



OFFICIAL REPORT

OF THE

STATES OF DELIBERATION

OF THE

ISLAND OF GUERNSEY

HANSARD

Royal Court House, Guernsey, Wednesday, 12th December 2012

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The Clerk to the States of Deliberation

S. M. D. Ross, Esq. (H.M. Deputy Greffier)

Absent at the Evocation

Deputy S. J. Ogier (*indisposé*)

Business transacted

Evocation 817

Billet d'État XXVI

Treasury and Resources Department: 2013 Budget – Debate commenced..... 817

*The Assembly adjourned at 12.26 p.m.
and resumed its sitting at 2.30 p.m.*

Billet d'État XXVI

Treasury and Resources Department: 2013 Budget – Debate continued 850

The Assembly adjourned at 5.35 p.m.

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States of Deliberation

*The States met at 9.30 a.m. in the presence of
His Excellency Air Marshal Peter Walker, C.B., C.B.E.
Lieutenant-Governor and Commander-in-Chief of the Bailiwick of Guernsey*

[THE BAILIFF *in the Chair*]

PRAYERS

The Deputy Greffier

EVOCATION

CONVOCATION

The Deputy Greffier: Billet d'État XXVI of 2012. To the Members of the States of the Island of Guernsey I have the honour to inform you that a special meeting of the States of Deliberation will be held at the Royal Court House on Wednesday, 12th December 2012 at 9.30 a.m., immediately before the meeting already convened for that day, for the purpose of considering the States Budget for 2013 which has been submitted for debate by the Policy Council.

Billet d'État XXVI

TREASURY AND RESOURCES DEPARTMENT

2013 Budget Debate commenced

*The States are asked to decide:
Whether, after consideration of the Report dated 30 October 2012, of the Treasury and Resources Department, they are of the opinion to agree the Propositions set out in pages 89 to 98 of Billet d'État XXVI of 2012.*

The Bailiff: The Minister for the Treasury and Resources Department, Deputy St Pier, will open the debate.

Deputy St Pier.

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Deputy St Pier: Mr Bailiff, dull... When it was first published, 'dull' was the first word I was going to use to describe this Budget but I decided it was probably not how I wanted my Board's first Budget to be remembered, so I opted for 'cautious' instead. Given the furore over the proposal to lower the mortgage interest relief cap, I am not sure that 'dull' would have been accurate, in any event.

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Sir, before I go any further, I must, in accordance with Rule 12.(8) of the Rules of Procedure, declare my interests. I have a mortgage which would be affected by Proposition 17, if passed unamended. I am a shareholder and director of one licensed fiduciary business and a consultant to another, both of which will become subject to the intermediate rate of income tax at 10%, if

15 Proposition 16 is approved.

I am pleased to present the States Report for 2013 and, in doing so, I would like to express my appreciation to my Board for their unanimous support of this Report.

20 There are three key principles that have underpinned preparation of the 2013 Budget. They are inter-dependent but explain why caution was appropriate, particularly in an environment of ongoing weak economic growth. The first key principle is to achieve the elimination of the Budget deficit as soon as is practicable but, importantly, in a measured and sustainable manner. Whilst we budget to have an operating surplus in 2013 on the revenue account of £24 million, after capital transfers and capital spending, the deficit is budgeted to be £17 million in 2013. This is a significant improvement over the revised forecast of £31 million in 2012 – £32 million if the HSSD States Report is approved later in proceedings. This £17 million includes a one-off transfer of £3 million to the Strategic Development Fund, of which I will say more later. So the underlying deficit is £14 million, a significant sum, but it does represent less than 4% of the £372 million of revenue income.

30 As Guernsey is experiencing a period of lower economic growth than it has previously enjoyed, the key to eliminating the deficit is by reducing expenditure in real terms and the vehicle for delivering this, in a sustainable co-ordinated manner, is the Financial Transformation Programme. That is why the Treasury and Resources Department will be wholeheartedly supporting Policy Council's January 2013 States Report. If the required expenditure restraint is *not* delivered, increases in existing taxes and charges, and/or the introduction of new ones, will inevitably be required in order to address the structural deficit in our public finances. It is, therefore, imperative that Departments remain within budget and that momentum is maintained on delivering the FTP targets.

40 The second underlying principle is that it is essential to maintain Guernsey's competitive business environment as a facilitator for economic growth. Whilst this Budget Report does contain proposals to extend the 10% intermediate tax rate to fiduciary and some insurance business, this broadening of the tax base has not resulted in any industry opposition and it continues to maintain Guernsey's competitive position in the funds and banking industries *vis-a-vis* our closest competitors. In a tough economic environment we have also opted *not* to burden business with further above-inflation increases in TRP or the duty on fuel.

45 It is very pleasing that Guernsey's Zero-10 Regime *has* been formally confirmed as EU Code compliant. The importance of this cannot be under-estimated and this is highlighted by the recent European Commission Communication on Tax Evasion, which has used the Code Group compliance as a positive criterion to determine good governance of third country jurisdictions, such as our own. So the wisdom of the wait-and-see approach that was adopted has also been proven by the latest harmful assessment of Gibraltar's current regime. Economic growth will obviously greatly assist in reducing the Budget deficit and generating surpluses. By way of example, 1% economic growth should result in approximately a £3m real terms increase in revenue income, mainly through increased income tax receipts, as jobs are created and individuals and businesses experience growing incomes.

55 In a difficult global economic climate, Guernsey has been no exception to the general trend of no, or slow, growth, although we do remain in a better position than could reasonably have been expected, given the high proportion of GDP generated by the finance sector. Following two years of recession in 2009 and 2010, our economy was estimated to achieve 1% real growth in 2011 and, although the economic growth forecast for 2012 has been revised to zero, it is encouraging that the forecast for 2013 is 1.3%. The inflation measure, RPIX, has been around the target level of 3% and present forecasts anticipate it remaining at that level in 2013. That is what has been used in preparing the Budget.

60 Sir, the third underlying principle in preparing the Budget is that the Treasury and Resources Board fundamentally believes that, as far as is practicable, the tax burden should be equitable, appropriate and reasonable. As a direct result of the reduction of some £100 million in Corporate Tax receipts following the introduction of Zero-10 in 2008, the proportion of taxes derived from individuals has inevitably increased. This was entirely predictable. The proposed extension of the 10% intermediate Income Tax rate will, it is estimated, raise £12 million a year and does partially redress the balance. However, the 2013 Budget Report also announces that the Treasury and Resources Department, working with the Social Security Department, will carry out a review of all taxes, duties and contributions which Government imposes on Islanders, with a view to providing a greater degree of equity within the system. The close collaboration with the Social Security Department is essential, particularly in considering whether there is a more *appropriate* model which could address the current separation of personal Income Tax allowances and Social Security benefits. This review will also consider the appropriate level of property taxation in the tax system

to encompass both TRP and document duty.

It is intended that a comprehensive public consultation will be carried out during the first part of 2013, with preliminary feedback produced during the summer. It is intended that a direction of travel and any initial proposals for changing the system will be included in the 2014 Budget Report next October and a full Report is planned for 2014. In advance of this review and recognising the squeeze which hard-working families have experienced for a number of years, in a change of policy from recent Budgets, the proposals in this Budget Report in respect of rates of excise duty on fuel, alcohol and TRP are just to maintain their real value, in other words only to increase them by the expected rate of inflation.

Rates of duty on tobacco are proposed to increase by 6% – a real terms increase of 3% – which follows the States Direction included in the Tobacco Strategy. A *majority* of the Board will be opposing Deputy Burford's tobacco excise duty amendment for a number of reasons, on which I will expand during debate of that amendment – but not least because it is outside the Tobacco Strategy.

It is also proposed that Income Tax allowances are increased to keep in line with the anticipated rate of inflation. The Department *is* pressing ahead with the introduction of a share transfer duty regime, which was approved in last year's Budget Report and we hope to return to the Assembly with a States Report in 2013 on that topic.

I will give a very brief summary of the forecasts for 2012 and 2013. In 2012 the deficit is expected to be £31 million, which is £4 million more than anticipated, although both these numbers will increase by a further £1 million, if the HSSD States Report is approved. The larger deficit is due to a fall in Income Tax receipts, largely in the banking sector. Overall expenditure is expected to be in line with budget. The additional expenditure by Health and Social Services and Social Security – plus the provision for the fraud – are offset by under-spends by other Departments and, just to clarify, this is under-spends *after* delivering on the FTP targets and delays in projects that have been prioritised for additional funding within the States Strategic Plan.

In 2013 the deficit is anticipated to be £17 million, as I have mentioned. The improvement over 2012 is mainly due to the 2013 FTP targets and the net increase in Income Tax receipts, with the £12 million additional income from the extension of the 10% Income Tax rate being partially offset by £4 million from the effect of the repeal of the deemed distribution provisions. The 2013 cash limits total £360.7 million. This is a real terms reduction of 3.2%, due to the FTP targets and a lower transfer to the Corporate Housing Programme Fund. Without these two items, the 2013 cash limits would have been the same in real terms as 2012. The States are, therefore, achieving their objective within the fiscal and economic plan of a real terms freeze on aggregate States Revenue Expenditure.

All Departments and Committees submitted budgets that were within their cash limits. It should also be noted, at paragraph 4.17, that HSSD has been allocated an additional £1 million in recognition of cost pressures arising from medical inflation, including the costs of off-Island treatment.

Sir, at this point, I would like to thank and commend the Housing Department for reviewing the overall medium term funding requirements for the Corporate Housing Programme. They have concluded that the annual transfer from General Revenue can be reduced by £2 million a year from 2013. In addition, I am also pleased to be able to report that the transfer responsibility for waste water from General Revenue to Guernsey Water has resulted in a total annual reduction of £2.8 million in the revenue and capital requirements of the Public Services Department.

There is a Budget Reserve of £11.3 million in 2013 and that compares to £6.6 million in 2012. Although this is a substantial sum, the Treasury and Resources Department believes it is absolutely imperative that a Budget Reserve of this size is retained. There are three main strands to the Reserve: firstly, to fund any pay awards – departmental budgets will then be adjusted once the remaining 2012 pay awards are concluded and any 2013 pay awards are settled; secondly, for transfers to routine capital allocations – the amount recommended for routine capital allocations in 2013 is lower than in previous years and so a provision has been made in the Budget Reserve, as there are a significant number of capital projects that may be progressed in 2013 but, at this stage, their timing or cost is not known with any degree of certainty; thirdly, to fund the variations in formula-led expenditure, increases in formula-determined grants or any un-anticipated or emergency expenditure where there is a clear business case and any demand or cost pressures, including, importantly, those arising from the timing of delivery of FTP benefits.

Clearly, Departments are expected to, where possible, re-prioritise existing budgets to fund any non-formula led expenditure pressures but it is recognised that this is not always possible, so a request for funding from the Budget Reserve should be made before any expenditure commitment is incurred. A specific example of a possible expenditure pressure, that *was* brought to the

Department's attention by the Health and Social Services Department during the Budget's preparation, relates to unpredictable spending under the Children's Law. It is for these reasons that we believe that a *substantially larger* Budget Reserve is warranted next year. And, because it is also so much larger to take account of spending pressures in the year, we will strongly be resisting Deputy Adams' unnecessary amendment to seek to establish a further Budget Reserve for HSSD alone.

The portion of the Contingency Reserve allocated to the Tax Strategy is projected to be £79 million at the end of this year and £66 million at the end of next year. Although the financial position anticipated within this Budget Report is slightly less favourable than that included in the last States Strategic Plan, it is still expected that the total transfers required from the Tax Strategy component of the Contingency Reserve will be substantially less than originally anticipated. The Reserve *should* be sufficient to achieve a balanced budget without introducing new taxes provided, of course, as I have already said, all Departments do deliver on the States commitment to the Financial Transformation Programme.

Moving to the Capital Reserve, I am pleased that, following a review of its asset portfolio and its capital requirements in the context of the company's future strategy and changed funding needs, Guernsey Post Ltd has concluded that it is appropriate to return £5 million to the States of Guernsey in the form of a buyback of shares. It is recommended that this one-off receipt is appropriated to the Capital Reserve.

All of the major projects in the capital programme approved in October 2009 are now in progress, with the exception of the Adult Acute Mental Health facilities – or what is now known as the Mental Health and Wellbeing Centre – and HSSD *is* intending to submit a States Report for debate in the early part of 2013.

This year – 2012 – the estimated expenditure on capital projects is *expected* to have been £59.7 million. In 2013 it is anticipated to be £61 million, with an additional £13 million of routine capital expenditure. This equates to approximately 3.9% of GDP, as against a norm assumed in the Fiscal Framework of 3%. The *total* estimated cost of the programme has actually reduced by £11 million to £205 million and the balance on the Capital Reserve at the completion of the current programme is estimated to be £40 million and this *will* be available for prioritising as part of the 2014-2017 capital programme.

The development of the Island Infrastructure Plan will identify what Guernsey needs in terms of structures and facilities to deliver current and future services and policies. The Strategic Asset Management Project will identify States corporate land and property requirements both now and for the next two decades. Both of these projects are facilitating long term strategic planning, which will underpin and inform development of the capital prioritisation process. It is for this reason, among others that, again, I will expand on during debate, we will be opposing Deputy Sillars' amendment.

Finally, I would like to mention the recommendation to establish a Strategic Development Fund, with the transfer of £3m to facilitate significant strategic policy developments, be those fiscal, economic, social or environmental, which are in line with agreed SSP objectives and lead to the significant, long term transformation in the delivery of services or produce new, substantially new, or enhanced, growth for the economy, or revenue for the States. The recommendation is simply a recognition that there needs to be a mechanism to enable significant strategic policy developments in the community's interests.

Sir, I started by saying that this was a cautious Budget. We *could* have taken more aggressive steps to reduce the fiscal deficit by raising taxes faster. Guernsey's economy and public finances, whilst fragile, compared to many economies, are in relatively good shape, but we cannot be complacent. The risks are all on the downside: that the economy under-performs; that revenues fall short; or that we fail to deliver on FTP targets.

As Professor Geoffrey Wood concluded, in his recent annual independent fiscal review, 'failure to achieve the full savings of the FTP is the key risk to deficit reduction'. It is for this reason that caution is appropriate so, sir, I commend this Budget to the States. (*Applause*).

The Bailiff: Members of the States, I have had notice of eight amendments.

The order in which I propose they be debated has been circulated and you have it in front of you.

The first amendment is proposed by H. M. Procureur and seconded by H. M. Comptroller.

Mr Procureur.

The Procureur: I would hope not to take up too much time of the Assembly in this highly technical matter.

200 It is an error on my part. If it had gone through unspotted, it would have resulted in the repeal of some quite important provisions enacted last year, which would not have suited anybody. So I move:

In Proposition 9, immediately after '2012' insert ' , but with clause 2 thereof amended by deleting "The" and substituting "Section 7 of and the Schedule to the".'

205 *Explanatory Note*

210 *The draft Ordinance (at pages 34 to 40 of the Budget Report) is designed to replace tables of property tax rates. The rates were most recently replaced by section 7 of, and the Schedule to, the Taxation of Real Property (Guernsey and Alderney) Ordinance, 2011. Clause 2 of the draft Ordinance as published would have erroneously repealed the entirety of the 2011 Ordinance (which made other changes) instead of the relevant provisions only. This technical amendment corrects that error.*

The Bailiff: Madam Comptroller, do you formally second?

215 **The Comptroller:** I do, sir, yes.

The Bailiff: Does anybody wish to debate this technical amendment?
No? I see no-one rising so, Minister, unless you wish to speak –

220 **Deputy St Pier:** Sir, we support this amendment.

The Bailiff: Thank you.
We will go straight to the vote.
Those in favour; those against.

225 *Members voted Pour*

The Bailiff: I declare it carried.

