



## **Corporate Services Scrutiny Panel 2014 Budget**

**THURSDAY, 24th OCTOBER 2013**

**Panel:**

Senator S.C. Ferguson (Chairman)  
Deputy J.G. Reed of St. Ouen (Vice-Chairman)  
Connétable D.W. Mezbourian of St. Lawrence  
Deputy R.J. Rondel of St. Helier  
Mr. S. Fair (Adviser)

**Witnesses:**

Senator P.F.C. Ozouf (The Minister for Treasury and Resources)  
Deputy E.J. Noel of St. Lawrence (The Assistant Minister for Treasury and Resources)  
Ms. L. Rowley (Treasurer of the States)  
Mrs. W. Martin (Director, Tax Policy)

[9:00]

**Senator S.C. Ferguson (Chairman):**

Welcome to this hearing of the Corporate Services Scrutiny Panel regarding the 2014 Budget Statement. Now, there is the health warning there. It has not changed since the last time you were here but I must bring it to your attention. Now, for the purposes of the transcribers, I wonder if you could give your name and position. Right, can we look at the 2014 capital programme?

**Assistant Minister for Treasury and Resources:**

Certainly.

**Senator S.C. Ferguson:**

How much of the £88.9 million of the 2014 capital programme will be spent in 2014?

**Assistant Minister for Treasury and Resources:**

That is a good question, Chairman. It will not quite be all of it but it will be a substantial part of it, together with capital programmes that are in process for this year that were spent next year, but the Treasurer will be able to give you a more detailed analysis.

**Treasurer of the States:**

I think we have sent you the F.P.P. (Fiscal Policy Panel) paper or the paper that we have done for the F.P.P., which shows what we expect the economic impact to be of our spending in the next couple of years. Have we sent you that?

**The Deputy of St. Ouen:**

When was it produced?

**Treasurer of the States:**

I think we sent it in the last... I might be mistaken, whether we sent it to William or someone else in respect of another question, but we do have that schedule and I can provide that to you.

**Senator S.C. Ferguson:**

Thank you.

**Treasurer of the States:**

It is a detailed schedule, which shows... in fact, I have got it on my thing. It shows the economic impact of the schemes that are tendered so in 2013 the current spend is in excess of £20 million but the schemes that have been tendered and are now underway are £60 million. So the economic impact of our spending plus our tendering in 2013, using the analysis that the F.P.P. required of us, is £80 million in 2013.

**Senator S.C. Ferguson:**

Yes, I think this is one of the papers that you promised us at the last hearing, which we have not had yet.

**Treasurer of the States:**

Okay, Chairman, we can get that to you. Then the equivalent figure in 2014 is a further £37 million but if we are able to go ahead with the major projects, then there will be a further £49 million so in total, excluding housing, we have the total capital economic input for 2014 is £110 million, excluding housing. That is £37 million plus £49 million plus £23 million, the £23 million being the departmental programme. I could ask someone to print this for you if you would like it now or I have a copy here.

**The Deputy of St. Ouen:**

No, the question was how much of the £88.9 million of the 2014 capital programme will be spent in 2014. Perhaps you could just confirm exactly what is anticipated to be spent of that sum.

**Senator S.C. Ferguson:**

The thing that confuses us, you see...

**Treasurer of the States:**

Well, I can explain.

**Senator S.C. Ferguson:**

...is that in 2012, although there were all sorts of estimates of capital programmes and so on, the actual expenditure in 2012 amounted to £33.3 million so we are asking how much of the 2014 capital programme will be spent in 2014.

**Treasurer of the States:**

We do 2 different analyses. We do an analysis of actual spend and then we do an analysis for the F.P.P. which is the economic impact, but of the major projects we expect in 2014 to spend £49 million, including social housing, and in the departmental programme, we expect to spend £23 million. Then in addition to that we expect to spend £37 million of monies brought forward from previous years. But that does include, and I do repeat, more than one year's worth of capital activity, more than one year's worth of capital allocations.

**Senator S.C. Ferguson:**

Yes, this is why we are asking how much of the...

**Treasurer of the States:**

So our assessment of the economic impact is £110 million for 2014. I can go on. So it is £84 million for 2013, £110 million for 2014, £138 million for 2015 and £166 million for 2016 and then we have done it all the way out to 2020, so I can provide that to you.

**Deputy R.J. Rondel:**

Of the 2014 capital programme, which projects do you not envisage going ahead in particular?

**Treasurer of the States:**

We envisage all of the projects that are set out in the 2014 capital programme so now, Chairman, we are into the detail of the allocations for 2014, I am taking it, and we expect to spend all of those. We do not expect to spend every penny of each allocation but we do expect to start them all. I can say that confidently because we would not be allocating the money if we did not think we could spend it.

**Deputy R.J. Rondel:**

Okay, so you still believe all the projects of the capital programme will go ahead in 2014?

**Treasurer of the States:**

We do.

**The Minister for Treasury and Resources:**

Good morning. I apologise for being a few minutes late.

**Senator S.C. Ferguson:**

Yes, I gather the traffic has sort of...

**The Minister for Treasury and Resources:**

Conspired against me, yes. That is why maybe we need to put some capital programmes in for some roadworks or something but, yes, good morning, I am sorry.

**Senator S.C. Ferguson:**

I wonder if you could say who you are and your position for the transcribers.

**The Minister for Treasury and Resources:**

Yes, indeed. Might I just add to that, the Assistant Minister and I have been through with departments every project. We were determined not to put any project in the plan that was not going to be started in 2014. We are acutely aware of the importance of this difference between allocating money and spending it and that is why the Treasurer may have said to you that the Treasury have put in place a new reporting of actual capital spend and then the quarterly monitor, which goes to the Council of Ministers, now has a spend which is envisaged by the end of the year, and in addition a rag rating of projects of why they are behind when they are being started. I think we have previously provided you probably the quarterly monitor but you see that the actual

Council of Ministers sees projects and how much is spent and whether or not they are behind, and just perhaps to say some of these problems are some of the delays around planning. I spoke to the Minister for Housing yesterday about an existing project but it is a good example of an approval for a housing site called Le Coin. I think it is £3 million or £4 million. I do not quite know the materiality of it but it is a sizeable contract and Planning have refused to grant permission because they want a 4-inch pipe in the buildings to allow the separation of food waste. Now, I have said to the Minister for Housing: "Let the contract, appeal the decision if you are not successful in getting the [it is £4.8 million so it is nearly £5 million] Le Coin, get on, let the contract and put a variance in the contract. If you have to put your 4-inch waste disposal pipe for scraping off food waste into a composter in the basement, if you need to do it, then you need to put the variable, you need to put that amount of money in the contract."

**Senator S.C. Ferguson:**

Okay, super.

**The Minister for Treasury and Resources:**

So we are on the case on every capital project.

**Senator S.C. Ferguson:**

Yes. We have got quite a lot to go through and your Assistant Minister has demonstrated an exceptional ability to be concise in his answers so I wonder if perhaps you could follow his example because we do have a lot to go through.

**The Minister for Treasury and Resources:**

I continue to smile at you, Sarah. **[Laughter]**

**Senator S.C. Ferguson:**

The funding sources for the 2014 capital programme have changed from what was proposed in the M.T.F.P. (Medium-Term Financial Plan). Can you explain why it has happened?

**Treasurer of the States:**

There are some small changes to the funding proposals, Chairman. Is there anything in particular that concerns you?

**Senator S.C. Ferguson:**

You have reduced the amount from the Consolidated Fund.

**The Minister for Treasury and Resources:**

Could you just refer us to the page that you are looking at so that we can then comment on the pages that you are picking up from the plan? Would that be helpful?

**Senator S.C. Ferguson:**

Page 161.

**The Minister for Treasury and Resources:**

Thank you. That is most helpful. Yes, that is right, I think.

**Senator S.C. Ferguson:**

Yes, the Consolidated Fund has been reduced by a couple of million. The Strategic Reserve and contribution from the Currency Fund are new. The central planning vote has changed. The housing funding sources has been reduced.

**Treasurer of the States:**

Certainly, Chairman. We are taking account now of the need to spend on all of the projects which are within the £88.9 million so we are staying within our overall spending envelope which is what we are required to do within the Finance Law.

**Senator S.C. Ferguson:**

Will the reduction in the Consolidated Fund, for example...

**Treasurer of the States:**

I have not quite finished my answer.

**The Minister for Treasury and Resources:**

Sorry, the Treasurer had not finished her answer.

**Senator S.C. Ferguson:**

I am so sorry.

**Treasurer of the States:**

I was just drawing breath, Chairman.

**Senator S.C. Ferguson:**

Right, you have got to be quick.

**Treasurer of the States:**

So the spending envelope has not changed, which is what is required within the Public Finance Law. We have changed some of our proposed funding but I do not think that is an issue. We are not obliged to stick with the same funding sources.

**The Deputy of St. Ouen:**

I suppose the question which was just asked is why the changes. So why have you changed these different sources?

**Treasurer of the States:**

Because we have targeted different sorts of funding at different projects so when we come on later to the substantive points around the 3 major capital schemes, housing, the hospital and liquid waste, you will see that we have made some provision within 2014 for the preliminary works that are associated with those schemes. So we have got distinct discrete phases of each of those 3 projects within 2014 and because we have taken a deliberate strategy of targeting different funding sources at those 3 major projects, we have just shuffled some of our funding sources that we had available to us so that we have got a clear and distinct strategy for how we are funding the 3 major projects. You know that Housing is to be funded from borrowings subject to States approval, the hospital is to be funded from a drawdown on the Strategic Reserve, subject to States approval, and there are 3 different funding sources for liquid waste which include a drawdown from the Currency Fund, use of Consolidated Fund and use of existing resources that T.T.S. (Transport and Technical Services) ordinarily have allocated as part of their annual vote for infrastructure spend. So in order to keep it coherent overall, Chairman, we have reshuffled some of our planned funding sources within Table C to make that work. It is easier for people then to understand how we plan to fund each of the 3 major projects.

[9:15]

**Senator S.C. Ferguson:**

We did find it somewhat difficult in the capital funding programme sources to trace the contribution from the Consolidated Fund of £3 million to the £10.1 million liquid waste strategy phase 1 spend. Where is it?

**Treasurer of the States:**

The funding sources are there, the spending is there. I do not see what the problem is. It is completely straightforward and I have explained what we are doing, how we are aligning the funding sources in terms of our 3 major capital projects. I do not have anything else to add to that really.

**Senator S.C. Ferguson:**

Perhaps if you could just let us have a note explaining ...

**The Minister for Treasury and Resources:**

I do not think we can add any more.

**Treasurer of the States:**

I can certainly provide you with a note, that is not a problem at all.

**Senator S.C. Ferguson:**

That would be helpful, thank you.

