



## Corporate Services Scrutiny Panel

### Quarterly Hearing

## Witness: The Minister for Treasury and Resources

Tuesday, 16th October 2018

**Panel:**

Senator K.L. Moore (Chairman)

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

Connétable R. Vibert of St. Peter

Deputy J.H. Perchard of St. Saviour

**Witnesses:**

The Minister for Treasury and Resources

Treasurer of the States

Deputy Comptroller of Taxes

Strategic Finance Review Consultant

[13:00]

**Senator K.L. Moore (Chairman):**

I formally open the meeting but we are going to be filmed but not livestreamed; it will be broadcast later. I will just let you all get comfortable. Well good afternoon, welcome to the Corporate Services Scrutiny Panel Quarterly Hearing with the Minister for Treasury and Resources. So, just a few pieces of housekeeping, if I could I draw everyone's attention to the following: electronic devices, including mobile phones, should be switched to silent, please. I ask that members of the public do not interfere with proceedings and, as soon as the hearing is closed, please could you leave quietly. The hearing will be filmed and the recording will be published at a later date. We do hope in future to stream them live but for the purposes today we would like to quality-check our recording first. Now, we will start just for the sake of the witnesses with some introductions. If we could go around the room, starting with you, Minister.

**The Minister for Treasury and Resources:**

Good afternoon, I am Deputy Susie Pinel, the Minister for Treasury and Resources.

**Treasurer of the States:**

Good afternoon, Richard Bell, Treasurer.

**Strategic Finance Review Consultant:**

Good afternoon, Camilla Black, leading finance transformation.

**Deputy J.H. Perchard of St. Saviour:**

Afternoon, I am Deputy Jess Perchard of St. Saviour, a member of the Corporate Services Scrutiny Panel.

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

Deputy Steve Ahier, vice-chairman, Scrutiny Panel.

**Senator K.L. Moore:**

Senator Kristina Moore, I am the chairman of the Corporate Services Scrutiny Panel.

**Connétable R. Vibert of St. Peter:**

Constable Richard Vibert, also a member of the Corporate Services Scrutiny Panel.

**Project Trident:**

Oliver Wilderspin, Project Trident.

**Scrutiny Officer:**

Simon Spottiswoode, Scrutiny Officer.

**Deputy Comptroller of Taxes:**

Finally, Paul Eastwood, Deputy Comptroller of Taxes.

**Senator K.L. Moore:**

Thank you, all. Minister, I take it that you can confirm that you have read and understood the witness statement that is in front of you.

**The Minister for Treasury and Resources:**

I should have done by now, yes, thank you.

**Senator K.L. Moore:**

Good. Okay, so I think Deputy Ahier is going to start off the questions today.

**Deputy S.M. Ahier:**

Thank you, Minister. Large deficits are predicted in 2020 to 2023 but no new revenue streams have been identified to cover this. Why is that?

**The Minister for Treasury and Resources:**

Sorry, could you repeat the first bit? I did not quite ...

**Deputy S.M. Ahier:**

There have been deficits predicted in 2020 to 2023 according to a financial forecast surplus/deficit. Why have no revenue streams been implemented?

**The Minister for Treasury and Resources:**

That is going to be part of the One Government plan. So the Common Strategic Policy is published first and then we go back to the drawing board, so to speak, for early spring, summer to publish exactly what you are asking us: how the projected Common Strategic Policy will be funded.

**Senator K.L. Moore:**

So the projections that we have seen in the financial forecasting, do they include projections that we were told about last week by the Chief Minister of £30 million savings being made through finance transformation and the One Government programme?

**Treasurer of the States:**

No, they do not.

**Senator K.L. Moore:**

No? So, in essence, the predicted deficit should be fulfilled by the savings that will be found throughout the organisation?

**Treasurer of the States:**

That is the plan, yes, that the savings delivered would serve a number of purposes in the longer term and in the shorter term. So funds for investments, funds to seek on any C.S.P. (Common Strategic Policy) priorities, some funds in the first instance to put the forecast on an even keel from 2020, yes.

**Deputy S.M. Ahier:**

On the same point, why is it that there is an increase in capital spend between 2018 and 2020 of about 10 per cent? What is the need for this increased estimated ...

**Treasurer of the States:**

That is a forecast of depreciation rather than a forecast of capital spend, so it is driven by the value of the assets, the depreciation rates we use, but an underlying inflation forecast as well. They are very high-level forecasts and that is of depreciation, ie, the amortising, if you like, of assets as opposed to the capital programme itself.

**Deputy S.M. Ahier:**

So these are not necessarily realistic?

**Treasurer of the States:**

They are not meant to reflect the capital programme and investment needs, they are meant to reflect a more stable measure of use of assets over the period. So there are other capital programmes that go way beyond those sorts of numbers.

**Deputy S.M. Ahier:**

The fact that there is no deficit in 2019, is that to do with the termination of the Medium Term Financial Plan?

**Treasurer of the States:**

Yes.

**Deputy S.M. Ahier:**

Is that relevant to it?

**Treasurer of the States:**

Well it is relevant in respect of, getting away from the capital for a second, of having base expenditure for 2019, so that is using the existing base budgets for 2019. Of course we are going to go through a transition report that will matter to the new structure and, to a lesser degree, some of the priorities that the Council of Ministers are going to buy. That sets the base budget for 2020. What we have done for 2020 is then identify underlying pressures where we are using perhaps funds brought forward that have not been spent in 2019 or, for example, in the case of the transfers that we are going to make from the Health Insurance Fund. Those are currently being paid for out of unallocated reserves in some instances, underspends in departments on an annual basis. That unwinds in 2020 so we can put the funding on a stable footing. We have also used the long-term

trend inflation rates for those underlying spends. We also have in there the current profile of Health Strategy, we call it PH2 funding, but it was the proposition in 2012 that established the Health Strategy. We will revise those but at this point what we are doing is pointing to where we have a high-level estimate of where the base expenditure will go to without further intervention.

**Deputy S.M. Ahier:**

So will the deficit increase if inflation increases?

**Treasurer of the States:**

To a degree. Although we see some benefit on the income line equally if inflation increases, the point being though that the expenditure rises are outstripping the income rises slightly over the period which starts to make that issue grow further, so if inflation hits your income line as well as your expenditure line.