230 We move on, then, to the second amendment, proposed by Deputy Fallaize and seconded by Deputy Conder.
Deputy Fallaize.

Deputy Fallaize: Thank you, sir.

235 In Section 3 of their Budget Report, the Department advises that it is of the opinion that Mortgage Interest Relief should be reduced in increments of £50,000 per year from 2014 until the point when it is abolished in 2021 and, in line with that proposal in Section 3, they have included Proposition 17 in this year's Budget which, in effect, gives effect to the first tranche of that reduction, in the order of £50,000, with effect from 1st January 2014.

240 Accordingly, I move:

To delete Proposition 17 and substitute therefor:

'17. To direct that:

245 *a) the Treasury and Resources Department shall consider the case for making changes to mortgage interest tax relief as part of the comprehensive review of personal taxes, duties and contributions referred to in paragraphs 3.1 to 3.4 of that Report;*

b) in advance of that comprehensive review no changes shall be proposed by the Treasury and Resources Department in respect of the cap of £400,000 which at the present time applies to mortgage interest tax relief;

250 *c) any proposals to make changes to mortgage interest tax relief which are put before the States of Deliberation by the Treasury and Resources Department as part of, or further to, that comprehensive review shall be accompanied by an assessment of the likely financial impact of those changes upon taxpayers who are at that time eligible to claim mortgage interest tax relief.'*

255 A few hours after the publication of the Budget, the Minister explained the Department's policy in these terms,

'The phasing out of Mortgage Interest Relief is likely to be the most controversial part of the proposals in the 2013

260 Budget. The proposal is to lower the current £400,000 limit on which interest relief can be claimed by £50,000 each year, starting a year from now and running until 2021.’

265 Later, the Department, somewhat bizarrely, tried to decouple their proposal to abolish Mortgage Interest Relief from their Proposition in this year’s Budget Report to start that process by introducing the first tranche of the reduction down to £350,000 by 2014. Realistically, that argument was never going to stand up to any sort of scrutiny but, fortunately, along came a Health Minister with some news that very quickly put Mortgage Interest Relief off the front pages – so Treasury and Resources did not have to maintain that argument any longer. But it is very clear to me – it is very clear, surely, to anybody who reads the Budget Report – that Treasury and Resources’ clear intention is to abolish Mortgage Interest Relief, in increments of £50,000 per year, and that the States is being asked in *this* Budget to agree to the first tranche of the reduction. Their intention, clearly, is that, in future Budgets, the States will be asked, every year, to lower the limit of relief by £50,000.

270 Part a) of my amendment proposes that the Department should consider the case for making changes to Mortgage Interest Tax Relief, so I acknowledge that there *is* a case to consider the future of Mortgage Interest Tax Relief. Therefore my amendment cannot be regarded as a defence of the principle of Mortgage Interest Tax Relief *per se*. But it *is* my view that Treasury and Resources is wrong to having included this proposal in Section 3 of their Report and to have included Proposition 17 in their list of Propositions *in advance* of the comprehensive review of personal taxation which they are to carry out, of their own volition, starting in 2013.

280 This was emphasised to me when I heard the Minister, on the radio, telling the BBC that the Department’s proposition:

‘...will affect about 200 of the Island’s highest income earners.’

285 He went on to say that we are asking the wealthiest in our community to contribute. I am not going to stand here and plead penury on behalf of people who have mortgages of between £350,000 and £400,000 but, given what we know about median earnings and average property prices in Guernsey, and given what we know about the basis upon which much lending has been undertaken over the last few years, it seems to me that it is wholly inaccurate to refer to people who have mortgages of between £350,000 and £400,000 as *anywhere near* the wealthiest in our community! (Several Members: Hear, hear.) Indeed, I would suggest that the wealthiest in our community will be left completely unaffected by Treasury and Resources proposal. It is for that reason that I have included part c) of my amendment: that any proposals to make changes to Mortgage Interest Relief should at least be accompanied by an assessment of the likely financial impact of those changes upon taxpayers who are, at that time, eligible to claim the relief. *This* proposal in *this* year’s Budget Report is long on theory but it is short on evidence of the impact of the measures.

290 The principle purpose, though, of the amendment is encapsulated in part b) and that is that no changes should be made in respect of the cap of £400,000 – which, at the present time, applies to Mortgage Interest Tax Relief – in advance of the comprehensive review of personal taxation which Treasury and Resources will start in 2013. Even if there is a case for making changes to Mortgage Interest Tax Relief, it is clear that that should be done as part of a coherent and balanced set of proposals and that is what caused Treasury and Resources problems when they announced this proposal as part of their Budget this year. It is *not* that changes to Mortgage Interest Tax Relief need to be taken off the table altogether but, if that kind of relief is going to be abolished, it needs to be done as part of a balanced and coherent set of reforms.

300 Treasury and Resources has suggested, in a rather vague way in their Budget, that they may be able to reallocate the money saved by the withdrawal of Mortgage Interest Tax Relief by way of personal allowances, but there is nothing on the table of any substance in that regard. The Minister himself has said that this is a radical change in policy and it will affect many people.

310 I do not want to discourage Treasury and Resources from coming to the States with radical proposals. I agree with the Minister and his Members that there is a great deal of scope for positive change in the personal tax system, including, as the Minister says, to create a fairer tax system – but any change has to be thought through and this one clearly was not thought through.

315 Therefore, sir, I would ask the States to support this amendment to retain Mortgage Interest Tax Relief at £400,000, as determined by the States in 2006, but to endorse Treasury and Resources own position, which is that this relief should be considered as part of their comprehensive review of taxation. *If* they want to make proposals in respect of Mortgage Interest Tax Relief in future years, they should do so as part of a comprehensive package of reforms and on the basis of evidence put before the States.

320 Thank you, sir.

The Bailiff: Deputy Conder, do you rise to second?

325 **Deputy Conder:** Yes, I do, sir, and reserve my right to speak later in the day.

The Bailiff: Thank you.

Deputy Storey, you attracted my attention. You wish to speak on the amendment, do you?

330 **Deputy Storey:** Thank you, sir.

I rise to support this amendment. I am against the policy, as it is set out in the Budget Report.

335 The Minister said, in his presentation, that he thought the proposal was proportional, equitable and transparent. Well, I agree it was transparent but I cannot agree that it was proportionate or, indeed, equitable. The big problem for me, sir, was that the policy, which has clearly been stated was to eliminate, over seven or eight years, the interest relief on mortgages... *but*, the proposition that we are being asked to vote on only refers to the £50,000 reduction in 2014, which is the main point that Deputy Fallaize has brought to our attention.

340 I was minded to move an amendment to this policy, to suggest an alternative. But, quite obviously, because of the way the Propositions are set out in this Budget, if I was to try to propose an alternative strategy, that would go beyond the Proposition and therefore could not be debated, or *may* not be debated. Then I thought, well, possibly I should bring such an alternative policy *deliberately*, to draw attention to the fact that we are being put in this awkward position but, in the end, I thought that the policy that I wanted to propose would be difficult to explain in debate and would need further work on it before it could be implemented anyway. So, sir, if I may, I will refer to this in more detail later.

345 When one reads the Budget, one would think that, in fact, this Government is waging a bit of a war against homeowners. Firstly, in terms of TRP: well, TRP on domestic property went up 10% in 2010, 20% in 2011 and a further 20% in 2012. Now we are looking, in addition to that, at reducing Mortgage Interest Tax Relief completely over the near future – and then the Minister says that one of the reasons why it would be useful to reduce and eliminate Mortgage Interest Tax Relief is that it would make properties more affordable. ‘More affordable’ to me means ‘cheaper’ and cheaper means that people are still going to be paying off a mortgage on a property which is higher than the then value of the house.

350 Sir, in this one particular Budget we have had a reaffirmation of TRP. That has been a sharp slap across the face for property owners. Mortgage Interest Tax Relief, I believe, is quite a blow to the solar plexus... Then that is followed by a sharp kick in the groin by reducing the value of house prices that people are struggling to pay for. Putting people into negative equity, sir, is one of the most certain ways of creating a stagnant economy.

360 I supported the removal of unlimited interest relief that was introduced some years ago – why give tax relief on loans to purchase large boats or whatever – I supported the reduction of Mortgage Interest Tax Relief to the present limit of £400,000 because it seems unnecessary for people with *large* houses to benefit, the same as people with smaller houses. The problem, sir, is that the policy seems to assume that all people who are buying their own houses are well-off. Well, I can assure the Minister that this is not the case. Many families are struggling to make ends meet in their attempt to be self-reliant. They, too, as well as many other people, find that there is too much month or week at the end of the money! To withdraw Mortgage Interest Tax Relief at this juncture would, in effect, as far as I am concerned, be a tax on self-reliance for such families.

365 Sir, the Minister also talks, in vague terms, about re-distribution of the tax gain from this proposal, a re-distribution, in my opinion, from one needy group to another. This should be the subject of full discussion, not something which is done bit by bit without us understanding the full implications of the policy. This discussion needs to take place in the background of the *full* review that the Minister has promised. But the Minister does not really commit to re-distribution and the bit that concerns me is whether this *is* in order to re-distribute, or whether it is to fill a black hole. Is it short term, or long term? If we are going to actually achieve the policy that we have in the SSP, then we do not need a long term solution to the black hole problem because, if we achieve the FTP savings, and we get economic growth in the longer term, then we balance the books. The problem, sir, is, are we doing it for a short term situation because the Minister is so concerned about the economic future, or is it going to be about re-distribution? If it is about re-distribution, I am concerned about the way we go about the re-distribution and we have a proper discussion about it and, if it is in order to fill the black hole, because the Ministry is so concerned about the future economic prospects, then I am even *more* concerned. I would like the Minister to address that, if he would, in his reply.

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385 I am sure that most Members sitting here today have been through this process of buying their own homes and have been able to survive as a result of Mortgage Interest Tax Relief but, before us today – we have all benefited, I think the majority of us, anyway, have benefited, from Mortgage Interest Tax Relief during our lives and it has been a big help to us all – is the proposal which, collectively, we will be saying: ‘I’m alright, Jack. I’ve made it. Now I am there, I’m going to pull the ladder up behind me and not make the same advantage available to the people coming behind me.’ That is not a policy that I can subscribe to, sir.

390 I firmly believe that this Government should *encourage* the spirit of self-reliance and home ownership amongst our young families. It is what people want and there are benefits, in the longer term, to the community. Perhaps I can discuss that later, sir, but, in this regard – helping people onto the housing ladder – I am very proud of the work of the Housing Department, working with the GHA, to provide shared equity housing as a first step up the housing ladder. I fully support this strategy and look forward to an *increase* in the number of shared equity homes being created in the next few years to help people get a start in life. In order for this policy to be *fully* successful, I am sure it is essential that people move on to purchase their own first home on their own, so as to provide the same opportunity for others coming along behind. I am concerned that removing Mortgage Interest Tax Relief will make this transition, from shared equity to buying your own home, much more difficult. The Mortgage Interest Tax Relief Policy proposed, I believe, will mitigate against this policy and make it more difficult for families to move up on the property ladder.

400 Sir, I believe that it *is* in the taxpayers’ best interest to assist home ownership because, first of all, homeowners take on extra responsibilities and, as a result, tend to act in a more responsible way in other matters. Homeowners tend to look after the property they live in better, so preserving our built heritage and, most importantly, sir, homeowners tend to be less likely to call on taxpayer support in other ways, in particular in retirement. Most homeowners have already paid off their mortgage and they have no rent to pay so, therefore, if they fall into difficult circumstances, the call on the taxpayer is going to be significantly reduced.

410 As you can see, I am firmly against Treasury and Resources to remove MITR. However, I see no reason why the taxpayer should give relief on the first £400,000 of interest to someone who can afford to purchase a house costing £2 million. But I *do* feel that it is in the community’s best interest to help families onto the housing ladder, so the question is: where should we draw the line? That, really, is the question: where do we draw the line between those people who need assistance and those that do not? So I would like to make a proposal that I hope Treasury and Resources will consider in their overall policy considerations. My proposal is that Mortgage Interest Tax Relief should continue to be available for house purchase where the house cost is equal, or less than, the average local market price at July in the previous year. Relief would *not* be available for additions etc, or even if the total was still under the appropriate figure, so we are just talking about the initial purchase of the house. This would mean, for example, that only houses purchased in 2013, at a value of less than £439,000, would qualify for Mortgage Interest Tax Relief – I have got the £439,000 from our little book of statistics, which shows that, in July of this year, that was the average price of the local market house. Since mortgages normally only extend to 90% of the value of the property, this means that Mortgage Interest Tax Relief for 2013 would be limited to £395,000, should my idea be taken up by Treasury and Resources.

420 This proposal, sir, is aimed at helping hard-working families, who wish to be self-reliant, to get on to the housing ladder without providing financial benefits to those who clearly do not need it. As I have said before, I consider the removal of Mortgage Interest Tax Relief to be, in effect, a new tax. The SSB adopted by the States in 2009 looked to eliminate the black hole by a combination of FTP savings and economic growth. We have not delivered on FTP savings: we spent over £5 million on new services. How can we expect taxpayers to contribute *more* when we have not kept our side of the bargain? Being more effective in the way we spend taxes is what we should be doing. *That* is the way we can effectively spend taxpayers’ money. The problem is that, in many instances, *saving* taxpayers’ money is too difficult, so the easy answer seems to be, well, put taxes up. I do not accept the easy way out. We really do need to get real about this.

435 Sir, I trust Treasury and Resources will give serious consideration to my proposal in their all-encompassing review of taxation. I believe it is a better way of assisting people onto the lower rungs of the housing ladder, without providing assistance to people who do not really need it.

Thank you, sir.

440 **The Bailiff:** Next, I will call the Minister of the Treasury and Resources Department, Deputy St Pier.

Deputy St Pier: Thank you, sir.

445 I think if I speak early on this amendment, it may foreshorten some of the debate.

I am a little surprised to hear Deputy Storey because we did consult with the Housing Department as part of the Budget process and we actually had a letter back, which I was not originally proposing to read in full but I think it is only fair that I should do so:

450 ‘Thank you for your Deputy Minister’s letter dated 28th August and for honouring the previous commitment to consult with us.

The Housing Board discussed this letter at its meeting held on 6th September and was fully supportive of the proposal to reduce the Mortgage Interest Tax Relief threshold. As has been conveyed in previous correspondence on this matter, the Housing Department has been independently advised that Mortgage Interest Tax Relief *is* a housing subsidy and that it increases the demand for home ownership which, in turn, raises market prices. A reduction in the relief could, therefore, act to dampen house price inflation. Accordingly, the Board hopes that this proposed reduction will be the first of many.

455 To enable us to fulfil our mandate, the Board would appreciate being consulted on future developments in this and other areas of fiscal policy that impact on the operation of the housing market.’

460 Sir, I suspect that that letter from Housing, and the decision of their meeting on 6th September, may well have been informed by a Report which was commissioned in 2002 – jointly commissioned, actually, by the former Housing Authority and the Advisory and Finance Committee. Mike Parr was the author of that Report and he recommended that consideration be given to removing Mortgage Interest Tax Relief, using a long-term phased approach. Professor Geoffrey Wood expressed a similar view, when recently presenting the independent fiscal review, and Deputy Fallaize himself also stated publicly that, if you were designing a tax system, you probably would not do so with Mortgage Interest Tax Relief within it.

465 We agree with all of those views and so we had recommended that this process begin with a modest reduction in the cap, from £400,000 to £350,000, from 1st January 2014, with any further changes pending a wider personal tax review. We were pleased to receive the full support of the Housing Department.

470 Our objective was to give fair warning to mortgage holders that Mortgage Interest Tax Relief was under review and I think it is fair to say that we were spectacularly successful in that objective. (*Laughter*) I think it is also fair to say that I, the Board and the Department, failed adequately to communicate properly and our views were taken as decisions which, quite rightly, rest ultimately with this Assembly. This clearly caused anxiety and stress for many households, for which I have apologised and for which I apologise again.

