



# STATES OF JERSEY

## Corporate Services Scrutiny Panel Forecasting of Expenditure Review

**FRIDAY, 9th OCTOBER 2009**

**Panel:**

Senator S.C. Ferguson (Chairman)  
Connétable D.J. Murphy of Grouville  
Deputy T.A. Vallois of St. Saviour

**Witnesses:**

Senator P.F.C. Ozouf (Minister for Treasury and Resources)  
Mr. I. Black (Treasurer of the States)

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

I wonder if for the purposes of the lady doing the recording you could say who you are and your position

**Senator P.F.C. Ozouf (Minister for Treasury and Resources):**

Philip Ozouf, Minister for Treasury and Resources.

**Mr. I. Black (Treasurer of the States):**

Ian Black, Treasurer of the States. Forgive me, my voice is not good.

**Connétable D.J. Murphy of Grouville:**

Dan Murphy, Constable of Grouville and member of the panel.

**Deputy T.A. Vallois of St. Saviour:**

Tracey Vallois, Deputy of St. Saviour.

**Senator S.C. Ferguson:**

Sarah Ferguson, Chairman of the Panel. Right, Minister, what do you see as the problems in Jersey with regard to forecasting expenditure?

**Senator P.F.C. Ozouf:**

Could I just ... before answering that direct question - and I will answer your direct questions - what I would like to do if possible over the next hour that I am with you is that you have obviously tabled a number of questions and we are going to run through

the answers of those. You have put the same questions to the Chief Minister who you are going to examine after me. We have obviously got a series of notes which we have got, we will give you our briefing notes ahead of those but you are probably going to get the same issues ... you might have different questions. I also want, this afternoon, to take the opportunity ... you are examining the problem that the States faces in terms of rising expenditure in the wake of a likelihood of a structural deficit and other problems that we have going forward. You are identifying and have rightly identified the problems that the States have got and I am coming partly here this afternoon to tell you how I am going to ... my own diagnosis of the problem but also my solution. I have got 2 projects that I am going to talk to you this afternoon about, about how I think we are going to resolve these things and I would like to get on to them as well during the course of this examination. I have given some documents to you.

**Senator S.C. Ferguson:**

Yes, to be fair, we have not had time to look at those documents in detail and we would like to perhaps have another hearing later on in order to go into more detail on those. What we are looking at at the moment is the fact that our record for forecasting expenditure is not perhaps what it ought to be.

**Senator P.F.C. Ozouf:**

We accept that absolutely. So if I go to the first question ...

**Senator S.C. Ferguson:**

So what do you see as the big problems.

**Senator P.F.C. Ozouf:**

The problem is that I think that we forecast expenditure ... and the question is about forecasting expenditure but what the real problem is is the way we set expenditure because there are areas of known expenditure that we can predict with some degree of certainty under economic assumptions, whether they be inflation, whether they be numbers of people unemployed, whether they be benefit upratings that are easily calculated by inflation or earnings numbers. There are other areas ... and this part of the problem that the States has, the difficulty arises with the discretionary spend, the uncertainty expenditure on a year to year basis. The whole arrangement of current spending is that we have an annual business plan set against a strategic plan and we have just been through, some would say, 6 difficult days in the States setting a business plan and the problem that we have got is that the business plan debate that we have had this year has largely set aside a lot of the decisions that we have already made in the strategic plan and that we had in the business plan previously. I want to try and reorganise this whole arrangement of how we set expenditure. Your question is about forecasting, the problem I have got and the challenge that I am trying rise to is how we set expenditure on a meaningful longer term basis rather than this annual process which appears, to any outside observer, fairly undisciplined.

**Senator S.C. Ferguson:**

Yes, of course I suppose you could say we do a year at a time and yet in the business plan we have indicative forecasts for the following 2 years. This year you were trying to keep within the forecast from last year and this was causing problems. What was

really causing the problem? Was it the estimates were not accurate or was it inaccurate assumptions by the departments?

**Senator P.F.C. Ozouf:**

Well, the world does change and the world has changed dramatically in terms of the economic outlook. There is a different outlook in terms of inflation, there has been a different outlook against the backdrop of people being unemployed rising. Those are the things that I do not think the States can be criticised for dealing with. Where there is a problem, and the Treasury has a problem and I have a problem, is that I propose a set of spending arrangements after some fairly difficult discussions with my colleagues on the Council of Ministers but the States then changes them. So I can forecast all I like but effectively it is the States that decides and they vary it, quite rightly, that is the job of the Assembly. But the Assembly itself talks really only about the incremental spend; the £1 million additional for nurses, the £500,000 for additional healthcare provision and we kind of do not have a proper debate about the rest of the rump of expenditure which is the £0-650 million. I am then also, in the current arrangements, which I think is a problem that I have to correct ... a number of years ago we did away with something called the general reserve. The general reserve was a contingency that was held and accounted for every year and was drawn down to deal with unforeseen expenditure. The States at the moment appears, and rightly so, not very disciplined because every time there is a problem that emerges - and there always will be a problem, there always will be something, a pandemic flu or foot and mouth or a particular investigation that has gone over budget, that happens all over the world and Jersey is no different - I have no central contingency in order to deal with that. I think, going forward, I have to account for a contingency, make it very difficult to access it but I have got to account for a contingency so that I do not have to go back to the States for every single, in some cases quite small in the grand scheme of things, additional spending.

