

STATES OF JERSEY

Corporate Services Scrutiny Panel Medium Term Financial Plan Addition

FRIDAY, 8th JULY 2016

Panel:

Deputy J.A.N. Le Fondré of St. Lawrence (Chairman)

Deputy S.M. Brée of St. Clement (Vice-Chairman)

Connétable C.H. Taylor of St. John

Deputy K.C. Lewis of St. Saviour

Mr. M. Oliver (Adviser)

Witnesses:

The Chief Minister

Senator P.F.C. Ozouf (Assistant Chief Minister)

Senator P.F. Routier (Assistant Chief Minister)

Chief Executive Officer

Economic Adviser

Director, Corporate Policy

[11:01]

Deputy J.A.N. Le Fondré (Chairman):

Welcome to the hearing with the Chief Minister. It is on what is referred to as the M.T.F.P. (Medium Term Financial Plan) Addition. For the purposes of the tapes, we will go round first and then I will do the usual preamble. Deputy John Le Fondré, Chairman of the panel.

Deputy S.M. Brée of St. Clement (Vice-Chairman):

Deputy Simon Brée, Vice-Chairman of the panel.

Deputy K.C. Lewis of St. Saviour:

Deputy Kevin Lewis, panel member.

Connétable C.H. Taylor of St. John:

Connétable Chris Taylor, panel member.

Mr. M. Oliver:

Michael Oliver, an adviser to the panel.

The Chief Minister:

Ian Gorst, Chief Minister.

Senator P.F. Routier:

Senator Paul Routier, Assistant Chief Minister.

Chief Executive Officer:

John Richardson, Chief Executive.

Economic Adviser:

Dougie Peedle, States Economic Adviser.

Director, Corporate Policy:

Paul Bradbury, Director, Policy.

Deputy J.A.N. Le Fondré:

Minister, I draw your attention to the notice in front, which I am sure by now you should be fully aware of, and also the usual warning to the members of the public. There are notices around the room and obviously we do expect members of the public and the media in the public seating to remain quiet at all times while the hearing carries on. As we proceed through the questions, we may stop you, Minister, if we feel you have answered the question sufficiently because we do need you, as ever, to try to be as concise as possible. The hearing shall begin. Minister, bearing in mind the U.K. (United Kingdom) Chancellor has stated that the plans to clear the U.K. deficit have been abandoned in light of Brexit, do you still stand by your statement that we can balance the budget by 2019?

The Chief Minister:

Yes.

Deputy J.A.N. Le Fondré:

Good. There was talk last year of a £145 million deficit. What is this figure now?

The Chief Minister:

No, there was no talk of that. Maybe you, as a Scrutiny Panel, tried to use that term, but I do not think you did. I think it was the media interpreting the spending that we were going to make during the course of this plan and trying to add those figures up and then suggest that there was a deficit. There was a decision in the plan to spend money on health, to prepare ourselves for the future and then ...

Deputy J.A.N. Le Fondré:

Can you just tell us what the figure is now, please?

The Chief Minister:

No, I am answering your question because if you have asked a question based on a false premise then surely I must address that false premise. We are trying to put forward a plan that invests and spends money on health to prepare for the ageing population; similar with education and similar with economic growth and St. Helier and infrastructure. If we look at the work that the Economic Adviser did, if we look at the work that the F.P.P. (Fiscal Policy Panel) did, they suggested that if we did not do anything, in fact, if we did not change the way we were spending, there may be a structural deficit by 2019 in the order of £30 million. That was only "may". That was if we did not take any corrective action to change the way that we were doing things. On top of that corrective action of reprioritising spending, we are also investing in vitally needed services.

Deputy J.A.N. Le Fondré:

Thank you for the press release, Minister.

The Chief Minister:

It is no press release. I have answered your question that you based on a false premise about a potential structural deficit. I went back to the experts and they were economic experts and that is what they said.

Deputy J.A.N. Le Fondré:

Let us go back to the £145 million figure. There was a figure of £145 million which was a combination of expenditure and income measures that were required to make up the expenditure. Is that correct? Do you accept that there was a figure being bandied around of £145 million?

The Chief Minister:

I remember that you and I, Chairman, had quite a robust conversation about adding numbers up across years, down years, and all sorts of figures were seen. I want to deal with the actual figures that the Economic Adviser and the independent advisers have put before us and that we are delivering a plan upon.

Deputy J.A.N. Le Fondré:

What I would like to understand is there was a pie chart that has been produced, which shows a figure of either £123 million or £113 million, called "Funding investment and priority services". Previously that was £145 million, I believe.

The Chief Minister:

That is not a deficit, is it, though, Chairman? That is a reprioritisation of funding that we are going to deliver on services.

Deputy J.A.N. Le Fondré:

Previously the figures that were being used were in the order of, I believe, £145 million. Now, if I am wrong on that, that is fine, but there are now 2 figures being used in 2 different presentations, one for £123 million and one for £113 million, I believe. Could you tell us which one we need to use?

The Chief Minister:

I am not sure it is quite that straightforward. If you look at all the numbers throughout the years then you will see the figures that we ...

Deputy J.A.N. Le Fondré:

Well, this is your presentation, Minister, or rather your officers' presentation.

The Chief Minister:

£113 million.

Deputy J.A.N. Le Fondré:

£113 million?

The Chief Minister:

Yes.

Deputy J.A.N. Le Fondré:

Thank you. That is what we were trying to get to, I believe.

The Chief Minister:

But let us call it what it is. Let us not pretend to call it something that it is not.

Deputy J.A.N. Le Fondré:

Okay, we will reserve judgment on that and we will also go back and check.

The Chief Minister:

Why are you reserving judgment on something that the Economic Adviser and the independent economists have said?

Deputy J.A.N. Le Fondré:

Chief Minister, it is our meeting. Can we not talk over each other, please? We will go back and check what statements were made around that figure around what it was. All I was trying to get to is what is the figure now, and it is £113 million.

The Chief Minister:

Investing in priorities.

Deputy J.A.N. Le Fondré:

Yes, that is fine. After that exchange, can we welcome your other Assistant Minister, Senator Ozouf?

The Chief Minister:

For the record, yes. We said that you were joining us.

Deputy J.A.N. Le Fondré:

For the purpose of the tapes, could you just give your name and title, please?

Senator P.F.C. Ozouf:

Yes. Senator Philip Ozouf, Assistant Chief Minister with responsibility for financial services, digital competition and innovation and anything that the Chief Minister asks me to do.

Deputy J.A.N. Le Fondré:

Thank you very much for the title. Chief Minister, the policies put forward in the M.T.F.P. Addition are supposedly based upon the outcome of the distributional analysis. Do you stand by that statement?

The Chief Minister:

There is no supposedly about it.

Deputy J.A.N. Le Fondré:

So you do stand by the fact that they are based upon the outcome of the distributional analysis?

The Chief Minister:

Not solely that but the distributional analysis was taken into consideration. But the underlying premises of the distributional analysis around effects upon certain sections of our community, effects or deliverability, were taken into consideration throughout this process. There, of course, was a formal piece of work undertaken by the Economic Adviser, which is the distributional analysis.

Deputy J.A.N. Le Fondré:

That fed into the decisions made on the M.T.F.P.?

The Chief Minister:

It did, but that was not the simple thinking or sole thinking that we did around the distributional impact.

Deputy J.A.N. Le Fondré:

The next question then, Chief Minister: the forecast surplus in 2019 of £1.5 million has been reduced from the forecast figure of £3.6 million in the M.T.F.P. approved last year. With such a small surplus and with all the volatility that comes with the Brexit vote, the slightest downturn in income could put the M.T.F.P. into deficit. Does the Chief Minister not agree that in order to deliver a balanced M.T.F.P. financial plan by 2019, it would be prudent to plan for a much higher level of surplus?

The Chief Minister:

No, it would not be prudent to plan for a higher level of surplus, and I think the Chairman knows why, because the assumptions throughout are prudent. The assumptions throughout that particularly the Income Forecasting Group have taken have been cognisant of the international uncertainty that surrounds us. One of those elements, of course, is Brexit, but this is a budget or a proposal which is balanced and that is absolutely right. You cannot just take a number as a balancing figure at the end of 2019 and not take into consideration all the thinking we did around distributional analysis that you have just asked me about, effects on people's lives, and also the prudent nature of the assumptions and how we are going to manage it over that time. So there is no easy answer one way or the other. We have to balance all of those things and bring all of those things into consideration. You also know, Chairman, do you not, that that is the balancing figure, as it were,

but there is flexibility in the plan should those assumptions change over the course of the next 3 years?

Deputy J.A.N. Le Fondré:

I am sure we will come to the flexibility shortly. Does anybody have any questions on that section? I will hand over to Simon.

Deputy S.M. Brée:

Good morning, Chief Minister. I would like to ask you about the income forecasts contained within the Medium Term Financial Plan Addition. The biggest question really is how will the Council of Ministers be monitoring the impact of the Brexit vote on the income forecasts?

The Chief Minister:

You are asking me to some extent what the experts are going to say. You know how the income forecasts are currently delivered. They are based on, first of all, you have got the independent economists that look at the economic assumptions.

Deputy S.M. Brée:

That was not the question I was asking, not the mechanics. I am asking what ...

