers at the time. It is currently - forgive me if I do not use the right word - through concession. Is that the right word? Through the Comptroller of Revenue that *de minimis* is set where it is so that the costs of administering that and the inconvenience that ... that is a qualitative question but the costs of that administration does outweigh the additional benefit that is complex. My understanding is that it is incumbent upon Ministers, particularly the Comptroller as well, not to have an unlevel playing field such that off-Island retailers are advantaged over and above on-Island retailers.

Senator S.W. Pallett:

I get that but what are we doing to ensure we are not widening inequality in the Island by effecting those people on lower incomes that do order online and do currently have the benefit of a higher *de minimis* rate?

Treasurer of the States:

I do not think we have the analysis by sociodemographic group that says who accesses online retailers as opposed to who accesses local retailers?

Senator S.W. Pallett:

Should we?

Treasurer of the States:

There is not statistics ...

Senator S.W. Pallett:

One of the Government's priorities is to reduce inequality so that is the reason I asked the question.

Treasurer of the States:

There will be, no doubt, across the entire demographic people who will use online more than they will use offline but I am not sure that is predominantly in one sector and/or another. I think the challenge becomes if we want to have a discriminatory G.S.T. rate, if that is what was desirable, it should not be discriminated between off-Island suppliers and on-Island suppliers.

Senator S.W. Pallett:

I get that but again I have concern around inequality and ensuring we are not widening the gap. I will leave it there.

Deputy Director, Domestic Tax Policy:

Would you like the list of stakeholders because I have found the report? You asked earlier on who did we consult.

Senator K.L. Moore:

Thank you. If you could provide it to us by email that would be helpful.

Senator T.A. Vallois:

I am asking about capital projects. I refer you to the actual proposition of the Government Plan, page 18. Basically Our Hospital Project, as a major project, does not appear in summary table 4 of the proposition. Why?

The Minister for Treasury and Resources:

Largely because it is an exceptional and separate capital project whereas others have possibly been in the pipeline for quite some time and have not been able to be effected because of the difficulties of the last couple of years. So that was a capital project list of ones that have been in the pipeline. The hospital stands on its own as a major capital project.

Senator T.A. Vallois:

So where in the Public Finances Law does it allow us to take something out of a major project or a capital programme and call it an exceptional project? Because my understanding is that the major project, the total cost from start to finish of the project is required to be included in the proposition under Article 9(2) of the Public Finances Law. That is what I am trying to understand is, abiding by the legislation the States Assembly have agreed what is in the proposition that is being asked of the States Assembly, why is it no longer classed as a major project. Surely it should be.

The Minister for Treasury and Resources:

It is a major project.

Senator T.A. Vallois:

But that is not what is being agreed under ... the Government Plan, what you, Minister, are asking the Assembly to approve, it is not classed as a major project.

Treasurer of the States:

Unless any other officer has got an answer can we come back to you on that to identify whether that is inherent on ...

Group Director, Strategic Finance:
Can I ask, are you referring to summary table 4?

Senator T.A. Vallois:
There is summary table 4 but there is also summary table 5ii, which Our Hospital is not classified as a major project under that either.

Group Director, Strategic Finance:
Okay. Our Hospital is included in table 5ii; it is at the bottom. There is a total of major projects and then there is Our Hospital.

Senator T.A. Vallois:
Yes, but is classed as a capital head of expenditure but it is not actually under projects heads of expenditure or under the major projects, it is a line completely on its own. So I am trying to understand why that is different from what is required under the Public Finances Law.

Group Director, Strategic Finance:
I can confirm it is a major project so that presentation is not supposed to indicate that it is not a major project.

Senator T.A. Vallois:
When putting together the tables and requesting the agreement by the Assembly ... I really want to try and get my head around this major project and this head of expenditure issue, Minister. Table 4 does not refer to Our Hospital but there is a requirement to explain the total expenditure over the period. Yes, it is mentioned in table 5ii but not under a major project. How does the Assembly assess that on the grounds of what we are legally asked to do under the Finances Law?

The Minister for Treasury and Resources:
I think, as I said, in the first place, has to be a separate issue. It has always been a separate issue. Of course it is a major project, the hospital. I think the listing was for other capital projects but the hospital pretty much stands on its own so maybe that is why it was not included in the other listings.

Group Director, Strategic Finance:
Would you like me to expand slightly? So table 4, the requirement is to show full costs of projects which are either to be started in 2022 or with amended totals since the Government Plan. As you

know, we amended the Government Plan 2021 to include the new totals for the Our Hospital Project. So the totals have not changed, which is the reason it is not in that table specifically. That table is only for new projects or projects with changed amounts. So there will be other major projects without changes potentially that would not be included in that. So that is purely us discharging what is required in that law.

Senator T.A. Vallois:

If that is the case then why is schools estate sitting there then? There are no changes to that amount for the schools estate in summary table 4; still £1,350 million.

Group Director, Strategic Finance:

That is a very good question. I think that is probably ... I do not know the answer to that. We can come back. I would imagine that that is surplus to the requirement of the law so we do not need to include ones where the total is not changing but that one has obviously been included. I would like to hope that that is not misleading on the basis that it is still a number which has been included.

Senator T.A. Vallois:

That is why it is really important to clarify how and why this is put together because the States Assembly agreed the proposition. It is great having these big gigantic documents with lots of fancy words in, but this proposition is what the States Assembly agreed, so clarity in terms of what are in the tables and whether, Minister, you would include the Our Hospital as continued as a major project under table 5ii, if there is an amendment that is required to this?

The Minister for Treasury and Resources:

If there is an amendment required to it?

Senator T.A. Vallois:

Will you be determining whether there is an amendment required if the schools estate is not necessary under the law?

The Minister for Treasury and Resources:

I think, as Andy said, what is changing in the capital projects that has been included, and of course ...

Senator T.A. Vallois:

Well it is not because schools estate has not changed and that is why I just clarified ... what we need to understand, as States Members and as a States Assembly, is what you as a Government are asking us to agree in terms of finances. I am trying to clarify the role of the Public Finances Law and what is being asked of us as States Members in terms of funding. If there is a discrepancy then would you therefore change and amend what the States are being asked to agree on the basis of clarity and abiding by the Public Finances Law?

The Minister for Treasury and Resources:
Yes, of course we will. Thank you for bringing it up. We will look at it.

Senator T.A. Vallois:
I just wanted to clarify and understand because that is where some of the discrepancies, it was not clear to me. So it is really important we understand what we are voting for when it comes to public money.

Group Director, Strategic Finance:
Agreed, and I think we can take that feedback on board and take that away and refer to the Greffe about how we potentially update that to provide further clarity. Certainly in the drafting our intention was not to make it unclear. So if there are things that we can do to improve that we are certainly happy to consider those.

Senator T.A. Vallois:
I am grateful for that, thank you. In terms of overall capital project spend, Minister, what proportion of government expenditure should be made on capital projects versus revenue expenditure?

The Minister for Treasury and Resources:
That proportion in a percentage?

Senator T.A. Vallois:
Yes, ballpark figure. Estimation of we have this much money, what proportion of that should be spent on capital projects versus revenue? One-off versus long running.

Senator K.L. Moore:
It is really a matter of political opinion.

Treasurer of the States:
The approach on financial and fiscal strategy starts out whether you view through the methodology that F.P.P. (Fiscal Policy Panel) use on a primary balance or the approach that we use in setting the balance is firstly to identify what the balance on revenue spend should be, when revenue expenditure and income tax should be in equilibrium.