**The Minister for Treasury and Resources:**

The Consolidated Fund amount is a balancing figure.

**Senator S.C. Ferguson:**

I have not got to the Consolidated Fund yet...well, yes, from the Consolidated Fund to the...I was getting back on to the Consolidated Fund for why are you proposing to use £2.5 million less from the Consolidated Fund than was agreed in the Medium-Term Financial Plan?

**The Minister for Treasury and Resources:**

It is not agreed in the Medium-Term Financial Plan. Those are indicative figures in the Medium-Term Financial Plan but obviously, as the Treasurer has explained, things change in terms of we have clearly changed and we are deploying more resources into the capital programme than we originally had set out in not a fixed but in an indicative plan previously. Now, I call to mind particularly the F.P.P. requirement and their recommendation of using all available resources in an economic downturn to bolster a capital plan and that is exactly what we are doing. We are using all available resources now and including getting on with the hospital plan, getting on with the liquid waste plan, in an earlier timeframe than previously envisaged. That is compliant and, indeed, what the F.P.P. recommended that we do.

**The Deputy of St. Ouen:**

I thought the F.P.P. recommended that you make use of the capital allocations. I am not necessarily sure that they suggested making use of the Strategic Reserve Fund.

**The Minister for Treasury and Resources:**

No, effectively the underlying message from the F.P.P. is to use all available resources in order to make sure that you are doing as much economic stimulus as you possibly can and the clear



recommendation - I have not got the report in front of me - was without having drawn down the Stabilisation Fund, think about how you can deploy other capital spending and that is what we are doing.

**Treasurer of the States:**

The F.P.P., Deputy Reed, is agnostic about funding sources. The F.P.P. is interested in how much we are spending in the economy and when, and the impact it is having in relation to the position that we are in in the economic cycle as far as we can guess.

**The Deputy of St. Ouen:**

I fully understand that but their recommendation, which is recommendation 2, was while consideration of additional discretionary stimulus should not be limited purely to capital expenditure, it is clear that in such significant capital allocation over the life of the M.T.F.P., consideration could be given as to whether in a timely manner...and then they talk about advancing capital allocations. But again they do not say in that recommendation: "Use any and every available source of funding."

**The Minister for Treasury and Resources:**

They are saying in an economic downturn do what you can to stimulate capital spending. Now, they have specifically said bring forward capital allocations, bring forward capital programmes, bring forward capital projects, and that is what we are doing. That is exactly what we are doing. Nobody can say we are not doing everything we possibly can in 2014 in order to get capital spending moving and get infrastructure spending moving because that is what we are doing. Nobody would have envisaged then that we would be starting the hospital programme in 2014. We are. Nobody would have envisaged that we are starting the liquid waste strategy earlier. We are, and let us see what the F.P.P. says. Let us see what they say on 5th November. If anything, I think they are going to say: "Hurry up and spend the money."

**Deputy R.J. Rondel:**

Could I just seek clarification on the liquid waste? On 2014, you have got £3 million earmarked from the Consolidated Fund. On page 161 which you were referring to, it has got an amount of just over £2 million. What is the difference under the funding sources for liquid waste?

**Treasurer of the States:**

Everything has to go in and out of the Consolidated Fund so that is a fundamental principle of how we account for things so please do not be confused by that. So even though it says here 'contribution from Currency Fund', for instance, that money comes out of the Currency Fund, it goes into the Consolidated Fund and then it comes out again.

**Assistant Minister for Treasury and Resources:**

The Consolidated Fund is effectively the States current account.

**The Minister for Treasury and Resources:**

Yes and you cannot take money out of the deposit account directly. You have to transfer the money from the deposit account to the current account and spend it out of there.

**Deputy R.J. Rondel:**

Yes, so it is a net figure?

**The Minister for Treasury and Resources:**

Yes, that is a key control.

**Assistant Minister for Treasury and Resources:**

Deputy, if you cast your mind back to when we used the Stabilisation Fund to help boost the Island's economy for the early part of the downturn, that money came out of the Stabilisation Fund into the Consolidated Fund and was spent from there.

**Deputy R.J. Rondel:**

Thank you. Do you still envisage repayment by J.T. (Jersey Telecom) for preference shares?

**Treasurer of the States:**

We do, Chairman, yes.

**Senator S.C. Ferguson:**

Right and in the M.T.F.P., you were going to spend £31 million of capital expenditure on housing and the budget says that you are going to spend £22 million of capital expenditure on housing. Where does that come from?

**Treasurer of the States:**

That is right, Chairman, because we are now working on the basis that Housing will become a separately incorporated body from the half-year from July. So we have left in enough money from the States capital programme, notwithstanding it is funded from housing sources so they get no allocation from the Consolidated Fund. So we have left them in roughly a half-year's allocation plus a bit so that is what we have done there.

**Deputy R.J. Rondel:**

What connection, if any, is there between the 2014 capital programme and the funding proposals for the 3 major capital projects?

**The Minister for Treasury and Resources:**

What linkage?

**Deputy R.J. Rondel:**

That is right.

**The Minister for Treasury and Resources:**

What we have done is we have put in 2014 elements of those 3 big capital projects. I think the Treasurer has just explained the spending profile for Housing has not changed in the actual spend. As Laura explained, it is just coming out of the 6 months out of States revenues and it is envisaged it will be 6 months directly out of the housing company so we have not increased or changed the projects for housing.

**Treasurer of the States:**

Can I add to that? What we have done, the Finance Law requires the accounting officers before they can start a project to have the full allocation of the resources available to them so that they are sure of the budget that they have got to spend. It is not a particularly helpful provision in one way but in another way it is very helpful because it always means that the States has to have all the cash available for a project before the project can begin. So what we have done is to take very discrete elements of the 3 major capital projects that are proposed in the budget for debate in December 2014 and we have made them into discrete projects so they are capable of being stopped. So, for instance, if you were to take the liquid waste project, we have enabling works to do there and we also have to replace the clinical incinerator. The clinical waste incinerator has to be replaced.

**Deputy R.J. Rondel:**

That is part of the overall initial capital spend and it is starting to be drawn down, if you like?

**Treasurer of the States:**

Yes. So you then may say to me: "Well is that pre-empting the decisions in December?" and I would say: "No, because in any event, we have got to move the clinical waste incinerator. It is past its sell-by date and we have got to do something with that." So even if the States were to say in December: "We do not like your funding strategy, Treasury, sorry we are not going to approve it" it would not affect the 2014 capital programme because we need to do those works anyway. So

we are not pre-empting anything with what we are doing in 2014 on those 3 major schemes. It would not be right to do that and it would be beyond what we are able to do under the law.

**Deputy R.J. Rondel:**

Okay and beyond that 2014 budget, what other decisions do you envisage may be required by the States Assembly that might affect those 3 projects?

**The Minister for Treasury and Resources:**

The States Assembly is allocating a first tranche of money from the Strategic Reserve potentially for funding the Health phased hospital approach further withdrawals. While we are indicating that that is our preferred route of funding for the Health project, it is only £10 million that has been authorised from the Strategic Reserve or £10.2 million from the Strategic Reserve. The States in next year's budget we would anticipate when the project is worked up is a real phase project with timings - it is a 7-year project - we would make the next withdrawal from the Strategic Reserve for effectively the first actual phase of the chunky bits of the hospital and we envisage that maybe there would be 2 decisions maybe for withdrawal from the Strategic Reserve going forward. We want as big a phases as possible.

**Deputy R.J. Rondel:**

Right, but is that the only decisions the States Assembly...

**The Minister for Treasury and Resources:**

No, that is on Health, okay, so the actual project will be approved by the withdrawal from the Strategic Reserve. If it were to be ready, I would be prepared to think about doing it early but I imagine that it will happen in next year's budget. In terms of liquid waste, the projects that are in the 2014 capital programme will be approved. However, before further phases of the liquid waste programme are approved, the Minister for Transport and Technical Services has to bring forward the strategy, okay? Housing, there are no further States decisions required because we have approved the Housing strategy. Everybody knows what the plans are. It might be helpful for us to share with the Panel this profile of spending. That might be quite helpful.

**Treasurer of the States:**

We have offered to do that.

**The Minister for Treasury and Resources:**

Yes, and no further decisions of the States are required for Housing. We are there now but it is just the approval of the bond issue.

**Senator S.C. Ferguson:**

Yes, can I just come back a minute. You said there were only 2 decisions for the Strategic Reserve.

**The Minister for Treasury and Resources:**

I am envisaging that. I am just saying that I would envisage that it would be wise to take the hospital phasing and that is still a subject of ongoing discussion between ourselves and Health, but at the moment we would envisage effectively say 2. Yes, just basically 2 further drawdowns of the whole hospital plan but that has not been agreed yet. I am just saying that I would envisage maybe 2 phases rather than one because it is so big.

**Deputy R.J. Rondel:**

Do you believe there is sufficient capacity in the local construction sector in the long term to carry out the 3 major capital projects?

**The Minister for Treasury and Resources:**

I think that is a really good question and I think that by being very clear, I think the construction industry over a long period of time has said that we do not want the States basically coming in with huge projects and then it is feast or famine. It has certainly been famine in terms of private sector construction projects. The private construction project market I expect to improve in the next few years. It will take some time before we start seeing the confidence levels and obviously there is a long lead-in time between economic optimism returning and actual capital projects coming forward. I think the forward guidance, to use a concept which is being talked about in terms of interest rates' forward guidance, that we are now giving the industry about the scale of capital projects and particularly the timings of when that money is likely to be spent is going to allow the construction industry almost to prepare for that increased capacity requirement.

[9:30]

**Deputy R.J. Rondel:**

Are you presuming that or you have had discussions with the construction industry?

**The Minister for Treasury and Resources:**

There are very good discussions. The Treasurer holds very constructive and good meetings where there is a good debate and there is good information flow from the Treasury to the construction industry about the scale of projects that we are expecting. Those...

**Deputy R.J. Rondel:**

Are they satisfied; that is the industry itself?

**The Minister for Treasury and Resources:**

I think the industry will be very pleased with the scale of capital projects. I think our alertness needs to be is that we do not want to see which is...I have said this before to the Panel. We did not want to see in the downturn a contraction in the amount of building companies because when the upturn comes and when we come in with more spending, which we knew was going to happen with the hospital - that was always inevitable - we did not want to see a tightness of supply and I think we must remain vigilant and...working with colleagues in E.D. (Economic Development) and the Population Office we must remain vigilant that there is sufficient capacity to enable these public infrastructure projects, which are absolutely required to happen, and that prices do not continue to rise up. We are getting good value for money. The construction industry is showing that they can deliver good value for money on construction projects, and we must remain vigilant that that capacity continues to be there. We must not shy away from ensuring that the supply side capacity of the construction industry is there. We do not want to see a return to the old 1990 days and early 2000 days when a constrained industry could not cope and coped badly by simply saying: "We are just going to increase prices."