**Senator S.C. Ferguson:**

Yes, but forgive me, Minister, in the forecast, for example, for last year the departmental forecasts did not take into account the spending pressures they knew were there. I do not have the figures on me but I think there was 2009 and then 2.5 per cent up for 2010 and 2011 but there was not, for instance, an indication that customs needed more funding. The forecasts that were coming with the business plan were: "Oh well, this year is plus 2.5 per cent sort of thing." There were not really ... there did not appear to be any thought about the spending pressures that were coming. In one of his reports the Auditor General says that he would like Treasury officials to be sufficiently au fait with what goes on in the States to actually question spending plans. We have got a system of next year is this year plus 2.5 per cent, which is roughly the staff side of it and there is not any thought going into: "Well, we have got pressure on it" and there is nobody in the Treasury who - or there are not sufficient people - are able to say: "Hang on a minute, folks."

**Senator P.F.C. Ozouf:**

Well, your third question ...

**Senator S.C. Ferguson:**

I am sorry. It is all part of one.

**Senator P.F.C. Ozouf:**

No, no, it is fine because it is all part of it. There is no doubt that the Treasury has got to become more challenging in terms of departmental spending. We have got to do that in the context of a proper process and we have got to be ... I think we have got to be more challenging to departments about what their real pressures are and be more challenging in terms of their opportunities to make efficiency savings or cutbacks of less priority areas in order to release money for higher priority services. We have been doing a lot of thinking about this. Last Thursday and Friday, we had all of the chief officers of all departments and the finance directors locked away to discuss how we can improve the process of budgeting and spending, because we recognise that we need to revisit this annual process and we also need to respond to the issue of the likelihood of the fiscal deficit. We have had an independent individual from the I.M.F. (International Monetary Fund) who has run reviews of spending and has got experience of other governments, as the I.M.F. helps the U.K. (United Kingdom), France, Korea, Canada, of what is the best process for a government to run with a spending programme. That is at the heart of the comprehensive spending review paper. I know I have just sent it to you this morning. This is where we have got to in terms of experience from other places, experience from previous worlds where we have tried comprehensive spending reviews in Jersey going forward. In one of the conclusions ... I will give you 2 initial conclusions of where ... of what you need to do. First of all you need to separate expenditure into A.M.E.s (Annually Managed Expenditure) and D.E.L.s (Department Expenditure Limit). A.M.E.s is expenditure which is volatile and significant and will vary but really from a States point of view you cannot control it. For example, the numbers of the social security payments.

**Mr. I. Black:**

Court and case costs, perhaps.

**Senator P.F.C. Ozouf:**

Court and case costs. There are some areas where you set a policy but year-on-year it will be different according to exogenous, endogenous factors, I think is the ...

**Senator S.C. Ferguson:**

Exogenous.

**Senator P.F.C. Ozouf:**

Exogenous factors, yes. There are other areas of expenditure which are controllable and they are less volatile. That is the first piece of learning. The second piece of learning, from what were, I have to say, very impressive individuals who have done this all over the world, is that as tempting as it is to believe that a bottom up process is the best way of achieving the right allocation of resources, the note says: "However, this misses the reality that much of what government does is set by political choices even in terms of basic service provision. International experience is that this leads totally expenditure bids far exceeding the available financial resources." When you go to a department and say: "Well, let us start with a blank piece of paper, how much do you need?" experience from other places is that you will get bids ... if I went to the Health Department, you will get bids of £500 million for what is only realistically perhaps £160 million worth of expenditure. Realistically you have got to approach spending from the top down rather than the bottom up. It is attractive to think that you can start from the bottom up and build up but everywhere else in the world that

has tried that ends up by having expectations raised to such an extent that it is simply unaffordable. So we have got to design a process which is realistic in terms of the overall available amount of money, the overall envelope of available money.

**Senator S.C. Ferguson:**

Now, this is going to cover current expenditure but - and it is part of forecasting of expenditure - looking at our system at the moment, what changes would you envisage to instigate a business plan budget limit that could not be amended upwards?