[13:45]

What we do include in there as a proxy that represents the use of capital assets over their life is depreciation. In the past what may have happened is it may be very few capital spend below that which is sustainable in order to balance the books, if that is the easier thing to do. What we are starting to do in a number of these cases, the balance income and expenditure in accordance with the Fiscal Policy Panel's advice as to when we should run deficits or surpluses by an inclusion of depreciation. So the depreciation is a number between £50 million and £60 million, which ensures that we do not grow revenue expenditure too high and that we do not reduce capital expenditure too low. The actual amount of capital expenditure we then spend will then pull into account a number of other factors, which are around the state of infrastructure as it is, and the need for investment over and above the level of depreciation as well as the affordability from the Consolidated Fund over other sources of funding. Does that answer the question in terms of how we establish the balance?

Senator T.A. Vallois:
To a certain extent. I suppose my question is around determining the proportion between revenue and capital is really we can build lots of buildings and have that one-off spend but the investment and the revenue in terms of actually delivering public services. I know it is a long-running cost and it will carry on as a recurrent spend but that is predominantly our job. So it is understanding the large capital programme that we have in terms of the funds that are going into this Government Plan for that and what impact that has on revenue spend, if anything, and therefore has an effect on things like the skilled workforce or training, the everyday mental health services or the everyday A. and E. (accident and emergency) provision by the actual nurses and people on the front line, how is that considered in conjunction with each other?

Treasurer of the States:
How is that ... sorry?

Senator T.A. Vallois:
How is that considered in conjunction with each other? It is all right having a nice big fancy building but if you do not have the people to go in it and you cannot deliver the public services, it is kind of a redundant spend.

Treasurer of the States:
Yes. So, wherever it is possible at the time we are considering CapEx we should be looking to see whether there are savings or additional costs that accrue and building those into the plans at the same time, and then identify that this has been an area that has been in some difficulty on the hospital project, in order to know that you are not just setting up additional schools without knowing

that you have got the teachers to run them. But most of the additional schools are not additional schools, they are replacement schools for existing schools and they are run from the number of students that you have or that you are forecast to have in accordance with the number of patients you might have, for example. So that is how you aim to achieve that. I think I have covered the balance between revenue expenditure and revenue income. What that then gives you is what you can afford in terms of capital without additional funds. If your depreciation is running at £60 million but you think you need to spend £80 million of capital, for example, then you need to find £20 million from elsewhere over and above taxation, which historically has been rolling forward unspent Consolidated Fund balances from previous years.

Senator T.A. Vallois:

I suppose the other risk is, of course, allocating funds for CapEx or capital spending, as we know it. So, for example, if I take one of the projects of the capital spend, fire and ambulance headquarters £500,000 as an example. That is just an example but, of course, the risks for that is planning application and planning, all those types of things. So if there is a risk that that is a high risk next year, should we be allocating that within the year and how is that decided, taking that particular risk into account?

Treasurer of the States:

I missed the particular project you were talking about. All I heard was the ...

Senator T.A. Vallois:

Yes, it was just an example; £500,000 for the fire and ambulance headquarters. Just as an example, the planning risk, how do you determine that is an appropriate amount if the planning might not be passed next year?

Treasurer of the States:

So that comes through the business cases from the departments who are estimating the need or estimating the cost to get the project to that stage. So that is how we arrive at that. There will be planning risk but there will be risks across all of these projects in terms of deliverability in the year. Part of that is because the cycle of the Government Plan requires us pretty much to put the capital programme to bed for the upcoming Government Plan by July, but things will change between July and January. So there is a certain element of estimating in terms of which programmes will move forward from the view of the departments responsible for taking them forward, whether they have the capacity to do so. So those are estimates at that point in time. They are pretty much there in the same place when we lodge but there is work going on through Strategic Finance in the Treasury to look at what the current estimates of spend this year are and what the capacity issues that means for the future years. We work on that on the basis that at this point those were the resources that were felt to be the appropriate sums needed to take that project through for that period.

Senator T.A. Vallois:

Just in terms of the size of the capital programme, so if we look at the project heads of expenditure we have got £210 million as per the table. The F.P.P. highlights that low unemployment and high vacancies may lead to the economy overheating. What can be done to ensure that Treasury is not funding capital projects that could exacerbate that particular situation by placing, for example, additional demand on the construction industry?

Treasurer of the States:

The F.P.P. does talk about that. They also talk about, and have done in previous recommendations, the need to get on with the capital programme because some projects will be delayed inevitably but you cannot anticipate which of those programmes will be delayed at any particular point of time. So we have to push forward with those projects because they have benefit beyond that that relates to just the impact upon the economy. Obviously the project with the biggest impact would be our hospital project and what that requires us, therefore, to do, if we take that one separately - and I think you have to take it separately - is to identify how we will deliver that project in such a way that does not overstretch the capacity of the Island, therefore bringing in resources - be they manpower or supplies - in such a way that it does not overstretch the economy but balancing that against making sure you get some of those longer-term benefits that should arise from that project as well. So we also have officers working with delivery partners such as I.H.E. (Infrastructure, Housing and Environment) on the Corporate Asset Management Board, which is an officer-led board across various significant consumers of capital and the suppliers of capital, to try to get that balance in each successive Government Plan and monitor through the year.

The Minister for Treasury and Resources:

I think the Treasurer has said quite clearly that it is a matter of balance and you yourself, Senator, said it is how you balance the 2. What we are doing is essentially a forecast. We do not know quite what is going to happen with increased revenue or increased costs.

Senator T.A. Vallois:

I understand the advice from F.P.P. or across the very capable officers in terms of estimating and trying to provide the best figures that they can. I suppose the political direction in terms of that balance is vitally important, so making sure that you are not trying to spread yourself too thin and maybe prioritising. Maybe from you, Minister, how do you determine with your fellow colleagues the appropriate apportionment of funds to determine the balance between capital and revenue expenditure?

The Minister for Treasury and Resources:

This, of course, is entirely why we moved from the M.T.F.P. (Medium Term Financial Plan) for a 4-year plan and budget and it did not work, which is why we have now moved to the Government Plan, which gives the projected ideas, concepts, capital expenditure for the next 4 years, but is reviewed every year from a budget point of view. That is a major reason why we moved to that so that we can change it, because all we can do in July, as the Treasury said, when we have to start compiling the Government Plan is a forecast. There is no guarantee that anything will be as it is in July by December.

Senator T.A. Vallois:

I am not suggesting anything is guaranteed, just to make that very clear.

Group Director, Strategic Finance:

Can I just add a point, which plays back into your previous question around the schools estate? We have done some things in the Government Plan as well to try to alleviate some of the risks in terms of forecasting what you can spend. The schools estate major project is a combination of 3 previous major projects and I now recall that is why it is included in the proposition as a separate line because that has been a change. So it was V.C.P. (Victoria College Prep), replacing a school, Mont à l'Alabbé and Greenfields. Those were 3 separate major projects previously which have now been grouped together into that single head of expenditure. The benefits of that grouping of head of expenditure for this major project is that if one gets through planning and another does not there is the flexibility for the department to continue to progress faster or slower with individual projects rather than having to have all of the money for each of them. So we are trying to do things to alleviate. We have also later in the project space, rather than the major project space, got some other grouped heads of expenditure for a similar reason. It is the ability for officers to be flexible to deliver the programme approved by the Assembly but in a way that we can maximise the amount of capital we can deliver.

Senator T.A. Vallois:

I understand that concept but I think what is important is the transparency. So if we talk about the schools estate, how do I know without asking you that question what is included in that schools estate? Where do I go? Like I say, it is great having all these big documents but it is really useful just to know exactly what the money is being spent on. So the clarity and transparency about where the funds are expected to go would be useful. Maybe it is somewhere in the document and I just have not picked it up, that is fine, but the person on the street wants to know where their money is being spent.