The Chief Minister:

But it is important that we understand the mechanics so that then we can understand any changes that may need to be delivered in light of that.

Deputy S.M. Brée:

I think we all understand the mechanics. What I was asking was the simple question: how will you be monitoring the impact of Brexit?

The Chief Minister:

There is uncertainty all around us, is there not? Brexit, let us just remember, is one element of that uncertainty. Ministers receive quarterly reports on income and spending and, if need be, they can make adjustments based on those quarterly reports. I am going to have to look to officials just to make sure my memory is correct about the 6-monthly, I think, nature of the Income Forecasting Group meeting. They are going to be also factoring in any changes in light of the question that you are asking, but that again is based upon the economic assumptions that the independent economists think are going to happen throughout our community. We have to understand the mechanics to see what positions there are for an ability to adjust as we go through this process.

Deputy S.M. Brée:

Well, let me put it another way, which you may be able to answer. Given that the income forecasts were decided or worked on in a pre-Brexit world, do you not agree that they now need to be revised?

The Chief Minister:

As we sit here, I think again, Chairman, you know that the Minister for Treasury and Resources has already spoken to the Chair of the Fiscal Policy Panel. We are waiting for updated advice from her and from her panel. I do not think that there is any economist, unless we have an exception sitting to one side of me, that is going to be able to give you any certainty about what a change might look like on an income forecast into the future. But bearing in mind that the current income forecasts are prudent, we look at what they are saying about the economy in 2018 and 2019 ... and there is not just the Brexit that is uncertain. There are lots of other uncertainties that are surrounding. It may be that over the course of the next 6 months, when we have had the work from the F.P.P., when the Income Forecasting Group sit down again and we have a better understanding of any effects ... but let us remember there is not just potential for negative effects. There is potential for positive effects. We might smile around this table but only this morning Senator Ozouf has been on a conference call delivering new business into our community. So there are positive potential effects as well, but that will take time to flow through. In this plan we have got flexibility to be able to deal with those. I do not know if the actual expert would like to add anything to that.

Economic Adviser:

Just to reiterate that we have asked the F.P.P. to update their March advice, just to say in the light of Brexit what they think we should be factoring in, in terms of the economic outlook but probably more importantly the approach in the M.T.F.P. As the Chief Minister said, I am not sure we could get some realistic economic assumptions at this point that would tell us how, never mind the U.K., the Jersey economy is going to be impacted over the next few years.

[11:15]

What is really important is understanding what the right approach would be in the M.T.F.P. under varied circumstances. Coming back to your question, I do not think it is as simple as if the economy is going to be impacted to a negative degree that that means that we have to tighten fiscal policy quicker and look to balance the budget more in 2018 or 2019. Under some circumstances it could be the case that you need to let policy adjust and not look to balance so soon and look to balance later. Similarly, under other assumptions, it could be, if the economy is impacted in a structural way, that, yes, you would need to do things more quickly, but that is what we are asking for an update from the F.P.P. on at this point in time to see what we should be factoring in and how we should be adjusting the plans. We will get that next week.

Deputy S.M. Brée:

If I may, one of the things that I think most people are considering is a vitally important bit of information. In a recent speech the Governor of the Bank of England stated, and I will quote his words here: “We may need to cut interest rates in the next few months. The markets themselves are indicating a downturn in interest rates.” As the income forecasts are predicated on interest rates going up not down, then surely that is going to have an impact on your income forecasts. Do you not agree?

Economic Adviser:

It is not quite as simple as that. First off, the profile for interest rates was that they would start to go up but, secondly, how that was factored into the forecast was that it would not impact significantly on tax revenues. We took a fairly conservative view that we would not factor in a rise in corporate profits, financial services profits, due to that rise in interest rates, not least because we had information around the performance of financial services now and into this year. So changing the interest rate assumption alone would not materially impact on the economic forecasts at this point in time. Clearly, if you started to change other parameters within that forecast then, yes, they might. If they started to impact on employment, on the outlook for earnings then, yes, you would have an impact on personal tax, but again the nature of that impact is absolutely critical in terms of how you would respond to it. Understanding whether Jersey is impacted in a cyclical way or a structural way is not something that you can just do off the top of your head and overnight.

Deputy S.M. Brée:

However, your income forecasts did not account for a downturn in interest rates, did it? You are saying you did not factor in an increase. You said, no, we will be prudent but you did not factor into your income forecasts any possibility of the interest rate going down. Is that correct?

Economic Adviser:

That is correct, but also I would point out to you that what the Bank of England has said and the Governor has said is that they would look at all the options they have to support the economy. It may well be that they decide not to cut interest rates and look at other monetary policy measures of supporting the economy, quantitative easing being the main one. So it is not quite as simple as interest rates are definitely coming down at this point in time, but I would also point out that they cannot come down much further.

The Chief Minister:

It is a small margin. This obviously fits into banking and profitability in financial services which the Economic Adviser has said. That is Philip’s area. I do not know if you wish to add anything.

Deputy S.M. Brée:

If I may, obviously we can talk around ...

The Chief Minister:

It is an important question.

Senator P.F.C. Ozouf:

If I may just offer 2 sentences if I may help the panel.

Deputy J.A.N. Le Fondré:

Hang on, let us just pause for a moment. Do you want to carry on or move to the next question?

Deputy S.M. Brée:

No. I think we have got your Economic Adviser's view on it. I think we should leave it there and move on to just the next question.

Senator P.F.C. Ozouf:

Could I just add something?

Deputy S.M. Brée:

No, please ...

Deputy J.A.N. Le Fondré:

We have got an hour and a half and we have a lot to get through.

Senator P.F.C. Ozouf:

You do not want to hear another side of the industry view which I ...

Deputy J.A.N. Le Fondré:

We have heard from the Economic Adviser.

Senator P.F.C. Ozouf:

No, that is the economic view. It is the industry view that I wish to give you.

Deputy J.A.N. Le Fondré:

We move forward and we keep going.

Senator P.F.C. Ozouf:

Well, you have not heard the answer.

Deputy J.A.N. Le Fondré:

I am just saying we have got a limited time period to do the questions.

Senator P.F.C. Ozouf:

It will take 30 seconds.

Deputy J.A.N. Le Fondré:

Well, it has taken longer so far, so let us move on to the next question. There may be an opportunity to come back. Okay?

Senator P.F.C. Ozouf:

There is an important point which you have not covered.

Deputy J.A.N. Le Fondré:

No, sorry, I am asking us to move forward. Thank you.

Senator P.F.C. Ozouf:

You do not want to hear the other answer that we are prepared to give you?

The Chief Minister:

Financial services is fundamentally important to the particular issue about whether the Bank of England decides to lower interest rates, is it not?

Senator P.F.C. Ozouf:

So, can I just give you 2 lines?

Deputy J.A.N. Le Fondré:

Come on, please. I am sorry to get irritated here. We do not have a very long period of time. We have heard from the Economic Adviser. We are trying to move the meeting forward. Okay?

Senator P.F.C. Ozouf:

You either want a financial services view or not.

Deputy J.A.N. Le Fondré:

We have just said twice we would like to move on to the next question, but if it is so critical, fine, 30 seconds please, Assistant Minister.

Senator P.F.C. Ozouf:

It is critical. Thank you. The point about interest rates is correct. There are also other things which we are immediately now prioritising in terms of financial services, because while there is a downside in interest rates, there are opportunities, particularly because of uncertainty, there will be a flight to certainty and stability. That is why we are immediately now putting in place changes to reframe our financial services strategy to take upside business, which only yesterday the Chief Minister and I had a meeting with a very senior bank executive that is now preferring Jersey, which could lead to significant and immediate move of business to Jersey which could then factor in, in terms of the business that will be Jersey. So, on the one side you have downside risk of interest rates but on the other side you have an upturn of significant amounts of capital that will be seeking a safe and more certain place with access to the country markets that we have and also within the British sphere. So we would willingly give you some examples of some tangible and real income increases which we are today ... have already had evidence of in the last week and we believe in the next month we will have significant evidence of income and capital and jobs that will result on the back of that, which may to some extent offset the points that the Deputy rightly puts. I will give you evidence of that if the Chief Minister wishes me to later in written form, which more than counteracts the downside.

Deputy S.M. Brée:

That was not the question we were asking but thank you for the information anyhow that you have given us.

Senator P.F.C. Ozouf:

But it was about your forecasts.

Deputy S.M. Brée:

On the last question about income forecasts, which I would like your view on, the Chancellor of the Exchequer has recently announced a possibility of a reduction in corporation tax in the U.K. down to below 15 per cent. This is obviously following the Brexit vote. Do you believe that that move by the U.K., should it happen, would make Jersey less attractive for inward investment by corporations?

The Chief Minister:

No, I do not think it would. We have always taken the view - and the British view has been aligned with ours and this is a view that we espoused around the world - that tax measures are a legitimate area for, particularly in Europe, member states to make decisions on. They are an area of competition and we all know, hopefully, why we have got the Zero/Ten and 20 regime in Jersey. So

it is not so much the 10, although the 10 needs to remain competitive and it would remain competitive if the U.K. moved to 15 because we know it remains competitive when Ireland is below 15, but it is also the other zero element which gives us competitive upside as well. So it is not just that headline of 15 that the U.K. is now proposing. We support tax competition.