**Deputy R.J. Rondel:**

So what you are saying is you will be able to turn the tap on as to their requirements?

**The Minister for Treasury and Resources:**

By giving this guidance about the projects that are there and by being clear that we would welcome other players into the construction industry that is a...good economics does not make for good politics sometimes but we need to be clear to the construction industry that if, for example, S.o.J.D.C. (States of Jersey Development Company) or another building developer wants to bring in an outside firm, employing local people, all the rest of it, we need to see plurality, competition and numerous construction companies being able to deliver these firms. We do not want to see a cartel of simply 2 building firms. Prices will go up.

**Senator S.C. Ferguson:**

Just one small point that we have perhaps skipped over. When you are looking beyond the 2014 Budget have you included the recurring revenue of the running costs associated with the phased hospital investment? Have you quantified it and considered it? Particularly you are going to have a 2-centre hospital and that is going to cost more to run. Have you taken all that into account?

**Treasurer of the States:**

We have not got down to that level of detail at the moment, Chairman. The existing sites are highly energy inefficient to a startling degree and we plan completely new energy management arrangements for both sites. Until we have a design for the new building we cannot estimate what the energy related costs are going to be vis-à-vis...

**Senator S.C. Ferguson:**

I am not talking about energy, I am talking...

**Treasurer of the States:**

I am just giving you an example.

**Senator S.C. Ferguson:**

Yes, I appreciate that but...

**Treasurer of the States:**

I have not quite finished yet. I am going to go on to other aspects, if I may. So that, in relation to the running costs, is an example of where it would be difficult for us to calculate now precisely how much we are spending now vis-à-vis how much we might spend in the future but we will, of course, do that work. With regard to the more significant element, which is the staffing costs. You will know that separately Health and Social Services have a 2 per cent assumption of growth over and above inflation, so 2 per cent growth in real terms that was a commitment made a number of years ago. We have built that 2 per cent ongoing growth into our long-term revenue plan where we have now looked out until 2020 with our long-term revenue plan. We are happy to share that with you at a later stage. We have also taken account of growth, which is associated with the KPMG...the White Paper that the States has approved for Health, which, as you know, has a number of new and different service configurations within it and there are growth elements associated with that. We are familiar with what those are and we built those into our long-term revenue plan as well. Those costs are in there. The workstreams that Health have done to reconfigure their services take account of the fact that there will be a new hospital arrangement of some sort and more and better services in the community as well. That is how we are managing that. I am not saying we know precisely every detail right now but we are certainly very mindful of it and we are building growth into our long-term revenue plan in the way I have described.

**Senator S.C. Ferguson:**

The 2 per cent was sorted out some time ago so are you carrying on with the same 2 per cent?

**Treasurer of the States:**

We are doing 2 per cent plus there are growth bids associated with the new configuration of services that has been approved by the States in the White Paper, so you have got 2 different layers of growth proposed for Health in the long-term revenue plan. When the States see the next Medium-Term Financial Plan, all that detail will be in there, but of course we are working on it now, as you would expect.

**The Deputy of St. Ouen:**

Just picking up on a couple of points. Minister, you mentioned liquid waste and that a strategy needs to be developed before further money obviously would be spent. Presumably that strategy will include some form of funding mechanism to allow the repayment of capital, am I correct?

**The Minister for Treasury and Resources:**

Somewhere in these documents is the envisaged source of those repayments of that capital because in the liquid waste we are suggesting that that is going to be funded from internal capital allocations, some use of other funds to lend to T.T.S. and the funding mechanism that there is not a large gap now to be dealt with in terms of the funding gap for the repayment of that. Again, there are some figures that have to be yet set out for us in relation to liquid waste. A new liquid waste plant would be far lighter on energy use than currently is envisaged. The current old plant is incredibly hungry for electricity use.

**The Deputy of St. Ouen:**

So basically the Treasury position is that the provision of liquid waste infrastructure and capital spend is dependent on a charge being introduced?

**The Minister for Treasury and Resources:**

No, I did not say that.

**Assistant Minister for Treasury and Resources:**

Deputy, I know unfortunately you were not able to attend the States briefings that we had a few weeks ago because of your accident. The monies to repay the internal borrowings are going to come from 2 sources. The first source is, as the Minister indicated, the reduction in energy use that a new plant would have and that is around the £1 million per annum. They anticipate that will have a reduction in their energy costs. The other £700,000 will be reallocated from the existing budgets; so they can repay the internal borrowings at a rate of £1.7 million per year and that covers the internal finance costs.



**The Deputy of St. Ouen:**

That covers the overall £75 million?

**Assistant Minister for Treasury and Resources:**

No, that covers the internal borrowing element of that £75 million. £75 million is made up of existing capital allocations that they had and a number of other matters, one of which is some internal borrowing from the Currency Fund.

**The Deputy of St. Ouen:**

Can you just confirm to us that you are not encouraging their Minister to look to introduce a charge to be levied on the householder or homeowner regarding liquid waste?

**The Minister for Treasury and Resources:**

We need to see the numbers. We need to see the actual work through numbers and this Budget 2014 does not contain the approval for the whole of liquid waste. But on the basis of the numbers that they currently put forward that is not the case, no. But we need to see the full project. The States needs to opine on that full project because there is still a difference of opinion on the type of technology that the liquid waste plant will need. There is a live debate between T.T.S. and Planning on the type of liquid waste strategy. If the States were to approve a more expensive solution for liquid waste then we would have to revisit our funding options, so that is the indicative programme that we are setting out and that is how we plan within that envelope of funding to pay for it. If it changes then our position will also change.

**The Deputy of St. Ouen:**

Just one last question on that: have you been given any indication by the Minister for Transport and Technical Services about the timing of when this strategy will be presented to the States?

**The Minister for Treasury and Resources:**

Q2. In other words the second quarter of next year and if we can improve upon that then we will.

**The Deputy of St. Ouen:**

One other matter on the capacity of the local construction industry. Is that measured at the moment?

**Treasurer of the States:**

Yes. We had a meeting only a week or so again with the Construction Industry Council, Housing and ourselves, which the Minister was not able to be at, and they have made their own assessment of the capacity of the construction industry. We are sharing with them, in a way that

Deputy Rondel was indicating earlier, our spending profile and the sorts of spending that we plan to do so that they can take that into account in their planning. What we are not doing is providing them with detail on a project by project basis at a very low level because that would affect competitive tendering. So we are trying to achieve a competitive environment where we get good tenders, while at the same time sharing sufficient information for the industry to be able to plan its activity. I forget the number but I will let the Minister have it and he may share it with you at a later stage.

**The Minister for Treasury and Resources:**

I would say we have spent a lot of political time in the last 15 years, going back 20 years, on trying to control the size of the construction industry. There has been some well-intentioned but ultimately fundamentally flawed political attempts at intervening into the size of the capital programme. I recall Regulations of Undertaking requirements that meant projects, on a project by project basis, would be controlled. So I am alert to these issues but also very alert to the bureaucratic nomenclature that we created around capital projects, and my advice to colleagues in the States is we need light touch oversight of this and an adherence to fundamental principles of allowing the construction industry, giving it guidance, not individual guidance, but also ensuring that we have a sufficiently open market in terms of construction firms.

**Senator S.C. Ferguson:**

Also I hope, following the project's recommendations of the Public Accounts Committee. Richard, I think you had a question.

**Deputy R.J. Rondel:**

Just quickly following on from James's liquid waste capital requirement. At the moment it is £75 million estimated. You mentioned an alternative scheme. Have you got any estimated difference in costs?

**The Minister for Treasury and Resources:**

It is not formal costings at the moment.

**Deputy R.J. Rondel:**

Are you saying it is going to be a lot higher?

**The Minister for Treasury and Resources:**

There is a live debate going on in relation to liquid waste types of plants. Call in the Minister for Planning and Environment and he will tell you what he thinks and call in the Minister for Transport

and Technical Services and see what he thinks, and you can see that there is a live debate between the 2 of them.

**Deputy R.J. Rondel:**

When do you think a decision would be made on that?

[9:45]

**The Minister for Treasury and Resources:**

I answered to the Deputy of St. Ouen, we want this resolved quickly. I do not want to see a situation as a States Member where we have 3 years of debate about choice of technology. The longer we leave it the longer the price goes up and the longer that we are using equipment and facilities and infrastructure that should be retired.

**Deputy R.J. Rondel:**

You have earmarked £10 million to be spent in 2014.

**The Minister for Treasury and Resources:**

Yes, that is the early side. That is the non-controversial.

**Deputy R.J. Rondel:**

Irrespective of the...

**The Minister for Treasury and Resources:**

Absolutely. For your constituents in St. Helier No. 3 there is a real issue about smell, and we do not want to leave this liquid waste decision and constantly put it off. There is the blight of smell. It has been considerably improved in recent years but we have the opportunity of tackling it, but putting it off is not going to solve the problems. It is not wise from an infrastructure point of view. It is not wise from a revenue expenditure point of view, so we are going to be on the case to ensure that whatever the decision is a decision is made.

**Deputy R.J. Rondel:**

This year?

**The Minister for Treasury and Resources:**

Next year.

**The Connétable of St. Lawrence:**

Minister, we understand the T.T.S. infrastructure budget is to be used for the replacement sewage treatment plant and we wondered what impact that would have on other T.T.S. projects.

**Treasurer of the States:**

Three lots of £4 million are proposed: £4 million in 2014, £4 million in 2016 and £4 million in 2017. Our current projections for future years for the T.T.S. infrastructure vote are around about the £11 million in each of those years. Needless to say the discussion around the use of that money is being made in conjunction with T.T.S. and they would, in any event, be spending some of that money on liquid waste infrastructure on the sewage works. In fact, as they explained, and I know you came to the presentation at the Town Hall and saw their presentation on the liquid waste project, and you will remember how they emphasised the current cost of keeping the very ageing sewage works going. So they absolutely see it as a major advantage to be able to be having the prospect of a new infrastructure for liquid waste. So they are more than content to use some of their annual allocation for this purpose.

**The Deputy of St. Ouen:**

Given the state of our Island's roads, could you assure us that infrastructure budget and the changes proposed will not impact on the ability for the department to improve the road system?

**The Minister for Treasury and Resources:**

The department has continued with its previously projected spend on roads, and I only spoke to the Minister this week just to confirm that he continues to deploy the same resources. I have not got those numbers with me but we can provide those numbers for you in terms of roads. I think it is worth remembering...I know that there are some Members of the States that say you have not invested in infrastructure in recent years and we have had media comments about our crumbling infrastructure. If you look at the facts we have deployed millions of pounds in infrastructure in recent years. It is worth remembering the scale of money that went in from the fiscal stimulus programme into infrastructure: Phillips Street shaft, Victoria Avenue, all of these things that would have had to be dealt with out of T.T.S.'s annual allocation have all been done, so the scale, quite apart from the fact that we built a new incinerator and that was outside the plan. We have put significant amounts of money in the Island's infrastructure in the last 5 to 6 years and it might be worth just reflecting and getting a chart to show how much has been spent. The accusation that is levelled by the Constable of St. John is just simply not, I do not think, borne out by facts.