**Mr. I. Black:**

Can I just come back a bit so we can close out your first question? You said why is it that the expenditure rises more than you said it was going to. I think the Minister has covered 2 factors but there is a third one. So to run through the reasons, one is that there is always going to be demand for more things so you have got to start from a political envelope because you are going to be answering to that. So you need politically to say: "This is a line in the sand, we are not going to allow States spending to be more than that because we cannot afford more than that." So that is number one. The second one is, you are quite right, you need to do something about better planning and a part of that is the thing you mentioned about Treasury doing more challenge of departments, to understand their drivers, requiring departments to have better plans for the future. But the third one the Minister has mentioned is it is an uncertain world and there are some things you can control and there are some things you cannot control. He has mentioned about social security benefits, there is A.M.E.s and D.E.L.s, they call them in the U.K. So A.M.E.s is expenditure you cannot control easily, a bit like social security, D.E.L.s are what departments can control. So the suggestion is those things that are just policy driven you take outside the accounting officer's direct control and then say to accounting officers: "You must keep within it." But there is a final group here which is about things just happen, and I could come up with a list as long as my arm but the historical child abuse inquiry was obviously one. The end of the reciprocal health agreement issue was another. You must accept that it is an uncertain world so you need to have a proper contingency. So the suggestion is that you do 3 things: you set tough political ceilings, the overall level of spending; you have adequate contingency accepting that the world is an uncertain place; you split up between things you can control directly and those which you cannot and are very tough on accounting officers on things you can control. Then the outcome of that is you set firm 3 year spending limits for departments. Once you have got a contingency, once they are not being held to control things that they cannot, you say to them: "That is it, come hell or high water you will live within that spending limit for a number of years." The one other part of the deal, I think, that goes with this is because even for them the world is an uncertain place and you expect they will have change to manage, the trade off is you give them flexibility to carry forward money between years. If you are going to be really tough and keeping to plans for 3 years, you have got to allow them some flexibility to plan between years so if they see something coming up they can put money aside for it.

**Senator S.C. Ferguson:**

Yes, so what changes are we going to need to have a business plan budget limit that cannot be amended upwards?

**Senator P.F.C. Ozouf:**

That is the first point in terms of avoiding this. This is a graph that I know the Panel has seen before. It is in the pack that I have sent. This is the problem, that every year the States says they are going to following that trajectory of expenditure and every year, when we come to the next year, the trajectory goes up and it carries on going up and up and up. That is what those lines are. So the only way that you can deal with that ... there is 2 problems. First of all you are doing it on an annual basis, secondly you have not set an overall limit. In some ways I was quite heartened with the discussion that we had about the town park because if Deputy Southern's proposition would have got through it would have meant that next year or for the next 3 years we would have spent an additional £10 million. I said to the States: "It is absolutely fine for you to have a town park if you can deliver it for £10 million but there has got to be a consequence of that." The message that I got from the States was that the limit was set, it just means that something else has got to be changed ... there has got to be another priority. What you have got to do is you have got to get the States ... first of all I have to advise on one, I have got to get the Council of Ministers to accept one and I suspect I have got to get the States to approve an overall fiscal spending limit. Basically a spending limit, not for one year but for 3. Once you have set that limit for the next 3 years, you can then go about a process of allocating it. So what I think we have got to do is we have got to move away from the annual moving target, have a 3 year cash limit, ideally that you would have a 4 year cash limit but you are not going to get anything else with a 3 year political cycle, but the States have got to sign up to a cap and a limit and it has got to be enforced and States Members have got to work within that, rather than this incremental approach that just ends up layering on cost.

**Deputy T.A. Vallois:**

How does that work long term?

**Senator P.F.C. Ozouf:**

You can only do it once every ... you need to do it once every few years but ... and certainly ideally, and this is where I think the Panel has been wanting to review the whole process of the strategic plan, business plan and budget, I think we all think that the process is currently not a good use of time, it is not good for officers to be spending this annual process. I think what you do is that you try and set 3 year limits and get them agreed.

**Senator S.C. Ferguson:**

So you would need to ...

**Senator P.F.C. Ozouf:**

Ideally you would do that at the start of the political 3 year cycle. Now, I am going to do a comprehensive spending review over the next 2 years because we must do, but going forward I could envisage that you have an election, you appoint a new Council of Ministers, they then take 3 year cash limits for that period.

**The Connétable of Grouville:**

I can see the benefits of having a 3 year plan but how do you then cope ... that will be okay for the A.M.E.s, it would not be so good for the D.E.L.s because you would have D.E.L.s throwing you completely off course, would you not?

**Senator P.F.C. Ozouf:**

You have got to build ... that is correct, you have got to build within your cash limits, and just as we have done in the past, when we cannot balance the books ... what has happened in the past? Well, maintenance budgets have been cut. That has happened but that has not happened this time because we are sticking to our principles in relation to appropriate maintenance budgets. The other thing that cuts is the contingency. You spend the contingency before even the start of the year. We put in a contingency in this year's business plan but it went because we had to respond to the nurses, all measure of other pressures that we have got. I think that we have to, going forward, be absolutely honest with people and say: "You need a contingency of maybe £7.5 or 10 million every year."

**The Connétable of Grouville:**

Can I just finish this one? So really if we get something in the first year of the 3 year, let us say we had a Haut de la Garenne again where we are talking figures going up to £20 million, that would throw your 3 year plan completely off kilter, would it not?

**Senator P.F.C. Ozouf:**

There are issues and ...

**The Connétable of Grouville:**

I am not saying that is the wrong way of doing it, I am just wondering how we will cope.

**Senator P.F.C. Ozouf:**

There are issues about the historic child abuse investigation costs which I will comment on at the appropriate time in relation to all of that because it is subject to a number of different processes. We have got States decisions and all sorts of things.

**The Connétable of Grouville:**

I am just saying that as a for instance.