Deputy S.M. Brée:

Thank you for that.

Deputy J.A.N. Le Fondré:

Can I make the point that, firstly, thank you for the comments from Senator Ozouf. We probably have heard some anecdotal comments around those kind of issues previously. We are trying to focus on the questions that we are asking and, more importantly, we are trying to make sure that because of the timeframe we are only dealing with the people that we ask the question from. I have got no problem if we ask the Chief Minister and we then go to the adviser. What we do not want is 3 comments from different areas. Okay? Generally, that is why I am trying to move things forward. You do not need to comment. I would like to ask a question to Mr. Peedle, which is you made a reference to the Brexit and the F.P.P., as in the F.P.P. are going to be asked for advice. Presumably they have also been asked to pick up any changes in the economy, the last comment.

Economic Adviser:

Yes. It is to comment on the economic outlook as a whole.

Deputy J.A.N. Le Fondré:

I see, not just to focus on Brexit. Very quickly as well, you made some reference to the issues between having a structural deficit and a cyclical problem, I think. I think that was the distinction you were trying to make.

Economic Adviser:

Not deficit, economic impact, yes.

Deputy J.A.N. Le Fondré:

I thought you made reference to a structural issue versus a cyclical problem.

Economic Adviser:

Yes, structural economic impact and cyclical economic impact, not deficit.

Deputy J.A.N. Le Fondré:

Okay. Has this not been raised previously by the F.P.P.?

Economic Adviser:

Relative to Brexit? No.

Deputy J.A.N. Le Fondré:

No, not relative to Brexit, in the general standing of the Island's finances.

Economic Adviser:

We are talking about an economic shock coming from Brexit which may be a mixture of structural and cyclical impacts on the economy, talking about the economic impact not the fiscal impact.

Deputy J.A.N. Le Fondré:

Okay, fine. Thank you, because there has been ... in which case, am I mixing things up? I take the point about the economic situation. The F.P.P. have also previously made reference about whether there was a structural deficit or whether there was a cyclical problem, have they not?

Economic Adviser:

Yes, they have.

Deputy J.A.N. Le Fondré:

What stage are we at in understanding what the answer to that question is: is it structural or is it cyclical, the problems we are facing at the moment?

Economic Adviser:

As a result of Brexit or before Brexit?

Deputy J.A.N. Le Fondré:

No, just in terms of the Island's finances.

Economic Adviser:

Their advice is that the right time to balance things structurally would be 2018 and 2019 under the previous economic outlook pre-Brexit, so that is their advice, that that is the time to balance. If there is a structural imbalance, which they are unsure of the size of, the correct approach is to balance by 2018 and 2019 under the economic outlook of March.

Deputy J.A.N. Le Fondré:

Thank you.

Deputy K.C. Lewis:

New charges. If I start regarding the health charge, the Minister for Treasury and Resources, Senator Maclean, *Jersey Evening Post* 1st July, stated: "For over £164,000 there is no further contribution but if you do not have a cap then it would be a change in income tax. A change to our income tax system is not where we want to go." Chief Minister, the basic principle of funding health spend up to now has been through general taxation. Do you agree?

The Chief Minister:

No, it has not. It is far more complex than that because you have got the tax-funded services, some of which are funding the hospital and those services. Some of that money has also been used over the last number of years to fund some elements of primary care. In primary care you have got a co-funded basis. That co-payment is on a contributory basis not connected to the tax system. Then you have got the wholly private areas where there is no co-payment where people pay directly at the point of need. So we already have a different approach for different elements of health care.

Deputy K.C. Lewis:

A charge is supposed to be for a specific service. It would appear that the health charge is just to plug a hole in the health budget.

The Chief Minister:

Not at all. If you go back to the decisions that the States have previously made about transforming health care, if you go back to the extra millions of pounds that we have put into health care, you will see that elsewhere in the world and the advice that we have had is that we would have to start to ask people to pay a little bit more for this transformed health service. The reason that we are doing that is because if we do not do that it is going to cost us even more, and that is what the independent evidence showed when we started doing those reviews. We have put over £70 million extra into health and social services without asking the public to pay a little bit more. What we are doing now is saying we need to set up a mechanism in order that we can pay a little bit more. The proposal is that that health charge would go into a fund which is administered by Treasury and delivered under certain criteria into health and social services provision.

Deputy K.C. Lewis:

There has been a piecemeal introduction of charges and user pays. Do you agree that this is effectively or is now becoming a shadow, hidden or parallel tax system?

The Chief Minister:

Not at all. I think we had this discussion at the last Scrutiny hearing. There is nothing shadow or hidden about it. We are being absolutely clear and open. It will be clear and open on people's tax returns, so there is nothing shadow about.

Deputy K.C. Lewis:

Could you explain why something is not a tax just because it has a cap?

The Chief Minister:

It is based on a bringing together of the income tax system and the contributory system, because what we are doing is asking people to contribute more for the cost of their health care. There are some elements that were mirroring the contribution system and those elements are that, yes, there is a cap on it and, yes, it will go into a fund that will be administered by Treasury. But in order to mitigate some of the effects that you see with the contributory system on lower incomes, we look at the relief in the tax system so you can give people relief at the lower end and make sure that you are capturing all income and not just earned income.

[11:30]

So that bringing together is quite important because it benefits the lower income people because they do not have to pay as they would if it was based on the H.I.F. (Health Insurance Fund) or totally on the contribution system. It also brings in non-earned income as well.

Deputy K.C. Lewis:

Why should someone earning over £162,500 pay a lower percentage of their income for this charge?

The Chief Minister:

The bit that it takes out of the tax system is you have got the marginal rate, you have got 30 per cent of people who are not paying tax, so it gives that relief to the lower earners, and then you have got this 15 per cent of people who are paying at the 20 per cent rate. So the 20 per cent rate people are going to be paying the full 0.5 per cent and the full 1 per cent in 2019. All those people on the marginal rate will be paying less than half a per cent and paying less than 1 per cent, and I do not think that is really well understood. We have brought the cap in to mirror the contributory system because what we are trying to do is show that we are contributing towards the increasing costs of health care. We know that the cap is going to be reviewed; Social Security are doing a review of that particular element of the contributory system, and that may therefore change if that review suggests that it should change. What we do not want to do is equally ...

Deputy K.C. Lewis:

Would it not be more fair and more equitable to make a percentage ...

The Chief Minister:

... just deal with it, just bringing a change in the short term to the tax system without having done a proper review about any unintended consequences.

Deputy K.C. Lewis:

So would it not be more fair and more equitable to have the percentage increase across the board for that account?

The Chief Minister:

No, because we are bringing together the 2 systems and we are asking people to contribute a little bit more. Some would say we should just have gone down the tax system. Some would say we should have gone on the G.S.T. (Goods and Services Tax) system but what we do is because we think it is a rounded hole, and we have looked at the economic advice on this, mirroring the system of the long-term care charge, which brings together both contributory and tax system, that is the best way forward.

The Connétable of St. John:

Last night the Deputy of St. John and I held a surgery, which we do every first Wednesday of the month. It was, by previous standards, mobbed and the single biggest complaint was the introduction of a health charge. The complaints were those on private health insurance policies are having to pay twice. Will you consider tax relief for those people who have private health because they are not ... they are persisting this already, this system, by being private and why are they going to have to pay twice?

The Chief Minister:

In respect of if they are taxpayers or contributory payers then they are paying ... the same argument would apply. So they are paying tax into the current way of funding the health service. Therefore we did not see the need to alter the new health charge in order to give relief in the way suggested because they do not get the relief from tax. There used to be relief before we did 20 Means 20. Some of those, I remember the Chairman, some of us took a long time to be persuaded that that was the right approach. But that was the approach that we took and therefore this new charge takes the same approach. Of course the counterargument is that we know that ... it maybe does not exist. If it does exist it is extremely rare that health insurance does not cover all procedures and you still have to use for some emergency procedures and some procedures outside of your health care you still use the general system in the same way as everybody else. There is not always ... certainly in Jersey we do not yet ... I am not sure whether we have a full cost recovery system when it comes

to providing procedures, but we are looking at changing the legislation so that we can do so that we can charge insurance companies in the same way that happens elsewhere. So I understand the argument but there are other arguments about why they should still contribute to a general system because that is what happens in the contributory system and it is what happens in the tax system as well.

The Connétable of St. John:

Minister, I think you are getting muddled here between tax and charges. This is a charge that is coming in and people are going to be charged twice. It is not a tax system because you said it is not a tax.

The Chief Minister:

In what ...

The Connétable of St. John:

It is currently funded out of tax.

The Chief Minister:

With respect, what were the ...

The Connétable of St. John:

There is a health charge that has been brought in and those people who have private health will now be paying not only for their private health, they will also be paying their income tax and they will also be paying a health charge. That is an unfair system. Where they are paying for premiums to their private health that should, as a gesture with the introduction of the charge, have tax relief. Do you not agree with that statement? Yes or no will suffice.

The Chief Minister:

No, and I have given you the reason why. On top of that you have got the ... there is provision ...

The Connétable of St. John:

I will just take it as a no and I think we will move on.