**Treasurer of the States:**

If I can just add a little detail on that. The infrastructure rolling vote is about a third highways, 11 per cent drainage and 46 per cent other infrastructure.

**Deputy R.J. Rondel:**

Is that an extension of main drains? It would be remiss of me not to ask that.

**The Minister for Treasury and Resources:**

Deputy, you know that that is not the case. But the liquid waste strategy is going to contain replacement of existing infrastructure and that is the other important debate about the drainage strategy, is the extent to which States Members want to extend the sewage network will have an impact on the cost of it. The percentage of the cost of connecting the last houses in Jersey in rural north areas is very expensive and there is a live debate. I am happy to have that debate with Members and T.T.S. about the extension issue as opposed to the replacement issue.

**Senator S.C. Ferguson:**

But I do not think today is the place.

**The Minister for Treasury and Resources:**

No, that is right.

**The Connétable of St. Lawrence:**

I just wanted clarification further to something that Deputy Reed asked earlier about the £1.7 million per annum financing costs. We want to know how certain you are that the annual £0.7 million savings that are projected, for it to be generated internally within T.T.S., will be used to repay part of the investment from the Currency Fund.

**Assistant Minister for Treasury and Resources:**

It is something that the department has indicated to us that they are comfortable with. My recollection is it was their idea...

**The Connétable of St. Lawrence:**

So it is a guarantee they have given you?

**Assistant Minister for Treasury and Resources:**

It was their idea to do it that way. It was not a Treasury proposal but it is them offering to do that.

**The Deputy of St. Ouen:**

You have to be confident...

**The Minister for Treasury and Resources:**

Our confidence level: yes, we are, and I think it is worth saying the T.T.S. Department get quite a hard time. For our part, they are good, co-operative, helpful, responsive, diligent partners in infrastructure. We have a good relationship with them and they are very helpful in timing projects, in delivery, we have a high confidence in their ability to deliver value for money, they get on with the projects that we want. They are not the department. If we give them allocations they spend it. They mean what they say and it is a good example of an excellent working relationship where we have...there is some constructive tension sometimes but our relationship with T.T.S. is a good, productive and work-ish one which we deliver projects together. So if they say they are going to deliver...some departments we might challenge them on it. If T.T.S. say they are going to do it they tend to do it.

**Senator S.C. Ferguson:**

Before we go on to the hospital, just one small point going back to the construction industry. Have we not had any work done by our economic adviser as per the anti-inflation strategy on capacity of industries? Why are we relying on self-evaluation of the industry rather than our people doing it?

**The Minister for Treasury and Resources:**

We are not. The debate will turn about the construction industry from a construction industry that has clearly been running under capacity to a debate...

**Senator S.C. Ferguson:**

Yes, but what is its normal capacity?

**The Minister for Treasury and Resources:**

Try to let me answer the questions.

**Senator S.C. Ferguson:**

If you could answer them concisely, Minister, then I think we stand a better chance, would we not?

**The Minister for Treasury and Resources:**

The world is changing from a construction industry that will be running clearly under capacity where we do not need to have lots of external analysis. We do not need to...the economic adviser advised us in the downturn of the size of the construction industry of its capacity and the actual spend. We are going to turn to an issue where the construction industry may look as though it is coming up towards its ceiling in terms of capacity unless we do something about that. Unless there are political decisions to ensure that its capacity and the supply side economic arguments are there. So of course we will talk to the economic adviser. Of course we will encourage there to

be good communication between the construction industry and as Laura has explained. But we must not believe also that we can control it. We have got to allow it...

**Senator S.C. Ferguson:**

You are not answering my question. I said where has the work been done by our economic adviser? You said you have been discussing it with the industry and have got the capacity from them.

**The Minister for Treasury and Resources:**

That work was done in the fiscal stimulus plan. That work was done with fiscal stimulus where we knew how much work. I am not going to have work duplicated. In the downturn we knew that the private sector was completely almost at a standstill in terms of new projects whereas previously they had been running maybe £50 million or £80 million worth of private sector projects per annum. But it has clearly dried up. There is a capacity issue. I did not need to refresh any of that work. We have been spending all of that time to ensure that the public sector projects are being put out and they are being let timely. Going forward there is another...the position will change...is that they will be increasing demand and then we will have to make sure that we are alert to the supply side issues.

**Senator S.C. Ferguson:**

I hate to contradict you, and I have to consult my notes, but I seem to remember that we had this discussion about capacity way back when we were reviewing the fiscal stimulus; but we will come back to you on that.

**The Minister for Treasury and Resources:**

But I am saying that...

**Senator S.C. Ferguson:**

Hospital, James.

**The Minister for Treasury and Resources:**

I am exactly saying that, Sarah, is that we debated the fact that the construction industry was running below supply side, below its capacity, and we needed to do something about it because if we did not we would see the amount of contracting firms fall, as we have seen in other places, which would then, when the economy ticked up, have significant problems on price.

**Senator S.C. Ferguson:**

I think your memory and mine are obviously different so we will leave that one.

**The Deputy of St. Ouen:**

I would like to move on and discuss a little bit about the hospital project itself because obviously it is a significant one. Can you tell us how the spending envelope of £297 million for the replacement hospital was agreed upon?

**The Minister for Treasury and Resources:**

What was the basis of it?

**The Deputy of St. Ouen:**

How was the spending envelope for the replacement hospital agreed upon?

**The Minister for Treasury and Resources:**

I think you need to be careful with the word "agreed". We are setting out what we expect to be the envelope of funding for the hospital, and the Treasurer is the person that is almost single-handedly overseeing the project of reducing the budget from the more fanciful numbers of £400 million and perhaps, Laura, you could explain that process and what you have been doing on that.

**Treasurer of the States:**

A great deal of work has been done. We have had advice from WS Atkins. There is a narrative within the Budget report that explains the sort of process that we have been through. The first thing to do was to establish whether there was an appropriate site, so we had to do some initial work to understand, using industry standards from the U.K. (United Kingdom) to establish the likely size of the hospital so that we understood broadly what the footprint was, so that we could begin looking for sites. There was then an extensive site search done with which we had a great deal of help from colleagues in Planning and using their G.I.S. (Geographic Information System) system to identify sites. We considered a whole host of sites through a Ministerial Oversight Group that has done a great deal of work on this. We had criteria for evaluating sites. We reported back to the Ministerial Oversight Group. The Ministerial Oversight Group made comments on the assessments that were made. We eventually ended up with a smaller group of sites where we did further work with WS Atkins. We then began to, as you would appreciate, especially in Jersey, the site and the land is a big issue in terms of identifying the cost. Our colleagues went to...we then began to do more detail on the possible solutions and colleagues went to visit hospitals in the U.K. to look at things like space standards, single rooms, the size of theatres has changed...you will know all of this from the...what we can do, James, is send you a copy of a video which we used at the briefing for States Members on the Budget. We narrowed down the size but there is a lot more work and detail and possible solutions. We went back to the Ministerial Oversight Group, WS Atkins came up with some very substantial numbers, which we did not think were affordable. We asked for further work to be done, to evaluate alternative options, and we now have a 2-site



solution, which maximises the use of the existing hospital and therefore the existing investment in that, and also gives us the opportunity to have substantial new build at what will be called the Westmount Health Centre. We have done some work to cost that, again with help from WS Atkins.

[10:00]

The £297 million, the figure that is within the report, covers a number of things. It covers the new build. It covers refurbishment of existing facilities on the main site. It covers new build on the main site. It covers the accounting costs. It also covers some theatre short-term requirements that we have for increasing theatre capacity and bed capacity. We have not done all the costing work that we will need to do yet but we have done sufficient to have a good figure that does contain contingencies as well. So there is some scope within that.

**The Deputy of St. Ouen:**

Can I ask the Minister: we have been told that the Ministerial Oversight Group is overseeing this Budget. I would like to know how confident are you, as one of the Ministers on that Oversight Group, that costs can be contained within that spending envelope of £297 million?

**The Minister for Treasury and Resources:**

I am very confident now. Our message to the Health Department is that is the budget and that is the budget that has got to be worked within. I was uncomfortable and not prepared to agree a budget that was £450 million. I did not understand why. I think there were considerable risks associated with a greenfield new site, which would have meant big projects, single projects in other places ... just as a track record, they have a habit of taking longer and overspent. So I am much more comfortable with a phased approach using existing assets on existing sites. It is much more comfortable but we must remain vigilant, we must remain determined, and we must remain supportive of a proper project planning approach in order to deliver the project within that budget. I would not be proposing it unless I was confident.

**Senator S.C. Ferguson:**

What sort of contingencies have you built in?

**The Minister for Treasury and Resources:**

I think there is something like £40 million.

**Treasurer of the States:**

It is getting on for that. There is £9 million that is within...

**Senator S.C. Ferguson:**

In percentage terms. Presumably you are working from the Treasury Green Book?

**Treasurer of the States:**

Why would we be doing that?

**Senator S.C. Ferguson:**

As a useful guide. Or you would be working on similar lines.

**Treasurer of the States:**

The contingencies that we have built in, within the departmental part of the budget we have built in around £9 million. Then we have built in in excess of £20 million for optimism bias and we have also built in a certain amount for risk as well. Because we have done sufficient work with WS Atkins we do not have to rely on proportions that the Green Book might give us because we have done enough work to be able to make a reasonable assessment of the likely level of risks. We have had regard to the industry standards but we have done sufficient work to be able to refine those.

**Deputy R.J. Rondel:**

With the huge increase at the Overdale site, has a traffic management plan been taken into consideration and the cost implications of that should there be major changes needed?

**Treasurer of the States:**

We will not get to that...we are of course in discussion with T.T.S. and in fact we have John Rogers, the Chief Officer, as one of the colleagues that sits on our working group. So we are absolutely working together on that. But the detail of a traffic study and so on would not be something that we would do at this stage. It would be something that we would be doing later.

**Deputy R.J. Rondel:**

Has a budget been put in place?

**Treasurer of the States:**

We will deal with it in the feasibility phase, yes. We would expect to cover the necessary costs from the resources available within the project.