**Deputy S.M. Ahier:**

Thank you.

**Senator K.L. Moore:**

So what in that context is being done to focus on the expenditure line and minimise that impact against inflation?

**Treasurer of the States:**

Sorry, could you ...

**Senator K.L. Moore:**

What is being done to focus on the expenditure line and minimise the impact if inflation continues to rise?

**Treasurer of the States:**

At this point that is not the focus of doing the estimates. We have not this early in the financial planning cycle provided estimates going out that far of income, which is why I am trying to encourage a degree of caution in the news. Previously what we would have done is said, for example: "Inflation is running at 3 per cent, so we will put 2 per cent into budgets." Any savings from that point on are measured against an already artificially diminished line, if you like. So what we just do, we just say: "Before you make any of those decisions, here is what the expenditure is looking like." As the Minister says, as we develop into delivering a government plan which will talk about policies and will talk about actions, not just the money, but it will say how we are funding things, it will say how things are costed, whereas in the past we have developed a Medium Term Financial Plan that has just

identified the cost and has not talked about what we are going to achieve with that. Now that requires a whole range of strategies to be developed. Some of those will be developed ahead of going to the Government plan, some of those will be identified to be developed as we move through the Government plan period. So inflationary pressures in terms of recent times are only something that we have started to push through in this last couple of quarters.

**The Minister for Treasury and Resources:**

One of the major differences that the finance transformation team are bringing in is a complete change to the Medium Term Financial Plan. It will not be called that anyway, it will be a sort of a medium-term plan, but there will be an annual rollover so that every year it can be assessed as opposed to being confined totally on expenditure basis to a 4-year plan so that we can be more flexible and react more quickly.

**Senator K.L. Moore:**

Bringing ourselves back closer to the present then, 2019 is the last year of the current Medium Term Financial Plan, are you satisfied that every department is able to exist within the expenditure limits that have been set by the Assembly?

**The Minister for Treasury and Resources:**

Well, it is a twofold question, really, because it is a transfer now of not having departmental budgets in the future as has been in the past, so that is all in the process. I do not know whether you or Camilla want to answer that but ...

**Treasurer of the States:**

So we are aware of some of the pressures that are underlying some of those budgets. As we do the transitional plan, we will be cognisant of some of those pressures. For example, we set out in the Budget non-delivery of waste charges has put a sizeable hole in the budget of Growth, Housing and Environment Department, or Department for Infrastructure, which is addressed in the Budget. We are also in dialogue with departments to say we have got more work to be done. We know some of the areas where savings are presenting difficulties, we have got to get to the bottom of where there are others. But in terms of the larger instances, we are aware of where they are at and we are aware through the chief executive as well of their plans to deliver against those savings targets through alternative means.

**Deputy S.M. Ahier:**

Are you considering bringing the waste charge back to the Assembly at all?

**Treasurer of the States:**

Sorry, could you speak up?

**Deputy S.M. Ahier:**

Are you considering bringing the waste charge back to the Assembly at all? Would you like to revisit the concept of the waste charge?

**The Minister for Treasury and Resources:**

I think it will have to be revisited because it is the commercial waste charge rather than the domestic one which was rejected by the States and, of course, that is the bigger part of the whole waste disposal. That was going to be about £11 million coming into the Exchequer. Well, somehow £11 million has got to be found without it, so I think it will have to be revisited.

**Deputy S.M. Ahier:**

If that fails to be passed again, what alternative revenue streams do you have to compensate for it?

**The Minister for Treasury and Resources:**

I think it was not surprising but it was injudicious maybe that it was not passed last time because, again, it is a huge sum of money and it has to be found. This time if somebody brings it forward - I am not intending to but it was not a Treasury and Resources proposition last time - then I think people would have to consider very seriously as to if it were rejected again then where that sort of money is going to be found.

**Senator K.L. Moore:**

Do you expect any further savings to be realised in future ... so we have heard about the £30 million, are there any further savings that will be announced as a result of the larger One Government project?

**The Minister for Treasury and Resources:**

Well, absolutely. The chief executive has I think said publicly that we are looking about £70 million, £80 million worth of savings once both the financial transformation, the cultural transformation, the entire civil service structure has been revisited but over a period of years, so it is not going to be any time soon. Obviously all these things take a long time and I think what the whole transformation exercise is, both with finance and with cultural, is to ensure that in 3 or 4 years' time when it is considered to be completed that the people in there will be trained to continue it. So there will be then a saving in the consultancy fees that are being employed at the moment in order to engender it in the first place.

**Senator K.L. Moore:**

Thank you. Obviously the Council of Ministers recently published its Common Strategic Policy. In the briefing to States Members, the Chief Minister acknowledged that tax rises might be necessary, or would be necessary, I think were his words, to fulfil the needs that he saw were present within our public sector. What measures are you taking to ensure that those policies set out in the C.S.P. are to be delivered financially?

**The Minister for Treasury and Resources:**

Well again as I said on your first question, Chairman, it is going to be broken down in the Government plan which will come forward with how we are going to fund the Common Strategic Policy. But also, yes, the Chief Minister did mention tax rises - I did not - but something somehow has got to pay for this, so we have to address the possibility of that. But there is nothing, as you know, in the 2019 Budget that sees a tax rise. All sorts of things may have to increase.

[13:15]

The Long Term Care Fund, for instance, is just about balancing, so we need more to increase the charge of that, which I know some people see as a tax because it is taken on all income but it is ring-fenced for long-term care. But, as I have said plenty of times before, with the ageing demographic you have got to look 30 years ahead to make sure that the fund is able to cope with the demand. There are all sorts of levers that one can use but increasing tax, personal tax, would be one of, in my view, not a last resort, but certainly not an immediate issue.

**Senator K.L. Moore:**

So why then did the Chief Minister so openly refer to such a major policy change?