The Chief Minister:

No, because you have got the ... you see this is the problem that we are having. You are not allowing us to give a full answer. You seem to have made your minds up about various things before we have given our full answer. There are some ...

The Connétable of St. John:

No.

The Chief Minister:

... services at the hospital that people's health insurance do not cover. This is a charge to help fund health care into the future.

The Connétable of St. John:

I think, Minister, there is also a problem in public health that cost recovery does not occur because public health do not know what their costs are.

Deputy J.A.N. Le Fondré:

Let us move on from that.

The Connétable of St. John:

We will move on. That is a statement.

The Chief Minister:

It is a little bit of a cheap shot because they have done a lot of work to improve their management information. Of course we have seen the reports of the Comptroller and Auditor General and others in the past about that management information. But they have done a lot of work to improve that. What they know, they have got a chap on secondment from Treasury - the Deputy Treasurer - what they know about what their costs are and how they manage their costs today is far better than it has ever been in the past. Of course they accept they have still got strides to make but they are making efficiencies and reprioritising and delivering a really good service in a better way than they have done in the past. So let us encourage those that are really on the road to transformation that we all want.

Deputy J.A.N. Le Fondré:

Minister, it is not a case we do not want to listen, it is a case of we have a lot of questions to ask you and we know that the clock is ticking. What we are trying to do, and that is the reason for the slight agitation previously, is trying to keep people focused and not talking over each other because that way hopefully we will have a better meeting. One question from me is you made reference, Chief Minister, to a fund being established to take the healthcare charge. Could you tell me, and I have read all but 3 pages of the M.T.F.P. but I may have missed it, where that fund is mentioned in the Medium Term Financial Plan?

The Chief Minister:

It does not.

Deputy J.A.N. Le Fondré:

Sorry, could you say to the microphone?

The Chief Minister:

No, it does not mention it in there. It is a work that Treasury are working on in order that when we get to the point of the budget to agree the charge, which is the agreement will be the legislative agreement in the budget, at that point they will have details of the fund at the same time.

Deputy J.A.N. Le Fondré:

Thank you. Moving forward. On health again, the Minister for Treasury and Resources is now openly talking about a new charge to fund the new hospital. Now can you confirm it is your intention to fund the building of the new hospital partly through additional taxation or charges, depending which expression you wish to use?

The Chief Minister:

We have set out what is in the M.T.F.P. and we have set out the other areas of work that will need to be delivered, some of which during the timing of the M.T.F.P. We all know of course that if we are to build a new hospital it will have to be funded. But there is no decision about that funding. I am just looking to the Treasury official over there whether the Scrutiny Panel have received the timeline of when those decisions about hospital site funding ...

Male Speaker:

It is in the document.

The Chief Minister:

Okay. I have read it so many times and so many pages. So there will be a timeline about when various decisions will need to be made but we do not know yet what that decision will need to be other than there will need to be a decision to fund the hospital.

Deputy J.A.N. Le Fondré:

Because obviously at one of the briefings ...

The Chief Minister:

The Minister for Treasury and Resources has talked about a blended approach.

Deputy J.A.N. Le Fondré:

I think at one of the briefings there was certainly reference to a ... I will call it a hospital funding charge as opposed to a healthcare charge, which would be similar to ... the hospital funding charge being similar to a healthcare charge potentially, subject to the blending issue, which basically implies that in some shape or form there is likely to be that sort of charge coming down the line to residents. Would that be a fair comment, Minister?

The Chief Minister:

We know that we are 100,000 people. We know that we need a new hospital. We know that we are going to need to deliver a mechanism to fund it. Those 3 factors will come together on that timeline.

Deputy J.A.N. Le Fondré:

As in some shape or form an additional cost to residents?

The Chief Minister:

We are working down the timeline and those 3 factors will have to come together.

Deputy J.A.N. Le Fondré:

On that basis, Minister, could you confirm whether ... probably the wrong type of question. I think it would be fair to state on the basis that although there will be some form of cost to Islanders you have not been able to include that in the distribution analysis that has been produced for this M.T.F.P.

The Chief Minister:

That is correct, it is not in it.

Deputy J.A.N. Le Fondré:

So it is not in the M.T.F.P.?

The Chief Minister:

No, because the funding of the hospital ...

Deputy J.A.N. Le Fondré:

It is not in that document basically?

The Chief Minister:

The funding of the hospital is not in this document, it is purposefully outside of it, because they are really big decisions that affect us all beyond the magnitude of the 3-year plan.

Deputy J.A.N. Le Fondré:

So potentially there will be a further cost on Islanders over and above anything that is in the document I am pointing to, which is for the record the distribution analysis.

The Chief Minister:

I will say it again: we need a new hospital, we have got 100,000 people here and that new hospital will have to be funded. Those 3 elements will come together.

Deputy J.A.N. Le Fondré:

So can I take that with the appropriate caveats as a yes?

Senator P.F. Routier:

Can I just say with regards that, the hospital is going to be funded by the public whether it was the people who paid for it years ago and we put money aside? All our funds that we have to spend are money which the public contributes to us to use in the best way we possibly can. Whether it is people who put in money to the States years ago, and we used that sort of money, or whether it is buildings we paid for in the past and we are going to sell those, whatever the assets are, it all belongs to the public. Whether it is the future ones or the ones in the past.

Deputy J.A.N. Le Fondré:

No, Assistant Minister, you are missing the point.

Senator P.F. Routier:

No, I am not.

Deputy J.A.N. Le Fondré:

All we are trying to say is if it is out of the Rainy Day Fund, as it were, the Strategic Reserve, for example, then there is not a direct impact on the taxpayer of today or the Island ...

Senator P.F. Routier:

It was.

Deputy J.A.N. Le Fondré:

In terms of an increase in the amount they pay out of their pocket. If there is a hospital funding charge, or whatever the label is, there obviously is, and all we are trying to get the flavour for is if it is the latter what that might look like. Because obviously if it does not feed into your distribution

analysis at the moment, there is another charge coming down the line that might be relevant to the deliberations of States Members and/or consideration to the public in looking at this M.T.F.P.

The Chief Minister:

No, because that is a deliberation about whether we want a new hospital and then a deliberation about how we would pay for that hospital. Everything that goes under the name of the States of Jersey or the Government of Jersey belongs to the taxpayer. So we focus on a new charge, which is what you are trying to get me to say, but the taxpayer could use their assets. That still affects them but just in a different way.

Deputy J.A.N. Le Fondré:

Yes, okay. **[Interruption]** No, we will focus on the Chief Minister, thanks. What I will say, Chief Minister, the reason obviously it was raised is because it was highlighted in the briefing that we received. Can we just move on ...

The Chief Minister:

Because we said it was going to be a blended approach and so people have said: "Ooh, that could mean this or that could mean that" which is why I have carefully said about the 3 elements that would need to come together.

Deputy J.A.N. Le Fondré:

Now of all the charges is this not just effectively pushing up the tax rate to 23 per cent?

The Chief Minister:

No.

[11:45]

Deputy J.A.N. Le Fondré:

Because obviously we have got the long-term care charge coming in and we have got the healthcare charge.

The Chief Minister:

I am not sure which way the panel wants it.

Deputy J.A.N. Le Fondré:

We are just asking for ... we are trying to get ...

The Chief Minister:

Do they think that the mechanism is too restrictive because it has got a cap on it or do they think it is not restrictive enough and we are just putting charges up? We have thought long and hard about the appropriate mechanisms and we think we have brought forward the appropriate mechanisms so that we can deal with the problems that we are going to face into the future.

Deputy J.A.N. Le Fondré:

But you do not really regard it as an increase in the effective income tax rate that Islanders are paying?

The Chief Minister:

They will see it on their tax return, will they not? But it is a combination, is it not?

Deputy J.A.N. Le Fondré:

How do you regard it, Chief Minister? Would you regard it as an increase in the tax rate?

The Chief Minister:

I regard it as a health charge but that is a blend between the systems that we have got in the taxation model, which gives the ... means that the lower earners are not paying it. It also means that it is not just on earned income but other income, and at the same time it is capped in the way that a contribution would be.

Deputy J.A.N. Le Fondré:

Okay, thank you. We will hand over to the Constable of St. John.

The Chief Minister:

The Assistant Minister would just like to make a comment about the funding, I think, of the hospital.

Senator P.F.C. Ozouf:

It is a direct answer to one line. To complement the point the Deputy rightly makes about bond yields. A month ago when many of these estimates were made, for example, and I have got the chart in front of me, 15 and 20-year guilds were now 4 percentage points above that of a month ago today. So, for example, if that blended solution, as the Minister for Treasury and Resources accurately said may well have a blend, for example, issuing a bond, in today's price for that bond would be at a much lower level than it was a month ago. So while there is a downturn in some aspects of interest rates on an income line, the cost of serving that capital would now today be significantly lost than it was a month ago. So as usual there is a swing and a roundabout and it may

be we may prefer the blended solution of a bond because you can get much cheaper money today, much cheaper money, long-term money than you could a month ago.

Deputy J.A.N. Le Fondré:

I think we are aware of that. That is why we were not bothering to ask the question, thank you. Can we just move on to the next ...

Senator P.F.C. Ozouf:

Well you were not clear on costs because the costs are lower today than they were a month ago.