**Senator P.F.C. Ozouf:**

You have got to get a process where accounting officers deliver value for money and they are responsible and they live within their means. But you have got to ... my experience so far and Ian has been in the Treasury for 10 years - and I have been around for 10 years in the States generally - I do not think we have ever seen as many calls on contingencies this year as we ever have done before.

**Mr. I. Black:**

No. I think it is a very good point you make about pressures coming through. I think the answer to that is we are in a culture where we set budgets for future years that everybody knows cannot be achieved because there is no contingency there whatsoever. So you reach a stage where you might as well come back each time. If you are realistic and set a proper contingency and you put these arrangements in place we talked about, and the States says we are signed up to this envelope and it is made quite clear to departments that under no circumstances do you get more, there is a whole change in the level of discipline there and you set a system with a chance of achieving the outcome so the culture changes: "No, you do not exceed those limits and you cannot come back for more." To be honest, you are quite right, it will require some very difficult decisions at times because when something comes up at the

moment we hardly ever say: “That is very important, that means something else has got to go.” We have got contingencies always to build on. I think that is what they do in the U.K. and elsewhere, if something really comes up that it is important, it must mean within this system you set of a very tight envelope that if need be something else has got to give.

**The Connétable of Grouville:**

The other problem I can see with it is if the contingency is not used up you are going to get a lot of requests for using up the contingency, not perhaps as it should be used.

**Senator P.F.C. Ozouf:**

Yes, that is fair and I think what we have to do is ... moving to a 3 year cash limit that cuts in a number of different ways. At the moment departments are not incentivised to make savings because they think the Treasury at the end of the year is going to take all of the carry forward and going to reallocate it to other people or other departments, partly because I have to respond to that because that is one way I deal with unexplained or unfunded pressures. We say there is an under-spend in that department we will fund it in that. Departments at the moment have not got an incentive to make savings and then roll those forwards. So I think the deal with departments is you set their cash limits, the States sets them, for a period of 3 years, it is tough, it is going to be difficult, but they also know that they have got that money for 3 years guaranteed. They have got certainty. At the moment we move from year to year of uncertainty and they cannot plan for more than 12 months either. They have got no incentive to make any savings and they have got no incentive of thinking longer term.

**Deputy T.A. Vallois:**

So it is a case of passing the responsibility back to the departments?

**Senator P.F.C. Ozouf:**

The thing that I keep on saying is, and this is the problem I have with some departments - and Ian and I both have this - is every time there is a problem in a department that is a pressure, they pick up the phone to either the Treasurer of the States or the Treasury Minister and say: “It is your problem.” It is not, it is our problem and it is their problem to live within their means. We are here to deal with potential emergency ... extraordinary situations and, of course, we will respond. If we had a contingency that we could use to that we would look it up and make it very difficult to access it and we would put scrutiny arrangements in, just as we have done with the fiscal stimulus maybe, but we are there for the extreme situation. At the moment every problem is the Treasury’s problem and that is not sustainable in the longer term. There is one - I will not say where it is - department that has been on the phone to us in the last 24 hours saying: “Problem. Cannot deal with this. Your problem.” “No, department, it is now our problem, it is your problem to deal with first of all, and why did you not plan for it?”

**The Connétable of Grouville:**

Can I just bring something in which is completely outside what we are talking about but would effect what we are talking about. Pay evaluations. How can you expect departments to cut and cut when they are subject to the department heads being paid on the basis of what they have under them?



**Senator P.F.C. Ozouf:**

I think there is a bit of a misnomer in relation to that. I do not think that is entirely fair. What I can say to you is that one of the reviews that has to happen, and it is part of the comprehensive spending review, is the general review of pay and conditions. We have had a meeting this morning with union representatives, the Chief Minister and I and members of S.E.B. (States Employment Board) have explained to the unions and shared with unions exactly what the financial issues are and what the challenges are going forward. I think that ... and pay of course is one of the ... it is more than 50 per cent of the whole States bill.

**The Connétable of Grouville:**

Will you be looking at the defined benefit to pension schemes as well?

**Senator P.F.C. Ozouf:**

There is an issue in relation to pensions that we are looking at and there will be a debate in relation to Senator Shenton's proposition, which I have to say I will not be supporting. But there is generally the review of pay and conditions which will need to happen and we commit to doing that over the next 6-9 months, and of course pensions are a part of it.

**Mr. I. Black:**

We are unpacking here a description of the comprehensive spending review that is going to take place between now and early next year in order to determine cash limits for 2011 and 2012. A feature of it will be that there will be some in-depth reviews of major areas and those are the 3 major spending departments, so Health, Education and Social Services, and in addition to that court and case costs and the thing you mentioned, remuneration, terms and conditions. So the answer to that is, yes, pensions will be looked at in detail as part of this detailed review of remuneration, terms and conditions.

**The Connétable of Grouville:**

Okay, and you have no policy going forward on that, you are just going to wait and see what happens?