**The Minister for Treasury and Resources:**

Because I think we all see as a government now, certainly as a Council of Ministers that funding the Island is not going to get any cheaper. So somebody has to pay for it but at the same time we have to remain competitive with other jurisdictions. But it is the same as the Social Security review that is ongoing at the moment, shortly to be completed, and the benefits that are given out from that are not covered by the income in contributions, so that has to be looked at as well. But on the basis that what we pay in Jersey in contributions is half of what the U.K. (United Kingdom) pay and our 20 per cent tax rate in Jersey is more than half of what the U.K. pay, somewhere along the line there has got to be a balance achieved.

**The Connétable of St. Peter:**

Would you consider extending the retail tax on large businesses?



**The Minister for Treasury and Resources:**

Extending ...

**The Connétable of St. Peter:**

To other businesses the current tax on large retailers.

**The Minister for Treasury and Resources:**

Yes, I know what the tax is, I did not quite understand what you meant by expansion.

**The Connétable of St. Peter:**

But would you consider extending it to other retailers?

**The Minister for Treasury and Resources:**

Well at the moment it is taxed on profits over £500,000, so I am not quite sure what you mean by ...

**The Connétable of St. Peter:**

I mean at the moment it is a limited number of retailers.

**The Minister for Treasury and Resources:**

It is.

**The Connétable of St. Peter:**

Yes. An extension would be increasing that.

**The Minister for Treasury and Resources:**

At the moment it is about 20 retailers, 5 of whom are local retailers. It is distinguished by the fact it has got to be retailers with a profit over £500,000, so by extending I am not quite sure what you mean.

**The Connétable of St. Peter:**

Well, changing the bands in which it operates producing more ...

**The Minister for Treasury and Resources:**

So to lower that £500,000?

**The Connétable of St. Peter:**

Producing more revenue, increasing the number of retailers who are captured by it. Because one has to consider that non-resident, non-Jersey companies are not paying tax here. However, whether a double-taxation agreement, the fact that you tax them, their overall taxation to a great extent is not affected despite what we hear in the newspapers about: “Oh, we are being taxed.” The fact is that is offset against, in most cases, their U.K. tax assessment, so there must be scope there to increase the tax on retailers.

**The Minister for Treasury and Resources:**

Can I ask Paul to ...

**Deputy Comptroller of Taxes:**

Yes, so I think the important thing to obviously remember about in the context of our corporate tax regime is that the Zero/Ten model that we have is sort of fundamentally important to the finance sector, in particular maintaining that 0 per cent, maintaining that tax neutrality is absolutely key. But in terms of making sure that our tax regime is internationally acceptable, what we have to do is make sure that the 0 per cent rate remains the standard rate of income tax. That is why historically Ministers have been very cautious about extending the scope of entities which is subject to tax at a positive rate. In making the decision to move to the large corporate retailers’ tax and bringing the 20 entities in that the Minister referred to, there was a lot of consideration given to how many entities that would bring within scope, how much profit that was moving from being taxed at 0 per cent to being taxed at a positive rate and also the number of employees in that sector, and so it is a balancing act. I sort of hear what you say in terms of extending the rate to raise revenue but we just have to balance that against the need to maintain a Zero/Ten tax regime.

**The Connétable of St. Peter:**

That I understand because I came from the finance industry. I understand why we have the current tax regime; however, it does not make it fair. Local retailers are of course subject to income tax and non-Jersey companies are not. When we introduced the tax there was a lot of noise about: “Oh, we are going to have to increase prices because this is costing us money” when in effect their overall taxation probably did not change at all. So, there should have been some publicity at the time to say: “Well this factually is not correct.”

**Deputy Comptroller of Taxes:**

Just so I am clear and just so that there is no confusion, locally-owned companies are subject to Zero/Ten like everyone else. So a locally-owned, let us say, small retail company is subject to tax at 0 per cent. It is only when the profits are then distributed out to the individual shareholders at the local tax.

**The Connétable of St. Peter:**

That they are taxed, yes.

**Deputy Comptroller of Taxes:**

Just so we are clear. There is no difference in the tax treatment of companies owned by locals and those owned by non-locals. But, you are right, when you are looking at international companies, you have to look at your holistic overall international tax situation in order to determine whether additional tax paid in Jersey means that there is additional tax paid globally. Because, you are right, depending on the double-tax arrangements in the jurisdiction in which the parent company is based, they may not pay any tax. It is always difficult - international tax is a very challenging area - but you are right, it is this issue of double-taxation relief. If the parent entity is entitled to double-taxation relief they may not pay more tax overall.

**The Connétable of St. Peter:**

Okay, thank you.

**Senator K.L. Moore:**

We are going to move on now to Deputy Ahier.

**Deputy S.M. Ahier:**

I know you mentioned social security just before, but are changes to social security contribution levels, including raising the social security cap, still being considered?

**The Minister for Treasury and Resources:**

Yes, as part of the review. So as to whether the cap is ... depends on which cap you are talking about. There is the U.E.L. (Upper Earnings Limit), the S.E.L. (Standard Earnings Limit) are being reviewed very considerably because they have not been since it was introduced. So, it is a matter of whether one raises the standard earnings limit cap, which I think at the moment is about £56,000, which was introduced in 2008 when the whole income support system changed and now really needs reviewing. As to whether to remove the upper earnings limit cap has been under consideration for quite a long time but this review is also dealing with that. I do not know what the results of the review are but I think it is a public perception that by removing that upper earnings limit cap, which I think stands, again, at about £160,000 at the moment, it obviously goes up annually, would bring in a substantial amount of income. At the last count it would be about £7 million, so substantial, but not what the public perception is that it would be huge.

**Deputy S.M. Ahier:**

Why was this not included in the Budget for this year?

**The Minister for Treasury and Resources:**

Because the review has not finished.

**Deputy S.M. Ahier:**

Right, so will we be seeing it for the Budget next year or the year after or how long will it take to implement?

**The Minister for Treasury and Resources:**

It would be next year.

**Deputy S.M. Ahier:**

It will be in for next year? Thank you.

**Deputy J.H. Perchard:**

Minister, I would like to ask you about stamp duty, please. The U.K. stamp duty rates are quite a bit higher than those in Jersey. Properties over £1.5 million in the U.K. attract a stamp duty of 12 per cent, whereas our proposed new rates are on balance from 5.5 per cent to 9.5 per cent. Have you considered a bigger increase in stamp duty on higher-value properties?