**The Minister for Treasury and Resources:**

Clearly, there are important improvements in the road and pavement infrastructure that will be inevitably flowing from the placement of the Westmount Health Centre, and that would be

regarded as an improvement, I think everybody that would visit that site at the moment. In terms of car parking there is provision on site for appropriate car parking. That is clear. That is going to help...I think we all know there is not enough car parking places around there for the site next door; that is clear. So there are going to be other benefits of improving the...putting more car parking and improving the road. Road, pedestrian and obviously bus transportation, just popping up there on a bus will also be an important way that people will get travel to that. Everybody I have spoken to is very almost relieved that we now have a commonsense solution for this.

**The Connétable of St. Lawrence:**

Minister, has any consideration been given to acquiring the Jersey Water site?

**The Minister for Treasury and Resources:**

I have certainly spoken to Jersey Water about that and the Treasury team visited Jersey Water some time about that. I would not want to start any hares running about that but certainly at the moment it is not required. But clearly in the feasibility plans we are not going to be able to move their water tank because if you have ever seen their concrete water tank that is not going to be removed. But, yes, we do need to look and remain open to that site. But at the moment it is not required.

**The Deputy of St. Ouen:**

What likelihood is there that using the Strategic Reserve to fund a replacement hospital will set a precedent for subsequent proposals to using reserves?

**The Minister for Treasury and Resources:**

It is a good question and my clear position on this is this. I would not have proposed a withdrawal from the Strategic Reserve 3 years ago. I would not have proposed a withdrawal from the Strategic Reserve if the States had not agreed to deal with the deficit and if we were not more confident about the economic outlook of Jersey. I also probably would not have done it without the stellar performance of the investment returns, which the Treasurer and Assistant Minister do that sit on the panel. The Treasurer oversees it and Deputy Noel sits on the panel for me. I would not be doing it, those are the 3 factors that have changed. I want to send a very clear signal that this is a one-off sound and appropriate way to fund the hospital. I am being very clear that I do not believe that there should be any other withdrawals for the foreseeable future from that fund, outwith the considerations of why that fund is there, in other words, structural decline in an industry, significant Island upheaval through a big problem, et cetera, effectively that fund is there for.

**The Deputy of St. Ouen:**

With the greatest respect, Minister, looking to the future, I mean another Minister might take a different view. Do you not believe that by opening the door and allowing access to the Strategic Reserve you are indeed setting a precedent?

**The Minister for Treasury and Resources:**

We have not used the Strategic Reserve since 1998. The last withdrawal from the Strategic Reserve was for the I.S.I.T. Fund. Previously there was a withdrawal for the T.D.F. (Tourism Development Fund) in order to build certain swimming pools, which is a live issue today, and I think our track record in not accessing the Strategic Reserve and my own position is quite clear. I cannot dictate to future States Members and future Ministers for Treasury and Resources - a future States may put in a different Minister for Treasury and Resources - but no doubt at the point at which that Minister for Treasury and Resources would be appointed that Minister for Treasury and Resources will be asked in terms of what his or her views are about the use of the Reserve. I am clear that Reserve can be used, should be used, for this purpose as a one-off. I am prepared to back that. I was not previously but the situation is clearly we have dealt with our deficit. We are more confident about the economic future of Jersey than we ever have and need to work on it. We are deploying significant efforts to secure our position in financial services, which is working. I am confident about that. And the investment returns: effectively the Island is getting a free hospital from the investment returns from that fund. In the period of time since Deputy Noel and I have been at the Treasury, that fund has risen very significantly. That is how the hospital is being paid for. If we had spent it it would not be there.

**The Deputy of St. Ouen:**

Can you speak about the fund in the return because clearly we are all well aware the stocks go up and down and investment is a risky type of business? However, I would like to know how is it decided that an average 5 per cent return from the strategic investments would be likely?

**The Minister for Treasury and Resources:**

The Treasurer can come in on that. It is what is common sense and what is industry figures, which are based on...we are not alone in having investments and in doing reasonable estimates of investment returns. I do not think anybody would criticise us for putting in to be...in fact I think it is quite helpful for people to see what the likely evolution of the Strategic Reserve would be given various different investment returns.

**The Deputy of St. Ouen:**

So you say that there is industry information that would support your assumption that you have a return and you will be able to maintain your return of 5 per cent for a significant period of time?

**Treasurer of the States:**

You may recall the slides from the presentation that we did. Our assumption of 5 per cent...over the last 3 years we have achieved an average of 10 per cent in each of the last 3 years, give or take...

**Senator S.C. Ferguson:**

Is 3 years sufficient?

**Treasurer of the States:**

So give or take we have achieved 10 per cent in each of the last 3 years. I would not want to plan on the basis of achieving a level like that. Five per cent is a modest level of return that would be deliverable with a very prudent and very risk averse investment strategy focused largely on sovereigns and guilds. So we would be able to achieve the level of return of that sort with a very risk averse investment strategy. The investment strategy that...it is probably best to show you by reference to these charts. This chart shows you what happens if we use a 5 per cent investment return and we still paid for the hospital. What it means is that by 2024, when the hospital is fully built, we would have fully paid for the hospital with £297 million and met the full cost of the hospital, we would still have £810 million in the Strategic Reserve. We would have no debt and no impact on taxes. So that is our central assumption and then...

**Senator S.C. Ferguson:**

Excuse me, the question was how was it decided?

**Treasurer of the States:**

As I have explained, it was decided firstly by reference to the level of investment returns that we have achieved, the 10 per cent. Second, by the investment returns that we could most achieve in a very risk averse strategy, which would be the 5 per cent. Then by having regard to the further extreme, which is what if...so that is what the 10 per cent looks like. Then by reference to what happens if we had a 2 per cent return which over 10 years is very unlikely. We would have achieved more than that even including 2007 and 2008 in our numbers.

**The Deputy of St. Ouen:**

So basically, in summary, you are confident that the 5 per cent return is realistic and can be relied upon?

**The Minister for Treasury and Resources:**

It plainly is. The suggestions that we have been over optimistic on an investment return, if this would have been in 2007 when we did not know the world was in the biggest financial crisis going around and there would be de-leveraging and chaos, but we have come out, thankfully...we appear to be coming out of that period of economic downturn. We are clearly on a rising tide. We are not out of the woods yet. There is still work to be done. I do not think that anybody would...go and ask some pension funds what they are estimating in terms of their projections. I do not think anybody can say to us that 5 per cent is an over-optimistic number. As the Treasurer has just explained, we have published 2 per cent. If we cannot get 2 per cent over 10 years on a rising tide then you have the wrong Treasury team.

**The Deputy of St. Ouen:**

When do investment returns on the Strategic Reserve become capitalised?

**Treasurer of the States:**

They do not. If I could refer you to pages 114 and 115 in the report, you will see that the total capital that has been allocated into the fund net is £117 million.

[10:15]

So of the £720 million that we have in the fund at the moment only 115 has gone in as capital payments into the fund. There is a detailed schedule on page 114 within the report.

**Senator S.C. Ferguson:**

That was not the question.

**Treasurer of the States:**

It shows you that.

**The Minister for Treasury and Resources:**

Because it is a roll-up fund.

**Treasurer of the States:**

As I said at the very start, Deputy Reed, none of it is capitalised. So we continue to invest but in terms of...we leave the money in the fund, we do not distinguish between capital and interest, but because the question was asked before I did an analysis of the capital that has been allocated into the fund and net, that is £117 million. Gross it was £177 million but £60 million was taken out in 6 tranches between 1994 and 1999, as the Minister said earlier.

**Deputy R.J. Rondel:**

Just to be clear, the estimated 5 per cent yield, does that include...is that partly capital growth and dividends?

**Treasurer of the States:**

Yes.

**Deputy R.J. Rondel:**

Total return, right.

**The Minister for Treasury and Resources:**

That is probably why people think that it is 5 per cent in addition. They just...

**Deputy R.J. Rondel:**

Capital growth rather than dividends.

**The Minister for Treasury and Resources:**

If you think about it, on a full roll-up fund 5 per cent it feels comfortable to me.

**Senator S.C. Ferguson:**

Yes, but with a roll-up fund your income becomes capitalised.

**The Minister for Treasury and Resources:**

What is your point?

**Senator S.C. Ferguson:**

We were just asking when the investment returns become capitalised and the normal procedure, and you mentioned that it was like a roll-up fund, Minister, the procedure with a roll-up fund is that your income becomes capital because that is the whole point of them.

**The Minister for Treasury and Resources:**

No, but this is different. We have a fund that we do not use the income from.

**The Deputy of St. Ouen:**

Will withdrawals from the Strategic Reserve for use on replacing the hospital all require States approval?

**The Minister for Treasury and Resources:**

Yes.

**The Deputy of St. Ouen:**

Thank you. What contractual break points, if any, have been factored into the development of the replacement hospital?

**The Minister for Treasury and Resources:**

That is the point that I made earlier, is we will debate with the Health team what the appropriate phase of the hospital would be. We do not want 10 different phases, that is just uncertainty and complexity and I have discussed with the Treasurer the possibility of a couple of clear projects that would require maybe 2 decisions for withdrawal from the Strategic Reserve. In theory you could approve one and not approve the second. Clearly, that is not desirable but we are just thinking about the grouping together of the different phases.

**The Deputy of St. Ouen:**

That work has yet to be done?

**The Minister for Treasury and Resources:**

It is ongoing, yes.

**Treasurer of the States:**

We are doing some work at the moment, Deputy Reed, to apportion, if you like, different parts of the project. Now that we know that the likely direction of travel, subject to States approval in December, is a 2-site solution, we are now able to do much more detailed work. We can then begin to package parcels of work and in so doing we want to have regard to the ability of local businesses to be able to bid for that work. For the hospital project we know that we will not - I would not want to mislead you - be able to do that just with on-Island capability because we are not used to building hospitals, so we will need off-Island capability. But we want to try and structure the work in ways that facilitate local contractors bidding. A simple example would be enabling works, demolition works, things like that. We can bundle up and local contractors can bid and be the lead contractor for those elements. For the major build we do expect to appoint a lead contractor and we also expect the tendering process to be requiring prospective bidders to be demonstrating to us how they will use local labour and local sub-contractors as partners within their delivery.



**The Deputy of St. Ouen:**

The only thing that I just wanted to get confirmed: is it the case that the Treasury position is that you have agreed a budget and the hospital must fit into that budget, and meet the needs of that overall sum rather than the hospital need to provide for the community and you have identified a realistic sum of money that needs to be spent to achieve that goal?

**The Minister for Treasury and Resources:**

“Agreed” is the wrong word. We are currently comfortable that the hospital requirements can be delivered on this site approach within a budget of just short of £300 million. We have a high degree of confidence that that can be delivered but there is a lot of work to ensure that that is done. But my position is, is I would not be proposing the initial withdrawal from the Strategic Reserve and signalling that I think that it is the best source of funding for the hospital if I did not, as we said earlier, have a high confidence level. Health have accepted that they can deliver their...there is always going to be a constructive tension. That is healthy and that is good. Health are now saying that, yes, they can deliver their health aspirations, single room hospital, dual site operation, phased approach within that budget. So we are in agreement between Health and Treasury that we can deliver the hospital within an affordable budget and we have a funding source. But I want to stop short of saying “agreed” because there is a lot of work to be done. That is how we currently envisage it to be done, and I will be holding and the Treasury will be holding the maximum spending requirements obviously to...we want it delivered within those budgets and we think it can be.