**Senator P.F.C. Ozouf:**

It is not wait and see, it is very much going to be at the heart of the comprehensive spending review and pay and conditions are something that have got to be looked at. It is 50 per cent of our States expenditure. But we have to be fair ... I am determined that we are fair to our public sector workforce, we need to engage with them, we need to share with our public sector workforce what the problems are that the Island is facing. As politicians we have got to have honest debates among ourselves about what our political priorities are. There are certain priorities which clearly the Council of Ministers and, indeed, the States Assembly as a whole is united upon. United upon delivering a town park. I think there is a consensus there. The previous Assembly was united about dealing with early years' education. Those are political priorities. What we never do is we do not ever ... I think we have said this before, I do not think we have ever cut a service in States of Jersey.

**Mr. I. Black:**

Not a major one.

**Senator P.F.C. Ozouf:**

Not a major one. So we have to and that is what politicians, and we as politicians, do is we identify the areas that we are going to concentrate on, that we are going to improve, we are going to respond to people's needs but there has to be some choices elsewhere. It is not just a one way street. The U.K. is seeing that very clearly with some statements by Darling and Osborne about the need to be honest with the population. We have not got anything like the scale of problems that they have got in the U.K. and we want to guard against reckless financial spending and we are far from having the problems of the U.K. but we do have problems. We as politicians have political priorities which need to decide. Where are we going to direct the taxpayers' resources? If we are going to improve services in some areas there has to be some give in others.

**Senator S.C. Ferguson:**

It seems to me that if you are going to want to have 3 year cash limits that are kept to and so on, you will presumably be recommending changes to the Public Finances Law?

**Senator P.F.C. Ozouf:**

I think there has inevitably got to be changes to the Public Finances Law. I want to have as wide as possible engagement with the Council of Ministers, colleagues, you as the Scrutiny Panel and Members as a whole to changes. I have no doubt that changes have got to be made. This is a positive thing. This is an evolution of the process that we have been going on through ... the new finance law was brought in in 2005, it is perfectly appropriate that there is a review of it to strengthen it and improve it, to make it more flexible in some areas and tougher in others, and yes we are going to have to make some changes.

**Mr. I. Black:**

Sorry, to add to that, the law was based on international best practice. We copied huge chunks of it from New Zealand and other places that are deemed to be best practice. It is quite right that it needs to be reviewed and updated. One of these changes will have to be this annually managed expenditure and the D.E.L. side. That would have to be in the law. If we did something on 3 year cash limits, that would require some changes to the law. So, yes ...

**Senator S.C. Ferguson:**

Yes, and obviously you will have to review the over- and under-spends? The thing which is sort of regarded by the public as slight of hand really, is it not?

**Mr. I. Black:**

That is not in the law but I have got to say in this proposal for a comprehensive spending review, a quid pro quo is very tough 3 year targets for departments to keep to and they allow flexibility in under-spend. So they would not be allowed to over spend but they could carry forward under-spends.

**Senator P.F.C. Ozouf:**

I think it is far better to be tough over a 2 or 3 year period but to give people certainty that they can have their carry forward. There is no doubt about that. I think the consensus ... and the Council of Ministers met informally on Friday with chief officers and accounting officers, and the difficult thing to say is that the experience from other places indicates that you do need to set some sort of target of an efficiency saving that is put across the board. The kind of efficiency target that is in my mind at the moment is around about a 2 per cent efficiency target for 3 years. So that is 2 per cent cumulative over 3 years for all departments. What I am going to be doing with departments over the next few weeks is to discuss how that process could go through. As you said at the start of your questioning, Chairman, the problem that we have is that we perhaps have not been as challenging to departments in terms of the savings proposals that we made. There has been a lot of discussion about the pro rata cut. The pro rata cut has been a response to having to free up money this year for nurses, for dealing with children's services and all the investments that we have made. We have delivered it by a pro rata cut. I think we have learnt lessons about pro rata cuts and we need to be more challenging and also more helpful to departments in engaging with them of how they could ... what have they thought about making savings or efficiencies and really this honesty about if they are to deliver a 2 per cent cut what are the lowest value services that they are doing. I did not want to use the word "shroud waving" but we clearly do not want to put departments into a position where they simply can serve up a series of savings, they are the most emotive ones and then effectively they then get let off the hook because they serve up the emotive one where the more honest departments or the more onus(?) departments really make the changes that they know are the lowest priorities.

**Senator S.C. Ferguson:**

But you talk about efficiency targets.

**Mr. I. Black:**

Sorry, can I just add an element of detail there. The Minister did say 2 per cent cumulative over 3 years, he meant 2 per cent per annum cumulative over 3 years, so that is 6 per cent.

**Senator S.C. Ferguson:**

Yes, but when you talk about efficiency targets, tucked away in the business plan are efficiency savings, increases of charges. You know, we are back to where we were before surely, where efficiency targets turned out to be exogenous changes, increases in charges to the public. Are departments getting too big and should they be localising more?

**Senator P.F.C. Ozouf:**

Okay, I think that we do need to dispel the myth, or I think I need to dispel the myth that there are ... that the public sector is completely inefficient and not delivering services for the money that they get. Most of the people that I see in our workforce and in departments are doing good productive work and they are providing services that they are asked to provide. We as politicians have got to set and have that discussion about what we want the service levels to be.