**The Minister for Treasury and Resources:**

We did I think in the last Budget; the Treasurer can answer that probably more carefully than I can. But this time it is increasing the stamp duty on higher-value properties by 0.5 per cent in order to cover the loss, if you like, in stamp duty on properties from £350,000 to £400,000 and then £450,000 to £500,000 which will have their levels in some cases negated and some cases less, so to cover that there is a 0.5 per cent on the high-value properties. But I do believe there was a higher stamp duty introduced; I cannot recall when. It was not long ago.

**Deputy Comptroller of Taxes:**

Yes, since 2016 I think there have been 2 previous increases in stamp duty at the higher levels. I do not exactly have the figures down at the moment but I think we are talking about, in particular, properties above £1 million have seen quite significant increases. I think we introduced a whole new band, or a whole new band was introduced, for properties for consideration over £6 million. But there have been I think over the last 4 to 5 years some pretty significant increases in stamp duty at the top end, shall we say, of the property market.

**The Connétable of St. Peter:**

While we have on the lower band removed some people from the stamp duty catchment, in some ways that is not quite generous enough because in those particular bands young couples looking for a house, possibly with children or considering having children, are going to consider getting a 3-bedroomed house. In fact, there virtually are not any 3-bedroom houses in those categories where you have removed the stamp duty. So, personally, have you considered extending that 0 per cent band and compensating for that by increasing some of the bands that we have by more than 0.5 per cent? Because there is a 0.5 per cent throughout the whole range, a removal of stamp duty on some properties in the lower band, but that band just does not cater for people who are currently looking for houses.

**The Minister for Treasury and Resources:**

There is only so much one can cater, as you would well be aware. Jersey is a very expensive housing marketplace to live. I think it is nothing necessarily new that aspiring to a 3-bedroomed house is always going to be expensive. It is not so much the stamp duty rate, it is the supply rate of these properties. Then we move into a whole different ball game as to how many do we build and where do we build them in order to fill the demand.

**The Connétable of St. Peter:**

That is very true and I appreciate that demand is a big factor. However, if we are trying to assist people in any way whatsoever, and removal of stamp duty is a small part of that, we have to have a band which allows that to happen. Currently, extending the band for zero rate is not going to achieve that. There is plenty of scope within the other bands to increase them because if we are looking at, let us say, at the top band - and I would not propose to change the top band above 9.5 per cent - but those intermediate bands. But on a £6 million property, and there are quite a number of those sold, we are looking at a £300,000 saving in stamp duty between us and the U.K. So I think there is plenty of scope in those intermediate bands to do something.

**The Minister for Treasury and Resources:**

Well this is a starter for 10 per cent, if you like, that we are just moving in that direction in order to do exactly what we have said, is to help people start on the property ladder. It is a help but you cannot suddenly remove a stamp duty up to £600,000 and then impose it totally on the upper level.

**The Connétable of St. Peter:**

No, it is not.

**The Minister for Treasury and Resources:**

So this was a graduated way of introducing it.

**The Connétable of St. Peter:**

I was considering ... I said, if you understood that, that I would not propose increasing the top band but in those intermediate bands there is plenty of scope. Because if we consider in the U.K. that the band under which you pay 12 per cent is £1.5 million, so anything above £1.5 million, you are paying 12 per cent in stamp duty in the U.K. whereas in Jersey you are paying significantly less than that. You are paying probably around 5 or 6 per cent on that £1.5 million. So there is plenty of scope in the intermediate bands above the 0 per cent band to make increases, graduated increases that would allow you to set a higher 0 per cent threshold.

**Deputy Comptroller of Taxes:**

I think one thing is to remember that one of the tax policy principles is around being internationally competitive, although you are right to highlight the U.K.

[13:30]

I think particularly at that top end of the market we are looking at historically where have we seen our 1(1)(k) or 2(1)(e) population come from? It has historically been coming out of the U.K. and in some ways, although you are benchmarking into the U.K., I think in terms of those higher levels we also have to benchmark against other jurisdictions in which people leaving the U.K. are looking to move too and checking our overall package. So it is a balancing act between sort of getting that right overall package.

**The Connétable of St. Peter:**

Well we have not been looking at those.

**Senator K.L. Moore:**

Mindful of the time, we will perhaps revisit this issue when we meet with you, I think, next week to discuss the Budget measures in more depth. So we will move on now to, I think Deputy Perchard might have a question.

**Deputy J.H. Perchard:**

Yes, I just wanted to ask: why have you not been able to make changes to outdated parts of the Tax Law before now? In particular I am referring to the fact that husbands would have to give wives permission to discuss their tax affairs.

**The Minister for Treasury and Resources:**

We do seem to have been asked this question a couple of times.

**Deputy J.H. Perchard:**

Sorry.

**The Minister for Treasury and Resources:**

Not at all. Again, Paul as Deputy Comptroller would be able to answer, but we have discussed this and the Comptroller of Income Taxes has said, yes, it is outdated and, yes, we are looking at it. But it is no point, as with everything else, if you are doing a whole personal tax review, which we are, in picking up one particular bit because one has to operate with the other. But we are certainly looking at something that we might be able to do in the interim. Paul?

**Deputy Comptroller of Taxes:**

Yes, I am very conscious now I am being filmed. The first thing to say is and, please, before I go any further, this is not just defining the current situation, this is me just explaining what the law says. So at the moment in the context of married couples, the Tax Law specifically states that the husband's income includes his wife's income. So effectively he is the taxpayer; she, being diplomatic, does not exist in terms of the Income Tax Law at all. So, in other words, the permission he is giving, the married man is giving, in this context is he is giving permission for his wife to discuss his tax affairs because effectively she does not have any because it is his; it is his liability. That is what the Income Tax Law says. Now, as I said before, I am not justifying that. It is not correct in this day and age but that is what the law is. As part of the personal tax review, we have said all the way through, this position is untenable at this time and it needs to be changed. We need to ask questions in the review that comes out later this year about when moving away from that, what should we move towards? That is the conversation to have with the Island because depending on where you go to has different implications. Now what we are looking at in the interim before this Budget which may result in us having to amend something, is at least maybe reversing the balance here so that husbands will be presumed to be giving consent to their wives to talk to the Tax Office.