475 We accept that taxpayers *will* want to see tax reform in the round if they are to accept any reform to Mortgage Interest Tax Relief as fair. Deputy Fallaize’s amendment does not impact on revenues in 2013 and does formally ensure that Mortgage Interest Tax Relief should be part of the tax review. We are happy to support it.

480 We look forward to receiving input on *this* and, indeed, all the other topics, in the consultation phase of the tax review. Housing have also indicated that they are keen to participate in the review and we will happily encourage and accommodate that input. I am sure that will be a way, also, to include input from Deputy Storey with the ideas that he has presented today, sir.

485 **The Bailiff:** Is there anyone...?
Deputy Jones.

490 **Deputy David Jones:** Yes, I would clarify that point.

I think the Board did discuss this and we do believe that, compared to those in the private rental, of course, Mortgage Tax Relief is an unfair subsidy that they do not get – but we are not a dictatorship at Housing and individual Board Members are free to have their own opinions on this. Martin made it very clear to the Board at the time, and I think other Board Members will agree, that he was uncomfortable with the Board’s decision. I advised him that he must make the speech on the day that he wanted to make. He has done that and made his position perfectly clear.

495 **The Bailiff:** Does anyone else wish to speak in debate?
Deputy Gollop.

500 **Deputy Gollop:** Yes, sir.

Returning to the Housing letter, the problem you have, with something like Parr, is some of the views were never actually taken forward. We did not fully increase the supply of the housing market, nor did we facilitate additional landlords, in quite that sense.

505 If you are going into a report like that, you really do need to have the next stage of the Housing

Strategy in order to make it as good as possible, so my argument is we need to look at Mortgage Interest Tax Relief in a much wider context – and that context would be about making the real incomes of people in the middle of our society stronger and increasing the supply of affordable housing, both to rent and to buy.

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The Bailiff: Deputy Conder.

Deputy Conder: Thank you, sir. I will be very brief.

I thank the Minister for so graciously endorsing this amendment. I am very grateful, so that does mean that I will be very brief.

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Indeed, sir, in principle I support the abolition of MITR, despite seconding this amendment. In simple economic terms, it distorts the market and makes property more affordable. Therefore, in the longer term, abolition of MITR should make no difference in terms of housing prices, because they will, progressively, reduce because it is simply a process of how much each of us can afford to pay for our properties. One part of that is, at the moment, Mortgage Interest Tax Relief.

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Like Deputy Fallaize, I was very concerned about the slightly precipitous way that this was launched and this relatively short timescale in an economic cycle in which, I suspect, MITR would have been abolished altogether. And it is a very significant part of, certainly, middle income families', total outgoings. It was interesting in the UK when Mortgage Interest Tax Relief was abolished; it was actually capped at £30,000 and abolished at that level, so it was a *much* less significant part of total income.

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My other concern, sir, is that we live in a time – this time – of historically low interest rates. I live in terror for young people who might have to live in the sort of interest rates that I experienced, when I was much younger, of 10, 12, 15 per cent. If interest rates went up – as they could do, if the spurious benefits of quantitative easing eventually rebound upon us – individuals losing Mortgage Interest Tax Relief could, in the short term, be *very* heavily impacted.

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So I was proud to second this, sir – Deputy Fallaize's amendment. As I said, I am delighted that the Minister so graciously conceded the benefits of this amendment and I urge Members to support it if it comes to the vote.

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Thank you, sir.

The Bailiff: Is anyone else rising to speak?

Deputy Le Lièvre.

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Deputy Lièvre: Mr Bailiff, Members of the Assembly, you will have to excuse if I am either too loud or too soft because I have lost my hearing on the plane back from the other side of the pond.

I was shocked when I saw this proposal slipped in as part of the Budget because, in October, this Assembly showed a very clear preference for a holistic approach to social policy development and it is quite clear, as Members will note – those who read my paper on Mortgage Interest Tax Relief – that this proposal was lacking in several key areas. It provided no clear indication of the impact of the proposal upon any particular group of Islanders and the numbers of such Islanders. The proposal was, therefore, clearly not targeted as such. States Members were being asked to approve a proposal, the effects of which could only be *guessed* at. No reference was made to the involvement of any other States Department, although we have heard that Housing were approached and it would indicate that Treasury and Resources Department believed that the proposal did not form any part of a holistic review. Finally, the proposal was not evidence-based and it contained not *one* statistical shred of evidence and, therefore, *nothing* on which to base a policy decision.

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Therefore, I am pleased to support the Fallaize amendment and I am pleased that Treasury and Resources have sought not to oppose it. But what perturbs me is that the proposal clearly *failed* to acknowledge any involvement of any other States Department and there is a *clear link* – a clear link – to anybody to who has ever been involved in social welfare payments, there is a clear link between rent rebate, the Social Security Supplementary Benefit scheme, which *includes* payments in respect of Mortgage Interest Tax Relief in its rent allowances and, indeed, personal tax allowances and MITR, in particular. Yet there was not *one* reference in this Budget to any discussions that took place at *any* time between these other key Departments. Yet I had to stand here, or sit here, in October and hear constant references to holistic reviews: 'Let us look at the whole package, let us consider everybody's case' – not one shred of evidence that this Policy was created in that environment. I was horrified.

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So I would like, today, an assurance from the Treasury and Resources Minister that, when his

Board considers a holistic review of the tax system, it discusses this in great detail, I should say, with Social Security's general review of the benefit system because the two are clearly conjoined. One is reliant on the other and, if we are ever to have a tax and benefits system that this Island can say is truly fair and equitable, *that* system will not be developed until the key Departments – that is, Housing, Social Security and Tax – *actually get together* and do the work properly. So I would like an assurance from the Minister of Treasury and Resources that, when he considers this review, it actually does what I have just suggested.

Thank you, sir.

The Bailiff: Deputy Kuttelwascher.

Deputy Kuttelwascher: Thank you, sir.

I was happy not to oppose this amendment because Deputy Fallaize himself described it, I think he used the word 'mild', almost I would describe it as 'benign'.

If we look at it, it most probably does achieve no more than if Members just voted against Proposition 17. If you look at part b) of this amendment, that is nothing more than, effectively, voting against Proposition 17. In the Report, it says, on page 8, that, regarding future Mortgage Interest Relief reductions, they will be subject to consideration as part of a review, so part a) changes that undertaking in the Budget to a Proposition, which is fine... It is just, what I find a little strange about that is we have already started, so we are being, by a Proposition, instructed to do something that is already in progress, in that we have already started scoping the review. But I have one question regarding c) – the latter part of it – it says we need an assessment of the likely financial impact of those changes upon taxpayers who are, at that time, eligible to claim Mortgage Interest Tax Relief. Well, does that mean each individual taxpayer – which it can mean – because the actual answer to that is very simple.

If you remove Mortgage Interest Tax Relief above a certain amount, you will not be able to claim the tax relief on the amount of interest and everybody will have a different calculation... It will vary for everybody, from year to year, depending on when they buy and sell. That seems a very prescriptive statement and I am not quite sure exactly what he means by that. Does he just mean a general statement, or typical examples of family, or what? That, to me, could be read as being so onerous as to be impossible but I will just get a highlight on that.

I refer, to some extent, to Deputy Storey's speech: 90% of it, I feel, was the next phase. It was not really relevant to today's discussion because the whole purpose of this Budget was to state that we are looking for a fairer and more equitable tax system. This was one area which we were looking at and it would be subject to further relief. The initial proposal to reduce the cap was just changing a cap as a result of a policy that had already been implemented in the past which was, basically, to cap Mortgage Interest Tax Relief. What is interesting about the cap, it is not a cap set to help first-time buyers. To me, first-time buyers are the ones that get on the bottom of the housing ladder which, typically, recently was said to be a one bedroom flat around £200,000. To cap it at £400,000, you are possibly looking at houses of £450,000 to £500,000 and the use of the word 'wealthy' was, most probably, the wrong word. 'People of substantial income' might be more appropriate because, for a single person to borrow £400,000, I am told they could only get three times their salary, so you are talking about an individual with a salary of about £120,000 or £130,000 and I think that puts them in the top quarter per cent of Guernsey's earners. For a joint couple to be able to buy a property, I am told you can borrow five times your salary, so you are still talking about a joint salary of over £80,000. Although these people may not be described as 'wealthy', they certainly have a, shall I say, substantial income *way above* – more than double – median earnings, so the purpose of that was purely, as it were, almost a form of progressive taxation, which some people like to support. But the whole purpose of this exercise was nothing more than to reduce that initial cap and any *further* reductions would be subject to the review, so that is already happening.

Subject to just some clarification on item c), or part c), of Deputy Fallaize's amendment, I am happy to support it because it, basically, does what we want to do, anyhow.

Thank you.

The Bailiff: I see no-one else is rising to speak.
Deputy Dorey.

Deputy Dorey: Sir, I stand just to answer, on behalf of Treasury and Resources, Deputy Le Lièvre's point. It is on page 7 of the Budget, in Section 3: Income Proposals, under the sub-heading 'Review of Taxes, Duties and Contributions'. The last sentence of that paragraph says:

630 'There will be close collaboration with the Social Security Department, particularly in considering whether or not there is a more appropriate model which would address the current separation of personal income tax allowances and social security benefits.'

I think it is in black and white, as they say, in there, that we will work with Social Security. I accept his points he made about the proposals but I will say that reducing the Mortgage Tax Relief from £400,000 to £350,000, which was the proposal 17, I do not think involves anybody who is claiming Social Security.

Thank you.

640 **The Bailiff:** Anybody else?

No? Then, Deputy Fallaize will reply to the debate.

Deputy Fallaize: Thank you, sir.

The speech, or part of the speech made by the Deputy Minister, has alarmed me slightly. I think he was right to say that Deputy St Pier's use of the word 'wealthy' was the incorrect word – I think 'incorrect' was the word he used – but, actually, in many respects, his use of the phrase 'people of substantial income' is also incorrect. I know couples whose joint earnings are £60,000 or £65,000 a year, whose mortgage is *over* £350,000. They are people earning at, or very close to, the median wage for an individual person in Guernsey. That is not a couple of substantial income, they are people right bang in middle-income Guernsey and I think that the speech made by the Deputy Minister is indicative that T & R have approached this policy initiative in a rather cavalier and reckless way.

I think they still, even though they are not opposing the amendment, fail to understand the impact of their proposal laid out in Section 3, at least on *some* people. Of course, there are some people with mega mortgages who, at the moment, are able to claim relief up to £400,000 who, patently, do not need the relief and for whom its reduction, or withdrawal, will mean peanuts – but that is not true of a very substantial number of people whose financial circumstances are reliant on Mortgage Interest Relief.

He said the amendment was 'mild' or 'benign'. Well, call it what you like, I think it is preferable to Proposition 17, but part c) of it does not mean... clearly, it does not mean an assessment of the financial impact on every single taxpayer who, at present, is in receipt of Mortgage Interest Tax Relief. He used the phrase 'typical examples'. Yes, that is the kind of thing I am looking for, if this amendment is carried, that T & R would present the States with typical examples of families and the effect their proposals would have on those families.

There were comments made in debate about the withdrawal of Mortgage Interest Relief possibly causing a *reduction* in house prices, well I think that is debateable, I think perhaps it *may* have the effect that the increase in prices will accelerate less slowly rather than causing a reduction but that is supposition and that is why the States needs to be presented with *evidence* before it makes a decision of this nature.

Deputy St Pier – well, I am not sure if he did in his speech – but, certainly, in their Budget Report, Treasury and Resources suggest that they could re-allocate relief in the way of personal allowances. That is fine, although I would caution that personal allowances are claimed by *all* taxpayers, including those who, very obviously, do not need it. I am not sure that is a particularly efficient way of re-distributing this relief. Taking Mortgage Interest Relief away from a couple who are earning, between them, £60,000 a year and re-allocating it, by way of an increase in personal allowance, to a millionaire *may not be* a way of making our personal tax system any fairer. So I think *that* needs to be considered as part of T & R's review but, other than that, sir, I think I will just thank the Minister for the decision of his Department not to oppose this amendment and ask the States to vote for it. I look forward to Treasury and Resources coming forward with evidence after they have completed their comprehensive review.

Thank you, sir.

The Bailiff: Members of States, we will vote now on the amendment proposed by Deputy Fallaize and seconded by Deputy Conder.

Those in favour; those against.

Members voted Pour.

The Bailiff: I declare it carried.

The third amendment we will debate is the amendment proposed by Deputy Burford and

690 seconded by Deputy Fallaize.
Deputy Burford.

Deputy Burford: Sir, in 1973 the Advisory and Finance Committee presented a Policy Letter to the States, proposing a Dwellings Profits Tax, designed to deter property speculation. The Law levied a tax of 100% on profits derived from the sale of a dwelling but with the principle exemptions being a dwelling that has served as an owner's residence for a year and a day, or a dwelling that had been owned for five years, irrespective of the type of occupancy.

The tax did not raise very much revenue but, of course, that was not its purpose. In 2009 the Law was suspended, not because any research had shown it to be ineffective but simply due to administration costs. The Treasury and Resources Department, in its Report on Miscellaneous Amendments to the Tax Laws, stated that it considered the Law to be ineffective in achieving its objective, although no supporting empirical evidence was presented with the Report to reinforce this contention. However, the Report recommended suspension rather than repeal of the Law, so that it could easily be re-introduced if the absence of its intended deterrent effect was shown to have had a detrimental influence on the housing market. How this possible detrimental effect was to be observed was also unclear, as there were no plans proposed to monitor anything in this context.

In 2009, given the global banking crisis that was unfolding at around the same time as this Law was being suspended, and with the banks no longer being deemed 'as safe as houses' – or, possibly, apartments – many chose to move their cash into property, often at the lower end of the housing market: a decision perhaps facilitated by there no longer being a requirement to keep such a property for five years before being able to sell at a profit. It is difficult to know the effect, or extent, that this has had on the affordability of first time homes so, perhaps in part, I may be laying this amendment at the sound of banging stable doors and hooves fading into the distance. However, I still believe there to be merit in this matter being revisited in the round.

I am not convinced that the Law was as ineffectual as suggested. Indeed, I believe it was a 'Guernseyfied' solution to the general desire to see dwellings as homes and not as commodities to be traded at a profit by a small minority. Nevertheless, I expect it is quite possible that, after over thirty years, people may have become adept at avoiding the tax and an overhaul would be beneficial – which is why I would not seek simply to lift the suspension. Rather, this amendment instructs Treasury and Resources to include investigating the role of taxation in deterring property speculation in their over-arching review of taxation generally.

So I ask Members to support this amendment:

725 *To insert the following Proposition between Propositions 17 and 18:*
'17A. To direct that as part of their comprehensive review of personal taxation referred to in paragraphs 3.1 to 3.4 of that Report the Treasury and Resources Department shall consider the rôle of taxation in deterring property speculation (having regard inter alia to the suspension in 2009 of the Dwellings Profits Tax (Guernsey) Law, 1975 and the effects thereof), and shall include in their 2014 Budget Report their conclusions together with any recommendations considered necessary.'

Explanatory Note

735 *The Dwellings Profits Tax (Guernsey) Law 1975 was introduced as an anti-property-speculation measure. The Law levied a tax of 100% on the profits from the sale of a dwelling but with the principal exemptions from the tax being dwellings that had served as the owner's main residence for a year and a day or dwellings that had been owned for 5 years irrespective of type of occupancy. The Law was suspended by Ordinance in 2009.*

740 **The Bailiff:** Thank you very much.
Deputy Fallaize, do you formally second the amendment?

Deputy Fallaize: Yes, sir.

745 **The Bailiff:** Does anybody wish to debate?
Deputy Trott.

Deputy Trott: Yes, sir.