**Senator S.C. Ferguson:**

Yes, but we do we ...

**Senator P.F.C. Ozouf:**

There are no easy solutions here.

**Deputy T.A. Vallois:**

But should we not have that discussion with the public, what service levels they want?

**Senator P.F.C. Ozouf:**

Absolutely. Absolutely. That is what is going to be at the heart of the discussions about the comprehensive spending review, is that we do need to engage the public. But we are elected to do that job on behalf of the public and, of course there are some areas ... we do need to have a proper debate about healthcare. What is the level of healthcare that the Island wants, where is it going to be delivered, how is it going to be delivered? The 3 big spenders are Health and Social Services, Social Security and Education. I think I have got to concentrate ... I have said from the start of the business plan process that we have got to have special reviews ... I do not mean this with any sense of picking on them, but they do need to be challenging reviews of those 3 departments because they represent, together with Home Affairs, 80 per cent of the total government spending.

**Senator S.C. Ferguson:**

Yes, but getting back to the original aim of this discussion, forecasting of expenditure. You have got a system in place for actually tying down what expenditure levels are, you say you are going to have 3-year fixed cash limits, what other policies ... you are talking about amending the Public Finances Law, what other policies would you be putting in place to assist with the forecasting of expenditure?

**Senator P.F.C. Ozouf:**

I do not quite understand what you mean by forecasting. You mean what we should be doing in terms of setting expenditure. I think we can do better in forecasting ...

**Senator S.C. Ferguson:**

No, looking at saying: "Okay, this is what we are doing this year" and looking at it. Are you going to take it as a percentage of G.V.A. (Gross Value Added), you know, it is the big picture stuff?

**Senator P.F.C. Ozouf:**

The first thing I would say is that I think we have got to set a cap on spending and got to say that is the spending envelope available for the next 3 years. Unless you set that you cannot do a comprehensive spending review.

**Deputy T.A. Vallois:**

At the moment we do not forecast but we determine expenditure?

**Senator P.F.C. Ozouf:**

Year on year and we do not have reference to an overall ceiling.

**Deputy T.A. Vallois:**

So what you are trying to do now is forecast expenditure by doing these reviews?

**Mr. I. Black:**

A bit the opposite, is it not? At the moment what we do is we forecast but we do not determine.

**Deputy T.A. Vallois:**

That is not what you said at your last hearing.

**Mr. I. Black:**

We do try and forecast forward but what we do not do is we do not fix a level of spending really so what this does is it says this is top down. That is the experience we have been told from these experts outside. If you try and say what is it you need to spend it will always be more than you said.

**Deputy T.A. Vallois:**

Okay, so take, for example, if you have the Health Department or the Education Department being the big departments and you go in and you say we are going to work it out from top down, where do you start and how do you do that process?

**Mr. I. Black:**

Well, this process ... we have got the whole terms of reference for the spending review and we will share it with you, we are going to do detailed reviews of those big departments that make up most of States spending. We will do that and at the same time we will set an envelope for the total spending. So we are doing a bit of going into the department and looking ...

**Deputy T.A. Vallois:**

But talking about the actual top down, when you are going in to review it, are you taking the current money that they are spending, the money that you would have determined for this year and saying: "Right, we are going to look at that top down"?

**Mr. I. Black:**

I am just trying to understand your question. I think ...

**Deputy T.A. Vallois:**

You are saying ...

**Mr. I. Black:**

Start from the very top.

**Deputy T.A. Vallois:**

... do not go from down upwards. You are starting from a blank sheet so you do not start that way, but now you are saying start from the top down. Exactly where is the top?

**Mr. I. Black:**

What they do in the U.K. and what we are going to do here is we are going to do analysis on what is an affordable level of public expenditure. That is the ultimate political decision. That is a balance between taxes and spending. We know we are forecasting a structural deficit currently on a very significant sum, that and other spending pressures can either be met by increases in taxes or cuts in spending. What

this process tries to do is bottom out what politically you believe is an affordable level of spending because the balance will have to be made up by taxes. So there will be that debate up front and I do not know whether it has been decided that the States makes that decision in the end, but certainly the Council of Ministers will make that decision. I think here it will have to go to our States because it is the only way it can work, because it is the ultimate political decision on the balance between taxes and spending. So the States will decide what they believe is an affordable level of spending and everything will be worked downwards from that level. So we will do a review of Health in detail but it will have to be met within that total. Does that answer your question?

**Senator S.C. Ferguson:**

Not entirely because I think there is a philosophical background to this, is there not? You know, how big should government be when you are forecasting expenditure?

**Mr. I. Black:**

That is why you are making this big decision about what we are spending currently, that is a philosophical debate. If the question is how much should you spend on health, the answer is you could spend 30 per cent less or you could spend 30 per cent more. The political decision is how much are you willing to spend?

**Senator S.C. Ferguson:**

Yes, I know in our previous discussions, Minister, you have spoken about increasing the power of the corporate centre because you felt that it needed to be. Have you had any thoughts on or made any moves towards making that happen?