Group Director, Strategic Finance:

Agreed, and that is always the challenge because the document is already quite big, as I am sure you enjoyed.

Senator T.A. Vallois:

Yes.

Group Director, Strategic Finance:

So if you start to put more information in, we try to put it at the right level so that people can really understand the thrust of it without having so much detail that it is impenetrable, and that is always a balance that we look to improve every year if we can. So the schools estate, there is narrative on it in the plan but granted it is in the middle of the capital section. It is page 130 if you did want to look at it, but equally in the group expenditure that we have included in the projects table, while we approve a single number - for example for school and educational development there is £60 million across the years of the plan - we do have individual lines underneath it, which include amounts for each of the things that are being delivered. So we are giving that detail but what we are doing is giving the flexibility to reallocate more simply within the year to deliver those, but obviously because we have given that detail the officers and Ministers can be held to account for are we delivering all of those things that are set out.

Senator T.A. Vallois:

Okay. A final question from me is what level of asset life cycle to costs such as initial investment and maintenance do you consider to be acceptable?

The Minister for Treasury and Resources:

Is that the assets referring to buildings?

Senator T.A. Vallois:

Yes. I am still on the capital programme side of things. Yes, asset life cycle to costs such as initial investment and maintenance, so replacement assets and all those bits and pieces.

The Minister for Treasury and Resources:

A good recent example, for instance, is the £6.5 million that is required to not rebuild structurally but re-enhance the maternity unit at the hospital because it cannot wait for the new hospital to be built. So there is expenditure demanded for assets to keep them going until such time as the new building is acquired and the same with the government building for instance in Broad Street. That has to be maintained until the new building has been done. So it is difficult in some cases - not the maternity unit of course - to justify increasing costs on maintaining old buildings. However, until you get the go-ahead with planning permission or finding a location or whatever it is for a new modern building then you just have to put the input into maintaining the current assets.

Senator T.A. Vallois:
Finally then as a follow-up to that, do you believe the estate strategy is sufficient for you as Minister for Treasury and Resources to determine what is an acceptable level for life cycle costs and determining what could or could not be sold off or what can be maintained and what should be built as new in terms of financing it?

[14:00]

The Minister for Treasury and Resources:
It is very slow and we do need to move on with the sale of States-owned assets in order to fund future capital programmes. So, yes, we need to move on. We are doing so but in my view, just as a political view, it needs to move faster.

Senator T.A. Vallois:
Thank you. I will pass over to Senator Moore.

Senator K.L. Moore:
Thank you. So we are now going to look at the general reserve for a few minutes. That is a larger than normal sum this year in the Government Plan of £102.4 million. Obviously this reserve is for dealing with unforeseen circumstances and it is understood there is a general likelihood of unforeseen circumstances, although in addition there is a number of items that, as this panel has previously indicated, are identified as “fund as required”, which could also be described as a request for a blank cheque. Given the number of unspecified amounts that are required to be funded, are you content, Minister, that there is an adequate provision in the general reserve to cope with the costs that are identified in the Government Plan?

The Minister for Treasury and Resources:
At the moment, yes.

Senator K.L. Moore:
How have you reassured yourself of that, given the quantities and the value that is potentially to be called for is unknown?

The Minister for Treasury and Resources:

As the Treasurer alluded to earlier, there were underspends from last year, and there could be again from this year, which supplement the expenditure for the following year. At the moment we seem to be, from the reserve funds, the situation is quite stable. The Strategic Reserve, as you well know, is doing exceptionally well on interest rates. It did not at the start of COVID. There was a drop of 30 per cent but because we did not need to draw on the fund it is now back up and even more than where it was beforehand, as is the same with the Social Security Reserve Fund. From the point of view of, as I think I have mentioned before, the borrowing side of things that does give us enormous collateral to do that. I do not know if you want to come on to borrowing later.

Senator K.L. Moore:
Yes, we will.

Group Director, Strategic Finance:
Can I just clarify as well that the amounts included, and we discussed this in a previous hearing ... there have been specific amounts included for those items that I think you are referring to.

Senator K.L. Moore:
Yes. The question is whether this is sufficient.

Group Director, Strategic Finance:
Yes. The Minister I think has answered that. It was just to clarify that there are specific amounts included.

Senator K.L. Moore:
Yes, thanks. Minister, what is your plan B if the fund is insufficient or additional funds are required? Where would they be found from?

The Minister for Treasury and Resources:
We already have in place the revolving credit facility for £500 million and I think to date - Simon will clarify - about £40 million has been drawn down from that, excepting the fiscal stimulus fund, which was levelled at £50 million and only £30 million, or £29 million I think, has been drawn down from that. There is always that back-up should we require more.

Senator K.L. Moore:
What is the ongoing cost of maintaining the revolving credit facility as a back-up?

The Minister for Treasury and Resources:
Having paid to set it up, we pay when we borrow from it.

Senator K.L. Moore:

Thank you. Could you confirm also that unspent reserve will not be attributed to additional projects or programmes during the course of next year?

The Minister for Treasury and Resources:

To additional projects that have not applied for funding?

Senator K.L. Moore:

Exactly, yes.

The Minister for Treasury and Resources:

Well, if they have not applied they will not ...

Senator K.L. Moore:

So you will not be using your transfer of heads of expenditure, for example, from the general reserve to funding new projects?

The Minister for Treasury and Resources:

It would be in next year's Government Plan if there were particular projects for expenditure required.

Senator K.L. Moore:

We also wanted to ask you to go back to the very beginning of the Government Plan process that you conducted with your colleagues on the Council of Ministers. Do you recall what the total value was of the bids that were put forward by Ministers for the various projects? We would just like to understand what that figure was and then what happened. I presume that there was some process and discussion among Ministers to agree on the prioritisation and to slim down that initial list.

The Minister for Treasury and Resources:

Yes, exactly that.

Senator K.L. Moore:

Perhaps you could give us a description of the percentage that was cut back and how that happened.

The Minister for Treasury and Resources:

I will not quote a total figure because I cannot remember what it was and I do not want to quote something wrongly. But, yes, the process was each department or area put in a bid for what they thought they would require for 2022 and then having considered all the bids each department then came back for ... I would not say an interview but a discussion as to where in their bids they could make efficiencies. We had to make at least £10 million worth of efficiencies, which did grow. It became more than we had to make. The departments were incredibly helpful as to what they could reduce expenditure on, what capital projects could be put off that were not totally necessary for doing next year. There was a very due diligence process.

Senator K.L. Moore:
Who conducted those discussions?

The Minister for Treasury and Resources:
The Chief Minister, myself, the Minister for Social Security ...

Senator K.L. Moore:
Any more?

The Minister for Treasury and Resources:
... and one other. Yes, the C.E.O. (chief executive officer).

Senator K.L. Moore:
Okay, great. In our last hearing it was highlighted that the remaining borrowing of £20 million for the fiscal stimulus fund is proposed to be retained to allow flexibility on the advice of the Fiscal Policy Panel. It was also acknowledged that they advised that no further fiscal stimulus projects are warranted at this time. Would it be sensible to halt funding to projects if those projects have not or are unlikely to progress to keep up with the original aim of being timely, targeted and temporary?

The Minister for Treasury and Resources:
Yes, of course we did expect and put into the regulations that any project that received fiscal stimulus funding would be completed by the end of 2021. Now, because of issues, not always but for instance such as planning, delays were incurred in some of these projects and it was then down to the panel, the Fiscal Stimulus Oversight Group, to review that and then refer back to me as to whether we would extend the timeframe. Some of it was completely out of control of the project managers as to why they could not complete it by 2021, but it was also decided that this was 2 tranches of the fiscal stimulus fund and we would stop at the second tranche because of the extension of some of the projects to the end of March in 2022, which we had not anticipated. The reason that happened was because of the extraordinary demand in applications for funding. We just had not anticipated that amount, so by the time we had gone through them all, again very closely and diligently - well, the Fiscal Stimulus Oversight Group had - it just took longer from our point of view, so it held up the delivery of the projects.