**Deputy J.H. Perchard:**

An opt out.

**Deputy Comptroller of Taxes:**

Yes, an opt out rather than an opt-in situation. We are currently talking to the Law Officers about that as it is obviously a change; I am just making sure we understand that. Now if that can be done in advance of this Budget, then the Minister may well bring an amendment to the Budget to make that change happen, so that would happen off into the future. That is not fundamentally changing the basis of taxation, just so we are clear, but at least it would mean that in the future husbands would be presumed to have given their consent to their wives to discuss their tax affairs, and so

there would no longer be a tick box on the tax return. Obviously, if a husband had reason to want to keep that to themselves, there would be an ability for them to opt out of that because it is, in the end, their tax affairs and we have to maintain appropriate confidentiality. So we are exploring that with the Law Officers and if we can get to a sensible position the Minister may bring an amendment to her own Budget, if that makes sense, in order to facilitate that.

**Deputy J.H. Perchard:**

So that opt out would be an interim measure prior to getting rid of the concept altogether?

**Deputy Comptroller of Taxes:**

Yes, so, as we have said, in the personal tax review everyone is committed to moving away from where we are but which way do we want to go to? Do you want to go to independent taxation where everyone is treated completely independently, just declares their own income and pays tax on that, or do you want to go to some sort of household form of taxation where then it would be a household forming a taxable unit and the people within that would be jointly and severally liable; there would not be this sort of current situation. So we would be moving away but where we need to move away to I think is really a conversation that needs to happen with the Island.

**Deputy J.H. Perchard:**

How long do you anticipate the interim scenario lasting?

**Deputy Comptroller of Taxes:**

We have said all the way through that because of our antiquated tax computer systems which are nearly gone for us, if I can put it that way, we will be hopefully running on a new system in the back office next year. We have always said that we think that 2020, 2021 is the earliest we can administer this, so as soon as we can do. If we started the conversation with the public before Christmas so that once we have had that conversation and we know where the Island wants to go to that we can move to it as soon as we can physically administer it.

**The Minister for Treasury and Resources:**

Either routes that Paul has just described, whether you have totally individual taxation, of course the administration of it escalates. If you have taxation of a household which is very similar to the Social Security system, and both under the new tax system will work together, then you also face the situation where partners, husband, wife, whatever, will move their tax situations around to accommodate. So, either way is not a walk in the park. It is not going to be easy to address either of those but, as Paul has said, the Tax Law, the personal Tax Law, is antiquated and it does need adjusting.



**Deputy S.M. Ahier:**

If there was a move to individual taxation, Minister, how much loss of revenue would be brought in by changing the system?

**The Minister for Treasury and Resources:**

No idea.

**Deputy S.M. Ahier:**

No? Would it be substantial?

**Deputy Comptroller of Taxes:**

So we have got a model which we are using to model this. We have to make certain assumptions around changes of behaviour, et cetera, because in order to take advantage of independent taxation, you would have to be in a situation where you would be moving income from one person to another in order to take advantage of lower marginal tax rates or allowances. So, that modelling is nearly complete and when we release the consultation document for the end of the year we will put that figure out there.

**Deputy S.M. Ahier:**

Okay.

**Senator K.L. Moore:**

Thank you. Shall we move on now to talk about the finance transformation project specifically? It is obviously a large piece of work with an external partner costing in the region of £2 million. Could you explain for us the main reasons for appointing a particular partner who has been selected and what made them stand out in terms of what they can offer?

**The Minister for Treasury and Resources:**

I think Camilla is best placed to answer that as being the lead on this.

**Strategic Finance Review Consultant:**

Thank you. Yes, and we went through a procurement process; a number of firms put forward. Our successful partner, now partner, and it was a unanimous decision on the part of the panel which not only included Richard and myself - Richard as treasurer - but also people from the business, so a director general from the business. A unanimous decision, they really stood out, and they stood out both from the quality of their proposition through to their approach to delivery but they also had 2 very strong, particularly strong, elements. One was around coaching and their commitment to help coach and to provide us with the opportunity to build sustainability into the organisation. The other

was around social value where they intend to bring a number of things that they do in other jurisdictions around such as apprentices and working with school children, among many other things. So, in summary, not only was it the proposition but it was those value-add what some might contest as more softer things which really were a compelling case on behalf of all the panel.

**Senator K.L. Moore:**

Why is coaching in particular such an important part of this project?

**Strategic Finance Review Consultant:**

We are very keen on a number of levels to ensure that what we do now becomes sustainable. I think one of the things which I would see as being not successful is if at the end of the contract or the day that our partner walks away, hopefully not walks away but leaves, is if we have not embedded some of the good practice which they are bringing to the party. So, therefore, that ability to help, not only our wider finance community, but also some of our stakeholders along the journey of a modernised finance system. I do not just mean system but I mean the entire system of financial management. If we do not embed that I think we have wasted an opportunity and so therefore that coaching, be it individual or part of a group coaching, we see as a vital step on the way to success to be able to embed that but to also help individuals through their personal journey through this period of significant change.

**Deputy S.M. Ahier:**

Is there any possibility of the EY contract being extended at the end of this period?

**Strategic Finance Review Consultant:**

The contract that we have in place gives the option to extend.

**Deputy S.M. Ahier:**

For how long?

**Strategic Finance Review Consultant:**

I am not quite sure.

**The Minister for Treasury and Resources:**

It is just as long as it takes.

**Strategic Finance Review Consultant:**

Yes, as long as it takes. Sorry, "as long as it takes" is the wrong expression. We have the ability to extend. We would not do that *ad infinitum*; that would not be the plan. I personally would not want

to see it go for more than twice the length, for example, which would normally be, if we were part of O.G. (Office of Government) Regulations, would be where your measures were.

**Senator K.L. Moore:**

Sorry, what are O.G. Regulations?

**Strategic Finance Review Consultant:**

Sorry, it is what we would have to work to in the U.K. and other parts of Europe around the procurement rules. You would not normally extend a contract or increase its value materially above that which you already had originally contracted for.