**Senator P.F.C. Ozouf:**

We have had. The question that you asked earlier about challenging Treasury is that you can only make sensible decisions, and the States can only be invited to make sound decisions in terms of finance with good information. The Treasury, it is documented in Comptroller and Auditor General's reviews, in all of the plans that I put forward to restructure the Treasury, that the Treasury itself has got to become more able to challenge departments and to deal with the cost-cutting issues across the States of Jersey. So, yes, the business plan did make some changes in relation to the Treasury, its staffing and its recruitment and there are discussions going on with the Chief Minister in relation to the way that the Resources Department ... where that sits. It is currently split between the Chief Minister's Department and the Treasury and there are ongoing discussions about where that Resources Department should sit.

**Mr. I. Black:**

Of course on top of that the plan we are progressing is there will an integrated finance function so the finance directors in departments will be part of this information gathering process. On top of that we will be carrying out these in-depth reviews of the big departments. That will require an injection of resources as a one-off in addition to what we are doing at the moment.

**Senator S.C. Ferguson:**

Yes. Now, obviously ...

**Senator P.F.C. Ozouf:**

Can I just pick up on one point, Chairman, if I may? You made a comment about proposals for charges that have been made by some department and I just ...

**Senator S.C. Ferguson:**

I can quote them if you like.

**Senator P.F.C. Ozouf:**

Absolutely. There are some charges that ... there are no easy wins in terms of expenditure and one example ...

**Senator S.C. Ferguson:**

I am sorry I think you have misunderstood me. My protest was that increases in charges should not be called efficiency savings.

**Senator P.F.C. Ozouf:**

That entirely accepted and if we need to improve the way we explain the split between ...

**Senator S.C. Ferguson:**

Because the public looks at it and says: "Oh, ha ha."

**Senator P.F.C. Ozouf:**

We are going to put efficiency targets, we do expect all departments to deliver the services that they do more efficiently on an ongoing basis and the advice that we have received from government spending reviews in Australia, Korea, the U.S.A. (United States of America), France, Canada and the I.M.F. independent observer of our deliberations is that of course all departments can achieve efficiency savings. You can do it in your household budget, everybody must be expected to do it. But there are areas where, of course, departments should and must consider cutbacks in services and potentially where the public is providing services to areas free of charge that they should not, they should be recovering the cost. For example, it has been drawn to my attention that the gambling regulatory arrangements within E.D. (Economic Development) were not on a full cost recovery basis. The changes the Economic Development Minister is doing in terms of gambling fees is now bringing that to full cost recovery. I think that is a defensible position that where government is providing a service or a regulatory oversight, it should be recovering the cost from that business sector. It is quite wrong that taxpayers are subsidising gambling regulations.

**Senator S.C. Ferguson:**

Are you going to be looking at areas where government is involved and perhaps should not be?

**Senator P.F.C. Ozouf:**

I think that we do need to be ... government is not a business but we should be business like, and one of the discussions that I am having currently with the Health Minister is how we get departments to be thinking about how they deliver their services. At Health the Health Minister and her immediate team are responsible for strategy, policy and they are running a hospital. The Housing Minister, he has legal responsibility for issuing (j) cats, he sets standards in terms of lodging houses and other accommodation with Health but he is also effectively a landlord. He is

conflicted to some analysis. I have not yet studied in detail the Whitehead report but I imagine the Whitehead report is going to recommend a separation. Yes, departments need to think: “How can we best provide the public with this service?” It might be that the public sector is the right delivery vehicle. It might be that the not for profit sector is the right delivery vehicle. For example, family nursing and home care. It might be that the private sector is the right delivery. I think we have got to have these debates about what the States should be providing and what the States should not be providing. One of the key initiatives within the strategic plan is going to be on liquid waste. Liquid waste is a service provided by the States of Jersey at the moment. In most other countries of the world liquid waste is provided by the water authority and there are synergies between. You do not mix waste water and clean but there are synergies between them.

**Senator S.C. Ferguson:**

In other countries the water authority also looks after the sewers.

**Senator P.F.C. Ozouf:**

Exactly right. When I say “liquid waste” I mean the sewage network. So where it can, instead of T.T.S. (Transport and Technical Services) thinking about the fact they should be operationally running the sewage network, the Chief Officer should be thinking: “How best can I deliver this service to the public?” and he almost should not be conflicted in running that service and commissioning it. Health is conflicted in running the hospital and setting governance and strategy and standards. We are small and in a small jurisdiction there will be these conflicts but I have got to try and get a sense among chief officers and the Corporate Management Board that they need to be thinking how best and who best should be providing these services.

**Senator S.C. Ferguson:**

So every department is going to have to have some acute financial types to look at planning and forecasting their expenditure?

**Senator P.F.C. Ozouf:**

We are going to help them to do that. This is all part of the ... and we have at the moment ...

**Senator S.C. Ferguson:**

But we have not really got that in place at the moment, though?

**Senator P.F.C. Ozouf:**

We have not, but that is where the Treasury restructuring plan and the bringing together of the finance function across the States of Jersey did not happen. Ian is consulting at the moment with finance departments and we are going to be ... you can speak about that yourself, Ian.