Senator K.L. Moore:

Given that so many of those projects now fall out of the targeted, timely and temporary priorities, or rules perhaps, of the fund, should some of them be reallocated into major projects, perhaps? Would that be a clearer way?

The Minister for Treasury and Resources:

The ones that fell out of the timely side of things have reapplied and I think there were 9 - Simon will know - reapplied because they just could not get project managers to deal with their situation, which they had known about for a long time; the Opera House and the Arts Centre were 2 examples. It was not just the COVID situation. It was maintenance of the building, electrical works and all those things and they could not get the work to start. They now have the project managers they require, so their time has been extended, not the financing but the time.

Treasurer of the States:

I am just trying to understand the question. Is it your suggestion that the existing schemes that have been approved be halted?

Senator K.L. Moore:

No, it is not. It is should they be allocated elsewhere, given that they are no longer timely.

Treasurer of the States:

We have looked at timely and taken advice from the economics team as to what would be an appropriate extension. That advice has confirmed that there is still some spare capacity, partly because when you see in the capital programmes - and there is a good learning from here - things that are due to start in January, they generally delay. We have been careful to take advice from the economy team. The other point I would make is when the fiscal stimulus fund was first laid out it was not in anticipation of a second phase of COVID that obviously has had also some impact upon the economy. We are fairly comfortable in extensions through to March or even June on some of the projects, notwithstanding the fact they will still be spending through 2021 as well. It would be a bit of a challenge to take something that has already been approved as a fiscal stimulus project and then to create a separate heads of expenditure in the Government Plan. That would be quite a challenge from the perspective of how the Government Plan would work alongside the fiscal stimulus if you were suggesting that we halt the funding from the fiscal stimulus and replace it with Government Plan funding. I think that is what you are suggesting, is it?

Senator T.A. Vallois:

I think the fiscal stimulus is very different to the capital programme. The purpose of the fiscal stimulus fund, which was agreed by the Assembly in the appendix to that proposition, is stated as: "The fund is designed to be time limited to provide support for the economy through projects that are expected to be delivered by 31st December 2021." That is the position that the States Assembly voted on. The question is, therefore, because some of those projects are not going to be delivered by 31st December 2021, should those projects therefore sit under the Government Plan?

Treasurer of the States:
My view is it is not required. My direct answer to the question would be no, it is not required.

The Minister for Treasury and Resources:
It could not be timewise because we did not know they were not going to be completed by December 2021 until the end of August, September, and of course the Government Plan was produced by then so we would not be able to ...

Senator T.A. Vallois:
No, I am talking about into this Government Plan. Some of those projects are not going to be delivered by the end of December this year because of the way that it was voted on and the purpose of the fiscal stimulus fund in the way that it was sold to States Assembly Members to agree it. Those projects that cannot be delivered by 31st December should be under the capital programme or the major projects or whatever CapEx line you want to place it under in the actual Government Plan and, therefore, it no longer commits to the requirements of the fiscal stimulus fund.

Treasurer of the States:
I think it would require an amendment to the proposition of the fiscal stimulus fund because this is one of the points that the F.P.P. refers to in terms of hypothecated and separate funds and the numbers of them, but rather like it would be in the previous hospital construction fund previously used as a mechanism to deliver the previous project on the hospital governed by its own rules. I would say from our perspective we have been conscious of that expectation as opposed to requirement that the funds are spent in 2021.

Senator T.A. Vallois:
So, will there be an amendment coming forward?

Treasurer of the States:
I think there is an expectation. I think the Minister has been transparent in talking about projects that would be extended beyond the end of 2021 in that there is not a requirement; it is an expectation.

Senator T.A. Vallois:

Yes, but being transparent and what you are asking the States Assembly to agree are 2 different things, if I may suggest. The States were sold a fund on the basis of a certain requirement. That requirement has been changed at the behest of the Minister for Treasury and Resources, probably quite rightly, but the point is that it is no longer commits to what the States Assembly agreed under that fund. Therefore, will an amount be coming forward?

[14:15]

Treasurer of the States:

I do not believe so on the basis of expectation as opposed to requirement. We have sought advice to make sure that we are comfortable with that.

The Minister for Treasury and Resources:

It is not an increase in expenditure for which, of course, we would then probably have to go back to the States Assembly. The expenditure on each project has been agreed, has been published and there is no increase in the expenditure. It is just purely because reasons beyond the project control, like planning, have delayed it.

Senator K.L. Moore:

Okay. Well, we will not labour the point any more. Perhaps we can move on to the question I should have asked prior to that one. Back in August the Fiscal Policy Panel wrote to the Minister with some advice and they indicated in that letter that any surpluses that occur during the forthcoming Government Plan should be prioritised to rebuild the Stabilisation Fund and now in their most recent report they have pointed to the need to rebuild the Strategic Reserve as well. What are your plans and strategies to replenish both the Stabilisation Fund and the Strategic Reserve?

The Minister for Treasury and Resources:

The Stabilisation Fund has pretty much been used up, so of course we want to replenish that. The Strategic Reserve ...

Senator K.L. Moore:

So how do you intend to do that?

The Minister for Treasury and Resources:

Well, we will wait and see. We need to get the Government Plan through first and see what any of the underspends have been to go back into the Stabilisation Fund and/or the Consolidated Fund. The Strategic Reserve does not need replenishing because nothing has been taken out of it.

Senator K.L. Moore:

Well, if I could just read from recommendation 4 from the F.P.P.'s report published this week: "A long-term plan is needed to increase the size of the reserve and the Government should set this out."

Assistant Minister for Treasury and Resources:

I think that is what they said, that is absolutely correct. They said increase it. That is different from rebuilding it. Rebuilding or replenishing it suggests we have used it, which we have not. What they are suggesting is we should ...

Senator K.L. Moore:

They are suggesting that it does not ... the Strategic Reserve should be at between 30 to 60 per cent of G.V.A. (gross value added) and it is not; it falls short of that. Therefore, it does need replenishing or rebuilding and there is ...

Assistant Minister for Treasury and Resources:

No, replenishing or rebuilding means we have used it, which we have not. What they are suggesting is it should have more money put into it and become a still more substantial fund than it already is. That is a very different concept to rebuilding.

Senator T.A. Vallois:

The Strategic Reserve has been used and that was the purpose of the amendment for the hospital project at the beginning before all this started. There has been use of Strategic Reserve funds above the cap, if I recall. The Treasurer might tell me I am wrong, but there has been use of the Strategic Reserve.

Treasurer of the States:

The Strategic Reserve has been used in the past, yes, and the Strategic Reserve is being used for the hospital project to fund ... that has been used in the past. Can I just put my position on the Stabilisation Fund and the recommendation that is made in respect of the Stabilisation Fund?

Senator K.L. Moore:

An officer recommendation or the F.P.P. recommendation?