**Senator K.L. Moore:**

Obviously an extension would bring with it a cost.

**Strategic Finance Review Consultant:**

Indeed.

**Senator K.L. Moore:**

So an extension of that cost. So what measurements will you be using to ensure that you are seeing the changes that you want to see within the public sector?

**Strategic Finance Review Consultant:**

So there will be a number of things which will be very evidential when we change. So, for example, the Minister has referred to the Government plan, that will be a real change into the shift in which we operate. Our partner is key to the delivery of that and in building the infrastructure for us to be able to support financially the sort of modelling and scenarios and cross-cutting legal finances which we will require. That will be a very tangible thing which will be presented to the Assembly next summertime. So that will be one of the areas. We have also wrapped governance around the programme in a way that would be a more traditional way to do. We are setting up a programme board where we will have deliverables which are measured through the programme board and indeed that the risks there would be understood and challenged.

**Senator K.L. Moore:**

Sorry, if I could just interrupt there. The deliverables and the governance, is that set in a document that would be shared with the panel perhaps, please?

**Strategic Finance Review Consultant:**

We can share, yes, absolutely.

**Senator K.L. Moore:**

Okay, thank you.

**Strategic Finance Review Consultant:**

Just if I can maybe give one more example of evidential progress. As the panel will be aware, early this financial year we undertook a review of financial management majority across the entire States, not just within the finance function but with a number of stakeholders, including the then P.A.C. (Public Accounts Committee), the then Minister for Treasury and Resources and the existing Comptroller and Auditor General. They were stakeholders who put into that. That took us to a measurement, a quantitative measurement, and we can repeat that process at times of our choosing and at that point we will be able to measure ourselves from where we started on this journey now to where we will be at steps along the way. That is a model which is a National Audit Office model, so it is a well-recognised one and one which we could apply as we move forward, so there are a number of techniques that we could use.

**Senator K.L. Moore:**

Do you anticipate that you would do that measuring every 6 months? Every year?

**Strategic Finance Review Consultant:**

I think every 6 months we allowed to go, and it took probably about 8 weeks of our time to do that. When we do that, we would want to be able to do it as a deep dive and really give it the space. I would anticipate around about the 18 months would be a good point to start and do that along that journey and that is something which we could then track along that majority spectrum.

**Senator K.L. Moore:**

Eighteen months into a 2-year project is obviously almost reaching the end of that project.

[13:45]

**Strategic Finance Review Consultant:**

I think the project will be longer than that, and that is not an implication there for our partner. On that if we think ... I think this is a journey that is a 3, 4-year journey, which would include the replacement of our current finance package and our plethora of other packages, which we have. I think at the 18-month point we will have done things around process improvement. We should be seeing the benefits of creating a consolidated finance function and the steps we are taking there. We would not be at that point of having deployed a new system but we should be well down the path of doing that. I think there are 2 significant places: one when we have allowed ourselves to mature

with the steps which we are implementing now and then the second one being post the implementation of J.D. Edwards' replacement.

**Deputy S.M. Ahier:**

During this transformation project, do you envisage there being a lot of job losses?

**Strategic Finance Review Consultant:**

That is not what we have announced now as part of our consultation. What I do see is that we will have a shift of requirements and skills as we move more from the tactical recording of finance into something which is much more insightful from a business partner perspective, but also then as we start to build our strategic function, looking at the long-term sustainability of the Island's finances. Again, that is partly why the coaching is really key to us because our aim is absolutely ... the Treasurer and myself is that (a) to upskill wherever is possible the current cohort of professionals that we have in place.

**Senator K.L. Moore:**

Do you have a quantifiable sum that has been aimed at, in terms of achieving savings and efficiency through making this investment in the project?

**Treasurer of the States:**

We have set a target for at least 10 per cent through this phase of the transformation. We would expect further savings to arrive, which would be included. A robust business case will replace one of the systems, so there is only so much that can be achieved through the changes that we can make in advance of making the changes to the system, but it is very important before we were to make any of the changes to a system to put ourselves in the right position to make those changes.

**Senator K.L. Moore:**

When you say "10 per cent", Treasurer, 10 per cent of ...?

**Treasurer of the States:**

Of the cost of the finance function.

**Senator K.L. Moore:**

The cost of the finance function, which is?

**Treasurer of the States:**

It will be around £6 million. That is not the savings. That is the cost of the ...

**Senator K.L. Moore:**

So the cost of the finance function is about £6 million per annum and it is anticipated that a 10 per cent saving on that cost will be achieved?

**Treasurer of the States:**

We will get back to you with the precise number.

**Senator K.L. Moore:**

Yes, that would be £600,000.

**Treasurer of the States:**

If that is the 10 per cent, yes, it is. The 10 per cent is it; we will get back to you to confirm the total that we are delivering that from because obviously as we go through the target operating model some parts that are currently within the Treasury are not in the Treasury in the future, they are in a different part of the organisation. We just need to make sure that we have eliminated those.

**Senator K.L. Moore:**

We would be grateful if you could clarify that.

**Strategic Finance Review Consultant:**

Again, if I can build on the Treasurer's comment, is at the moment as where it has been practised is the finance teams were embedded in departments to the great majority of cases and identifying all of the cost ... associated on-costs is a challenge because it is captured as part of the live department. So we need to get our hands around the whole thing.

**Senator K.L. Moore:**

Thank you.

**Deputy S.M. Ahier:**

What are you doing to explain the benefits of the project to the public, Minister?

**The Minister for Treasury and Resources:**

To explain the benefits of this whole transformation programme?

**Deputy S.M. Ahier:**

Yes.

**The Minister for Treasury and Resources:**

It is a very good question. It is such a complicated issue, as is the culture change issue ... I have had the privilege of being very well briefed on the whole thing. As to quite what we are doing to explain it to the public it does not come out in a word-wise. I am not saying that the public needs a word-wise but it is a very lengthy proposal. As Camilla said, it took 2 to 3, if not 4, years to transform the whole of the Government so it is not something that is easily described to the public. I am very well aware that the Government communication with the public in the past has not been good at all. We now have a communications unit, as part of this transformation, totally dedicated to relaying messages, communication with the public, so hopefully that will improve. But I do see where you are coming from, it is not an easy message to convey because of its complexity.