**Deputy R.J. Rondel:**

You mentioned things like demolition. Are you confident there is enough competition within the Island to ensure we do receive value for money?

**The Minister for Treasury and Resources:**

Richard, my views on competition is we must have competition. Competition is the thing that delivers lower prices and innovation.

**Deputy R.J. Rondel:**

On this particular item, are you comfortable or confident that there is enough competition to ensure we do receive the most competitive quotes?

**The Minister for Treasury and Resources:**

If there is not enough competition in any of these big areas then that is slightly outside of my brief. That is E.D.’s matter but obviously we have good relations with Alan Maclean and his team, with their oversight of economic matters, and the housing policy matters, we must ensure that there is a

plurality of contractors in all of these arrears otherwise we will see high prices and we will see bad value for money.

**The Connétable of St. Lawrence:**

Minister, you have just mentioned housing so it seems timely to come on to that. If the States issued a public rate of bond it would need to take a credit rating. What impact would having a credit rating be or what impact would there be on the Island if we did have that credit rating?

**The Minister for Treasury and Resources:**

Working on the assumption that we will have a credit rating and the work to get a credit rating, which I shared with Ministers on a number of occasions in the last few months, work is underway and indeed is now almost complete to get a credit rating. It is worth perhaps saying that we are one of the few countries in the world that does not have a credit rating and there are advantages for a statement of confidence in the Island's public finances in having a credit rating. For a public bond to be issued, which is the best value way of securing capital for housing, it is very likely that you need a public rating. Public rating indicates strength of public finances. It is very clear, and I think we have set out, it is likely that we would get a rating. We are pretty confident about a rating being AA+, which is the same as the United Kingdom. It is not really, I do not think, possible to envisage a situation where we would get higher than the sovereign rating of the United Kingdom in sterling. But the pricing of our bond, if we get approval for it, will be keen because of the very strong covenant that comes...it is not only just a rating. It is not just rating equals the coupon rate. It is the investors in bonds are looking slightly further than just simply the credit rating. From the extensive discussions that we have had, we have got a very strong interest from lots of the world's biggest financial services companies in this bond and that came into sharp focus to me with meetings that I had with the Director of Financial Services in Washington, where all the financial services community was there. There is a huge amount of interest in this bond for Jersey and that is good. That means the Treasurer is going to be able to deliver this for us at keen prices and there is a huge amount of interest in it.

**The Connétable of St. Lawrence:**

You mentioned our link to the U.K. and of course we are very closely tied in with them. How confident are you that the U.K. economy is such that if they were to go into downturn even more so would not negatively impact upon our own rating?

**The Minister for Treasury and Resources:**

It is only going to improve our position because we are receiving a sterling bond with such a very strong covenant. The public finances of Jersey are so strong and our balance sheet is...as I often say to people, the U.K. has got public debt of about 80, 90 per cent of G.D.P. (Gross Domestic

Product), we have got a balance sheet with 100 per cent of assets. That is an incredibly strong position, which means that people are incredibly interested in offering and frankly even if the U.K.... I think the U.K. is now on the road to economic recovery. I think that is now clear. All the indications show that that is the case. But whatever the situation in the U.K. a sterling sovereign bond of Jersey is going to be an attractive proposition. There is quite an absence of good quality paper in sterling and certainly from, effectively, a sovereign, which we are.

**Senator S.C. Ferguson:**

Let us now look at the overarching tax policy, if we may. At our last hearing we were advised that if revenues were greater than expected in future years' consideration could be given to measures such as reducing the marginal rate even further. If such a scenario were to occur how would you decide whether to take such measures or to use greater than anticipated income to replenish the Stabilisation Fund?

**The Minister for Treasury and Resources:**

Let me say one thing about the Stabilisation Fund and the Strategic Reserve. I want to be clear that my view is that the dividends that would be accrued to the States, as a result of the successful S.o.J.D.C. Esplanade Square development, should be credited either to the Stabilisation Fund or the Strategic Reserve. That is the first thing. Those are very substantial tens of millions of pounds worth of assets for taxpayers. That is the first thing I want to say. Secondly, we are currently underway, and we publish the paper which says that we want to move to a single assessment of our income tax basis. In other words, moving away from couples assessment. I think it is in that context, there are some really big challenges for us in relation to that and Wendy Martin has been doing with the tax policy team a lot of work in relation to that. There are going to be some important political choices to make about the move to independent taxation, which are linked in... there are a number of factors which are around this debate about what to do with the marginal rate. I am very pleased to be able to put a budget that is cutting the marginal rate. I think that is a really strong statement of confidence to lower and middle income families that we are going to be cutting their tax bill rather than increasing it. If we are successful in economic growth we still stand by our...I think we were criticised for...again people said that our forward projections on income were fanciful. They were not correct. I think we have been proven right on our forward projections. I think now there is confidence returning to the economy and there will be next year that confidence will gather pace and I hope that our projections are maintained and improved. It is not for me today really to say how higher levels of income or more successful economic growth policies would be able to be distributed. We have very significant challenges in the next M.T.F.P. in terms of further spending, as we have said. How are we going to pay for 3 per cent increase in Health? That means more money is going to be spent on Health, not less.

**Senator S.C. Ferguson:**

We also have long-term care effect coming into play.

**The Minister for Treasury and Resources:**

That is a different thing in terms of public finances. It is an economic impact but is a...

**Senator S.C. Ferguson:**

It is going to be taken...it is a charge on people's income.

**The Minister for Treasury and Resources:**

It is, but it is coming in later at a lower level.

**Senator S.C. Ferguson:**

Have you done the calculations to compare who is going to be affected by cutting the marginal rate, and the compensating effect of the long-term care? Because it seems to me that you are cutting the tax in the marginal rate but it is going to go up at the same time with the long-term care. So are the 2 not just balancing each other out?

[10:30]

**The Minister for Treasury and Resources:**

Eight-four per cent of taxpayers pay on the marginal system...

**Senator S.C. Ferguson:**

These are 84 per cent of the taxpayers who pay tax.

**The Minister for Treasury and Resources:**

That is right.

**Senator S.C. Ferguson:**

This does not include the 20 per cent of total taxpayers who pay no tax whatsoever.

**The Minister for Treasury and Resources:**

That is what we have been very clear about. That is right. We have been very clear about that it is 84 per cent of taxpayers...

**Senator S.C. Ferguson:**

No, 60 per cent of taxpayers. People who are eligible to pay tax.

**The Minister for Treasury and Resources:**

You do repeat sometimes the things that we already say as if it is new information. We have been very clear with people. Eight-four per cent of taxpayers pay on the marginal system and they will benefit from the cut in the marginal rate. Because of the successful plans that we had in public finances and the prudent budgeting approach that we have deployed and the success that the Minister for Social Security has had in his various different policies that have meant that irrespective of the fact that there are higher numbers of people unemployed, it is at a lower level than we were expecting. We have released money. We have underspent money in Social Security and we are deploying that money to bring in the long-term care scheme earlier but without a cost on taxpayers. Now, there is going to be a cost to Islanders of that long-term care scheme in 2015, half a per cent rising to 1 per cent. Now, that is a much better situation than previously envisaged and I think it is quite clear...

**Treasurer of the States:**

Can I answer that, Minister?

**The Minister for Treasury and Resources:**

Yes.

**Treasurer of the States:**

The other thing, Chairman, to respond to your question is that we have done the thinking around that because the long-term care charge will be across a broader base because it is across people's earned income and unearned income as well. So it is a broader base than the 84 per cent of taxpayers who are paying at the marginal rate.

**The Connétable of St. Lawrence:**

Can I come in?

**Senator S.C. Ferguson:**

Yes.

**The Connétable of St. Lawrence:**

I wondered how the reduction in the marginal tax rate would...would it go towards making our tax system more progressive?

**The Minister for Treasury and Resources:**

Yes, it does, does it not? That is a good question. It does exactly that because it effectively cuts the taxes for lower and middle income families and does nothing for higher earners. So that is a

very astute comment, if I may say. I think that Deputy Southern was very surprised, when we released the numbers, at the progressive nature. There was a debate going on in the U.K. about higher taxpayers in the U.K. paying lower effective rates, and when we released the figures that I think he was not expecting, he saw that higher earners in Jersey paid up to the 20 per cent. But your comment is the first time I have heard an explanation of the benefit of the cut of the marginal rate. You are right and thank you for the comment. It is a good one.

**The Connétable of St. Lawrence:**

Well, thank you for your comment. **[Laughter]** Where does the reduction in the marginal rate fit within our long-term tax policy?

**The Minister for Treasury and Resources:**

Well, I think it fits very well because we are delivering both a tax cut and a commitment to look at single assessment. Wendy Martin is here and perhaps, Wendy, you might comment on how that cut in the marginal rate will assist us in delivering our single assessment basis. You are right as a woman to be asking that question because you are the ones that are the chattels which we want to move away from.

**Senator S.C. Ferguson:**

That is a very sexist comment. **[Laughter]**

**Director, Tax Policy:**

Yes, thank you, Minister. I think there are 2 points to raise there. One is in terms of fitting in with our long-term tax policy we published in the M.T.F.P. last year the long-term tax principles and the guiding principles they are low, broad and simple. Obviously, the reduction in the marginal rate will reduce the tax so we are going towards a lower rate of tax for people, so we are hitting that. Trying to introduce independent tax, the complexity of our current regime, the fact we have a 2 or 3-tier system, when you have people that do not pay tax as well, means that it is very complicated to just bring in independent tax in one go. Some people would benefit greatly, some people would have a huge disadvantage in doing that, so we have to make some steps to simplify the tax system and reducing the marginal rate is one of those steps. Turning to the question that I think, Chairman, you asked earlier, if we have surpluses in the future are we going to reduce the marginal rate further or are we going to do something else, as the Minister said, there are decisions that are going to have to be made by the States in terms of how we introduce independent tax? The work we have done, and I think it is evident in our report, cannot be done on a cost-neutral basis to every single person, be that the taxpayer or the States. So there is going to have to be a bit of give somewhere and this is just the first step towards it.

**The Connétable of St. Lawrence:**

So we are moving towards this independent taxation or you are planning for it and assuming that the States will give approval for it?

**The Minister for Treasury and Resources:**

Yes.

**The Connétable of St. Lawrence:**

But obviously the planning has to be done in the meantime.