Treasurer of the States:

The F.P.P. recommendation. My proposal would be, firstly, that attention be given to reduce the level of COVID borrowing prior to putting funds into the Stabilisation Fund. If you are running the surpluses that you see over the Government Plan period, from a Treasury perspective the first priority we would see from that is to reduce the COVID debt over the period of the Government Plan rather than replenish the Stabilisation Fund and once that has come to an irreducible level start to consider movement into the Stabilisation Fund. One of the aspects there, of course, is the Stabilisation Fund has to take a very risk averse investment strategy to ensure that the Stabilisation Fund is liquid at the point in time you may need it, so there is no real advantage in the returns you might make on the Stabilisation Fund over and above the costs of borrowing. So we think from a Treasury officer perspective, from my perspective, firstly to reduce the borrowing, then to consider the Stabilisation Fund. But, yes, the F.P.P. does reflect that it may well be difficult to have come up with a plan for the Strategic Reserve and we will now focus our attention beyond this Government Plan to what that plan might be for the future of the Strategic Reserve. It calls for difficult political trade-offs as to whether it goes towards expenditure or whether it goes into the Strategic Reserve in future Government Plans.

Senator K.L. Moore:
I presume, Minister, you have decided not to build the Strategic Reserve to meet the suggestions of the F.P.P. because you do not feel that it is necessary for the Strategic Reserve to reach a balance of 30 per cent to 60 per cent of G.V.A. Is that right?

The Minister for Treasury and Resources:
The plan again, which has been discussed publicly, is the borrowing for the hospital, so the potential £756 million borrowing - not that we might use that but that is what has been agreed could be borrowed - would go into the Strategic Reserve, so it would bolster those funds, hence bolster the interest revenue, until such time as it is required to be used for the hospital. But of course for the hospital build you would not remove the whole lot in one go. It would sit in the Strategic Reserve until it is required for the hospital.

Senator K.L. Moore:
Yes, but it would be rather awkward to attribute those funds to anything but the hospital project during that time period. They are there essentially to be held in a place for safekeeping because they have been allocated to the hospital project.

The Minister for Treasury and Resources:
Yes, but on the basis that as it stands at the moment it would cost us about 2 per cent to borrow that money and we would be raising, as it stands at the moment, 6 per cent in interest, so it makes absolute sense to do that so that the interest raised - just making the figure simple, 4 per cent for instance - can be used to pay off the cost of the borrowing.

Senator K.L. Moore:

Could you just talk me through the 6 per cent interest, where that comes from?

Director, Treasury and Investment Management:

It is the historic 5-year rolling average return on the Strategic Reserve.

Senator K.L. Moore:

Our understanding is that the money that is borrowed for the hospital project will not be invested so, therefore, there would not be a return on that money because it is not invested.

Director, Treasury and Investment Management:

No, it is the historic rolling average on the larger Strategic Reserve. Those returns will be utilised to fund the financing costs of the hospital not the monies that are borrowed and put into the reserve, so the reserves that exist today. The historic rolling average return is between 6 and 7 per cent, which is higher than the financing costs that are expected for the hospital borrowing.

Senator K.L. Moore:

Thank you. It is important that it is clear that that is the intention. Right, okay. Do you consider, Minister, though, that it is important, given that fund, that if money is allocated to a particular project it should be held in a separate holding fund where it is clear what it is there for rather than it being consumed by another fund?

The Minister for Treasury and Resources:

It would not be consumed by another fund, but if you are talking about a hypothecated fund are you saying it should be?

Senator K.L. Moore:

Well, I was asking what your view is. You are the Minister.

The Minister for Treasury and Resources:

Well, of course if you put £756 million into a fund that is worth 2.2, I think now, obviously it escalates your interest revenue, so it makes sense to do that.

Senator K.L. Moore:

This is why we need clarity because that should not be the case.

Director, Treasury and Investment Management:

I think to your point, Chair, it is appropriate to put the money into the Strategic Reserve but those monies will have a very different investment strategy to the wider Strategic Reserve fund.

Senator K.L. Moore:
But they will be invested?

Director, Treasury and Investment Management:
They will be invested in what we would refer to as a capital preservation strategy, so it is key, as you have said, to ensure that the capital is available for when it is required. The return on the element that is borrowed you would therefore anticipate to be lower than the return on the wider Strategic Reserve but we do need to look at the funding around it.

Senator K.L. Moore:
Okay. While we are on the topic of the hospital, I think the Chief Minister was questioned by a colleague earlier this week about the consideration that was brought to the Council of Ministers to amend the Future Hospital Review Panel's amendment with regard to the hospital spending project. The Chief Minister said he could not recall whether that had occurred. Perhaps your memory can assist us on whether the Council of Ministers did consider amending the amendment to £620 million as opposed to the £550 million that the Future Hospital Review Panel proposed.

The Minister for Treasury and Resources:
The Assistant Minister is on the Hospital Policy Group.

Assistant Minister for Treasury and Resources:
Certainly on the Hospital Policy Group I do not think there was any suggestion at all that we were going to amend it.

Senator K.L. Moore:
I think the question was about the Council of Ministers. It is clear that a colleague of yours has told one of our colleagues that there was a discussion conducted in the Council of Ministers. We do not receive the minutes so we are just asking if you can recall such a conversation.

The Minister for Treasury and Resources:
I will check that, and that was to amend ...?

Senator K.L. Moore:
The amendment of the Future Hospital Review Panel. It is quite a substantial amendment, so you might recall it.

The Minister for Treasury and Resources:

Okay, I will check that.

Senator K.L. Moore:

You have no recollection of the conversation at the Council of Ministers?

The Minister for Treasury and Resources:

Well, obviously we discuss an awful lot and there are an awful lot of meetings, so I will check the minutes and get back to you on it.

Senator K.L. Moore:

Thank you very much.

Deputy S.M. Ahier:

The estimated amount held in the Social Security Reserve Fund in 2022 is stated at £2,100 million. The previous plan anticipated this to be £1,600 million. Why are the estimates over £0.5 billion more in this year's plan?

The Minister for Treasury and Resources:

Well, I was just going to say, as I mentioned earlier there was a 30 per cent drop in both the major funds for COVID, so it might have been that that was the basis of the reforecasting at the time. I do not know. Simon will know.

Director, Treasury and Investment Management:

To expand on that, the investment performance of the fund has been significant in even that short period of time. So the fund is quite heavily invested in equities and equity markets have significantly improved over that short period of time.

Deputy S.M. Ahier:

In one year the equity market has increased by £540 million; is that correct?

Director, Treasury and Investment Management:

Were there any plans to withdraw from the Social Security reserve in the previous Government Plan?

Treasurer of the States:

Well, there were, were there not, because the supplementation cancellation was assumed then as well. The majority of it will be a revised forecast of the situation of the fund. I would have to go back an entire year to just clarify that situation. The majority of that would be the experience of investment over the period but it does not explain the entire difference between the 2 numbers.

Deputy S.M. Ahier:

Surely, Treasurer, you must be aware of an increase of £540 million in the fund. That is a huge amount.

Treasurer of the States:

We are comfortable with the current forecasts, if that helps, and we will go back and refresh our memory from a year ago, so the £2.1 billion reflects the current value of the Social Security Fund.

Deputy S.M. Ahier:

But are these fluctuations not concerning because if it can go up by £540 million in one year then surely it can go down by £540 million in one year and yet your forecasts are very, very stable?

Treasurer of the States:

Yes, so our forecast is to take what you might expect in the medium to long term because we cannot address in the forecast ... well, you can address it in the forecast by showing ranges, and that is perhaps a future improvement we could make to the plan. In the short term there will be volatility in returns. What we do in the forecast in the plan is show that we have been able to forecast that volatility over the short term, which is very challenging to do. We show that if we earned in the medium to long term what we would expect where those funds would be.

Deputy S.M. Ahier:

Thank you. The Government Plan highlights £20 million of the extraordinary dividend from the recent sale of the Internet of Things will be used to fund investment in I.T. (information technology) infrastructure through a technology fund; page 175 of the Government Plan. The Fiscal Policy Panel in its annual report highlighted that holding monies in such a fund can constrain the Government and reduce transparency. What actions have been carried out to ensure this is not the case?