750 I rise because what Deputy Burford has said and, indeed, what is stated in the explanatory note, is not as accurate as I might have wished it to be.

Sir, this Law, as I recall, was suspended in 2009 on the advice of the then Treasury Department, headed by Deputy Parkinson, because it had simply *not* resulted in any tax being raised for a considerable period of time. It was ineffective.

755 It was ineffective for a variety of reasons, not least – and at this stage I would ask Members to look at the explanatory note and the second paragraph of the explanatory note – second sentence, I beg your pardon – at the bottom of the amendment. We are told that the Law levied a tax of 100% of the profits from the sale of a dwelling. Well, yes, but only after an indexation had been applied, so, in other words, inflation was applied to that subsequent sale price and all costs incurred either at the purchase or, indeed, during the ownership. So, in other words, you started off with a figure 3
760 or 4 per cent higher – I think that was the prevailing inflation rate at the time – plus I do not know, £20,000 or £30,000 worth of duties associated with the purchase and any enhancement costs.

It simply *did not work* as a tax. It had not raised any revenue. That is why it was suspended, sir, and, for that reason, I shall be opposing the amendment.

765 **The Bailiff:** Deputy Gollop.

Deputy Gollop: Sir, unusually for me, I will sit on the fence on this one. (*Laughter*)

No, it is just that I agree with a lot of what Deputy Trott has said. It was a useless revenue raising tax. Some years I believe it raised nothing. It cost time of civil servants, of Income Tax
770 also, of the Greffe – and also for advocate’s offices and their clients.

Another problem with it was that, of course, it targeted yet again the wrong people because, let us just say you bought a house with a partner because you wanted to make a little bit of money re-developing it. A young Guernsey builder: you would be stung by it, potentially, although there were ways around it, I believe, if you formed corporate entities and so on... which is another
775 problem with it because you form a company and the shares change, it becomes difficult to manoeuvre.

Another group it targeted were couples who, with good intention, purchased a property and, for whatever reason, their personal relationship or the finances did not work out within a year and a day and then they had problems. It did not work.

780 It was a Law that was introduced with a draconian rule of up to 100% in the 1970s, when there was a view of the States at the time that people, especially from England, were taking advantage of the local property scene and making quick money. We know, historically, that was a time of rapidly rising prices and inflation generally and we also know that in those days it was not uncommon to look in the paper and see a property for sale for £2,000, £3,000 or £4,000. So we are
785 in a completely different context now, anyway, and in those days there were less examples of joint couples working and high finance.

So I actually would *hate* to see the reintroduction or imposition of the Dwellings Profit Tax. I think it is a Government regulation designed to buck the market, when you cannot actually buck the market in that way because you need supply-side economics of more housing.

790 That said, that is not what the amendment calls for. It does not call for the re-introduction of Dwellings Profit Tax, despite the explanatory note it calls for to consider the role of taxation in deterring property speculation. I can support that, as part of the holistic review that Deputy Le Lièvre mentioned, because we actually could, I think, significantly look at a more targeted tax on so-called speculation or land development. We could look at raising revenue from certain kinds of property development, certain kinds of commercial or large residential properties, as a kind of development land tax. That would have more mileage in it, as well as wishing to see the earliest possible opportunity of extorting document duty from people who have housing by share transfer, which is not an unrelated issue.

800 So I welcome it as part of the mix but not a reintroduction of what is a tax not fit for purpose.

The Bailiff: Deputy Kuttelwascher.

Deputy Kuttelwascher: Thank you, sir.

I personally oppose this amendment for a number of reasons.

805 Firstly, the Dwellings Profit Tax, as it stands, is well past its sell-by date, anyhow, and it would be ineffective if it was introduced because it could be easily circumvented. I had another look at that Law, believe it or not, last night. It is on the website – the Government website – and it is a Law I went through some years ago when I was having a difference of opinion with the Tax Office so I am familiar with it. The Procureur may correct me, but this Law relates to people, persons,
810 and with our Zero-10 tax regime it is quite easy to form a company, get involved in, shall we call, property speculation, although I would love to see a definition of ‘speculation’ – it is not

development: speculation, to me, is some sort of large short-term gain, maybe, but how you define it, I do not know. Now you could actually form a company, you could go out and speculate on property and you could retain all the profits without paying *any* tax. At worst, if you distributed
815 some of it, you would pay 20%, not 100%, so now it is almost a pointless Law.

The other issue is, I have no problem with looking at the role of taxation in dealing with property speculation, just as an issue on its own, but the timing of it in this amendment has... by bringing it back in 2014, if you look at paragraph 3.4 of the Budget Report, that does not fit in
820 with the timing of the review, anyhow. So it could come back ahead of the review. I think that is inappropriate, so I will oppose the amendment. But if Deputy Burford just wants to drop a line to us when the review officially starts and suggests what we should be looking at, or possible solutions, we are happy to consider it but, as this amendment is written, it is not acceptable, as far as I am concerned, so I will be opposing it.

Thank you, sir.

825 **The Bailiff:** Deputy Dorey, then Deputy Luxon.

Deputy Dorey: Thank you, Mr Bailiff.

I declare that I have got shares in a company that owned a number of properties but I do not
830 consider it affected, as we are a long-term landlord.

I will be opposing this amendment, as this tax... its purpose was not to raise money, it was to discourage property speculation. I think that is very much highlighted by the answer given to Deputy Burford in her Rule 6 question, which refers back to the States Report in January 2009, where the Report explained that the tax collected had never been significant and, on average, the costs of collecting it probably exceeded the tax collected by at least fourfold. I think that highlights
835 that its purpose was not for raising revenue, its purpose was to discourage property speculation.

As a member of Treasury and Resources, I think that is part of the responsibilities of Housing, to look at if we need legislation to deter property speculation. Then, if they do conclude that is what is needed – and that was very much the conclusion in the seventies – then is a tax the best
840 and most efficient way of doing that?

T & R and Social Security have got an awful lot of work to do in reviewing personal taxation and benefits and I do not want to include this in that because it will only delay other work. The work is considered so large – I know from when I was on Social Security and we reviewed supplementary benefit, *that* was a major piece of work – and I think we need to focus on what we
845 *can* achieve and not be getting involved in property speculation. That is Treasury and Resources.

If Housing want to do it, that is fine and if Housing then concludes that it should be a tax, then they should come back to Treasury and Resources. When we discussed it yesterday, we would be happy to consider that, but only if Housing can conclude that.

Thank you.

850 **The Bailiff:** Deputy Luxon.

Deputy Luxon: Sir, just very briefly, if Deputy Burford's amendment was to reinstate this tax, I would vote against it.

Five thousand tax receipts per annum, when it costs over £20,000 per annum over the thirty-five year term, makes no sense – but this amendment simply asks T & R – in answer to Deputy Dorey's points – to conduct a comprehensive review during 2013 and I do not see any reason why we should not include this principle. I do not believe Deputy Burford is asking us to reinstate the previous Law. She is asking for it to be looked at and use that as a base, so I will happily support
860 the amendment.

Thank you, sir.

The Bailiff: Deputy Fallaize and Deputy Perrot, do you wish to speak?

865 **Deputy Fallaize:** Yes, sir.

Deputy Perrot: Yes, sir.

The Bailiff: Deputy Fallaize and then Deputy Perrot.

870 **Deputy Fallaize:** Thank you, sir.

Well, I am pleased that at least Deputy Luxon has read it! *(Laughter)*

875 Deputy Trott is nothing if not astute and he has very cleverly emphasised some words which appear in parenthesis in the amendment, ‘having regard *inter alia* to the suspension in 2009 of the Dwellings and Profits Tax and the effects thereof’, and emphasised them in order to try to convince the States that this amendment is somehow reckless, or dangerous and flawed. But, of course, as Deputy Luxon has just referred to, the amendment actually proposes that

880 ‘...the Treasury and Resources Department shall consider the role of taxation in deterring property speculation, having regard *inter alia* to the suspension [... of DPT...] and shall include in their 2014 Budget Report their conclusions, together with any recommendations considered necessary.’

885 So this is not an amendment about Dwellings Profits Tax at all. It would be illogical for the Treasury and Resources Department, if they had been directed to consider the role of taxation in deterring property speculation, *not* to take into accounts the effects of the suspension of Dwellings Profits Tax because that was the principle tax mechanism which the States employed for 30-odd years in an attempt to deter property speculation. The core of this amendment is that T & R, as part of a review which they have already said they are carrying out, *should* include consideration of the role of taxation in property speculation and they should come back in next year’s Budget Report with any recommendations they consider necessary.

890 I want to say two things about the first part of this amendment: the role of taxation in deterring property speculation. It is widely acknowledged globally – and I doubt that T & R would dispute this – that taxation can change behaviour in the property market. Indeed, they must believe that because that sits at the heart of their proposal in respect of Mortgage Interest Tax Relief. The way in which tax is levied, the rate of tax that is levied, the reliefs that are offered, *can* influence behaviour in the property market. That is well established.

900 Secondly, not unique to Guernsey but certainly particular to Guernsey – if that is the right word – we have... the conditions of this economy mean that the cost of property to buy and to rent is very expensive. Economists would refer to something called ‘economic rent’, where there is a significant difference between the true cost of the raw materials used to produce a product and the cost of the product. Given that we know there is this relationship between taxation and behaviour in the property market and given that we know that there is enormous pressure on the demand for housing in Guernsey, it seems to me quite reasonable that the States should at least consider ways in which it could use levers of taxation to deter property speculation. If there is a jurisdiction where property speculation is undesirable, it is probably in Guernsey, with very high labour costs, very high rates of employment, scarce land and, consequently, very high property costs.

905 So I think the principle that the States *should* consider the role of taxation in deterring property speculation is well made. Deputy Dorey thinks this is a job for the Housing Department; well, actually, *I* tend to think that the Treasury and Resources Department is capable of working with the Housing Department in fulfilling the demands of this amendment. It would seem to me inconceivable that T & R will not work in consultation, or in conjunction with, Housing if this amendment is successful but there is no question that it is T & R’s role to consider the role of taxation and it is T & R’s role to make any proposals, if they consider such proposals are necessary to change rates or types of taxation. That is not a job for the Housing Department. I would like to see T & R’s response if Deputy Jones came to the States proposing a new form of tax to deter property speculation: they would say ‘That is our job, not your job!’ So I think the two Departments can work *together*. Yes, the amendment *could* have used the words T & R *in conjunction with* the Housing Department but I think the two Departments have a sufficiently good working relationship that they can work together when T & R carries out this review.

920 The second part of the amendment, that Treasury and Resources should report to the States on this matter in their next Annual Budget Report: Deputy Burford is obviously not prescribing what T & R should do, in terms of any changes to taxation to deter property speculation, and she is not even setting the date by which any policy or legislative changes should be introduced, should T & R consider such changes necessary. When one drafts an amendment, it is sensible always to include a date on it... I could lay my hands fairly quickly on a large pile of amendments which have been approved by the States but which have provoked absolutely no action *whatsoever* – because they have simply directed Departments to do things but they have put no obligation on the Department to report back to the States by such and such a date. It does not seem unreasonable to me that the date set in this amendment is next year’s Annual Budget Report because, in this year’s Budget, Treasury and Resources, in announcing their review of taxation state:

930 ‘...the preliminary findings of its review, together with any initial proposals for changing the existing system, will be included in the 2014 Budget Report.’

935 So Deputy Burford's amendment is consistent with those words used by the Department. *But* –
and I have not asked the proposer's permission to say this, so I suppose I should be slightly
cautious, as the seconder of the amendment – but if T & R come to the States this time next year
and say, 'Look, we have been carrying out this review, we have not quite concluded that element
940 of the review which relates to taxation on property speculation: it is going to take us a few more
months to do that', I do not think they will face a motion of no confidence.

I think the States would understand that, as long as they report back to the States and they keep
the States informed, *sometimes* Departments cannot rigidly conform with dates set out, sometimes
even in their own Propositions, but certainly sometimes in amendments.

945 I am not saying that the date is to be regarded merely as incidental, because it means more than
that, and I do not want to see T & R, if this amendment is successful, just letting this run and run
and run and not keeping the States informed. But I really do not think that the States should get
hung up on the obligation for T & R to report back in next year's Budget Report. The key thing is
that this amendment proposes that they do need to report back to the States, 'having considered the
950 role of taxation in deterring property speculation' and I think that, given the conditions in
Guernsey, there is a very good case for T & R to carry out that review, or to include that subject,
in the review that they will already carry out.

Thank you, sir.

The Bailiff: Deputy Perrot.

955

Deputy Perrot: Could I, first, sir, declare an interest. I do get myself involved in the property
market from time to time and use what little knowledge I have about planning, in the hope of
improving properties when I do get involved.

960 So, having crawled out from under my stone, I can also say that I well remember when
Dwellings Profits Tax came in, in the 1970s. It did not come in because speculators were coming
here from the United Kingdom. Really, it came in as a result of an action of one particular chap –
an American gentleman – who was buying and selling properties at the time of very high inflation
indeed and a jolly time was had by all! But, of course, there was a massive amount of speculation
965 and, quite apart from the effect of inflation, property values went up enormously. So the Dwellings
Profits Tax legislation came in, as a result of the States of Guernsey at their bilious worst. What
they did was a knee-jerk reaction and the tax did not work. It was punitive in a lot of ways. It had
not been thought through.

970 So if ever there is... I am against, in principle, social engineering through taxation. I know that
it happens – for example, tobacco, and with alcohol – but I think it has got to be very limited in
scope. I saw the way in which Dwellings Profits Tax worked over the years and it really did affect
people very badly because there were times when property owners, without advice, found
themselves agreeing to sell their houses in circumstances where they would have actually incurred
Dwellings Profits Tax if they sold the house, either because they had not lived in it for a year, or
975 because they had not owned it for five years. So the real problem then was, 'Well, what do we do?
Do we pay liquidated damages or do we pay Dwellings Profits Tax?'

980 So that was one problem occasionally people had, entering into ill-advised contracts but – and
Deputy Gollop referred to this – people's plans change. The horror of Dwellings Profit... well I
think it is a ghastly Law, anyway, but it was particularly horrible because it taxed at the rate of
100% and it did *real* damage. So I am going to vote against the amendment but, if it is passed, I
am going to look, with an eagle eye, at what might be proposed by Treasury and Resources if they
do come back to the States with anything approaching Dwellings Profits Tax legislation.

985 And could I say, so far as speculation is concerned, of course there was an exemption for
builders, (*Laughter*) so, actually, if builders owned houses and improved them and sold them on –
I call that some sort of speculation – they were allowed to do it, so they were not caught by the
Law.

990 I am not sure that Deputy Kuttelwascher is entirely correct about being able to get around the
Law by the use of a limited liability company: I seem to remember that loophole was done away
with even during my time in private practice but I am quite sure that the Procureur will be able to
tell us all about that! (*Laughter*)

The Procureur: I could but I do not want to take up a lot of the Assembly's time!

995 No, it is absolutely right. The Law is drafted so as to cover profits made by companies and
profits made by Trusts and it has got some quite advanced clauses about beneficial ownership and
stuff like that. It is a sort of precursor of what we might do with document duty.

No, there is no question of a company being exempt from Dwellings Profits Tax just because it

is exempt from Income Tax.

The Bailiff: Thank you.
Deputy Dave Jones and then Deputy Bebb.

1000

Deputy David Jones: Thank you, sir.

I think Housing's view is that, having spoken to my Chief Officer briefly about this, we are very relaxed about working with Treasury and Resources, if they come back and want to look at measures that stop the market being distorted by speculation or other means. Clearly, our job at Housing is to make sure that there is a level playing field, as best we can, for all sections of the community to have access to affordable housing, however that may be. Any speculation in the housing market that would tend to prevent that at certain levels, we would be against.