**Mr. I. Black:**

We committed to produce a final plan within 4 weeks of ... by mid October. That is what we are still heading for.

**Senator S.C. Ferguson:**

That is for the Treasury?



**Mr. I. Black:**

Yes.

**Senator S.C. Ferguson:**

The plans for all these fiscal strategies and the spending review, those are going to be in place in time for the next business plan?

**Senator P.F.C. Ozouf:**

Right, let me just address this because this is equally as important as the comprehensive spending review, and that is that I am going to be also ... and I have hinted at this until now but now I am saying definitely what I am going to do and the work is commencing, we do need to conduct a review of the whole fiscal strategy review. I have been asked to do this and warned that I should do it by the Fiscal Policy Panel to prepare for a structural deficit, if it does exist. I still cannot inform the Panel of whether or not it is definitely going to be £40 million or £60 million or whether there is going to be a deficit at all, but there is the likelihood - not as a result of States spending but as a result of the economic downturn - that there is a structural deficit and I need to respond to that. The strategic plan clearly identifies a number of the spending challenges that we have been talking about: the ageing society; the problems that we face with the healthcare system; I have mentioned the liquid waste network which has not got appropriate maintenance money in. What I am doing is over the next 6 months I am going to be doing a review of all of the taxation arrangements in Jersey in detail, reviewing what we did in terms of the Zero Ten arrangements, reviewing the tax systems after the number of years it was agreed in principle, and preparing for the possibility of the structural deficit and having a mechanism. I fully intend, by this time next year, if I am sitting here, to be telling you what action I would propose to take to deal with that structural deficit as well as aligning Jersey's tax system with what are further new emerging issues in terms of global taxation.

**Deputy T.A. Vallois:**

Will that be taken with a long term view or are you intending on doing one of these reviews every 5, 10, 20 years?

**Senator P.F.C. Ozouf:**

I think it is appropriate that you do review of your fiscal strategy and a proper review of your fiscal strategy every 3-5 years, and certainly it has always been envisaged that we would do a review of the fiscal strategy. I need to do it because of the structural deficit. I need to do it for all sorts of reasons that are set out in the strategic plan and I intend to do that between now and October. So I have got 2 big reviews. I have got the spending review, which is going to be a very different approach in relation to the way we have done things in the past, and relooking at the whole fiscal strategy, looking at the whole levels of raising income. I think I have sent in your pack a terms of reference which sets that out in detail. That is the first time I am saying exactly what that is going to be, who is going to sit on the Ministerial review. I would welcome comments from you in relation to the steering group. I would welcome the involvement of some non executive members, or one or 2 non executive members, on that, partly because you are going to be reviewing it anyway.

**Senator S.C. Ferguson:**

I was going to say, we like having you in the hot seat. Do you think there will be the political will to determine overall spending? Can you make it work in Jersey?

**Senator P.F.C. Ozouf:**

I think we have got to. The reality is that the Island has got to live within its means. We have been able to respond to the economic downturn by a discretionary fiscal stimulus package because of prudence in the past. Yes, we can always do better and, yes, there is efficiency to deliver and, yes, there are things that we could have done better, there always are. But if we are to keep the Island with the historic matching of income versus expenditure in the longer term the States needs to show discipline. I had some concerns in some of the outcome of the business plan debate going through that. I am not sure it has been a very good use of our time, some of the debates that we have had. I was heartened by the final debate on the town park and the clear message that Members gave me. Of course I will have to respond in this year's budget to the increase in spending that we are putting into Health. That will be an announcement for when I lodge the budget. I continue to believe that if you engage with people, if you explain what your problems are, if you explain what the challenges are, people will be reasonable. I am sure that States Members will be reasonable but I have got to share with them and I have got to certainly share with my Ministerial colleagues what the challenges are.

**Deputy T.A. Vallois:**

That was partly the problem with the business plan that we just had, though. That was partly the problem, was the fact that other Members were not provided with exactly why those Ministers chose those priorities. It was never explained to us properly, even though it was asked.

**Senator P.F.C. Ozouf:**

I think that is a fair point. There is no doubt that this business plan has been ... the setting of expenditure this year has been the most difficult it has been in years. Which may indicate that the departments are ... we have taken millions of pounds out of different departments' budgets, there have been some savings given, there has been a complete reorganisation of the whole of the public sector in the last few years but you have always got to do more. The battle ... there were some difficult discussions - I will not say battles - with Ministers, the business plan has been very difficult, we have had to release money in some areas and put it in others. I want to have a wider engagement of Members in terms of this comprehensive spending review. Members, I think, want to see the Treasury do and be seen to be doing the in-depth reviews and challenging Health, Education and Social Security, and possibly Home Affairs too. I think we need to be seen to show that we have been challenging and the results of any reports that we do will be widely distributed to Members and I intend to engage with them.

**Senator S.C. Ferguson:**

Thank you very much indeed, Minister.

**Senator P.F.C. Ozouf:**

Is that all you have got to talk to me about?

**The Connétable of Grouville:**

Do not tempt us. [Laughter]

**Senator P.F.C. Ozouf:**

Just to be clear, I have tabled to you in your pack, and I see no reason why ...