The Minister for Treasury and Resources:

There is quite a considerable amount of money that needs investment by J.T. (Jersey Telecom) from the sale of the I.o.T. (Internet of Things) in order to divest J.T. of possible harmful technology. Well, we know it is harmful technology. That is one investment that needs to be done, which they would not have been able to afford had they not had the money from the I.o.T. sale, so they would have had to increase charges in order to do that.

[14:30]

Assistant Minister for Treasury and Resources:

You are looking at why the money is being held for digital purposes. As far as I know, because I do not sit on it all the time, the Council of Ministers discuss where they would wish to put that money at the moment as a matter of urgency, which will become the digital sector. Our whole digital sector needs revamping, including the Government. It is obviously the future of the Government has to be to move towards digital and to have the data there before we can make decisions on the population, which we are very short on data, as I think we would all agree. The money has been earmarked for that. When it is earmarked for that, it is put into a fund until it is going to be used. I do not know if the Treasurer would wish to ...

Treasurer of the States:

The issue that the Fiscal Policy Panel refers to is they have explained that they do not think perhaps in all cases it is helpful to have a proliferation of funds and that, as you have said, it does not necessarily mean that funds are used optimally. In terms of mitigating the risk of that, our expectation will be that, firstly, the plans for this would come back to the Assembly; secondly, when they do come back to the Assembly there would be detail as to what the funds would be used for and more precise estimates at that point in time of what will be required in order to deliver the objectives of the fund. At this point in time it is just ring-fencing that £20 million for those purposes. It does not give licence to spend that money. The F.P.P. says if you just put £20 million in, if you have not done the work to demonstrate whether, for example, £15 million or £25 million is the right number or £5 million or £10 million is the right number in a way that you might expect with most heads of expenditure you see, you will not use those funds to their best effect or priority. If the right amount of money should be £15 million and £5 million of it should be spent elsewhere, you will not know that by ring-fencing the funds permanently within the fund at this point in time. In answer to your question, I would expect far more detail to be presented as to how much money is needed to deliver those objectives before the Assembly makes the decision on whether 20 or another number is the right number.

Deputy S.M. Ahier:

That leads me on to how can the Assembly approve the creation of the technology fund in the Government Plan when the proposition providing detail on the purpose, terms and circumstances in which the fund may be wound up will not have been approved?

Treasurer of the States:

The Government Plan does not give permission for any of that money to be spent at this point in time. It is merely a ring-fencing of that money. The permission to spend will have to come back to the Assembly and will come back to the Assembly before the money is spent.

Senator K.L. Moore:
Can I ask the Minister to clarify her comment previously about removing harmful technology? I think that is what you said. Is that to be done with the £40 million that has come to the Treasury from the sale of the Internet of Things? No? Could you perhaps provide some clarity on that for me?

Assistant Minister for Treasury and Resources:
It is part of J.T.'s ongoing commitments, the same as 5G will be an ongoing commitment to them, once they have discovered how they go about that. This is just merely de-risking the network, which is going to cost millions of pounds.

Senator K.L. Moore:
It has been a matter of questioning from this panel a number of times. There have been occasions we have tried to understand when the sale was more in the region of £200 million why the Government have only received £40 million. We have not received an answer as yet to that question.

Assistant Minister for Treasury and Resources:
The deal was packaged at around £200 million, but 16 per cent of the company was then bought back, as part of the ongoing commitment to keeping an interest in it, so that comes out of that £200 million. There were fees and costs, which are fairly substantial when you are doing a deal of that sort. J.T. have plans to use that money to look for their next business ventures. They also have to de-risk the network, which will cost a substantial amount of money. They also want to scale back on some of their borrowing. I think I am covering most of it here. The other thing is they have given us the £40 million. That is an initial amount. It is possible there will be more to come, but this is an initial special dividend paid to us and then the board will be reviewing exactly where they stand with all the different things. They are not going to suddenly go: "We have got this great business thing and it is going to cost us this" because they, at the moment, do not have the knowledge of where they are going to next look to expand the business or to move the business. Until they do they will need that capital in place.

Deputy S.M. Ahier:
Minister, the F.P.P. recommendation 6 stated that the proliferation of funds such as the technology fund are undesirable. Do you agree with the recommendations of the F.P.P.?

The Minister for Treasury and Resources:

I nearly always agree with the recommendations of the F.P.P. It is a huge investment in technology, I understand that, but a large amount of that is catching up on lack of investment previously. I do agree. It is a difficult one to explain because it is a large amount of money, but we need to move forward on it, as we did in Revenue Jersey, for instance, who had a 35 year-old, antiquated computer system. It does need to be spent, but whether it will end up being that figure we do not know.

Deputy S.M. Ahier:

What consideration or consultation has been given to refocusing finances from the fiscal stimulus fund to the charity sector to assist in recovery measures?

The Minister for Treasury and Resources:

Quite a few charities applied in the first place for the fiscal stimulus fund, and quite a few, I have not got the list in front of me, were allocated the funding that they applied for. There will not be, at the moment as I have said repeatedly, any more borrowing from the fiscal stimulus fund.

Senator K.L. Moore:

Given that many charities are now experiencing much greater demand for their services as a result of COVID and the response to it, how do you consider the Treasury might assist those charities who sometimes provide services that could be deemed, in some cases, to be statutory services that governments would provide elsewhere?

The Minister for Treasury and Resources:

As you know, I am a chair of a charity myself. Yes, I totally appreciate being in that position the difficulty that charities have faced. However, now that we are, I would not say "out of" the COVID situation, I do not think we ever will be, but certainly economic recovery has been quite pronounced since July, possibly, so fundraising has been re-established and the interest in fundraising for charities has been immense, far more than the previous 2 years because it was very difficult to do any fundraising events. We wait and see what the situation is by next year as to whether we have to, as a Government, intervene in any way or whether the funding activities will bounce the charities back to where they were before.

Senator K.L. Moore:

Do you think "wait and see" is an adequate response to people experiencing great hardship?

The Minister for Treasury and Resources:

As I say I am very aware of the charitable situation, being the chair of one myself, and that has not come forward as a great hardship.

Group Director, Strategic Finance:
Could I add something, Minister, which might help? There are a couple of government funds which do not fall within this Minister's purview, so there is the Channel Islands Lottery Fund and also the Jersey Reclaim Fund, which distribute money for charitable purposes but fall under other Ministers' purview. They are already available to charities and the Minister for Treasury and Resources runs some specific bequest funds, which charities are able to apply to for grants as well and we do quite a lot of work around publicising those.

The Minister for Treasury and Resources:
There is also the Association of Jersey Charities who have handed out an inordinate amount of money to 30 different charities this year.

Group Director, Strategic Finance:
And they receive money from the Lottery Fund.

Senator S.W. Pallett:
To follow on from that, what oversight and responsibility do you have to ensure that the service level agreements with the charities remain appropriate and support them in the way that ensures their longevity?

The Minister for Treasury and Resources:
That has been aided by the appointment of a Charities Commissioner who is working, bearing in mind we have 180 charities in Jersey, quite considerable, to make sure that the service level agreements are up to standard. That takes time and that has not been done before.

Senator S.W. Pallett:
Specifically, how do you review them to ensure that the charities, irrespective of what funds they are granted, that that level of grant funding is appropriate and adequate? Costs have risen greatly, as you will know, over recent times. How do they ensure that they are not putting themselves under financial strain?

Group Director, Strategic Finance:
I am not sure the Minister has any direct service level agreements with charities, so I am not following the question.

Senator S.W. Pallett:
There are service level agreements between government departments and charities.