1005

As far as working with Treasury, *of course* Housing will sit down and work with Treasury but, like everything, Housing will want to have it evidenced based, just as the withdrawal of Mortgage Relief has to be evidenced based. We would have to actually see that there was a *huge* problem.

1010

But I do believe that some of us are missing the point. The fact is that there was not a lot of tax collected, in my view because it actually worked. It prevented people from too much speculation because they were going to be subject to this tax. I take on board everything that Deputy Perrot has said in terms of the builders. It was a charter... You just became a building company and you could do pretty much what you liked, so it was full of loopholes. But I think, by and large, Housing would support the amendment – that Treasury have a look at this – and if Treasury come back to Housing and say that we need you to work on some legislation to help future taxation legislation, or any other kind of legislation, that will prevent speculation in Guernsey, then we would be happy to do that.

1015

1020

I also do take on Deputy Fallaize's point of view, in that we have a severe shortage of land in Guernsey, we are a very small Island and *any* real issues in the market that upset that market can have a detrimental effect on our people. We must monitor that at all times.

Thank you.

1025

The Bailiff: Deputy Bebb.

Deputy Bebb: I rise to my feet in order to fully support what my colleague, Deputy Perrot, has actually said, that this is something that would cause some very serious questions as to the efficacy of the tax. It would cause some very serious questions in my mind as to whether or not we would want to support it and I *wholly* endorse his last comment, that he would have a very close eagle eye on any comments that Treasury and Resources would have in coming back with any proposals on this.

1030

But, let us remember that, in my mind, *we need to have*, within the comprehensive tax review, a thought that we need to tax unattractive behaviour – and surely speculation on housing, or inappropriate activities within the housing market, is what we would class as 'unattractive behaviour' – and, therefore, that unattractive behaviour should fall within the remit of a tax review that we are advised that Treasury and Resources are conducting next year.

1035

Therefore, I see *no* problem in fully supporting this particular amendment because it does not ask for a reintroduction of Laws which have been currently suspended, it simply asks for these things to be included within the comprehensive review and, surely, unattractive behaviour is something that we would definitely would want Treasury and Resources to be looking at and to be taxing accordingly, to try and encourage people out of that unattractive behaviour.

1040

Thank you.

1045

The Bailiff: Does anyone else wish to speak in the debate?

No? I see no-one else rising. In that case, Minister, do you wish to exercise your right to speak immediately before the proposer replies to the States?

1050

Deputy St Pier: Yes, thank you, sir.

The Bailiff: Deputy St Pier.

Deputy St Pier: Really, just to summarise what has already been said by others...

1055

Tackling property speculation is not really an area of tax policy *per se*. Its proper home should sit within housing policy which is, of course, better led by the Housing Department and what *they* perceive as being the problems, the housing problems and the housing needs of the Island.

1060 If Housing determines that property speculation *is* a problem and that taxation *is* the appropriate policy response to deal with that, then we would expect them to approach us and to work with us to design and implement an appropriate tax framework. We therefore believe, really, that the direction in the amendment is actually to the wrong Department. In any event, I think that the timetable is too tight. As Deputy Dorey says, we are already carrying a significant policy workload in reviewing the tax system without taking on this additional, frankly, non-priority project.

1065 We would, therefore, urge Members to reject the amendment. Those in favour of looking at tackling property speculation and whether it is a problem and what the response ought to be, really ought to be encouraging the Housing Department to review the matter.

Thank you, sir.

1070 **The Bailiff:** Deputy Burford will reply to the debate.

Deputy Burford: Thank you, sir.

1075 Deputy Trott is right that the Law did not raise taxes. Indeed, it was not primarily designed to do that. He is also correct that enhancement costs were allowed and, as I said in my speech, this is why I would not look to lift the Law but I still believe that the Treasury and Resources tax review should consider ways of deterring property speculation, as one way of helping people onto the property ladder even.

I thank Deputy Gollop for emphasising what the amendment actually says and, in response to Deputy Kuttelwascher, I simply have to emphasise again that this amendment does not seek to re-impose Dwellings Profits Tax.

1080 In response to Deputy Dorey, I would concur that, as was stated in my opening speech, Dwellings Profits Tax was not a tax-raising measure.

I did advise the Treasury and Resources Minister that I was happy for *him* to seek permission from the presiding officer for an extension of twelve months on the date specified in the amendment, an offer that still stands. However, he declined as, subsequently, he and his Board decided they would not be supporting the amendment because it should, in his view, be directed at Housing. However, it was Treasury and Resources in the last States who suspended the tax and I think Deputy Fallaize has adequately outlined why it should stay within their remit.

1090 Deputy Perrot mentioned the historic pitfalls and exemptions of the Dwellings Profits Tax Law,

However, as Deputy Luxon mentioned, this amendment does not seek to reintroduce that tax.

Finally, I thank Deputy Jones for his comments and I endorse his desire for evidenced-based decisions.

1095 **The Bailiff:** Thank you.

Members, we come to the vote on the amendment proposed by Deputy Burford, seconded by Deputy Fallaize:

1100 To insert the following Proposition between Propositions 17 and 18:
‘17A. To direct that as part of their comprehensive review of personal taxation referred to in paragraphs 3.1 to 3.4 of that Report the Treasury and Resources Department shall consider the rôle of taxation in deterring property speculation (having regard inter alia to the suspension in 2009 of the Dwellings Profits Tax (Guernsey) Law, 1975 and the effects thereof), and shall include in their 2014 Budget Report their conclusions together with any recommendations considered necessary.’

1105 Those in favour; those against.

Some Members voted Pour, while others voted Contre.

1110 **The Bailiff:** I think that one is too close for *me* to call. We will go to a recorded vote. I think it is lost but I would rather we had a recorded vote.

There was a recorded vote.

Carried – Pour 25, Contre 21, Abstained 0, Not Present 1

1115	POUR	CONTRE	ABSTAINED	NOT PRESENT
	Alderney Rep. Kelly	Alderney Rep. Arditti		Deputy Ogier
	Deputy Brehaut	Deputy Harwood		
	Deputy Robert Jones	Deputy Kuttelwascher		
	Deputy Gollop	Deputy Domaille		
1120	Deputy Sherbourne	Deputy Langlois		

	Deputy Conder	Deputy Le Clerc
	Deputy Storey	Deputy St Pier
	Deputy Bebb	Deputy Stewart
1125	Deputy Lester Queripel	Deputy Gillson
	Deputy Le Pelley	Deputy Trott
	Deputy Fallaize	Deputy Lowe
	Deputy David Jones	Deputy Spruce
	Deputy Laurie Queripel	Deputy Collins
1130	Deputy Le Lièvre	Deputy Dorey
	Deputy Duquemin	Deputy Paint
	Deputy Green	Deputy Le Tocq
	Deputy Hunter Adam	Deputy James
	Deputy Brouard	Deputy Perrot
1135	Deputy Wilkie	Deputy Sillars
	Deputy De Lisle	Deputy Quin
	Deputy Burford	Deputy Hadley
	Deputy Inglis	
	Deputy Soulsby	
1140	Deputy Luxon	
	Deputy O'Hara	

The Bailiff: We will get the results in a moment, but I think it's a good thing I did not try and call that one.

1145 While the votes are being counted, let us move on with the next amendment, which is proposed by Deputy Adam, seconded by Deputy Brehaut. It's the one... if I read the amendment, because are two amendments proposed by Deputy Adam, seconded by Deputy Brehaut.

This one is:

1150 To insert a Proposition immediately before Proposition 6 as follows:
 '5B. To approve in principle the reinstatement of the flexibility for the Health and Social Services Department to carry forward unspent balances from one year to the next in accordance with the procedures laid out in Billet d'État VIII 1991, and direct the Treasury and Resources Department to report back to the States with proposals to give effect to that approval.'

1155 I am told that some members do not have a copy of it. Is that generally the case that Members do not have it?

Several Members: Yes, sir.

1160 **The Bailiff:** In that case, can we arrange to have it copied. Can you arrange to have that copied and circulated.

There was a short pause.

1165 **The Bailiff:** Deputy Adam will open the debate on the amendment.

Deputy Adam: Thank you, sir.

1170 I start by accepting what the Minister of T & R said in his original speech, that the Budget Reserve has been increased from £6.6 million to £11.3 million. I also accept that he *appears* – appears – to be acknowledging that HSSD might have unpredictable spending under the Children's Law and the second bullet point clearly states:

1175 'Allowance of variations in formula-led expenditure, increases to formula-determined grants [etc... and] unanticipated/emergency expenditure where there is a clear business case or demand/cost pressures that cannot be met by reprioritising existing budgets.'

1180 Unfortunately, sir, that seems to be a complete new line of thought for T & R because, as everyone is aware, it did not seem to apply this year. The reason for bringing our amendment is simply to *highlight* that we have a demand-led service and to try and give HSSD more independence and flexibility to control its budget.

1185 So, the first aspect highlighted by *this* amendment is about unspent balances. Unspent balances are unlikely to come every year but, if you look at HSSD's spend, we overspent in 2010, under-spent in 2011, overspent in 2012... These changes in spend are for a variety of reasons but, this year... and it does not seem to be accepted about the demand-led aspect which has occurred this year, where there is a 20.5% increase in cardiac disease off-Island referrals. Some areas of demand can be tracked. For example, breast screening has now been in place for several years, therefore we have a trend and a reasonable idea of the prevalence and occurrence of breast disease in

Guernsey.

1190 At times, demand will go down. Fortunately, there *are* peaks and troughs and, therefore, we can, occasionally, be under-spent. Most health and local authority organisations operate a financial policy to carry forward some, or all, of the unspent balances. They also have a three-year pooling arrangement with each other to ensure that these peaks in demand, especially for very high cost services, such as liver transplant, kidney transplant – which, for our size of Island, occur very occasionally – are effectively managed. The budget policy of the States does not allow that here.

1195 T & R states that it does not incentivise a Department or budget holder to control costs. I disagree with that completely. The problem of unspent balances not being carried forward is that, if someone has got *x* amount of money and it is coming up to near the year end, they are more likely to spend it because it will all go out of their pot at the end of that year, back to T & R. If they can save money, they can save money they know they will have to cushion themselves in the next year. Therefore, I feel unspent balances – not just for HSSD, but for *all* Departments – should stay within the Department and be carried forward.

1200 I now move the amendment:

1205 *To insert a Proposition immediately before Proposition 6 as follows:*
'5B. To approve in principle the reinstatement of the flexibility for the Health and Social Services Department to carry forward unspent balances from one year to the next in accordance with the procedures laid out in Billet d'État VIII 1991, and direct the Treasury and Resources Department to report back to the States with proposals to give effect to that approval.'

1210 *EXPLANATORY NOTE*

The intention of this amendment is to enable HSSD some flexibility to deal with the volatile nature of health and social service expenditure.

1215 Thank you.

The Bailiff: Deputy Brehaut, do you formally second the amendment?

1220 **Deputy Brehaut:** Yes, I rise to formally second, thank you, sir.

The Bailiff: Before I open the debate, I can announce the result of the vote on the amendment proposed by Deputy Burford, seconded by Deputy Fallaize. There were 25 votes in favour, 21 against, and I declare the amendment carried.

1225 Who wishes to speak in...? (*Interjections*) Shall I just pause while the copies of the amendment are handed around?

There was a short pause while the amendment was circulated.

1230 **The Bailiff:** Does everyone now have a copy of the amendment? (*Interjection*) Just Deputy Kuttelwascher? Can you give a copy to Deputy Kuttelwascher... Oh, he has one. Thank you.

Everyone now has one?

Deputy Fallaize, do you wish to speak?

1235 **Deputy Fallaize:** Thank you, sir.

We really must do something to sort out the circulation of these amendments! (**A Member:** Hear, hear.)

1240 Deputy Adam and the other members of HSSD know – because I've spoken to them recently and told them – that I have very considerable sympathy with the financial predicament that they are in. I do not accept the prevailing view, or what seems to be the prevailing view, that their budgetary problems are largely as a result of their own inadequate financial controls. However, my sympathy for HSSD does not extend to supporting this, I'm afraid to say, rather desperate amendment.

1245 I think there is the potential, to begin with, for this amendment to mislead slightly. It is imprecise, at least, because it says... well, it proposes, something in respect of carrying forward unspent balances and then says:

'...in accordance with the procedures laid out in Billet d'État VIII 1991'

and it rather creates the impression that, somehow, those procedures are *still* valid.

1250 It is true that the States *did*, in 1991, introduce a regime where, before this silly title of
‘Departments’ came into being, Boards and committees and councils were able to keep their
unspent balances – the difference between their allocated budget and their actual expenditure.
They were able to retain them and for exactly the reasons, as I understand it, that Deputy Adam
1255 has just referred to. I think the late Deputy Bell was particularly enthusiastic, at that time, about
the unspent balances regime because there *appeared* to be behaviour where some committees were
particularly enthusiastically spending money at the end of the year, so the thought was that if they
were able to carry it forward to the next year, then it would prevent that sort of undesirable
behaviour.

1260 *However*, in 2009, as part of the States Strategic Plan, the States resolved to agree that the
current system of unspent balances being retained by Departments and committees is
unsustainable and to direct the Treasury and Resources Department to review this process as part
of the 2011 Budget and report back to the States accordingly. Then, in the Budget Report of 2011,
the States resolved that the policy for the retention of any unspent balances generated by
1265 Departments and committees from 2010 onwards ‘shall be as set out in paragraph 5.46’, which
read that unspent balances – no, I’m getting ahead of myself – which read:

1270 ‘Treasury and Resources is recommending that any underspends are no longer treated as unspent balances but are
returned to General Revenue. The only exception to this policy will be in respect of the carrying forward of timing
differences, where an item of expenditure or project was budgeted in one year but has been delayed.’

Well, of course, this amendment has nothing has absolutely nothing at all to do with any timing
differences. It is just, I suppose to the credit of HSSD, a very transparent amendment to try to
persuade the States to allow it to operate *alone*, outwith all the financial controls and procedures
1275 which apply to all other Departments. So, irrespective of whether one agrees or disagrees with the
fiscal policies of the States, the States has resolved its fiscal policies, it has established some
procedures to try to underpin those fiscal policies and this amendment is an attempt to drive a
coach and horses through the financial controls, which are meant to support existing fiscal policy.

1280 So, although I think there is a *huge* disconnect between public expectation and, actually, the
expectation of the States, in terms of what HSSD can provide, the services they can provide, and
the budget that we provide for them to provide those services – and I think that has to be resolved
and I *do not* blame HSSD for the position that they have found themselves in, and I will make that
clear during a later debate – this ambitious but, I think, rather desperate attempt effectively to cling
on to some money by one Department, through a means which would not be available to other
1285 Departments, is a retrograde step. It cannot be the right way for the States to go about resolving
the problems within HSSD’s budget.

So I will I may very well vote in favour of Deputy Adam’s *next* amendment but I will vote
against this one.

1290 **The Bailiff:** Deputy Luxon.

Deputy Luxon: Sir, thank you.

1295 Pointless: this amendment is pointless. It talks about carrying forward unspent balances. When
will HSSD *next* have an unspent balance to be able to carry forward? It is a bit like trying to put a
sticking plaster on a bloody wound. It simply won’t work! It will be a massive retrograde step to
go back to some of the old fiscal policies that got this Government into some of the difficulties it
found itself in.

1300 And, sir, in answer to Deputy Adam’s point about Departments or, indeed, committees
spending up money in the final month of the year, well, that comes down to management,
management and management. Anybody who is a member of this States organisation and indulges
in that kind of practice should be thoroughly ashamed of themselves, when this Island is facing the
fiscal strains that we are.

I certainly cannot support this amendment but I do have empathy for the principle behind why
Deputy Adam and Deputy Brehaut brought this amendment.

1305 Thank you, sir.

The Bailiff: Deputy Bebb

1310 **Deputy Bebb:** I think, at this point in the debate, it is worthwhile pointing out the reasons for
such an amendment. It is a fairly clumsy tool, and I would agree with those comments.