**Senator K.L. Moore:**

If you have a dedicated resource have they begun work yet?

**The Minister for Treasury and Resources:**

Yes, they have.

**Senator K.L. Moore:**

Because there is not much messaging coming out into the public arena, that is why I asked the question.

**The Minister for Treasury and Resources:**

It is because I think the initial part of both transformation projects, the finance and the culture change, are in very much early stages. As Camilla said, people are sort of shifting jobs and do not quite know some of them where they are going to be moved to or where they are going to be matched, I think is the current term. It is difficult to put that sort of message out at the moment. I am very well aware that we have not communicated well with the public and it needs to be addressed.

**Senator K.L. Moore:**

I think in the eyes of the public, it could be said that this is not the early stages of the project because we are over a year in, and there is perhaps a sense of frustration, which is leading to lack of understanding because people are anticipating more information than is coming across, particularly when our public sector fills such a large percentage of our community as well. Then their friends and family are also obviously very connected and interested to hear where people ... I think the term is "mapped" and what will happen to their jobs and their roles in the future.

**The Minister for Treasury and Resources:**

I absolutely understand that. It really only started in January, so that is when the Chief Executive Officer started. We also had an election in the meantime. We also had the summer recess. So I quite understand how the public feel that not much has happened this year because, in theory, the States sitting in July was the only one where there was any debating. Previous States sittings have been allocating jobs, ministries, whatever, and so from a States Assembly point of view, we really only kicked off in September. So the summer was a bit of a dearth of activity publicly. There was a lot going on behind the scenes but I do appreciate what you are saying, that the public see that this has been going on for a long time and have not been fed the information. I get exactly the same comments.

**Senator K.L. Moore:**

Okay, thank you. We will look forward to receiving more communication in the future. What do you perceive to be the risks if this project does not succeed?

**Treasurer of the States:**

We are not generally contemplating not succeeding at this point. On a personal level I would feel ...

**Deputy J.H. Perchard:**

Treasurer, you must ...

**Treasurer of the States:**

The fact is we would say: "Well, why would it not have worked in the past?" and I think in the briefing today I was talking about the fact that I would be far more concerned as to delivery under the old structures that we had, particularly before the changes to the principal accountable officer in the States and the changes that were therefore made in terms of the responsibilities of finance having an apex to it, in terms of being clear where accountability rests and moving logically from that position to having a single finance function. A very real part of this is that we are moving from 6 finance functions to a single finance function in the States. That in itself requires us to transform what we are doing and how we are doing it and how it is perceived because in the past there had been an element of poacher and gamekeeper, dare I say it. But a very federated structure which requires or has grown up among different culture and behaviour, shall we say. So the first steps have been the introductions of principal accountable officer, the logical step being the single finance option out of that. Therefore, some of the risk of this not succeeding, in my view, would have been if we had taken this investment and done it 2 years ago, I am not sure we would have reaped the same rewards that we would have done elsewhere. We would have probably ended up with a great deal of discussion as to which one of the many departmental models will be the departmental model that we would use, given the power basis that previously existed. The transformation also sits within



a wider transformation and a wider set of changes within the States. You see a large element of that being culture. I just talked about culture and behaviours. If the culture does not change then there is only a degree to which we can expect the financial management of the organisation to improve. That is a big aspect of it as well. We will do our usual work on risks. Part of the culture element will also be that we are trying to get sustainability into this. I often get asked why I have other transformation programmes perhaps not been as successful as our ambition in this case. That is partly because only certain things changed. It was done off the side of people's desks. It was not done with the finance team. It was not done with the staff who will be there in the future. It was done by a team that locked itself in a room. This is being done with the finance function. Indeed once we have put in place largely an external team, where 2 or 3 people who are internal with any, we are going through the next phase at this point of looking for ... we have been asking for expressions of interest. All people within the finance function, whether they would like to come and join and be part of the team, even on a longer or a medium-term basis or, in some cases, fairly short stints within the team. So they are getting first-hand periods of what the team is doing so they can take it back to their own teams as well. Once the external team has left so that they and the rest of the finance functionality have the skillsets, behaviours, the culture and find themselves in a position to sustain the changes.

**Deputy J.H. Perchard:**

So the biggest risks in your view, to summarise, are to do with culture and succession planning of people? It is all about people.

**Treasurer of the States:**

To a large extent. I think the other risk that I would say that we are addressing is that we are adequately resourcing it. In the past we might have said we can do this off the side of our desks, and other things take priority. Whereas this time we are creating the space for this to be done. They are saying it is going to be adequately resourced. You are right to raise the issue therefore the public are very interested in the cost base, but we feel that if we do not put resource into it then it will not succeed.

**Strategic Finance Review Consultant:**

If I may add on to the Treasurer's comments. I agree with all of those. I think one of the risks is around our stakeholders, so we will be bringing discipline, financial control, financial management as part of the change. If we use an example of: "Let us go for a robust way in which we do businesses cases", which enables prioritisation, which tracks benefits, which does the things which we would want a modern organisation to do, our stakeholders will be challenged and we will be upsetting the status quo that they have had. For moving from one potentially where he or she who shouts the loudest gets the attention, we would want to bring in a different approach. We would also

want to be able to track and hold people accountable and responsible for the delivery of savings and the delivery of benefits. We have not been quite so robust about it in the past. I think one of our risks and challenges that we have is ... and hope that our culture programme can help and support this, that it is really changing the entire organisation and how it thinks about finances. Allowing financial professionals not to be those that do the tactical in accounting-type activities and allow the profession to be a profession, which really adds value and insight into the organisation, and indeed challenges the organisation.

**Senator K.L. Moore:**

I am very mindful of the time but if we could keep you for another 5 minutes, we do have one section that we would very much like to touch upon, if we could. Richard, I think you are going to ask that question.

**The Connétable of St. Peter:**

Recently, we have been advised that £3.73 million was transferred from capital to the contingency fund. Of that £3.7 million two-thirds of it, £2.4 million, relates to 2/3 projects which are no longer going forward. That is the Children's Home, including the Autism Sport Unit, which is roughly £1.2 million, and a further £1.2 million that was originally going to be used on the refurbishment of the Sandybrook Care Home. It seems somewhat unfortunate that money that was to be spent on children, the vulnerable and the elderly is now no longer going to be spent.