Treasurer of the States:

Yes, service level agreements between arm's length organisations through which Ministers responsible for those areas of expenditure and their accountable officers deliver those objectives. The responsibilities therein lie at the Minister level for that individual head of expenditure and the oversight of the S.L.A. (service level agreement).

Senator S.W. Pallett:

So you do not have any oversight of or input as to …

Treasurer of the States:

We are improving the oversight of that through the arm's length oversight board, I am missing a "B" somewhere in there, Arm's Length Bodies Oversight Board, and indeed we are endeavouring to improve the Public Finances Manual around that, so there are service level agreements to say that there is taxpayers' money going to those charities. In some cases they are charities and in some cases they are not, which is why I am using the phrase "arm's length bodies" for the delivery of services or, if it be Jersey Finance Limited, or Visit Jersey in other senses of those arm's length bodies. It is for those departments to ensure that those entities are delivering in accordance with those service level agreements and the oversight of taxpayers' funds that is going to those entities. In among that there are requirements to ensure that at the other end of the spectrum we are not handing taxpayers' money across to those bodies where those bodies have reserves themselves, and I would expect that we would have conversations and have examples of conversations where those bodies are perhaps having financial strain, so we would receive their accounts in order to see whether those bodies have viable finances. That primarily takes place at a departmental level.

Senator S.W. Pallett:

I do not think our concerns lie with Visit Jersey and arm's length bodies. I think they lie with representations we have had made to us around the charitable sector and their ability to remain financially stable. The question was around what input you have on that to ensure that there is a 2-way dialogue in terms of making sure …

Treasurer of the States:

I think that example is there is 2-way dialogue and the Minister has in fairly recent times agreed funding to a particular charity or lent money to the J.S.P.C.A. (Jersey Society for the Prevention of Cruelty to Animals), that is a charity that is not necessarily involved in an S.L.A. between Government for a short period of time while they put to right their finances. There is a door that is open there.

Senator S.W. Pallett:

So a 2-way dialogue is open if necessary?

Treasurer of the States:

Yes.

Senator T.A. Vallois:

Briefly before I move on to Revenue Jersey, one question about who is putting the proposal together for the technology fund?

Treasurer of the States:

That is across a number of departments, S.P.P.P. (Strategic Policy, Performance and Population) the Economy team and the Treasury who will be involved as well.

Senator T.A. Vallois:

Will that come at a cost? Will there be consultants involved?

Treasurer of the States:

No, that is being developed in-house, but working with stakeholders as well.

Senator T.A. Vallois:

Okay. I just wanted to work out who was doing what. Okay, so Revenue Jersey. Hopefully I can get through these swiftly. In your letter of 28th October to the panel, Minister, the Building Revenue Jersey team programme has been reclassified as a revenue transformation programme phase 3. Can you outline the rationale for merging this revenue programme and expenditure with a new capital expense?

[14:45]

Deputy Director, Domestic Tax Policy:

My apologies if this is not right. I have been speaking to our programme manager for what was at one point Building Revenue Jersey, that transformation programme. Are you referring to the business case which has been published, GP22-IT-004? Is that …?

Senator T.A. Vallois:

I am referring to the letter that we received from the Minister for Treasury and Resources on 28th October in terms of that is where the question has come from.

Deputy Director, Domestic Tax Policy:

Yes. I am not sure of the title but it has got that figure and funding continues to be provided by GP22-IT-004, which is outlined on page 82 of the Government Plan. About that business case, I do have some information about why it has replaced some of the previous stuff. There was a different business case included within Government Plan 2020-2023 and that was O13-01, and that was, I understand it, the initial fund for transformation and modernising what was then the Taxes Office. Then this new business case in its executive summary - it is only October I think that it has been signed by the Treasurer and the Minister - 4 key objectives. It is to deliver … I have got some more about the additional cost on top of what has already been provided I think in the previous Building Revenue Jersey transformation budget. So this is going to look at debt management for the 2019 P.Y.B. (prior year basis) the frozen liability, to make sure that is within the systems and the collection of the debt is managed within the system. It is to ensure that the economic substance rules which are international tax requirements that Jersey has adopted and recently extended to partnerships, to make sure that can be managed within R.M.S. (Revenue Management System). Number 3 is to enable or to ensure that the R.M.S. online is delivered and the Comptroller said to me only yesterday that online filing was delivered on time, but it continues to evolve and develop because not least of which each year the systems have to change for different figures for different allowances, so there will always be ongoing development. The last of the 4 objectives for that business case that we referred to in the letter that you are asking about was that the additional money will be to ensure that independent taxation is able to be managed within the Revenue Management System including, if the Assembly allows, agrees the legislation next year, the compensatory allowance that will go to mitigate the financial impact for marginal rate taxpayers. In terms of the cost from that business case I am sure it is online and is public, there is just under £5 million, so an additional cost of just under £5 million between 1st January 2022 and 31st December 2025. Then there is some other detail about what it will bring, what that additional funding will deliver. We are only 4 short. Do you want me to …?

Senator T.A. Vallois:

No, I think you have covered a number of the supplementary that I was going to ask. You have explained what the revenue transformation programme is and the capital spend. So you say just under £5 million in 2022?

Deputy Director, Domestic Tax Policy:

Yes, I have got £4.974 million in the business case.

Senator T.A. Vallois:

Yes, so I believe in one of last year’s hearings the Treasurer referred to trimming growth spending and having it lead to some further phasing for some of the aspirations to achieve the Revenue Jersey target operating model. Has this been the case? Is this included? Please explain it in layman's terms.

Treasurer of the States:

At a very high level what I would tell you is that what we do every year for the particular year is review the funding required in light of some part of the programme that you might say 2 years prior having slipped, or other parts of the programme having been brought forward or, as is recently the case, often things that we have not envisaged being brought into the programme. What we are doing every year is refreshing, given political priorities as well as priorities that we may see as a result of the experience of the last year or so in refreshing the business case, rather than just dogmatically sticking to the business case in previous years.

Senator T.A. Vallois:

In terms of the criteria that you use to determine how we do or do not phase certain projects, because this will have an impact on Islanders in some shape or form, how is that criteria considered? You might say: "To reduce negative impact on the cost of the person at the other end of the service we need to do it in this period." What consideration or criteria is given to that, when determining the phasing of funding?

Treasurer of the States:

It is rather like a capital programme on a micro level. There are a number of stakeholders who want to see different changes, be they policy changes at a high political level, be they relating to, for example, C.Y.B. (current year basis), P.Y.B., independent taxation, but also from a more technical level in terms of the questions you were asking at the start of this hearing relating to some of those that are in the Finance (Jersey) Law and some of them will relate to customer services pressures that we talked quite extensively about in previous hearings of this panel. It is more balancing those various aspects and agreeing with the Minister what the programme is for the coming year.

Senator T.A. Vallois:

Okay, just making sure you are not spreading things too thin and it is having a negative impact, rather than a positive. To understand, in the annexe at the end of page 19, I think it is G.P. 2020-23 there was around £120,000 of funding to maintain the taxes helpdesk. Is that included in the revenue transformation programme as well? I am trying to understand the overall scope.

Treasurer of the States:

Were you referring to last year?

Senator T.A. Vallois:

Yes, Government Plan 2020-2023.

Treasurer of the States:

We might have to compare notes after the hearing.

Deputy Director, Domestic Tax Policy:

I would have thought that would have been done, because it is certainly in place.

Senator T.A. Vallois:

Okay, just to double-check on that to make sure that it is included. Finally, the Comptroller acknowledged that the *Tax Statistical Digest* is behind date for publication at our last hearing. Can you confirm when the last was published and when the next will be published?