Deputy J.A.N. Le Fondré:

We are just trying to establish various facts that the M.T.F.P. do not have information. Obviously we have established the areas that we want to concentrate on, Chief Minister, thank you.

The Connétable of St. John:

If we can move on to waste charges. The M.T.F.P. Addition proposes a waste charge on commercial properties and businesses. Can you, Chief Minister, please confirm without a shadow of doubt that this charge will not be levied against those contractors and commercial waste disposal companies who deal with Parish removal of domestic waste?

The Chief Minister:

Yes.

The Connétable of St. John:

That is a yes, I will write that down.

Deputy J.A.N. Le Fondré:

Sorry, just could not hear it through the background noise.

The Connétable of St. John:

Now the waste charge is likely to impact on small businesses. What justification do you have in introducing this charge, particularly in the current climate?

The Chief Minister:

The current climate that these businesses do not pay tax?

The Connétable of St. John:

No, the small local businesses, not the big businesses.

The Chief Minister:

Unless you are in financial services or a utility or in property development, which is taxed in a different way, then you are not paying tax.

Deputy J.A.N. Le Fondré:

Can I just comment here? If you are a sole trader operating a business you will be paying tax, Minister, I believe, for example.

The Chief Minister:

Not corporation tax, which is what we are talking about.

Deputy J.A.N. Le Fondré:

As a sole trader you will be paying tax.

The Chief Minister:

You will be paying income tax.

The Connétable of St. John:

At 26 per cent instead of 20.

The Chief Minister:

Income tax not corporation tax. Anyway that is a simple narrow point but it bears repeating because it seems to be - and I am not sure whether this particular panel has taken this view - that Government gets criticised over Zero/Ten and not finding a mechanism of extracting more value out of businesses, and then when we come up with a proposal that does we get criticised for doing so. So I think it does bear repeating.

The Connétable of St. John:

When I say "small business" I do need to be a little clearer. I am thinking of the sole traders because most of the sole traders are not in the position of declaring ... with the Zero/Ten of not paying tax. They pay it through their personal income.

The Chief Minister:

So they are paying income tax. Of course it will depend whether they have got ... when you are talking about liquid waste it will depend if they have got premises or not. It will depend what business they are in, if we are talking about solid waste. So there is not a straightforward all sole traders will be suffering either of the particular elements of the charge.

The Connétable of St. John:

If we move on to hotels and tourism, in particular, have you taken into account the costs that it will create making it more expensive for tourists? For example, a large hotel it is estimated will have to pay something in the region of £38,000 a year in waste charges.

The Chief Minister:

You will be aware that the Department for Infrastructure have done some modelling and they are in the process of going out to consult on that modelling before they finally set the charge and the effects that you are indicating that might be suffered by those businesses. I am sure they will take those into account.

The Connétable of St. John:

It is just it appears to me to be contradictory when you are setting up Visit Jersey, or trying to encourage tourism, and yet landing them with this additional charge, which is quite substantial.

The Chief Minister:

You will have seen the modelling and that modelling will go through consultation and go into the public domain before we finalise and then go into the public domain. Part of that consultation is and will be with hospitality representative bodies.

The Connétable of St. John:

Your Minister for Economic Development said, and I just wonder what your reaction is, to voicing concerns quoted on 7th July in the *Bailiwick Express*, he was voicing concerns that small businesses might suffer unfairly.

The Chief Minister:

I think what he said was that he agreed with the principle of the charges but that he wanted, and I see the *Bailiwick* in the audience, I must apologise that I have not read that particular article. I hope what he has said - as being reported to me as being said - that while he supports the principle he is concerned that we can mitigate any unintended consequences. Obviously his portfolio is to support tourism, and therefore it will be right that he would be concerned that there are not too greater adverse effects upon them.

The Connétable of St. John:

Finally, if the Assembly does not approve the waste charge, how will this money be raised because you will have in 2018 a shortfall in income of £3 million and in 2019 a shortfall of £11 million? So if the Assembly does not agree to a waste charge, how will that money be raised?

The Chief Minister:

Do not forget the Assembly has agreed the bottom lines expenditure or net revenue expenditure, and therefore if a Member is going to - I am just looking to the Treasury official here to make sure I am correct, and I cannot see because the other official has moved - propose not doing the charge then they would need to propose an alternative way of bridging that funding gap.

Deputy J.A.N. Le Fondré:

I have 2 very quick questions but I am acutely aware of the time.

The Chief Minister:

I am trying to be short.

Deputy J.A.N. Le Fondré:

Can we try harder, Minister? You have made reference to public consultation, what happens on the basis that - what you have just said - if the £11 million changes basically that has to be funded from somewhere else. So in other words, how meaningful is that consultation going to be? For example, the tourism industry if they come back and say: "It is going to cause us major problems and you need to rethink." There has also been the observation about - and this was a fact that came up in the States Members workshop - that not taxing people twice for the same service. So if you have a business that is paying tax locally then effectively this is a double charge. I believe you have made reference in the past that there may be a possibility to mitigate that because if that happens the £11 million yield reduces. So what happens there?

The Chief Minister:

There are 2 things. Obviously the consultation will go forward. We have already had some suggestions along the lines that you have just outlined and we would have to consider if there was a mechanism that would be able to deliver that, but at the same time we would also have to consider, as you rightly say, if the money raised was less than is currently inscribed then we would have to think of other ways or develop other ways of delivering that shortfall.

Deputy J.A.N. Le Fondré:

Thank you.

Deputy K.C. Lewis:

Chief Minister, States payment of rates. The States have committed to paying rates by 2017. The M.T.F.P. says that this will come from the Island-wide rates. Has the Comité des Connétables indicated that they will support this?

The Chief Minister:

That is a very good question.

Deputy K.C. Lewis:

A very good answer would be much appreciated.

The Chief Minister:

I was not at the meeting with the Comité. I suspect a member of your panel was when the Minister for Treasury and Resources attended upon them. The reason that we gave the extra year to work on what we think needs to be a revaluation and a mechanism is because I understand that the proposal on the table at that point did not meet with unanimous favour of the Comité. Therefore we need time to work together to consider exactly what that revaluation would be in practice and what mechanism would potentially be necessary after that, because of course we know that there are unfairnesses and the revaluation is going to benefit some of the very small businesses that the Connétable is concerned about that the wage charge might have an effect upon it.

Deputy K.C. Lewis:

Does this mean that this whole States payment of rates has been withdrawn for the time being?

The Chief Minister:

Not at all. I have got ... please do not shout. The Assistant Minister has been involved in the rating system and making amendments to it for a number of years and he has been working with the Council of Ministers to come up with a workable solution. So he might just want to spend 30 seconds, Chairman, in answering that question because ...

Deputy J.A.N. Le Fondré:

There are a lot of 30 seconds coming in, Minister.

The Chief Minister:

It is an important question and it ties into the other question that the Constable ...

Senator P.F.C. Ozouf:

Chairman, I find it a little difficult when I am an Assistant Minister to the Chief Minister and you clearly do not wish to hear me speak, when the Chief Minister asks me to address matters which you are raising. I find it discourteous to him and to myself. But I will necessarily try and start the 30 seconds now. The issue of rates has gone back, Deputy, since 2002 when rates assessments were moved from a value to something called attributes. The commercial rates and residential rates were split

and have been cast in aspic. There has been an unfortunate consequence since then which was explained at the time that indeed because of the evolution of rates actual values in the commercial world where effectively retail premises, hotel premises, and others have fallen both in cash and real terms compared to offices going up. The pool of quarters which are based on attributes basically came out of kilter. 80 per cent of all commercial quarters in the Island are in St. Helier, of which 80 per cent or more are from offices. Therefore if you revalue and you put the proper rate, which is the real value of commercial rentals, for offices you will basically swell the pot of commercial quarters and not raising any more money will see more offices paying more money, dealing with the issue the Chief Minister said of companies not paying tax. It is all contributing something. And also the businesses that are, even with this additional charge being put, all those other small businesses seeing their rates fall.

Deputy K.C. Lewis:

But transferring the tax burden on to ratepayers to pay for something that the States should be paying for themselves.

Senator P.F.C. Ozouf:

Well, the States is not of course the States; the States is the people. It is a misnomer of course to say that we are anything but ... all of us anything else apart from the people. We are elected to serve the people. Our Constables and our valued Parish system is a subset of government in every sense of the word.

[12:00]

So in fact the States is not something else, it is just effectively the people in a different name and so we have to be frank and clear with people about what we are doing. It is not that the ... I have an electoral commitment to get the States to pay rates but it needs to be paid for. This revaluation of offices which could give a fair and appropriate deal for small businesses across the Island, both in St. Helier and other places, put the unfairness back into those businesses that faced falling rental values in the approach that is being proposed is there. The Minister for Treasury and Resources and Chief Minister have kindly indicated that while we then continue to work and hopefully persuade the Constables, as the merit of this arrangement will benefit the vast majority of small businesses and commercial ratepayers, and put the burden on offices is a very elegant solution to both dealing with those 2 difficult issues. Where else is one going to find the money when the Ministers and everybody have been trying to find savings, and we are now at that ceiling at this time, although the Chief Minister and Minister for Treasury and Resources have said further savings in 2 or 3 years are possible if successful in eGov. It is a solution and it is the only solution on the table. If there is a better solution, I think the Chief Minister and the Minister for Treasury and Resources are all ears.

