

2.7. Deputy G.P. Southern of the Chief Minister regarding under-lying assumptions in respect of the Retail Price Index and pay settlements:

Would the Chief Minister inform Members of the assumptions which underlie the predictions for the Retail Prices Index and consequent pay settlements as set out in the presentation on the Draft Annual Business Plan for the years 2008 to 2010?

Senator F.H. Walker (The Chief Minister):

The Annual Business Plan will be finalised by the Council of Ministers in June and lodged with the States in July for debate and decision in September. I have formally asked each Scrutiny Panel to undertake a review of the cash limits and the underlying assumptions, but that of course is for the Panels to decide for themselves. I have been sharing the Council of Ministers' thinking with the Corporate Services Scrutiny Panel since January and they have been taking a keen interest in our proposals. I expect that they will want to look very hard at our inflation assumptions and I will participate fully in any review they undertake. Inflation is notoriously very hard to predict, particularly given the impact of changes in the U.K. base rate. However, we have produced assumptions for R.P.I. as at March each year and our assumptions are 4.5 per cent in 2007, 3.5 per cent in 2008, 3 per cent in 2009, and 2.5 per cent thereafter. These assumptions are based on maintaining as much pressure as possible on underlying inflation, which we continue to hold at or near our target level of 2.5 per cent and they allow for current interest rates. The underlying assumption is that G.S.T. (Goods and Services Tax) will have a one-year impact from introduction, but that consumer and competition pressures will significantly lessen the impact on prices, and hence any addition to the index. Our targets are challenging and they will not be easy to meet, but that has to be our aim.

2.7.1 Deputy G.P. Southern:

Does the Chief Minister agree with his Treasury and Resources Minister that the all-items R.P.I. is likely for one year to be affected by the introduction of G.S.T., and further does he agree that such an effect will take place in March 2009 if the G.S.T. is introduced in April 2008, and further that in line with his advisers - the Crown Agents - on G.S.T., this impact is likely to be around a minimum of 2.4 per cent on the expenditure of all workers on the Island, and does he not agree then that his figure for March 2009 of 3 per cent is woefully inadequate?

Senator F.H. Walker:

I do not. The Deputy is right in saying that G.S.T. will have an upward impact on inflation for the first 12 months following its introduction; yes, of course. He is not correct in saying that that effect is likely to be 2.4 per cent. What he is doing is quoting the Crown Agent's view that if all items are uplifted in price by 3 per cent then the effect could be as high as 2.4 per cent. There is already clear evidence that that would not be the case and that a number of retailers will not be introducing the rate of G.S.T., or at least the full rate of G.S.T., into their sales prices. And there is... I see the Deputy is surprised that there is evidence which I will gladly share with him at another time. And certainly it is also not the case that it would have an impact on all workers, and of course there is protection due for the low paid which the States are due to debate in the not too distant future. Thereafter, of course, after the first year G.S.T. will have a downward impact on inflation.

2.7.2 Deputy R.G. Le Hérisier:

Would the Chief Minister identify to what extent he has taken the increasing rise in the price of property and rentals into account in fixing these rates, given everyone thought this issue had been tamed, but in fact we are now faced with a very red hot property market. How has he taken this particular development into account?

Senator F.H. Walker:

The major impact caused by house prices in Jersey is the effect of the base rate of the U.K. The contribution to the December 2006 round of the R.P.I. of house purchase costs was 1.5 percentage

points, of which one per cent was caused by the increase in base rate. I mentioned in my first answer that our forecasts are based on a continuation of current base rates, the latest predictions suggest there may be a small 0.25 per cent increase sometime within the next few months, followed in the slightly longer term within the period of the question by decreases. So, we have taken the house price scenario into account, and I should mention that despite the buoyancy of the housing market house price increases are still below both the rate of inflation and average earnings.

2.7.3 Deputy R.G. Le Hérisier:

Could I therefore infer from the Minister's answer that he is very happy with the supply and demand situation and they are, from his point of view, entirely in balance?

Senator F.H. Walker:

No, I am not. And of course if we want to see dramatic further increases in house prices then we would continue to have a shortage of supply, and it is essential if we are going to keep inflation under control that we balance supply with demand. That is very much in the planning of the Council of Ministers and, particularly, the Housing Minister at this time.

2.7.4 Senator B.E. Shenton:

The Chief Minister has stated that Deputy Southern's assertion that 2.4 per cent increase in 2009 is incorrect. Could the Chief Minister state what his assumption of the effect of G.S.T. will be in the 2009 figure?

Senator F.H. Walker:

I cannot give a precise figure because we do not know what the precise figure is. What I said was that 2.4 per cent would only become a reality if all retailers passed on the full 3 per cent on all articles they are selling, and that will not be the case.

2.7.5 Deputy G.P. Southern:

Can I seek first of all a point of clarification? In his answer the Minister appeared to suggest that R.P.I. in 2007 would be 4.5 per cent. His figures are 4 per cent, was that just a slip? Secondly, I thank him for offering to show me the evidence that retailers and others will not raise their prices by 3 per cent when suffering from G.S.T., but will he share that evidence with the House?

Senator F.H. Walker:

I have received information in confidence from a number of retailers, and I said I would share that with the Deputy and share it with the Deputy I will. Sir, I think what we need here is to avoid self-fulfilling prophecies. What we do not want are Members of this House effectively almost encouraging retailers to pass on the full rate of G.S.T. We all need to work together to keep the price increases as low as possible and to keep the R.P.I. as low as possible. We all need to pull together in that respect and we should be avoiding self-fulfilling prophecies.

2.7.6 Deputy G.P. Southern:

Will the Chief Minister confirm the slip of the tongue rather than his new estimate of 4.5 per cent for R.P.I. in 2007?

Senator F.H. Walker:

Yes, I will. The Deputy is correct in that respect; it is 4 per cent.

2.7.7 Deputy G.P. Southern:

And will the Minister agree that in addition to talking up inflation that we must avoid at all costs wishing that things will work out fine?

Senator F.H. Walker:

We do not wish, we set challenging targets and then work as hard as we can to meet them, and that is what I invite the Deputy to join us in doing.

2.7.8 Deputy G.P. Southern:

Does the Chief Minister have any evidence that he is prepared to make public that G.S.T. will not be passed on?

Senator F.H. Walker:

Let me be clear, I did not say G.S.T. will not be passed on, I said G.S.T. will not be passed on in full on all items sold. And I will research the evidence I have to see what is possible for me at this stage to put into the public domain.