In the UK, the means of funding healthcare is a vastly complicated industry. Populations of

1315 around 300,000 are given specific budgets by central government in order to... and given weighting which has regard to morbidity, it has regard to age, it has regard to income. It is a fairly complicated measure in itself. Then that particular budget has around 10 percent of it ring-fenced and passed on to an even larger authority of around 5 million and more people and that is where certain procedures, such as transplants, such as expensive intensive care, those types of costs, are actually taken care of by that larger 5 million person budget. Then there is a further 5 percent that is taken into central government and that is for the truly expensive types of procedure, which could be in excess of half a million pounds for one procedure.

1320 It is an *exceptionally complicated* industry that drives a huge amount of financing and I would not advocate that we try to adopt a similar measure in Guernsey. Indeed, with a population of 60,000 odd, it is simply impossible for us to even *contemplate* having that type of financing model.

1325 It is fair to say, though, that the *current* financing model that the States of Guernsey employ with regard to health is *also* a bizarre model, whereby it is primarily based on *last* year's budget and last year's expenditure but it makes no allowance for the fact – and here we do hit a problem – that, in Guernsey, we cannot talk of specifics or even generalities without pointing to individuals and, therefore, breaking confidentiality. So I hope Members will bear with me whilst I make vague references to what *has* happened over the last year.

1330 A transplant comes with it a price tag of a quarter of a million pounds, and such a transplant does not happen every year. Certain maternity cases, and certain pregnancies, are of multiple persons and they cannot always be safely delivered here in Guernsey. Due to that, they are sent off-Island, usually to Southampton, and babies are generally put directly into intensive care. That comes also with a price tag of around a quarter of a million to £300,000. Exceptional circumstances within a small community like this can drive *very large* peaks and troughs and, this year, as we have all become very aware, HSSD has hit a fairly large peak.

1335 I would agree that we need to think of a longer-term comprehensive strategy for reviewing the way that we finance our Health Department and I think that it should also possibly include the Social Security Department, because they also face peaks and troughs within *their* demand, which is primarily driven by circumstances they cannot always control. But a review of that nature would be in the longer term. I think that it is a review that would be well forced, it is something that we definitely *should* consider and *should* be doing, as an HSSD Department, in conjunction with Treasury and Resources, as we know that the expertise is within T & R in relation to the NHS model of funding. A better, more appropriate local model could be thought of.

1345 In the interim, though we need to try and find *some* means of smoothing these peaks and troughs. I think that is where *this* amendment is a crude attempt and, I admit, I would not like to see it as a long-term measure but, in the interim, it would serve to smooth some of these peaks and troughs in demand over a three year period, possibly. We should also remember that this amendment does not specify exactly *how* this would be done. This asks that Treasury and Resources, which, I believe, has the ability and ought to be looking at this type of question, could consider a very proportionate measure in order to try and smooth these peaks and troughs as an interim measure.

1350 Therefore, this is, once again, asking for a review of this particular area and I would ask that you actually support the means of trying to allow the Department to deal with the demands that it sometimes faces and, this year, has spectacularly faced whereas, last year, it, of course, spectacularly did not face, with a £1.6 million under-spend. That was after some considerable other measures that were taken by the Department, in order to undertake costs that would not normally fall on the Department but it was felt that it was appropriate to *assist* the Treasury and Resources Department at that point in time.

1360 Therefore, I would ask Members to please support the amendment as an interim measure before we have a full comprehensive review, a proper means of long-term funding of Health in the Island, which does need a review, and I believe should be part of the focus of HSSD and Treasury and Resources early in next year.

Thank you.

1365 **The Bailiff:** Deputy Hadley.

1370 **Deputy Hadley:** Mr Bailiff, I think this speech, really, is not terribly relevant to the issue. Deputy Bebb has explained about the complex funding that exists in the United Kingdom but these are largely so that a fixed cake, which is decided nationally... to decide how that cake is divided amongst different authorities.

In our particular case, we are not talking about a fixed cake being divided amongst different

authorities: we have *one* authority and we fix one cake. And to suggest that, in one particular year, if you have a couple of kidney transplants or expensive operations, you have chosen to fund that by the *possibility* – and I take Deputy Luxon’s point, the very remote possibility – that there was an under-spend the year before is absolute nonsense.

So while I actually support more money for Health and Social Services Department, I think this mechanism for doing it just does not make any sense at all and I would urge Members to reject it.

The Bailiff: Deputy Trott.

Deputy Trott: Sir, I have in front of me the Annual Independent Fiscal Policy Review, which was referred to earlier by the Treasury Minister in his opening remarks of this Budget debate.

In it, a Professor Geoffrey Wood reminds us of the importance of designing a Fiscal Framework and debating matters of this type within a framework of long-run norms. Long-run norms – because it is well understood by us all that there will be peaks and troughs. Interestingly, I have not done this calculation but I wonder, if we had looked back over the last five years at the Health and Social Services budget, when there has been under-spends as well as this current overspend, whether we would have seen the fiscal neutrality that one strives for, against a background of understanding that there are long-run norms and there will be peaks and troughs.

Deputy Hadley argues that some of the comments about the cost of health inflation rising at a substantially higher rate than RPIX *and* that Guernsey’s demographics – for instance, the fact that we already have a relatively high average population which is ageing at a faster rate than many other jurisdictions – are irrelevant to the argument. I would say it is not and I will explain why. If our ageing population – and it is usually the oldest in our community that suffer from the consequences of a flu pandemic – if we had a flu pandemic and we required to procure, I do not know, £1 million worth of flu vaccines, we would not go to the Health and Social Services Department and ask them to pay for that out of their existing budget. Why? Because the precedent has already been set.

What would happen, sir, is that those resources would come from our reserves and, in doing so, we would accept, as a legislature, that is because that is an exceptional event, that is an event that creates a *peak* in demand, and I use the words ‘peak in demand’ because, throughout this debate, we need to be fair to our colleagues in the Health and Social Services Department and *understand that point*. They have experienced a *peak in demand*, an entirely understandable consequence and one that is, indeed, enshrined within our Fiscal Framework.

So, whilst I will not be supporting this amendment, sir, I completely understand why they have brought it and, indeed, consider it to be an essential part of the journey in completely understanding the predicament that the Health and Social Services Board find themselves in.

The Bailiff: Deputy Gollop.

Deputy Gollop: Sir, despite one or two reservations, I am minded, in the context, to support this amendment because the point is that these unspent balances is a way of empowering the Department to deliver clinical need, services on demand, to people with illnesses, impairments, disabilities and other vulnerable persons.

And one has to bear in mind that I know this is not formula-led costs, in a sense that we see the Social Security or other areas but, nevertheless, it is a degree of unpredictable demand management here and I will draw a parallel, perhaps, with policing at the Home Department where, from time to time, you may have investigations or issues that will cause the budget to rise beyond any *normal* modelling or expectation.

I suppose a cynic would argue that HSSD has a history of budgetary issues, whether it be under-spending or over-spending, and I think we all know – as will come up in a later debate – the need for improving management of financial systems there. But that is not what this amendment is about. The amendment is to give the Department the ability to respond, not to financial laxity but to changes in clinical need.

I know, as a member of Social Security, that there has been an increase this year in the number of over-65s. It is a model, it is a demographic fact, as Deputy Trott reminded us, and we have seen the admittedly... one of the urgently prepared Health Reports, that there has been a significant increase in both hospital stays and outpatients, and accident and emergency of people in that older, demographic age. Why that is, I am not too sure but we do statistically know that there has possibly been an 8% rise, in comparison to other periods. So, bearing that in mind, the *main* aim of Health and Social Services is to provide the top quality clinical need that we expect. The

secondary aim is to obtain budgetary probity and prudence and, for those reasons, I think we *should* support this amendment.

1435 I will make two other points that, again, might be detailed in a later debate. The first point is that, had they been allowed to keep the unspent balance from last year, or somehow found a way of spending last year, rather than this, for certain areas of their responsibilities, they would be in a better position now, as I understand it.

1440 The secondary point that I definitely want more information about, in their Report from Treasury and Resources, is why a decision was made apparently by the new Board in May of this year to not allow them to keep the money that we, as an Assembly, collectively agreed for them have when they postponed the Respite Care, the Mental Health Law implementation and another project – because that was £600,000. They made the financial discipline then, they had the courage to say ‘We know next year could be tight’ – and that money was taken away from them at a crucial point.

1445 The history of this is not particularly good and, from where we are now, I think we have to support this amendment at this stage and treat it as an interim measure, as Deputy Bebb said.

1450 **The Bailiff:** Does anyone else wish to speak on the amendment?
Deputy Brehaut.

Deputy Brehaut: Yes, thank you, sir.

1455 Can I, first of all, apologise for the circulation of the amendment. I had a look here on my i-Pad and it was circulated by e-mail on 30th November by the Greffier but, seemingly, it was not then sent out and, as Deputy Fallaize pointed out, it would be useful if we could resolve that.

1460 If I just cast my mind back to a meeting that T & R had with HSSD a couple of weeks ago – and I am sorry to remind Deputy Kuttelwascher of this again – when we got comfortable, if you can use the word in that context, at the T & R meeting, the first question from the Deputy Minister was ‘Okay, what is your contingency? Tell us what your contingency is.’ For someone who sits on HSSD to find out that the Deputy Minister of Treasury and Resources *believes* we have a contingency was, in itself, quite shocking. Quite shocking! And then, also, for a Member of, I think it is called the Executive Leadership Team to then ask – a senior civil servant to ask politicians – whether they wanted ‘a blank cheque’, illustrates the type of uphill struggle that HSSD has faced over recent weeks.

1465 The reason... the margin that HSSD needs is 2% because, as Deputy Gollop has pointed out extremely well, we had £1.6 million taken from us because we were under-spent, we had a further £600,000 stripped out because of the bids you have alluded to, and there was also £300,000 wrapped up in Tamiflu that made its way back to the centre in some guise or other. These are huge sums of money that no organisation on a budget of £107 million, £108 million or £110 million, can *manage* in real time in an effective way.

1475 We are having a discussion, it seems... I have noticed the context for discussions around HSSD have moved on from elective surgery to, perhaps, a Department almost bordering on incompetence, and that the fiscal management of HSSD is beyond salvage. The reality is that, as Deputy Bebb has illustrated *extremely well*, when you have an off-Island placement at £450,000, you have children sent away to the UK for a further whatever the sum is, there is no way that an organisation can respond in that way. The safety net... the mechanism, whereby we know we have got a 2% margin in any event would be extremely useful.

1480 This is not a question of a Department looking at its books at the end of the month and thinking ‘Yikes, we’ve got an unspent balance. We’d better run out and buy carpets and office and desk furniture, otherwise we’ll lose it next year!’ Those are the practices probably that we hope we have lost – all Departments and committees have lost. This is a blunt, desperate, desperate plea – not for us, of course, desperate for the people we’re trying to help – to get assistance and a desperate plea for those who will be at Health when I am not on Health, perhaps when the Minister, or when the current members, are not at Health, to help the next people – if that is the case, if that is what the States want – to help *them* face the significant challenges that lie ahead. Because, and I’m sorry for the repetition, sir, and I am on the record as saying this before, this is a *blunt*, confusing social experiment, whereby you cap spending, there is no contingency, you stand back and watch what happens and you conclude that it is financial mismanagement...

1490 Let us please reconfigure. We are in uncharted waters today and HSSD will be for the foreseeable future without a compass. They need direction from this Assembly. Please give that direction to us today.

Thank you.

1495 **The Bailiff:** Does anyone else wish to speak?
Deputy Kuttelwascher.

Deputy Kuttelwascher: Yes, thank you, sir.
Regarding Deputy Brehaut's comments about my asking whether or not their budget had a contingency, I have to remind Members their budget was set during the *last* States and I was not in any way involved with how they set it. Their budget is split into various sections: they have budgets for this, mental health and whatever else and, quite often, budgets include contingencies of different percentages for each section of their spending. All I wanted to confirm was whether or not there were any contingencies anywhere and the reply was, 'No, the FTP did not allow it'. Which was an odd reply... But that was all. I just wanted confirmation that they had set a budget which allowed for no contingencies, for whatever reason.

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1505 I have another issue about this business of unspent balances. HSSD had no unspent balances. When the policy was changed in 2010, they overspent by £2.174 million. Last year it was £1.661 million that they under-spent by, so they have a net over-spend, if you account for unspent balances, so they do not have any unspent balances. The question is, I think, this is pointless because it appears they are unlikely to have any in the future, so we have to look somewhere else.

1510 In fact, there are procedures that allow for claims from the Budget Reserve if something extraordinary happens. I can give you one example, the Legionella outbreak. HSSD would have been perfectly entitled to claim for whatever the costs were for that. It would be normally paid for from the Budget Reserve, but there was no claim there. There were procedures available where unforeseen circumstances could have been catered for, but they were not. Another one: Deputy Bebb did mention multiple pregnancies. That could have been quite easily regarded as an unforeseen event and that could also... (*Laughter*) It doesn't happen every day! (*Laughter*) I think a valid claim could have been put in for that, as something that happens, like, once every twenty or thirty years but there was nothing forthcoming.

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1520 **Deputy Brehaut:** It happens every day!

Deputy Kuttelwascher: So, I cannot support this amendment because I, like Deputy Luxon, think it is pointless. I don't think it will actually achieve anything, even if it were to succeed, because you need, for it to have any value you would have to have a reasonably large unspent balance and there is no guarantee of that. It is likely to be over-spends, rather than under-spends!
Thank you, sir.

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1530 **The Bailiff:** Next, I'll call the Chief Minister, Deputy Harwood.

Deputy Harwood: Thank you, sir.
I will be opposing this amendment for the reasons really stated already by Deputy Paul Luxon. I think it is, at best, a crude attempt. It is a sticking plaster and it is an interim measure and, for the reasons also mentioned by Deputy Kuttelwascher, I am not sure that it is actually going to help HSSD, certainly not next year or, possibly, even the year after.

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1540 What I *do* believe, however, is that I think this Assembly and this States will need to get to grips with a complete review of the budgeting process, not only for HSSD, possibly, but for certain other Departments, because I think that what the present situation has exemplified is that the budgetary process itself needs... possibly it is wrong, it is *not* delivering and I think, therefore, that the budget process, whereby budgets are set, whereby the modelling for those budgets, needs to be thoroughly reviewed and assessed.

I do not believe that this particular amendment will help in that process but I believe that is something that will need to be reviewed in due course.

1545 **The Bailiff:** Does anyone else wish to speak?

In that case, Minister, you may exercise your right to speak immediately before Deputy Adam replies to the debate.
Deputy St Pier.

1550 **Deputy St Pier:** Thank you, sir.

I would just like to respond to a number of the points which have been made, as well.
The Minister for Health says that the Health Authorities, typically, do have mechanisms for carrying forward unspent balances but, as Deputy Bebb has made clear, UK financing models are simply not relevant to what happens here, where we only have one budget holder. In the UK, if

1555 you have a health authority, that is going to have a proper balance sheet. The whole concept of unspent balances just simply does not fit the model. So, I'm not sure it's appropriate to refer to that.

1560 Deputy Brehaut and the question of this contingency and that there is no contingency within HSSD's budget: the whole purpose of having the Budget Reserve is to hold a contingency centrally but there is absolutely no reason why Departments cannot build their own flexibility into their own budgets, if they feel that that is appropriate, to give them a little bit of headroom if they are expecting a flexibility and demand. That is a matter for Departments in managing their own budgets.

1565 Deputy Gollop referred to the question of funding apparently having been withdrawn in May: in particular, these were projects which, essentially, the Department has deferred until 2013 so, again, the funding for those has been held centrally until – these new service developments – until the business case has been approved. They do not form part of the Department's budget. The Department were actually proposing what they suggested in May that, instead of spending the money in having to defer the project, what they wanted to do was to set that money off against their FTP target – and we felt that that was effectively just creative accounting and was not appropriate for the delivery of the FTP targets for the year.