Deputy K.C. Lewis:

It is not just the problem of offices in St. Helier. In our own Parish of St. Saviour we have the majority of the Island schools, so this is definitely something to be worked on.

Senator P.F.C. Ozouf:

Yes. Indeed, St. Saviour would greatly benefit, I think. There are 3 beneficiaries that get the rates: No. 1, St. Helier by a large measure; No. 2, St. Saviour, which we represent, although we have to take an Island-wide view, Deputy, as I know you do.

Deputy K.C. Lewis:

Absolutely.

Senator P.F.C. Ozouf:

The third beneficiary in I think equal place is St. Peter and St. Clement, but they are much, much smaller. But that money will go into those Parish coffers to deliver fairness for your constituencies in the Parish of St. Helier which are burdened by all the schools in St. Saviour.

Deputy J.A.N. Le Fondré:

All right. Can I just make an observation? It is not about discourtesy, it is about time. The first question was certainly longer than 30 seconds. We are trying to keep to a timetable, that is the problem.

Senator P.F.C. Ozouf:

If you consistently be rude to me, I will just answer and assist the Chief Minister.

Deputy J.A.N. Le Fondré:

Secondly ... can I just make the point? Secondly, what I am trying to say here is it is a formal hearing. Therefore, we expect people to turn up with their jackets on - and I am afraid, Senator Routier, we do make an exception with you because obviously your arm is in a sling - and also on time. I accept the apology that was made. What we are trying to do is we are trying to keep going and keep to a plan and obviously I just make that point. Now, can we just keep going? This is not about discourtesy.

Senator P.F.C. Ozouf:

Well, you shouted at me, Deputy.

Deputy J.A.N. Le Fondré:

I am sorry. What we were trying to do is avoid the over-talking of everybody and trying to keep on to a time schedule. Some of the information we know already or are likely to and that, if it is relevant, we bring into the reports. What we are trying to do is explore certain things on the question plan that we have put together. That is why we said when we said at the very beginning that there are times when we ask people to move on because we think we have had enough information. It is not about discourtesy, it is about trying to manage the meeting. So, I do apologise. I did have to raise my voice because I felt we were not getting anywhere. All right. Can we move on to savings and efficiencies, please?

The Connétable of St. John:

Savings and efficiencies, thank you, Chairman. The target for savings and efficiencies has decreased from £90 million last year to £73 million this year. The impression this gives is that you have taken your foot off the pedal, if I can use that term. Is this true?

The Chief Minister:

No.

Deputy J.A.N. Le Fondré:

Very succinct.

The Connétable of St. John:

If you had made the additional savings, you would not have to introduce some of the new charges; for example, waste charges.

The Chief Minister:

That is not correct. We have thought very carefully throughout this process about trying to deliver efficiencies that would not affect frontline service delivery, and you will see there is a breakdown between those that may affect, where services may need to be stopped, and that amount is very small. The vast majority is efficiencies and that takes time. We have said to departments that they will continue to need to deliver efficiencies throughout the next M.T.F.P. as well because all organisations - and the States is no different from that - need to continue to make efficiencies. But let us be clear. We have also a year ago said that in order to run a balanced budget in 2018/19 we would need to ask for a health charge of £35 million. We have reduced the percentage of charges that we are asking the public for by a greater quantum than the reduction in this period of the efficiencies and savings, so we should be congratulated for that, not the inference of your questioning, Connétable, which seems to be the reverse.

The Connétable of St. John:

I will agree to disagree with you on that one.

The Chief Minister:

Well, what I am saying is correct, so I am not sure what you are disagreeing with.

The Connétable of St. John:

I am disagreeing with the position you take that you do not ... that not making savings has resulted in the introduction or the necessary increase in other charges elsewhere.

The Chief Minister:

No, we have reduced the amount that we are asking charges ...

The Connétable of St. John:

You have on the health one but you ...

The Chief Minister:

... for at the same time.

The Connétable of St. John:

You have on the health one, but surely this is an opportunity to make additional savings so that still further reductions can be made on additional charges that are coming in.

The Chief Minister:

Well, Constable, you will see throughout the process of the review those areas where we could perhaps have done things differently, but we had to be mindful - and you have already asked the questions - about the impact upon the community, the impact on necessary service that the community wants, the distributional impact, so there were some things that could have been delivered that we said: "No, they are not acceptable. We are not going to bring those proposals forward." We think that the package of measures that we have that takes longer to deliver savings and reduces the amount that we are asking for in contribution towards the health charge as well is absolutely the right one. I remember the Deputy Chairman in the States Assembly only some weeks ago chastising us because he felt that we were just looking at the bottom line and not thinking about people. This is a plan that thinks about people. So, we do listen to the Deputy Chairman even though he thinks that we do not.

The Connétable of St. John:

Right. Effectively, the savings, if I can use the term, there is slippage in producing the savings that were originally targeted of £90 million. Does this mean that the original £90 million target was unrealistic?

The Chief Minister:

I do not think it ... it was challenging. We were quite clear about it being challenging. The F.P.P. said it was challenging. You sat across from me as a panel and challenged me on the challenging nature of the target, at the same time suggesting we could have delivered more, so I am not ... This is a balanced plan that delivers investment into services which are necessary to make sure we do not have problems into the future. At the same time, it asks some members of our community to pay a little bit more to contribute towards that. At the same time, it is reforming and transforming Government to provide those services at less cost and reprioritising this spending. It is not new. We knew we were going to have to do this back in 2014. It is right to set a challenging target. It is right when some of the potential proposals you do not think are the appropriate ones and, therefore, it is right to give more time to continue to deliver efficiencies over the period. I would challenge any Member of the Assembly to look at those elements of the proposals that we said we are not going to do and say that we should have done them, because I do not think they would say that.

The Connétable of St. John:

All right. Shall we move on then to part of the target savings and efficiencies is cutting States employees. The second round of voluntary redundancies is currently under way. However, it does not seem to be the case that manpower is decreasing greatly. Are you, therefore, confident that you will meet the saving targets?

The Chief Minister:

Yes, I am.

The Connétable of St. John:

When are you going to introduce a round of compulsory redundancies?

The Chief Minister:

We have been very clear that we are not going to introduce a round of compulsory redundancies, as you call it, because I think you are using emotive language. Each department has worked as a department with its staff looking to see where it could deliver its service differently in consultation with its staff. Equally, at the central level we have had a redundancy turnover management programme in a way that we have never had before so that where people are leaving we are not filling them and we are trying to bring areas of departmental work together. We have seen that has been working. We have seen ... I do not have the latest figure with me. It is over 150, if not 223, in

that vacancy management is working. We have something like 165 in voluntary redundancies which are working. We are working carefully, thoughtfully, in consultation with the staff. We may get to the point where some departments need to make some staff compulsorily redundant. We have been clear about that, but we are not, Constable, to use your emotive term, going and doing a round of compulsory redundancies. We are working to get the best outcome for the taxpayer.

The Connétable of St. John:

Thank you. Are redundancies concentrated in particular pay group areas or are they spread across the board?

The Chief Minister:

Well, you will see that in some of the vacancy management we have seen a reduction in the number of senior posts. I think there was a reduction of about 20 in over 100 ... no, this is the vacancy management. Actually, it is probably both, vacancy management and V.R. (voluntary redundancies), in those earning over £100,000. But if you look at any organisation, it works in the shape of a pie, does it not? You have more people, as a generalisation, on lower scales of pay and then you have fewer as you go up.

The Connétable of St. John:

A pyramid, not a pie.

The Chief Minister:

Yes. So, if they are in proportion, which I understand that they are from the information and the tables that I have seen, they are in proportion to the levels of employment in any given department.

The Connétable of St. John:

Good. So you are actively seeking to reduce management posts as well right across the board?

The Chief Minister:

Yes, where it is appropriate.

Deputy J.A.N. Le Fondré:

Just to interrupt while Chris is gathering his thoughts, is that information that could be provided to us? Because that might be helpful to understand.

The Chief Minister:

Yes, I think you might have seen some of it, but we will make sure you have it, yes.

Deputy J.A.N. Le Fondré:

Okay, thanks.

The Chief Minister:

Could you just indulge me for a moment to welcome into the room our other Assistant Minister now, who has just taken responsibility for eGov? I will not ask him to join the table, Chairman, because he is not wearing a tie and I would not want to upset you again.

Deputy J.A.N. Le Fondré:

That is fine. I would just like to point out you are not able to engage with members in the gallery at all, Minister.

The Chief Minister:

No, and nor was I doing.

Deputy J.A.N. Le Fondré:

Right. Has anybody got any questions on this area?

Deputy K.C. Lewis:

Yes. Chief Minister, you did not like the expression "round of redundancies." Do we get from that the inference that redundancies, both voluntary and compulsory, will be ongoing into the not too distant future?

The Chief Minister:

Yes, because each department is rightly looking at the service that they are providing, but we come back to a little bit where we started where there was hysteria about the number of jobs that would be reducing in the public sector. There will be fewer jobs in some areas of the public sector at the end of this plan, but there will be a greater number of jobs in other areas, in health and education. So the net position change will not be that great.