Deputy Director, Domestic Tax Policy:

It is 2017 data that was the last published digest, as I understand it. We moved, of course. The Revenue Management System then came into being in 2019 and I do not have a date for the next one, but certainly from the last hearing that was taken away and I know people are looking at when it can be updated when the next year's figures are available, which will be able to be checked.

Senator T.A. Vallois:

Okay, thank you. I will pass to Senator Pallett.

Senator K.L. Moore:

I am going to pick up next. Just a quick follow-up question on the F.P.P.'s report this week. They state in recommendation 1 on tax revenue short and medium term: "Raising revenue over the medium term is important and the Government should clarify how it will do so in the next Government Plan." What will your advice be to the Minister for Treasury and Resources who will follow in your footsteps in terms of answering that question from the F.P.P.?

The Minister for Treasury and Resources:

There may well be a tax rise considered. We do not need to do it now, but that from the future point of view would have to be considered quite what tax and in what form. We have not got to looking at that in this Government Plan, but I think with the expenditure that is being incurred at the moment we may have to look at that.

Senator K.L. Moore:

Is the review of stamp duty continuing? You have previously told us that it was due to be completed at some point next year. Is that still underway?

The Minister for Treasury and Resources:

Is that the enveloped properties?

Senator K.L. Moore:

No, general review of stamp duty.

Deputy Director, Domestic Tax Policy:

The terms of reference we are going to hopefully go to the Revenue Policy Development Board probably realistically January meeting now to agree the terms of reference and the proposal will certainly be quite a wide range of review, which includes looking at the differential between commercial rates and domestic rates. That work will then continue into next year.

Deputy S.M. Ahier:

The Government Plan proposes an increase of 9.5 per cent on tobacco products duty, with this being higher for hand-rolling tobacco and cigars at 13.5 per cent. What analysis has been undertaken to ascertain the financial impact upon lower income deciles of these increases?

The Minister for Treasury and Resources:

The increases on tobacco across the board I know there is a difference in hand-rolling and cigars, is based on health advice. They give us the advice on the health benefits and we then just adjust the impôt duties accordingly, or the tax accordingly.

Deputy S.M. Ahier:

So presumably the rolling of tobacco and cigars are more carcinogenic than cigarettes?

The Minister for Treasury and Resources:

From the health information, yes.

Assistant Minister for Treasury and Resources:

The rolling of tobacco is a slightly different issue. The rolling tobacco, and I think I am right again, is because it was lagging well behind what cigarettes were in tax. It was a cheaper thing to buy, so all it is doing is making smoking roll-ups exactly the same as smoking a cigarette, if you are looking at it from a health point of view, so you are not making it that if you smoke them you are fine, but if you smoke normal cigarettes you are not. It is just moving it together so that they are taxed equally.

Deputy S.M. Ahier:

Was it not the original intention of encouraging people to smoke roll-ups because it took them longer to roll them and they did not smoke as much?

Assistant Minister for Treasury and Resources:
I cannot comment. When I smoked I smoked Silk Cut so I cannot comment on what the original intention was. It was way before my time. That is why it is being done now.

Deputy S.M. Ahier:
What analysis has been conducted on the impact of reduced travel upon tobacco duty?

Assistant Minister for Treasury and Resources:
We have not got full analysis on it, but certainly one of the things that we were almost surprised about really was that we made more money on tobacco duty during the lockdown period than we did before, and I think that is basically because people were buying their cigarettes in Jersey rather than saying to people: "Can you bring us 400 back?" or bringing them back themselves. It was noticeable from our figures, but we have not dug deep on them. It was something that raised a few eyebrows when we saw it.

Deputy S.M. Ahier:
So there will be a reduction in revenue in the coming years?

Assistant Minister for Treasury and Resources:
I would think so.

Deputy S.M. Ahier:
You indicated in your response to the panel's 2020 report that an update of the financial maturity assessment would be carried out during 2021, which would formally demonstrate the progress of the programme Delivering Effective Financial Management. Can you please outline the progress achieved?

Treasurer of the States:
That would be covered in the departmental operational business plan. It is fair to say that this year most of our attention has gone towards input into the I.T.S. (integrated technology solution) system, which we see as almost a last significant piece of moving forward financial management maturity across the Assembly, Government and the States, in that we are limited in the extent to which we can improve financial management without that I.T.S. development. We have, however, been further developing across the work we have been doing on business cases, across our offer in terms

of training and taking on more trainees and continuing development of staff, in addition to which reviewing on a regular basis parts of the Public Finances money.

Deputy S.M. Ahier:

We discussed in our last hearing V.E.D. (vehicle emissions duty). What consideration has there been to road user charges, for example, if owning an electric car?

Treasurer of the States:

There is a piece of work being done within the Tax Policy Unit, being developed with colleagues in S.P.P.P. to look at the future taxation of motor vehicles and the use of motor vehicles in light of both the climate emergency and the related reduction in fuel duty that will arise from a move to electric vehicles, the V.E.D., all fuel duty into the future. We will be finalising that in the coming months with colleagues from, in particular, S.P.P.P.

Deputy S.M. Ahier:

Will any such proposed charges prevent or dissuade people from purchasing electric vehicles?

Treasurer of the States:

Will they dissuade people?

Deputy S.M. Ahier:

If you are going to charge people for driving on the roads rather than charging them through buying petrol?

Treasurer of the States:

Okay, so the aim will be not to disincentivise the use of electric vehicles over and above the use of vehicles that consume carbon, but it will be part of a wider package of measures rather than just about taxation.

Deputy Director, Domestic Tax Policy:

It will be a balance. It will start off, because you have still got fuel duty revenues of course, so it would not all have 2 very high charges for people for fuel duty and using the road.

[15:00]

Assistant Minister for Treasury and Resources:

It is also possible if you are looking to do that to grade it, so if you had a small electric vehicle you would pay £50 and if you had a great big 4x4 you would pay £400. There are ways to do it, if we chose to go down that route.

Deputy S.M. Ahier:

Minister, as discussed in the last hearing you made a number of transfers of heads of expenditure during 2021, R.105 and R.161. What has been done to ensure the proposed 2022 financial allocations do not need to be altered as the year progresses?

The Minister for Treasury and Resources:

Are you referring to the 2022 heads of expenditure?

Deputy S.M. Ahier:

No, there were a number of heads of expenditure in 2021 but what has been done to ensure that in 2022 they do not occur again, such as R.105?

The Minister for Treasury and Resources:

So repeating?

Deputy S.M. Ahier:

No, not repeating, but having new ones.

Treasurer of the States:

I missed the first part of the question. Do you mind repeating that?

Deputy S.M. Ahier:

Yes. As discussed in the last hearing you made a number of transfers of heads of expenditure during 2021. What has been done to ensure that the proposed 2022 financial allocations will not need to be altered as the year progresses?

Treasurer of the States:

Well, as much as possible we would like to think that they are heads of expenditure based upon the information that we have at the time that they are appropriated expenditure, but things do change, in particular expenditure may have needed to have been spent in this current year on COVID, as an exception. There are other pressures that will nevertheless come through and, in particular, also what might come through is that it may be identified funds are not needed for one reason or another that could be allocated to pressures that we see coming through. We set out to put a plan in place based upon our knowledge at the time, but circumstances will change through the year.

Deputy S.M. Ahier:

Thank you. I will pass back to the chair.

Senator K.L. Moore:

Thank you. We have reached 3.00 p.m. We do have some questions remaining but we will write to you with those questions, if you would be so kind. We do find that your department is very efficient at responding to our written questions so we shall thank the officers in advance for providing us with answers and look forward to receiving them.

The Minister for Treasury and Resources:

I will follow up on the things that I have said I will come back to you on as well.

Senator K.L. Moore:

We would be most grateful, thank you, and with that I will close the hearing and wish you all a good weekend.

[15:02]