1570 Deputy Fallaize has given a regular history around the background to unspent balances and, as he quite rightly says, the States did agree, in the 2011 Budget Report, only two years ago, that unspent balances should no longer be retained by Departments. It does distort the whole prioritisation process if you have got, for example, an under-spend for staffing one year that could then be used to fund one-off projects the next year. It is distorting that whole process and *could* result in the failure to deliver on no real terms growth in States expenditure which, of course, is part of the fiscal plan. Unspent balances did have the perverse effect of not discouraging and disincentivising sloppy financial management and budgetary controls. There was always a fallback position when budgetary pressures arose. Indeed, logically, if you can carry forward unspent balances, then the corollary is that you should also carry forward over-spent balances and, in fact, under the States financial procedures, which were approved in 1991, that is one of the options that is set out, that overspent balances are set against the following year's limits. Theoretically, that is one of the options that is available to us in relation to the States Report that is presented later. I think probably many would feel that that would not be an appropriate response to the current situation, but that is what the financial procedures provide.

1585 If this were followed, actually Health would be no better off, as it *had* no unspent balances when the policy was changed and, since then, it is overspent more in 2010 – £2.2 million – and they had under-spent in 2011 – £1.7 million, £1.6, £1.7 million. No other Department can carry forward unspent balances and there is absolutely no reason why HSSD should be an exception to that rule. Other Departments do have their own pressures. Home may well have to deal with unexpected events in its portfolio, as may other Departments.

1590 The first priority, really, has got to be to get first class, top rate financial management and control of HSSD's budget and I will say more about that in the context of the States Report. As Deputy Bebb and Deputy Brehaut have said, you know this amendment is essentially a desperate measure and I think we understand the reasons for it being forward. But the priority has to be to undertake the review, so we understand what the funding requirement is and what and how that is best managed within the Department.

1600 So this amendment is really a red herring and should be soundly rejected.
Thank you, sir.

The Bailiff: Deputy Adam to reply to the debate.

1605 **Deputy Adam:** Thank you, sir.

I thank those people who have spoken in favour of this amendment, which, as several have said, is a bit desperate, sticking plaster, short term.

1610 Deputy Luxon said it was 'pointless'. He did not seem to remember that we did actually have an under-spend last year of £1.9 million. Why I say £1.9 million is because, as Deputy Trott said, if we have a pandemic or something that is actually paid for by T & R but, on this occasion, we paid for the flu vaccines etc because we were having an under-spend on our budget and, therefore, had some money to help T & R out that year.

1615 Also Deputy Trott mentioned Professor Wood: Professor Wood also commented at the meeting on 20th November that we should be surprised that Social Security and Health and Social Services Departments are overspending because of demand led... Sometimes I get concerned that, one minute, I read in the Budget very positive things about extra money for HSSD and a larger Budget

Reserve and then, the next thing, Deputy Gavin St Pier doesn't *seem* to appreciate that the problem is demand-led, increased services and he keeps going back to funding and financial mismanagement, basically. But how can you predict demand-led expenditure?

1620 Yet Deputy Kuttelwascher said 'Why didn't we come to T & R when we had Legionella in the hospital?' – and now we've got it in the King Edward VII! Why didn't we? Because that would be considered... Why didn't we come when we had the two lots of triplets, who required further monies? Why didn't we come when we had the transplant situation? Which is all the things we have had... Well, we are coming to you... sorry, we need some help because we have been
1625 overspent because of these issues. On the one hand, we have got someone saying T & R will help you out, on the other hand we have just been told by T & R 'it is all just due to mismanagement'!

The Chief Minister: he was at least honest and said the review of budget process *must take place*. The way we do it just now is *not* satisfactory. It's *not* based on any logic or any other aspect. It is simply random. Again, Dr. Deputy Bebb said about the budgeting system in the UK: I am told it's irrelevant. How is it irrelevant? It is one example of how to do things and try and level
1630 things out and make the troughs and peaks more manageable, so I suggest it is *not* irrelevant. Thus, I ask people to say that, yes, accept that this is, maybe, a short-term blunt instrument to try and help us to manage these changes in demand because, remember, demands can go *up* and they can go *down*. You can have a good year and not have to spend so much, or you can have a dire last six months of the year when demands have gone up extremely high.

1635 *If* we are allowed to carry forward unspent balances, it might help us and, remember, I did say, sir, it was not just for our Department. I was not trying to say we are special. I fully accept that Home has got problems, I fully accept Education is going to have problems in, probably, the next year or two. Therefore, I ask Members of this Assembly to support this amendment.

1640 Thank you, sir.

The Bailiff: Members, we vote now on the amendment proposed by Deputy Adam, seconded by Deputy Brehaut.

1645 Those in favour:

Members voted Contre.

The Bailiff: I am going to declare that lost.

1650 We move, now, to the next amendment, proposed by Deputy Adams, second by Deputy Brehaut.

This one, I believe, has been circulated. It is marked in the top left hand corner, 'Adam A'. It is the one, the first part of the amendment in Proposition 2: 'for £17 million substitute £19,150,000.'
Deputy Adam.

1655 **Deputy Adam:** Thank you, sir.

This, again, is an effort by HSSD to try and make sure that whoever is around next year has *increased* security in relation to funding of HSSD.

I know, and I have said already, that Treasury and Resources say there is an increased Budget Reserve, unlike this year, when there is only £1.15 million left in it. Making that change is a significant difference but I *do* feel – I believe *strongly* – that HSSD must have the reassurance, if
1660 we can show there is increased demand next year, compared with 2011, that we know there is money that we can have access to, with T & R having delegated authority.

What this amendment does, it asks for the transfer of monies from the Contingency Reserve by £2,150, 000 allocated; allocates that sum as a budget reserve for use by HSSD; and gives T & R
1665 authority to fund additional costs to HSSD if there is evidence of increased volume. I already said that the present overspend is, to a greater or lesser extent, related to an increased volume. This would protect HSSD, give more reassurance that there are funds available for that Department if such a thing occurs again.

1670 I move:

1. In Proposition 2, for '£17,000,000' substitute '£19,150,000'.

2. For Proposition 5 substitute:

'5. To approve the cash limits for ordinary revenue and capital expenditure for individual Departments and Committees totalling £362,850,000 as set out in the following table:'

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Thank you, sir.

The Bailiff: Deputy Brehaut, do you formally second?

1680 **Deputy Brehaut:** I rise to formally second, thank you, sir.

The Bailiff: Does anyone wish to speak on this amendment?
No? Deputy Fallaize.

1685 **Deputy Fallaize:** I want to ask a question. This amendment surely must engage that hideously annoying Rule 15.(2)?

1690 **Deputy Brehaut:** Bearing in mind the likelihood that it would secure four votes, sir, do we need to spend time invoking that particular Rule?

The Bailiff: Mr Procureur, do you wish to comment?

The Procureur: Not really, sir, no. *(Laughter)*.

1695 **The Bailiff:** It seems nobody wishes to debate it; shall we go straight to the vote, if there is no real desire to debate the amendment?
Minister, do you wish to speak?

1700 **Deputy St Pier:** I do have quite a lot to say but, other than to say that we do urge Members to reject the amendment for five reasons...

I will not go into them. I have already alluded to probably the most important, which is that we made a significant additional provision in the Budget Reserve *specifically* in response to HSSD's comments earlier in the year as part of the Budget process. It is simply inappropriate that there should be a separate budget reserve specifically for the Department. Again, it is a desperate response to the immediate situation. This is *not* the right response to it, so we encourage everybody to vote against it.

1705 **The Bailiff:** Minister, do you wish to reply?

1710 **Deputy Adam:** Sir, I already acknowledge that this Budget Reserve is much larger and that seems to be the criteria here. All I am saying is that I would like to know *definitely* if HSSD can approve something, it is going to be acknowledged, as it has not been acknowledged this year.
Thank you, sir.

1715 **The Bailiff:** We go to the vote on the amendment. Those in favour:

Members voted Contre.

1720 **The Bailiff:** I declare it lost.
The next amendment ..

1725 **The Procureur:** I wonder if... the Order of amendments is very much your discretion, sir.
I wonder if the Treasury and Resources Minister would object to taking amendment No. 6, and possibly 7, because there is a technical issue with Deputy Burford's amendment, which is partially my fault but I need to address it... I was going to do so over lunch.

The Bailiff: Well, I think Deputy Burford's amendment is the *sixth* one, so you are suggesting that we...

1730 Oh, sorry, yes, the ones marked ..

The Procureur: Yes.

The Bailiff: Yes, the ones that are marked six and seven, even though –

1735 **The Procureur:** Yes.

The Bailiff: – they are seventh and eighth in the order of running.

1740 **The Procureur:** Yes.

The Bailiff: Yes. Thank you.

So you are suggesting that we consider taking next the amendment proposed by Deputy Sillars and seconded by Deputy Le Lièvre, to enable you to resolve the technical issue with Deputy Burford.

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The Procureur: I think that would be convenient for procedural reasons, if the Minister does not object.

The Bailiff: Do you object?
No? Right.

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The Procureur: Thank you.

The Bailiff: Members, you, hopefully, have had circulated the amendment proposed by Deputy Sillars, seconded by Deputy Le Lièvre.

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This relates to the timetable for determining the next phase of the States Capital Expenditure Programme.

Deputy Sillars.

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Deputy Sillars: Thank you, sir.

Let me start by saying what this amendment is *not* about. It is not about spending money we have not got, it is not about raising extra revenue from taxpayers to fund grand schemes. This amendment is about releasing the capital which the people of Guernsey have already invested in the future of our Island and the time is overdue for a return on that investment. The electorate sent us here to do a job, to safeguard the interests of Guernsey in troubled times, in a troubled world, and to make our Island a better place to live. All they are seeing is, at the moment, delays, delays and more delays.

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Whether or not we have the capital to invest is simply not a question. It is there. We anticipated that the Reserve would be overdrawn. T & R actually anticipated that it would be overdrawn, but for a few good reasons – late start and things like that – and there is actually £40 million in the account and growing annually. We have the money to invest in the infrastructure of Guernsey, including, yes, new schools for our children. The electorate did not send us here to do nothing, to accumulate a Reserve Fund which grows and grows, while schools are allowed to sink into decay. We have a duty to invest this money. Look beyond our shores around the world and you see Governments protecting their ailing economies by bringing forward, and investing in, capital infrastructure projects.

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I was at the British-Irish Council a few weeks ago with senior politicians from England, Wales, Scotland, Ireland, Northern Ireland, the Isle of Man and Jersey. There were men and women of all political stripes and, after a few hours of discussions, for me they held just two things in common: a belief that investing in important capital projects plays a huge role in keeping their economies moving and soaking up joblessness and, secondly, agreeing on the importance of pre-school education – but that will be for another day.

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In the UK, Chancellor Osborne is desperately trying to reduce their huge deficit and yet, very recently, he has pledged £40 billion worth of investment into infrastructure in the UK to help their economy. It sometimes seems as though Guernsey is the only Government in the developed world which hopes that delaying investment, until some indeterminate point in the future, is a good idea. Some hope, some gamble! Do not take my word for it. Our own industries are crying out for the stimulus that comes with Government investment. All politicians received a letter from the Chairman of Guernsey's Construction Industry Forum last week. Who are they, you might ask. Well, they represent the 120 builders, ranging from large to small, they represent *all* the surveyors in Guernsey, all the architects, professional engineers and the building trade suppliers – an immensely important group we cannot, and should not, ignore. Their Chairman, Eric Legg, put their prospects in stark terms. He wrote

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‘We urge all Members of the States to *not* delay the capital prioritisation programme and, indeed, if at all possible, to fast track some of the programme so that the States can make best use of the present slack, rather than they having to lay off skilled people, many of whom may be lost to the industry forever. It is *now* that the industry needs the work, not 2015 onwards.’

1800 I, and they, are only aware of one building project still to be quoted for and that is the Acute
 Mental Health Block for around £24 million but, after that, there appears to be nothing. The
 construction industry is generally the first to feel the ill effects of any downturn. They are the
 canary in the mine for the wellbeing of our economy. Mr Legg has told this States that, in certain
 1805 terms, 2012 has not been a good year. The forecast for 2013 is flat and could even be worse than
 2012. Mr Legg, who warned,

‘If there are to be no further States capital works until 2015 then hard decisions will need to be made by [his] Members
 on the level of their workforce going forward.’

1810 I am sure we all know what that really means.

This States is anxious to expand apprenticeships, to give the young people emerging from our
 schools a system, a purpose, a chance, to earn a decent living and an opportunity to contribute. The
 alternative is to drive them away from the Island to find work. Deputies, these apprenticeships will
 1815 not exist whilst the construction industry is laying off experienced staff because there is no work
 for them to do. Unemployment poses the greatest threat to our economy next year, we have heard.
 Our colleagues at Social Security say their formula-led expenditure will be £2 million greater this
 year than expected, in large part due to unemployment. It is in our power to do something about
 this. The means are at our disposal. A major investment in building is the quickest, most effective
 1820 means of achieving that. Investment in construction has been proven, over and over again, as the
 best way to combat joblessness, to help men and women become payers of tax again, rather than
 recipients of benefits.

Yet Guernsey’s response is ‘Well, let’s have a couple of reports, let’s think about it, then “Oh,
 we’ll have a debate” – as the Budget statement says – “maybe in 2014”, but we are not even
 1825 certain then! The exact words are:

‘This should still enable the capital programme to be completed.’

Should still be completed and considered by the States in 2014. That is far too late. It is not good
 1830 enough.

Other Boards will have their own views on where the capital should be invested. That debate is
 for another day but it will come to no surprise, as Deputies, to hear that my priority is to invest in
 education. More specifically, to invest in new buildings for La Mare de Carteret. (**A Member:**
 Hear, hear.) Unless we take the right course today, there will be no capital to spend next year and
 no debate.

1835 I put my cards on the table right at the start because, unless we examine the consequences of
 our actions today, what it really means to the electorate, this debate is only about accountancy. Our
 electorate outside this Chamber will listen to us discussing arcane matters in a bewildering
 language, studded with strange initials like IIP, SAM, CPD and they will hear a bunch of
 1840 politicians who talk the good talk, but do not actually do or achieve *anything*. They label us as an
 irrelevance, more interested in procedures and manoeuvring than in outcomes. So let me be clear
 why this amendment matters so deeply.

In 2002 the States of Guernsey pledged to build three new high schools. St. Sampson’s is now
 built, Les Beaucamps open and almost complete and La Mare still waits. Ten years, Deputies, ten
 1845 years they have waited and that is too long! (**Several Members:** Hear, hear.) The students, the
 parents and teachers will tell you what that means in reality. It means lessons in portakabins,
 which roast in the summer and freeze in the winter.

All year round it means pupils and teachers getting drenched as they dash through the rain
 from the main building to these makeshift classrooms, which were only ever supposed to be
 temporary but have taken on a sad air of permanence as the years have rolled by. It means old,
 1850 cramped classrooms built for half the numbers which are actually crammed into them. It means
 out-of-date facilities, crumbling buildings. The staff and student body strive to do their best in the
 poor conditions which our inaction ensures they must endure. Today is our chance to give them
 hope and I formally move:

1855 *To insert between Propositions 3 and 4:*

*‘3A. To agree that the timetable for determining the next phase of the States’ capital
 expenditure programme shall remain as set out in the 2012 Budget Report (at paragraph 5.39
 of Billet d’Etat XXII of 2011), namely:*

1860 *λ Quarter 1 2013 – bids for capital programme new projects for the period 2014 to 2017
 submitted;*

λ Quarter 3 2013 – Capital Prioritisation States debate to determine the firm capital

programme for the period 2014 to 2017.