**The Minister for Treasury and Resources:**

Yes, exactly. There is an awful lot of work that needs to be done on moving to the single person.

**The Connétable of St. Lawrence:**

Is there any indication of when it may be brought forward for debate?

**Assistant Minister for Treasury and Resources:**

For the independent taxation?

**The Connétable of St. Lawrence:**

Yes.

**Assistant Minister for Treasury and Resources:**

As I mentioned at last week's Scrutiny meeting, which unfortunately you could not attend, the process of independent taxation is going to take closer to 10 years than it is going to take to 5 years. It is a long-term project. It is not something that we are going to see completed within a 5-year period. It is going to be much closer to 10 years.

**The Minister for Treasury and Resources:**

For complete arrangement, we will deliver...and I think Treasury officials will confirm the Assistant Minister and I have been extremely demanding on ensuring that we deliver this as soon as possible. Of course, it might take 10 years to complete it, but if we can deliver large numbers as early as possible then that is the case. There are some people who are happy to continue on the couple basis. Some people are not as concerned about it as others. Others are concerned about it and so to deliver as many people early, that would be a benefit.

**The Connétable of St. Lawrence:**

Do we know numbers that would be affected?

**Director, Tax Policy:**

Sorry, can I just add to the answer that was just given? There is in the independent tax report a timetable of what we are planning. It is difficult to say precisely how long it is going to take because we do not yet know which route we are going to take to get there. The independent tax report sets out various ways of getting there and each will have an economic impact. We need to bottom that out and put a proposal that will then be taken to the States as to which route we want to take, which one are you prepared to take in terms of finances. As the Minister said, they have been very demanding. We are hoping to come up with a proposal next year and that will indicate precisely what the cost will be and to whom, and then the States will make a decision as to whether that is something that they can bear.

**The Connétable of St. Lawrence:**

Do you have indicative numbers of those who will be affected by this?

**The Minister for Treasury and Resources:**

When you say "affected", do you mean...

**The Connétable of St. Lawrence:**

Who would be able to change?

**The Minister for Treasury and Resources:**

Yes, your question "affected" is those people who will be affected by having a single...well, all women who are married will have their own tax return. So I cannot think of how many married women there are. Thank you, so we have...

**The Connétable of St. Lawrence:**

Well, I am one of them.

**The Minister for Treasury and Resources:**

You are one of them. There are a few round the table, yes. Now, can you help us here? It is just the amount of...

**Senator S.C. Ferguson:**

Well, perhaps we can have that supplied to us.

**Director, Tax Policy:**

I think it is in the report.



**Senator S.C. Ferguson:**

Okay, that is fine. Can we move on, please?

**The Minister for Treasury and Resources:**

About 14,000.

**The Connétable of St. Lawrence:**

Thank you, Minister. I would just like to ask another question - thank you for that - about the proposals. The Panel has had comments made to it that the proposed budget does not provide sufficient support for economic growth and job creation and that other measures could and possibly should be taken. I am sure that if you have read the *J.E.P. (Jersey Evening Post)* this week you will know which agencies made those comments. How would you respond to that?

**The Minister for Treasury and Resources:**

With a degree of disappointment because I think that, first of all, we have deployed every effort to support business through the downturn: fiscal stimulus, economic growth strategy, financial services reorganisation, Digital Jersey, giving Economic Development ... this refrain is not coming from Economic Development I hasten to add, it is coming from the I.O.D. (Institute of Directors) and Chamber. So we have given Economic Development all the support. I often say to Alan: "I do not think I have ever turned down a request for you for your department" and that is quite right. Every request that we have ever had, I think, for Economic Development we have given them, and rightly so. So I am disappointed. I am also a little disappointed, if I am honest, about the comments that have been made about the capital allowances debate. Over a number of months leading up to this budget I asked for proposals from the I.O.D. and Chamber of Commerce, and we have a good relationship with these people. But I said: "Give me proposals that we could include in the budget, but they have to work and they have to be defensible and they cannot be just tax avoidance schemes that could be misused." So we did look at great length at the capital allowances and, as my Assistant Minister explained to me last night, the actual proposal that was being asked was not 100 per cent write-off, it was effectively 300 per cent write-off in terms of capital allowances. People were asking us for a tax system that would give them a credit for an investment, not just an offset. I am disappointed but I am continuing to want to engage and I have asked again the Tax Policy Unit to look at...we recently had, and it was a new request from them, to have sight of this H.M.R.C. (Her Majesty's Revenue and Customs) plan. What is it called?

**Director, Tax Policy:**

Seed Enterprise Investment Scheme.

**The Minister for Treasury and Resources:**

Yes, Seed Enterprise Investment Scheme, which had come forward very late on as a proposal. Again, we are looking at it and we have asked E.D., who really are the main people that would engage with the I.O.D. and Chamber, to come forward with any proposals that they have and I remain alert, open and responsive to any proposals that they have. I want to do everything I can to support economic growth and to support businesses.

**Deputy R.J. Rondel:**

That Seed Enterprise Investment Scheme has been mentioned to us as well. What work have you undertaken to look into it and what possibility is there of implementation of a scheme like that?

**The Minister for Treasury and Resources:**

Well, I think that it is not possible to include it in this budget because effectively it requires a lot of legislation. I think it is just worth reflecting those schemes are successful in the U.K. I have gone around Hoxton roundabout myself to go and see the Silicon Roundabout and the huge tech investments that are being made in the U.K., which are hugely successful. It is done on the backdrop of a very different taxation system, very high personal taxes, capital gains tax, all sorts of other taxes that you do need to offset to get investment. We have a general rate of tax of zero. We have low tax. I do not think the same dynamics are at work in the Jersey decisions of whether to invest than in the United Kingdom, but I remain open. In fact, I think it is only the fact that I had a meeting prior to coming here this morning that I think the Treasury team has already given me a comment on that scheme. I think probably the Tax Policy Unit has already emailed me this morning about giving me a comment on it. So we are alert to it. We are looking at it.

**Deputy R.J. Rondel:**

So, just to confirm, you are looking at it?

**The Minister for Treasury and Resources:**

Indeed, yes.

**Deputy R.J. Rondel:**

But you had not done before?

**The Minister for Treasury and Resources:**

We had. We have looked at every single proposal that the I.O.D. and tax adviser community has looked at. Every single one of them, and I met with them...

**Deputy R.J. Rondel:**

But you felt it would not work?

**The Minister for Treasury and Resources:**

I have asked for them. We did a feasibility...no reason why we cannot give these to the Panel?

**Director, Tax Policy:**

No.

**The Minister for Treasury and Resources:**

There is an example of our work, or rather Wendy and her team's work. That is a venture investment programme, initial feasibility review into the introduction of a tax incentive scheme. We have done an enormous amount of work on this and I do not think it is fair to portray a non-responsive or non-business friendly budget. We have put millions into the economic growth area, rightly so.

**Deputy R.J. Rondel:**

Thank you, Minister. If we could move on to Impôts because...

**The Minister for Treasury and Resources:**

If you have any ideas, of course, we are more than happy to listen to them.

**Deputy R.J. Rondel:**

Well, that was one that was mentioned to us, that scheme.

[10:45]

**The Deputy of St. Ouen:**

Sorry, Deputy Rondel, one last question on the income tax proposal. Perhaps the Minister can tell us when the public will see the benefit of the reduction in the marginal rate proposal?

**The Minister for Treasury and Resources:**

Well, obviously some people who are current year taxpayers will get the benefit straight away and other taxpayers, in the way that we deal with the prior year basis, will get the benefit in 2015.

**The Deputy of St. Ouen:**

When you say straight away, some ...

**The Minister for Treasury and Resources:**

Well, some people pay tax on a current year basis.

**The Deputy of St. Ouen:**

About how many taxpayers fit in the marginal tax?

**The Minister for Treasury and Resources:**

About 25 per cent.

**The Deputy of St. Ouen:**

Twenty-five per cent will see a benefit in 2014?

**The Minister for Treasury and Resources:**

Yes.

**The Deputy of St. Ouen:**

The majority will see a benefit in 2015?

**The Minister for Treasury and Resources:**

Yes, and I think it is the actual cash change but it is also the expectation. If people are confident that they are going to have their tax reduced, then they are going to be more confident about their spending. They are going to feel better about house prices, I hope. They are going to feel better about security of their jobs. They are going to feel better about being able to ensure that their incomes are rising. We have low inflation in Jersey. Low inflation is hugely important. The dynamic of earnings and inflation is reversed in the U.K. So it is overall genuine savings confidence, yes.

**The Deputy of St. Ouen:**

I hear what you are saying, Minister, but that would follow in the normal course of events. In reality we have, as you quite rightly mentioned earlier, the long-term care charge being introduced in 2015 and increased again in 2016 that is likely to remove all or most of any gains that individuals might see. Is that not the case?

**The Minister for Treasury and Resources:**

Well, yes, and if members of the Panel do not like the long-term care scheme and they do not want to benefit the huge amount of elderly people that we have in Jersey that are worried about not keeping their own home, then members can vote against it. It is up to members to vote

according to their own views on this and I will be interested to see how the Panel will be voting on that.

**Senator S.C. Ferguson:**

We will look forward to seeing the calculations.

**Deputy R.J. Rondel:**

Can we move on to Impôts quickly?

**The Minister for Treasury and Resources:**

Of course.

**Deputy R.J. Rondel:**

Last hearing we asked if any work had been undertaken to assess the impact of V.E.D. (Vehicle Emissions Duty) on consumer decisions and the answer came back hopefully consumers will buy environmentally friendly vehicles. Do you have any evidence that V.E.D. is working, changing consumer choice to those environmentally friendly vehicles?

**The Minister for Treasury and Resources:**

I know we are running out of time and you want to deal with other duty issues. I do not have, Richard, numbers of vehicle registrations with me here but I will certainly give them to you. What I do know is that as a combination of tax and people's buying decisions and the market in terms of low emission vehicles, we are seeing a move towards lower emission vehicles. Even big cars now have...

**Deputy R.J. Rondel:**

There is evidence of that?

**The Minister for Treasury and Resources:**

Yes, but the interesting thing is that even cars that you would imagine would be real polluters have very low CO2 emissions now. But we will provide some information, absolutely.

**Deputy R.J. Rondel:**

Thank you.

**The Minister for Treasury and Resources:**

Good question.

**Deputy R.J. Rondel:**

Also, the industry appears to have different figures - I am talking about alcohol and tobacco now - from yourselves. Where did you source your information? Why do you think there is a difference?

**The Minister for Treasury and Resources:**

This is a very important debate and I know that there is a very alive issue. I spent an hour yesterday with the Minister for Economic Development talking about the duty issues. In terms of the statistics, they are from the Statistics Unit. They are not Eddie or my or any of the tax team's. They are directly from Duncan Gibaut's unit.