[14:00]

Do you know the background to those projects being sold and what the money will now be spent on?

**The Minister for Treasury and Resources:**

I could not agree with you more. I highlighted it when I read it as well.

**The Connétable of St. Peter:**

The Ministers have made a commitment to putting children first and virtually top of the list we have a children's home and the Autism Support Unit as being shelved.

**The Minister for Treasury and Resources:**

This was money allocated in 2013 and 2014.

**The Connétable of St. Peter:**

Yes, but ...

**Senator K.L. Moore:**

As a result of the Scrutiny Panel recommendation, if I remember correctly.

**Treasurer of the States:**

You are right to point out that putting children first is square within the C.S.P. These are funds that have been sitting there for a couple of years now and have not been spent. There is no plan to spend them. They are not spent in accordance with where they were originally intended further to a review of firstly whether they should be delivered in this fashion. The first one on the autism issue, there is funding that we have secured from elsewhere and have put in place. But we do think that it is important that while funds are not being used at this point for these purposes that what we do is recycle them into priorities the way they will be used. That is not to say at this point in time we know where they are, but what we do not like to see is capital funds being held in position when there are no plans currently to develop them along the lines for which they were originally intended. I think the report itself that you refer to has a short summary of where each of those are. We talked about releasing these in the past and have not done at that point and just think it is important that these are recycled and put towards priorities. That is not to say, as and when plans come forward, or projects that will move forward, that funding will not be provided. It is just saying at this point, given where we are on both, this was Sandybrook, I think, and projects which were put on hold by the department that had the funding, that we are saying departments have confirmed at this point in time they have no immediate intention to use those funds and therefore they will ultimately be put to more timely use. I am not going to say "better use". That is the wrong thing to say.

**Senator K.L. Moore:**

Finally, Treasurer, it is a bit difficult hear that there is an explanation when you consider some of the capital funds have been held with the reason given that it was so under the Public Finances Law in the past, and I think primarily of the police station as being the ultimate example. The capital project for that I think were held there for almost 20 years, if I remember correctly. Therefore, when it is known that there is still a need among this group of people who have the condition of autism and their families it seems very difficult to stomach that following recommendations made in 2012 that this money can still be sitting there. Perhaps it is a good example of why the finance transformation project is needed, to offer the public some more strategic and some results from what is public money that has been sitting there waiting for a purpose that is identified and needed in our community.

**Treasurer of the States:**

Yes, and I am not quite sure whether you are saying that therefore we should just leave the funds where they are until something comes along. I am sure you are not.

**Senator K.L. Moore:**

In the past, the excuse has been given that the funds sit there until they will be ...

**Treasurer of the States:**

I would say that in the past that was the wrong thing to have done, that we needed to make sure that the funding is at the right place at the right time. You are right, that is an important aspect. Indeed, we need to change the way that we put it to capital rather than this overly prudent way that we do at the moment that says the money has to be in the bank before we start to properly plan that capital scheme. So what you get in the case of these, and I dare say if we were to really examine them, you will find weak business cases. It is back to the point that Camilla has made about the strength of the business case and the degree to which you go into the detail of delivering projects. Part of that is the approach we have at the moment which is you get the money together on a very like put business case and then you develop further your proposals. That is often what has happened in the past.

**Senator K.L. Moore:**

Essentially it demonstrates a lack of rigour and holding the department to account who have pledged to conduct this work and that really have not had the desire to push it through and, to jump horses slightly, with the Sandybrook example. The excuses given in the Ministerial Decision is that it was budgeted for £1.2 million, actually it has been discovered the cost of the refurbishment is greater than £1.2 million, therefore we are not going to do it and we will just review the whole provision of care homes in the Island instead, which does not help anybody in Sandybrook where they have been waiting for that refurbishment with a promise that it was coming for some years now. I think we are really making the point, and we would like consideration to be given for this part of the Ministerial Decision to be withdrawn.

**Treasurer of the States:**

We could maybe follow that up with the department who are responsible for the spend. But equally so, if they determine that there will be a better ... they would rather build plans that they feel more comfortable are the best plans moving forward, I would rather they did that than simply spend them and then come back with those other plans further down the line.

**Senator K.L. Moore:**

But that gives small hope to the people who are affected by the lack of investment on a day-to-day basis and would like to see certainty that the projects they have been waiting for ...

**Treasurer of the States:**

As I say, in respect of the Autism Centre, separate funding has been made available for that and I think the Chair will recall that from the last Budget and the discretion to the Council of Ministers then.

**Senator K.L. Moore:**

That is the work done with Autism Jersey. But there is still need in the area. That is the point that we are making. Okay, so perhaps we will ask the Health and Social Services team to come and speak to that.

**The Minister for Treasury and Resources:**

It is a very good point as to why these ... I mean from a Treasury point of view, we are providing the Budget that was requested but we do not drive the project, if you like. It is chicken and egg. I totally understand where you are coming from because it is wrong that people have been sitting, expecting this, and it has not happened. But perhaps ...

**Treasurer of the States:**

From a Treasury perspective, yes, it will be preferable that funds that are released for specific projects are delivered, however if plans change I think it is important that you have a degree of maturity and responsibility that says: "Plans have changed and therefore we need to suddenly take it from the case" and in the meantime we need to hand back that funding rather than just continue to hold on to that funding while plans are potentially in place for other projects that can come forward now. That is not to say these things would not be funded on an ongoing basis. We are clear there this is not us saying: "You cannot have the funds."

**Senator K.L. Moore:**

I would normally be the first person to agree with you about funds being held and not used or accounted for, however, I think as a panel we do not feel that the reasons given in the Ministerial Decision satisfy our curiosity enough or our desire to see that these projects are fulfilled. Under the rules we only have 2 weeks with which to take any action. On that note, I think we have run well over time so I apologise to all of you who we have kept. You have other places to go. We thank you for your time and we look forward to seeing you again next week for our Budget hearing. Thank you all for your time.

[14:08]