Deputy K.C. Lewis:

I would not refer to unemployment as hysteria. It can be very, very worrying and obviously people need sympathy.

The Chief Minister:

I did not refer to unemployment as hysteria. Under my Government we have put millions and millions of pounds into getting people into work and it has been incredibly successful. The experts told us that we would have many, many more people unemployed than we have seen because we have

put active work, active money, into helping people get back into work because we fundamentally know that work is good for people. So, with the greatest of respect, Deputy, we have a great record on that.

[12:15]

We know that every single person that is unemployed for them is a real difficulty, disappointment, and it is a life challenge, and that is why we have put the people and the money into getting them into work because it is fundamentally important. That is why we are not doing this “round” of compulsory redundancy. That is why we are working with staff to mitigate the effect. That is why we are using the Back to Work team to engage with those staff that might be affected to try and get them other employment if that is what they so wish. We take this extremely seriously.

Deputy K.C. Lewis:

You are still pressing ahead with privatisation?

The Chief Minister:

We are not privatising.

Deputy K.C. Lewis:

Of certain ...

The Chief Minister:

We are not privatising things. We are asking ourselves whether services can be delivered more efficiently and effectively at better value for taxpayers into the future. That means in some areas, some areas of service will be outsourced, yes, but that is not privatisation.

Deputy K.C. Lewis:

Outsourced to a private company, okay.

Deputy J.A.N. Le Fondré:

We are going to move on to Simon Brée and our next section. What I will just say is we are going to overrun, Minister, by about 5 to 10 minutes, I think.

The Chief Minister:

I have a public meeting that I need to be at at half past.

Deputy J.A.N. Le Fondré:

That is why we have been trying ...

The Chief Minister:

Well, I know but if challenges are laid across the table it is only right that I correct them because otherwise our good friends in the gallery will ...

Deputy J.A.N. Le Fondré:

That is understood, but that is why we are pushing forward, okay. Right, Simon.

Deputy S.M. Brée:

I will try and keep my questions as short as I can and to the point. Again, this is for us to understand some of the figures contained within the M.T.F.P. Addition. What is the target population figure in 2019 that the M.T.F.P. Addition is based on?

The Chief Minister:

I will hand that to my ...

Senator P.F. Routier:

Thank you very much. There is no target. There never has been a target for population. We have always worked on the process of each department makes an assumption of what services they are going to provide and what the demands are going to be on their service. Every department is different. You will find that, for instance, in recent times the education service have been providing school places for the number of children which they are experiencing and at the present time I think it is a fairly stable population. We have, for instance, the health service. They are preparing mainly for the changing demographics. The ageing population, as we know, is going to double over the next few years. We have 14,000 ...

Deputy S.M. Brée:

Yes. What I am trying to merely establish is that previously it has been stated that a planning assumption of 325 net inward migration into the Island per year was being used as a guideline figure in order to be able to give departments some level of forward planning. So the question is: is that net figure of plus 325 people per year coming into the Island still being used for planning purposes for the future?

Senator P.F. Routier:

It is very difficult to give a straight answer to that because every department is doing a different approach to that. In fact, that has been the practice in the past. Although there has been a general

use of that 325 number, we know, for example, that the Health Department and what was called T.T.S. (Transport and Technical Services) in the past had the number of 500 in their business plan.

Deputy S.M. Brée:

What you are saying, therefore, is that there is no commonality across departments of the net inward migration figure for planning purposes? They are each using their own?

Senator P.F. Routier:

That is correct because they have different ... for instance, it is not solely about inward migration that they are planning their services because the experience they have had over the years ...

Deputy S.M. Brée:

No, I was saying net inward migration, right, so the total number of people living in the Island at any time is basically based on a net inward migration or net outward figure. At the moment, we are experiencing very high levels of net inward migration into the Island according to the official figures. Very quickly, with regards to an, it would seem, ever-increasing total population in the Island, 2 things: is the amount of housing being built sufficient to cope with this increase in total population; and 2, does this M.T.F.P. Addition take account of all of the additional costs involved in effectively catering for a rising population?

Senator P.F. Routier:

I believe so. Certainly, for this next few years of this plan we are working on the basis that we are allowing for an increase in population. You do highlight one of the areas which has been a concern, which is housing. There is no doubt about it, but we need to provide more housing and there is a plan to provide more housing during this period. There is a lot of investment going into that.

Deputy S.M. Brée:

But there is no set across the board, across all departments, planning assumption figures being used. Each one, as you say, tends to use their own for various reasons as to why they may do so. Moving on then if I may ...

The Chief Minister:

I am not sure that interpretation is quite correct because ...

Director, Corporate Policy:

It is a tremendously important point, and the first thing we did when we got the net migration figures was confirm with departments the robustness of the M.T.F.P. in light of those figures. Each department has to consider a whole range of factors, not just net migration but births and behavioural

changes. The answer from all the departments was the assumptions they made to plan their financial forecasts for inclusion within the M.T.F.P. was sufficient within the levels of net migration we are experiencing now.

Deputy S.M. Brée:

Okay. Therefore, if the Council of Ministers are successful in bringing all the planned capital projects and moving on with them, it is likely that the current workforce or manpower within the Island will not be sufficient to deal with those and, therefore, additional manpower will need to come into the Island to cater for that. How will you cope with that influx and what controls will you put in place to manage that influx of manpower?

Senator P.F. Routier:

Every time we have an application from a construction company to build, we do look at the application and we know from experience that construction goes through ebbs and flows. We work on the assumption, which has happened in the past, that when a construction programme does finish the construction people move on. They do. Some do stay, obviously, but there is ... because they will go where the work is. So if we are going through a period of building more houses and offices, there will be an increase. But we have responded to that in recent times, which we have seen in the last figures, so from the forecasts going forward I do not see any further great demands. There will be some, no doubt, but I do not see it being as high as it has been in this last year because the capacity of the ... that is around construction, but there will be obviously other areas where we will be wanting to ask people to come to our Island to help develop our economy, which is what we are doing with regard to digital.

Deputy S.M. Brée:

All right. Thank you for that.

Deputy J.A.N. Le Fondré:

Okay. Any questions on that? Okay, very quickly.

Deputy K.C. Lewis:

Yes, just a very quick one regarding population. I was on the radio not too long ago saying I can foresee a day when our population would reach 90,000 people and I was pooh-poohed. We are now I think at 103,000, just under 103,000 people. Do we have a cap at all or is it completely open ended? Or is there a cap to say we will go this far and no further?

Senator P.F. Routier:

We do not have a cap. We will react to the needs of our Island. We will need to ... if, for instance, we need more nurses, we need more school teachers, we need people to develop our economy, we will, as we have been doing in recent times.

Deputy J.A.N. Le Fondré:

I will stop you there if you do not mind. Okay, that was the general question that there is not a cap, that is fine. Right, Chief Minister, the reason we are pushing is we have about 7 questions left. We want to ask some specifics about your department. Quickly - I am doing it in a slightly different order - in the Chief Minister's Department what is the H.R. (human resources) service programme and how is it going to generate savings of £272,000 by 2019?

The Chief Minister:

Doing things differently and more efficiently with the use of a centralised process and alignments, but the Chief Executive could give you greater detail.

Chief Executive Officer:

Very, very briefly, for example, we moved all of the staff from departments now out of departments into the centre, so we have all H.R. staff in the centre. We have what is now known as a contact centre and all incoming enquiries on H.R. matters are dealt with by the contact centre. That has generated a lot of efficiencies already and the new H.R. system being implemented now will also generate efficiencies.

Deputy J.A.N. Le Fondré:

Okay. Briefly, if the restructure of H.R. service delivery, managing vacancies and V.R. programme loses 2 F.T.E. (full-time equivalent) over the course of the M.T.F.P., as I understand it, is that considered wise given that one of your objectives is to find savings to cut staff through V.R., et cetera, and are those not the people you need in place? A short answer on that, please.

Chief Executive Officer:

The short answer is by bringing together staff from a number of departments you get efficiency savings. That is what we have done. That is why we are able to make those and that is also why we were able to make a number of savings from staff in the 2015 V.R. arrangement.

Deputy J.A.N. Le Fondré:

Okay, thank you. There is a review of regulation of care which is due to raise £200,000 in user pays charges in 2018. What does that involve? What is it?

The Chief Minister:

You might as well do all the details.

Deputy J.A.N. Le Fondré:

Yes, that is fine.

Chief Executive Officer:

Okay. We have a multitude of areas where we regulate at the moment and part of the efficiency programme is to bring those together. That will again give us some efficiency savings but equally there are a number of small individual areas of activity in the community that are not regulated, which I think in most cases people would agree should have a degree of regulation. There will obviously be costs associated with administering that and that is where it will come from. It is a lot of very small areas.

Deputy J.A.N. Le Fondré:

Okay, so potentially presumably regulation of care is probably care homes and things like that, or at least that will be potentially passed on to care providers?

Chief Executive Officer:

It goes a long way beyond the care homes. This is where anyone may have any form of intervention.

Deputy J.A.N. Le Fondré:

Will have to be regulated and will have to ... in some shape or form within care across ...