**Deputy R.J. Rondel:**

Do you think they are comparable with the U.K. and other European jurisdictions? Are we comparing like for like?

**The Minister for Treasury and Resources:**

Well, we have taken the numbers from the Stats Unit and the Stats Unit I think have provided us with the U.K. comparators. I do not go and drink pints of beer so I could not tell you what a pint of beer costs, unfortunately.

**Deputy R.J. Rondel:**

Well, it varies from where you go and what sort of establishment it is.

**The Minister for Treasury and Resources:**

Yes, exactly, that is the point, but what is clear...

**Deputy R.J. Rondel:**

That is why it will be interesting to know whether the source is comparable.

**Senator S.C. Ferguson:**

Well, we have this argument every time the Impôts come up. Is it not time for the Treasury and the Stats Department and the wholesalers, the drinks companies, to get together and discuss it?

**The Minister for Treasury and Resources:**

Sorry, I was just getting a note from the Treasurer about it. Can you just ask that last...?

**Senator S.C. Ferguson:**

I just said this comes up every time Impôts go up. Is it not time that the Treasury, the Stats Department and the wholesalers/retailers involved get together and just have a discussion about it?

**The Minister for Treasury and Resources:**

Well, I am always happy to talk and do talk to lots of people.

**Senator S.C. Ferguson:**

Oh, yes, we had noticed. **[Laughter]** I am sorry, Minister, I could not resist it.

**The Minister for Treasury and Resources:**

Being nice sometimes is really quite helpful to discussions, Sarah.

**Senator S.C. Ferguson:**

I thought I was being.

**The Minister for Treasury and Resources:**

Were you? I wonder.

**Senator S.C. Ferguson:**

Anyway...

**The Minister for Treasury and Resources:**

Right, the fact is we do engage with industry partners all the time and we will. I have said to the Minister for Economic Development and I am going to frame a letter today to industry to say: "Bring forward your proposals for an alternative proposal for budget increases and duty increases. If you come and tell us that as a result of only putting a zero or a penny on a pint," because I think we are only putting a penny on a pint...

**Assistant Minister for Treasury and Resources:**

Two.

**The Minister for Treasury and Resources:**

We are putting 2, sorry, thank you. If you only want a penny on a pint, what are you going to do for investment in hospitality? Tell us what you want. Tell us why your prices are high. I know we can debate about the Stats Unit and average numbers from London or whatever. The facts are the facts. Even if we are out by 50 per cent, there is an inexplicable margin on a pint of beer and a

tot of whiskey. So I have also asked the J.C.R.A. (Jersey Competition Regulatory Authority) to look at this issue and I propose to write to the industry - that is the licensing trade, the Hospitality Association, the new Tourism Board and the supermarket retailers - and I am going to ask them to come forward with a proposal to show what the benefits would be and how they will guarantee they will invest in their industry, that we will see an improvement in the place of consumption of alcohol, displacing drinking at home versus in the apparently safe environment of a pub. Tell us. If they want me to follow the "penny off a pint" George policy of the U.K., then tell me why it is going to benefit the economy of Jersey and the people of Jersey.

**Senator S.C. Ferguson:**

Super. Well, that sounds very useful and we are just going to carry on.

**Treasurer of the States:**

Chairman, just on the detail before you leave the point on the price comparison, we do have a note which would take me about 10 minutes to read to you, so I will provide it to you outside the meeting. But the price comparison report shows the rate at which prices have changed in Jersey, Guernsey and the U.K. across a range of categories.

**Senator S.C. Ferguson:**

Okay, fine.

**Treasurer of the States:**

So we will provide that to you.

**Senator S.C. Ferguson:**

We will deal with that separately because I do have one question for the Minister that I do want to get to.

**The Minister for Treasury and Resources:**

Fine, and I just want to say one thing on this. I am sure that Panel members are well aware of the vested interest lobbying that we are getting on this, full stop.

**Senator S.C. Ferguson:**

Oh, absolutely. It is like I have graphs of the Impôts that are flat-lining, but anyway...

**The Minister for Treasury and Resources:**

I know you like your laffer curves.



**Senator S.C. Ferguson:**

**[Laughter]** Oh, absolutely. There were £27.6 million - we are talking the near cash at this point - in near cash departmental carry-forwards from 2012 to 2013 and there were £27.8 million of such carry-forwards from 2011 to 2012. The half-year report forecast potential carry-forwards of £20 million from 2013 to 2014. How would you address the notion that with such flexibility there is little pressure to achieve efficiency savings? If real rigour was applied to drive out recurring efficiency savings of a magnitude equivalent to the carry-forwards, could that not be used to negate the requirement to levy the phased additional long-term care contributions?

**The Minister for Treasury and Resources:**

Well, if you are suggesting to me, Chairman, that we cannot impose the long-term care by taking away carry-forwards from departments, then I would...

**Senator S.C. Ferguson:**

No, I am not saying that at all. I am saying that...

**The Minister for Treasury and Resources:**

Well, I do not know why you asked the question then because...

**Senator S.C. Ferguson:**

The impression one gets is that if there are such enormous carry-forwards, then there must be a lot of excess fat in the system that we should be driving out.

**The Minister for Treasury and Resources:**

No. No, absolutely not. Let us put the carry-forwards into some sort of perspective here. We have carry-forwards of about £20 million, £30 million, on a total spend of £650 million. Now, it is a lot of money and every penny counts, but it is still a relatively small percentage of actual approved spend, firstly. Secondly, we have repeated at the Panel many times if you do not give departments the ability to carry forward their budgets and to give them the right to use their money over a period of 3 years, which we have now given them in the Medium-Term Financial Plan, and if you simply say to departments: "Underspend and we will take the money away" where is the incentive for them to underspend? We will go back to the bad old days of fences being erected in December, police cars being bought in November, the capital projects being spent in October with the expectation of an underspend. We wanted to move away from short-termism and a reoccurring underspend of around £20 million does not, Chairman, indicate fat in the system. It does not.

**Senator S.C. Ferguson:**

It does seem quite a lot, does it not?

**The Minister for Treasury and Resources:**

I really think we need to be really careful about putting statements in the public domain about carry-forwards in a way that gives the public the wrong impression and the wrong facts about our efficiency drives. You will be on the vanguard of efficient small Government spending and I appreciate and I respect that. Other people have a different view. Other people have a view that we have been really tough on spending and that we have asked departments to be really...with a sense of spending and cost consciousness that we have never seen before. Departments are struggling with some of their C.S.R. (Comprehensive Spending Review) proposals and we are holding them to it and the States is becoming more efficient. There is a culture of people being better with money than there was in the past. I would not want political yah-boo statements to be almost interpreted...

**Senator S.C. Ferguson:**

That is not a political yah-boo statement. It is a statement of fact.

**The Minister for Treasury and Resources:**

Well, you said in your question...

**Senator S.C. Ferguson:**

It seems that there is a certain amount of money slushing around that we should be dealing with.

**The Minister for Treasury and Resources:**

These words, Sarah, your use of words is careless and inappropriate. Using the words "slushing around", there is not any slushing around.

**Senator S.C. Ferguson:**

Slushing around then.

**The Minister for Treasury and Resources:**

Well, slushing around. Linking a question to say an underspend means that we can obviate the need to introduce a long-term care charge, that is just, if I may say, an inappropriate linkage and it is irresponsible for us to even talk about the possibility of being able to use a single year's underspend for a long-term benefit that is going to benefit thousands of Island families.

**Senator S.C. Ferguson:**

I am merely articulating what Joe Public will say down at the pub over his recently increased cost of beer.

**The Minister for Treasury and Resources:**

Fine, but we are not in a pub here and we are not Joe Public. We are informed Members, elected with privileged information.

**Treasurer of the States:**

Chairman, remember in this context that the law requires that departments cannot overspend, so in other places across a whole system like Jersey you would have some departments who were overspending, some departments who are underspending, and they would net off and you would be maybe half or 1 per cent away from your net budget. But in Jersey the law requires departments to underspend. Departments cannot overspend, so that means every department has underspending. Now, your point might have validity if those carry-forward balances were growing and growing and growing every year, but they are not. They are consistent and you have just given the numbers yourself. The other thing is that departments are to be congratulated because in order to arrive at that position they are making some very difficult decisions in managing their budgets during the year. If you were to look at some of the pressures there are on Health and some of the pressures there are on T.T.S. at the moment, and on Planning, where they are suffering from much reduced income in different areas, they have managed within their budgets despite very significant drops of income for things like planning fees and charges, for things like tipping income. T.T.S. have faced problems because on the one hand Jersey Electricity prices have gone up and on the other hand under an agreement the amount that they are being paid for electricity generated by the Energy from Waste plant has gone down. Now, they are to be congratulated for having met increasing costs on the one hand and a reduction in their income from within their existing resources.

[11:00]

**Senator S.C. Ferguson:**

Excellent. Super.

**Treasurer of the States:**

There is no evidence to me of any sloshing around.

**Senator S.C. Ferguson:**

We will look forward to seeing the result. Thank you very much. One final question: the input/output tables that they have at Strathclyde, why are we not continuing to use them? I did make inquiries and somebody said: "Ask the Treasury." So I presumed you had cut off the money.

**The Minister for Treasury and Resources:**

Well, the Strathclyde model, I think I am the only one around the table that was probably in the States when the Strathclyde model was discussed. The Strathclyde model... **[Interruption]** Oh, right, I am advised that the economic adviser has already answered that question to you. The Strathclyde model was a model that was developed, for those that do not know, of effectively a model of the Jersey economy in the late 1990s. I would suggest that the model of the economy has changed quite significantly since then and we have better understanding of the economy as a result of the work that we have done, certainly on capital economics, on the work that we did with McKinsey. To the extent that financial services is the big part of the economy, I think probably we have got there, but that is an economic analysis question which the economic adviser is far better capable of answering.

**Senator S.C. Ferguson:**

I got the impression that he would quite like to have it back. Certainly, I do not understand why we stopped. Why did we stop?

**The Minister for Treasury and Resources:**

Those are questions that you need to ask the economic adviser. I deal with policy.

**Senator S.C. Ferguson:**

I was told to ask the Treasury.

**The Minister for Treasury and Resources:**

Well, who told you?

**Treasurer of the States:**

No, that was not the case, Chairman.

**The Minister for Treasury and Resources:]**

Who told you to ask the Treasury?

**Senator S.C. Ferguson:**

That is immaterial, but I just wonder why we are not doing it because I have had comments from the chief economic adviser from a very well-known bank which said that it was a great pity that we did not continue with the input/output tables and, therefore, I am just asking.

**The Minister for Treasury and Resources:**

I have nothing further to add.

**Senator S.C. Ferguson:**

Right. Well, I think that brings this session to a close. Thank you, Minister, ladies and gentlemen.