Chief Executive Officer:

Pay some form of licence charge.

Deputy J.A.N. Le Fondré:

Okay. The C.M.D. (Chief Minister's Department) requires 13 temporary staff in 2017 to 2019 for the implementation of the taxes computer system. Is there a business case and strategy planned for that implementation?

Chief Executive Officer:

Yes.

Deputy J.A.N. Le Fondré:

Okay, good. We may wish to have a look at it if that is possible.

Chief Executive Officer:

Yes.

Deputy J.A.N. Le Fondré:

Okay, I am rattling through, obviously. We have 3 questions left and Senator Ozouf will be delighted because I suspect this next one is coming his way, but I will ask ...

Senator P.F.C. Ozouf:

Why, thank you, Chairman.

Deputy J.A.N. Le Fondré:

I will ask the Chief Minister first and then see if he wishes to delegate it. One of your efficiencies states that financial services staff and Government will work more closely with external organisations. What does that mean? Have they not been doing that already?

Senator P.F.C. Ozouf:

I do not have a particular page reference, sorry, Chairman.

Deputy J.A.N. Le Fondré:

I can give it to you very shortly. We are around 150. Hang on, I have just realised I am on the wrong page anyway. It is page 150 of the main M.T.F.P. Addition and it is third line down: "Financial services staff and Government will work more closely with external organisations."

Senator P.F.C. Ozouf:

Well, that is obviously the combined Chief Minister brought-together financial services, digital, competition and innovation. Of course, sometimes I do wonder whether or not I am talking to a tech firm or whether I am talking to a financial services firm. Effectively, what we now have is a unit. We have very, very small resources. We beg, borrow and plead for resources from both the U.K. (United Kingdom) Civil Service where we have fast track and we have secondments in from the private sector. We have now just welcomed a very senior banking executive that will be with us for 6 months who is free. Effectively, what we are doing is we are now going to be getting even more productivity out of the financial services staff, which are now working alongside the digital staff.

[12:30]

Your Deputy Chairman analyses and scrutinises me on all financial services matters and if he wants ... I cannot do it 30 seconds. If he wants some more details and some actual examples of what we are doing to increase the productivity under the guiding hand of the innovation review and the competition review and the reviews done by the economic adviser, you will see just what our exciting

plans are to replicate the success of the financial framework, which has resulted in more people today being employed in finance - thanks to Senator Routier and some of his decisions - than we did in 2007. We are now going to replicate that success in digital. That is under way and effectively we want to get that income line up, which you were talking about earlier. What we have to do is to get more productivity both within Government and what we do and get our agencies of Digital Jersey, Jersey Finance, Jersey Business working even more closely together, and that is what effectively that is about.

Deputy J.A.N. Le Fondré:

Okay, thank you. Can I direct a question just to the Chief Executive because I guess it is a detailed one?

Senator P.F.C. Ozouf:

Yes. I am happy to give you a written note on that.

Deputy J.A.N. Le Fondré:

No, that is okay. The point was I think ...

Senator P.F.C. Ozouf:

If you want evidence, I will give it to you.

Deputy J.A.N. Le Fondré:

I think we kind of get that. I think we were wondering how that generated a saving, particularly about ... I think I have got why there is no F.T.E. impact there, but just how is that generated into a saving?

Chief Executive Officer:

As the Assistant Chief Minister said, there are opportunities for secondment so we are not paying for that. We are making value out of the partnership with local industry and there is some saving being made out of the implementation of the McKinsey programme.

Senator P.F.C. Ozouf:

Although we are now also then supplementing now because, of course, since this was written we are now dealing with the full effects of Brexit, so we will be doing ... I am grateful for the Chief Minister's support on that. We will likely be doing a review which we have done, of course, twice before and we will do it for a third time. We are going to be effectively bringing forward a review of the financial framework in the light of the very issues and the concerns that you raised right at the start quite accurately and properly about the additional threats to Brexit but what also the opportunities are. Therefore, we will be getting some advice in and I will be making appropriate

realignment of priorities both within the Innovation Fund and also my requests to the Economic Growth and Productivity Fund so that we get maximum buck, maximum return, for income and jobs and growth in an increasingly uncertain world.

Deputy J.A.N. Le Fondré:

Right, thank you very much.

The Chief Minister:

But we have a basic premise that even if we are investing in your area, like Philip's really important area, you still have to be making efficiencies from your existing spend to prove that you are getting best value out of it.

Deputy J.A.N. Le Fondré:

I understand all that, Chief Minister. It was just a detailed question as to how we were getting there and we were just trying to keep the ...

Senator P.F.C. Ozouf:

I will give you a note on the precise way that that is going to be delivered, if that is helpful.

Deputy J.A.N. Le Fondré:

That would be helpful. That would be useful. Okay, before I hand over to Simon, who has one final question, has anybody got anything else or are we basically all done? Okay, Simon.

Deputy S.M. Brée:

One final question, if I may, Chief Minister. Even if we unquestioningly accept that all of the savings and efficiencies are achievable and that all the new charges are approved by the States Assembly, there remains a huge question mark over the achievability and realism of the income forecasts, particularly in today's post-Brexit vote world. Do you, Chief Minister, still maintain that this is an achievable Medium Term Financial Plan addition? Because if it is not, then the Island's finances will remain in deficit and you and the Council of Ministers have failed to - and to use the words from the M.T.F.P. Addition document itself - put Jersey on a path to secure and sustainable finances.

The Chief Minister:

Are you asking me whether I think it is achievable? It is difficult to know from all that.

Deputy S.M. Brée:

Yes, a very simple question.

The Chief Minister:

I certainly do and there are a number of reasons for that. The Income Forecasting Group have been cautious, conservative, in the numbers that are in here because we are surrounded by this international uncertainty. Not just Brexit; we know that Brexit adds another layer of complexity on to it and we are doing work to understand what that is. But there is flexibility in this plan for the very concerns that you seem to be raising if the income line changes. There is flexibility there but we have to remember that there is not just a downside risk from international uncertainty and Brexit. There is very much an upside potential as well, and I know that firms right across our Island are out there promoting the stability and the U.S.B.s(?) of Jersey to their clients. Senator Ozouf said yesterday we spoke with some senior executives, who were not quite falling over themselves but wanting to know how they could put more business to Jersey and use Jersey more in the future. He and I get criticised for travelling the world to promote Jersey, but it has paid dividends. The number of employees in financial services is up to pre-crisis levels. We are trying to facilitate even more digital as well, which is another reason why I have asked Scott to come and join us. There is really tangible upside potential. Of course, we know the economists are going to be worried about the downside risk because that is what they and your adviser as well do. It is almost what we pay them for, but we equally have other people who are really skilled - it comes back to the point you were just asking about Senator Ozouf's area - who are first class, quality people who are out there driving business into this Island. I have just had the *Guernsey Press* pushed under my nose about the ...

Deputy S.M. Brée:

How they view the world.

The Chief Minister:

How they view the world and I think we view the world ... Deputy Le Fondré, of course, and Deputy Lewis have just come back from the British-Irish Parliamentary Assembly. They are a real potential for us in this international uncertainty. We need to be getting out there, which is what these chaps are doing, and delivering it into Jersey while at the same time being mindful of the detailed downside risk work which is being done. We have always said in this plan we have not purposely added an extra line in for what we think economic growth is going to deliver, like we have done in previous plans where we said: "£20 million is going to be delivered through economic growth." Purposely we have not put it in because it gives us even more flexibility. So, yes.

Deputy S.M. Brée:

Okay, thank you very much, Chief Minister.

Deputy J.A.N. Le Fondré:

Thank you very much. Can I make the point we do not disagree if you have your marketing right, as it were, and you are getting out and getting the business, good. What we are looking at, obviously, is the bird in the hand and the 2 in the bush. If you capture that bird in the bush, brilliant, but we are looking at what the present position is.

The Chief Minister:

Chairman, I should have said right at the start - the question was so long - I do not want anybody to unquestioningly accept what is in here. I want them to look at it, to see that we are trying to face up to the problems of the future, to recognise we have recognised downside risk, that we have been cautious, that we have put in flexibility, and that on balance even though some of the measures are difficult, it is right for our future. That is what I want. Question us away ...

Deputy J.A.N. Le Fondré:

We are.

The Chief Minister:

... because I think the answer to that question will be it is the right plan for today and it is the right plan for our future.

Deputy J.A.N. Le Fondré:

Thank you very much, Chief Minister. We are slightly over time. As I said, our aim was to try and keep it focused so we can cover a wide area. Obviously, Senator Ozouf, you will be facing Deputy Brée at some point and I am sure you will be given the opportunity to speak a lot more.

Senator P.F.C. Ozouf:

I am also part of the Chief Minister's team as well so ...

Deputy J.A.N. Le Fondré:

No, that is understood but obviously what we are trying to do ...

Senator P.F.C. Ozouf:

Apologies that I did not wear a jacket.

Deputy J.A.N. Le Fondré:

Obviously, what we try and do is we keep the Chief Minister on ... hold his feet to the fire today. Right, thank you all very much. This meeting is now adjourned and we obviously look forward to further ...

The Chief Minister:

Next week.

Deputy J.A.N. Le Fondré:

Indeed.

[12:38]