1865 I would like to thank those politicians who took the time to come and visit our school and I know, from the feedback, you were surprised by the state of it. Even if we prioritise the capital for a new building next year, a shovel will not hit the ground until 2015, or even 2016, and further delays kick it down the road to perhaps 2018, sixteen years after *their* Government – yes, us – vowed to act. Quite shameful. My question today is, if not now, when?

1870 This debate and this amendment is not about budgetary wrangling, political games and obscure matters of accountancy, it is about the work that we must do on behalf of *our* people. It is about the children of Guernsey and it is about *their* future. They have waited long enough and we must not delay any further than the third quarter of 2013 for the capital debate. Let us do it, not just because previous States have made promises and resolutions in this Assembly – although they have – let us not do it simply because it will stimulate Guernsey's economy and create jobs, 1875 although it will. Let us not even do it because we fear the anger of a generation of students and teachers, who feel let down, abandoned and ignored. Let us just do it because it is right.

Thank you. (*Applause*)

1880 **The Bailiff:** Deputy Le Lièvre, do you formally second the amendment?

Deputy Le Lièvre: I do, sir, and reserve my right to speak.

The Bailiff: Thank you.
Deputy Domaille.

1885 **Deputy Domaille:** Thank you, sir.

As usual, I will try to be brief. I, too, am concerned with the intention to delay the existing capital prioritisation process, as stated in paragraph 4.36.

1890 Sir, the Environment Department will be putting significant proposals to this Assembly in 2013 and will be requesting significant capital funds, particularly for coastal defence and Transport Strategy proposals. While I cannot predict the precise proposals to be submitted to this Assembly, the sum will be in excess of £10 million, probably significantly more. What I *can* predict is that unnecessary delays will carry with them increased risks of adverse fiscal, economic and social consequences.

1895 I do accept that the Environment Department will not be in a position to put adequately defined proposals into the capital prioritisation process in the first quarter of 2013. However, as long as the process is flexible enough to accommodate all capital bids, whether or not they are as fully developed as some other bids, and it can accommodate late arrivals to the party, then this is not a reason to delay.

1900 I have heard Deputy Sillars' reasons for not delaying and, unless I hear from the Treasury Minister of the need to delay submission of bids and that he can support that case, I will be supporting the amendment.

1905 **The Bailiff:** Deputy Gollop.

Deputy Gollop: Sir, I was having rather a big lunch yesterday, so I was a bit late for La Mare de Carteret and I saw Advocate Green and Deputy Jones there going home, as it were almost. Nevertheless, I had the privilege of going round, with a senior monitor and I met the Head Teacher, and looking at it first-hand.

1910 Although I could see a case for salvaging part of the existing building, there are many, many deficiencies there in terms of disability facilities, size of staircases, rust, dampness, lack of capacity for IT, all sorts of issues, as well as the site needing, I think, a rebuild and a reorientation between the secondary and the primary. I think, when we have two pretty much superb new schools on the Island and the high performing grammar school complex with some new facilities and, indeed, I met the Minister there at the Music Open Day on Saturday, it does not do us any favours that a school that we know has needed additional support is already many years beyond its already planned lifecycle.

1920 I think, in the context of the CGI, the economy, the moving, ensuring that the economic model – which I remember Deputy Trott did so much work on in his earlier political career in the States a decade ago, long before the current recession and triple dip, if you can call it that – acknowledged that it was in the Island's best interests, in terms of the multiplier effect, to ensure that the building industry had a fairly stable level of work so that, in certain times, they did not overheat, putting up

1925 prices and importing labour and that, at other times, there was not a reflection in terms of economic decline in retail and, of course, higher unemployment which Social Security then finds as an expense...

1930 For all of those reasons, it makes sense now to adjust the model and to come up with the capital goods as soon as possible. Indeed, this is cogently in line with what the previous States acknowledged. And I think, generally speaking, the Chief Minister and the new Policy Council have had a policy of wanting to get on with things, of strengthening relationships, of new ideas and initiatives and, if they are sticking to their guns, there is no mileage in delay on this point, especially as we are looking at the Strategic Plan and other important workstreams, including taxation, next year The model for capital allocation and development has to be seen as an integral part of that.

1935 **The Bailiff:** Deputy Trott.

1940 **Deputy Trott:** Sir, I rise now for two reasons but, initially, I was rising to respond to a comment made by my good friend – made very well and very passionately – Deputy Sillars, wearing his Education Minister’s hat, where he said that *ten years* La Mare has waited for development. I would remind him that, for ten years, successive Education Boards have prioritised *every other school* on the Island ahead of La Mare and that is why it has waited to be last of the secondary schools on the list. That alone would not have been sufficient to bring me to my feet but the comments that Deputy Gollop and others have made about the prioritisation of capital projects has.

1945 Back in 2002, following ten years or so of under-investment in our capital infrastructure, the then Board of Industry, of which I was a member, created a Report into the construction industry in the Island that looked at why inflation – tender price inflation – was running at quite extraordinary levels and, unsurprising to any of us with a basic grasp of economics, it was because there was a great deal more demand than the existing supply chains could deal with. Clearly, the converse is now true. But that Report was designed to ensure that the peaks and troughs were managed, as Deputy Gollop has said. It was designed to ensure that those peaks and troughs could be taken advantage of by the public sector. We needed projects on the shelf ready to go, to stimulate the construction industry, *when it was advantageous to the taxpayer* so to do – and it is clearly the case now.

1955 One of the criticisms that is most widely levelled at any States – and this one is no different to the other three that I have been a Member of – is that we seek to re-invent the wheel. We seek to re-write history. *Learn* from the mistakes of the past, and the mistakes of the past would suggest that now is a *very good time* to be bringing forward essential capital projects.

1960 **The Bailiff:** Yes, Deputy De Lisle.
Is this going to be a fairly short speech? I would like to finish fairly sharply at 12.30, if we can.

1965 **Deputy De Lisle:** Yes, sir, thank you very much.
I strongly support this amendment placed by Education but I think it is broad in terms of other developments that we need to be considering in the future. La Mare, of course, has waited long enough and there is very pent-up frustration with regard to the fact that other schools have now – the other high schools – received their development and that one which *really* is the most *deserved*, in terms of its age and condition, has been left to the last.

1970 What really is frustrating is that, because of the difficulty and the delay with respect to a capital expenditure programme development, the preliminary planning with respect to the La Mare de Carteret School is being held back and, in fact, that will delay the building programme even further. So I think it is very important that we seek to approve this amendment today to see that, in fact, there is no further delay in this very important project for the children of the future – our future – in terms of education and also to see that there is not discrimination between the facilities in one particular school from another and that everybody has the same equal facilities and the same equal opportunity in Guernsey.

1975 Thank you, sir.

1980 **The Bailiff:** Well, I see no-one else rising and it is getting close to 12.30 p.m., so I suggest we rise and resume at 2.30 p.m.

The Assembly adjourned at 12.26 p.m.

and resumed its sitting at 2.30 p.m.

TREASURY AND RESOURCES DEPARTMENT

**2013 Budget
Debate continued**

The Bailiff: We will resume the debate on the amendment proposed by Deputy Sillars, seconded by Deputy Le Lièvre.

Who wishes to speak next? Yes, Deputy Laurie Queripel.

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Deputy Laurie Queripel: Thank you, sir.

I find myself in a rather difficult position with this amendment, though I agree that not delaying capital projects *will* stimulate the economy and provide work for local industry and local business – or will it?

1990

I want to be sure that this investment will benefit *local* firms, employing *local* employees, and *local* sub-contractors. Some Members might say, ‘They might raise that old nutshell. What constitutes a local company?’ For me, it is a local firm employing *local* people.

I want this spend to stay within the *local* economy, to circulate and to create a money-go-round. This won’t happen if too much work is awarded to outside contractors. So I want to see vital and necessary infrastructure built and I want it to benefit the local economy.

1995

Also, sir, the States has a very poor record, or very poor history, when it comes to the maintenance of infrastructure. I realise funds for maintenance are not sourced from capital spend, but it is something that needs particular attention, because this, too, will provide work for the local construction industry. Preservation is just as important, perhaps more so, than new-build projects. It is essential to extend the useful life of infrastructure.

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So I agree with Deputy Trott’s comments. I think the priorities in regard to the building of schools was wrong, which is why we find ourselves in this position today in relation to the La Mare de Carteret School.

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I, personally, think that there was still some life in some of the other schools, if they had been maintained in a proper and timely fashion. So I *will* support this amendment but I will be watching very carefully how the money is spent, where it is spent and who is contracted to carry out the approved projects.

The Bailiff: Deputy Green.

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Deputy Green: Mr Bailiff, Members of the Assembly, I too rise to support this amendment.

Looking at the Budget Report, there is not exactly a wealth of information as to why the capital prioritisation programme *must* be put back. It does not seem, either, that any particular consultation was done ahead of publication but, leaving those things to one side for the moment, I accept that the Strategic Asset Management Project, and the Island Infrastructure Plan are sensible propositions in themselves.

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I think the problem is that there are a number of problems but one of the problems is that any delay in the capital prioritisation programme could well be bad for the economy, as my colleague, Deputy Sillars, ventilated this morning.

2020

Guernsey’s general economic outlook for the next few years is uncertain, and we are hardly unique in that. But other jurisdictions, including the United Kingdom, are already switching spending to capital investment and infrastructure in order to stimulate economic growth and the multiplier effect. And you don’t have to be John Maynard-Keynes to see the wisdom in doing that.

I also note that Jersey has announced one of the biggest capital spending programmes ever undertaken in *that* Island. So we are out of kilter with some of our nearest neighbours on this.

2025

Rather than bringing forward capital projects, the Budget is asking for everything to be delayed. *That* could well be detrimental to our construction industry and it could well be detrimental to the Island’s economy. We may live to regret this foot dragging on capital projects, in my opinion, especially if the economy worsens next year. So there is a very good general reason for supporting this amendment, but there is an even better, particular reason for supporting that, and that is because of the position of La Mare de Carteret.

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The stark, uncomfortable reality is that there is now a significant inequality between the current facilities on offer at La Mare de Carteret and those available at the other high schools on

this Island.

2035 I do declare an interest at this point: I am a member of both school committees for La Mare de Carteret Primary School and Secondary School. So both schools are very close to my heart, but the truth of the matter is that the facilities currently in place there are well past their sell-by date, and are simply not fit for purpose in the twenty-first century.

2040 What signal will this Assembly be sending out to the pupils, parents and teachers connected with the school if this rebuild project is put back once again. Every year that passes without the redevelopment is a hammer blow to those pupils and teachers. We desperately need to get on with the reconstruction of La Mare de Carteret in order to provide modern learning facilities to help those pupils fulfil their true potential. Any further delay runs the real risk of damaging the self esteem of those children at La Mare and that is totally unforgiveable.

2045 In the future, if we want to be able to recruit the best teachers and the best leadership for La Mare de Carteret, having fit for purpose facilities and a fit for purpose building will certainly help massively in that task. At the moment the condition of La Mare's buildings does not allow the school to compete on a level playing field with the other secondary schools when it comes to the recruitment of teachers.

2050 So, Members, let's stop all this deliberate and prolonged foot dragging on La Mare de Carteret and give the pupils of that school the facilities and the building that they truly deserve.

In conclusion, please consider supporting this amendment, not only for good reasons to support the economy and the local construction industry, but in order to send a clear signal today to the pupils, teachers and parents associated with La Mare, that this Assembly is thinking of them and is fully supportive of them.

2055

The Bailiff: Deputy Stewart and then Deputy Adam.

Deputy Stewart: Thank you, sir.

2060 It is a bit difficult to get up after that nice Christmas Lunch! May I congratulate Deputy Lowe for organising that.

If we turn to page 21 of the Budget Report, what we are not really seeing in the words is a tremendous amount of certainty, and I think that is something that we do need to deliver at this time for our economy, and I do agree with Deputy Trott, in that it is basic economics here. If we look at the bottom of the page at 21,

2065

'This *should* still enable the Capital programme to be compiled and considered by the States in 2014.'

2070 To me, that is not enough certainty. When in 2014? The back end of 2014? Could that drift into 2015?

2075 And I think, too, if we start looking at how we can stimulate our economy here and now, whether it is La Mare de Carteret School, with or without a swimming pool – although I would definitely vote without a swimming pool, we seem to have a complete outbreak of swimming pools at the moment in education – or whether it is anything else in the interim, I am very supportive of the Strategic Asset Management Programme and, of course, the Island Infrastructure Plan. We need to have a secure plan in terms of our energy, in terms of our broadband and looking forward to a lot of other major projects.

2080 But, in the meantime, there is no reason why we cannot look individually at projects brought by Departments, and if we do kick this tin down the road to, I don't know, somewhere in 2014, we are going to lose out on a period of time when we do have access to extremely low cost capital and the ability to provide a good stimulus to the economy and to provide some more employment.

I do take on what Deputy Lester Queripel says, I would like to make sure that when we do try to procure contracts that we can work in a way of giving –

2085 **The Bailiff:** Deputy Laurie Queripel.

Deputy Stewart: Oh, Laurie, sorry. It's that lunch!

2090 That we should look at ways of enabling local contractors to have some sort of an advantage but, notwithstanding that, I would not want to see the whole capital programme put in a hole to the end of 2014.

The Bailiff: Deputy Adam.

Deputy Adam: Thank you, sir.

2095 I, too, will be supporting this amendment, as it not only affects Education and its plans to refurb La Mare de Carteret School, it affects the Environment Department, and it also affects developments in HSSD – that is the re-profiling of wards and ensuring their use and facilities provide modern and up-to-date standards of care. At the present time, we have one ward that has been closed for some time now because asbestos was found and it was cleared out and, to put it back, as it was, is wasting money. We want to refurbish it properly and make it into a modern standard.

2100 I know the Mare de Carteret School. In the past, I was on its board, and it is past its sell-by date. I attend an evening class there and am fully aware of the facilities that it offers, cramped, not very pleasant, buckets on the floor! One year they had fifteen buckets throughout the School whilst the rain came in through the roof!

2105 In relation to Health, we require, as I say, monies to refurbish the ward that is closed. There is no value in re-doing it as it was. Maternity wards will be reconfigured and there will be a move around to make the whole system much more effective, useful and flexible. I am not convinced that either of these projects will affect the Strategic Asset Management Project, and that is the reason why this might have been delayed.

2110 Delaying the capital prioritisation debate will not only affect these projects but will affect the larger builders in our community. At present we have the Beaucamps sports facility development, which will be completed by the end of 2013.

2115 The only other major project being funded by the States of Guernsey is what is called Phase 6B mental health facilities which, hopefully, will commence in 2013 and continue to the end of 2014 but, as pointed out, the whole project is £24 million but the build aspect is *not* up to £24 million, so there is a slight difference. I would suggest there might be only about £10 million-worth of build left in that year.

2120 Apart from these two projects, there is nothing else. From this point of view, it is important that the States support the larger contractors and ensure there are some States projects for which they will be able to tender.

2125 By supporting the larger contractors, obviously, they have subbies that can put in tenders to do different parts of the work, therefore the benefit just is not in the big firms, but it goes throughout the building industry. I think it is essential that the States are proactive in providing some of the larger projects so that people can be employed, and we can keep the experienced workers on the Island.

Thank you, sir.

The Bailiff: Deputy Lester Queripel and then Deputy Dorey.

2130 **Deputy Lester Queripel:** I merely rise to echo the words of my brother, Deputy Laurie Queripel, because I do support this amendment but, by doing so, I will also be looking for an assurance that local companies, employing as much local labour as possible, will be employed on future States building contracts. If we do not use local labour as much as possible, then that would make a mockery of supporting this amendment and I just want to make it known now that I have no intention of supporting any future capital projects unless there is an assurance that local companies employing as much local labour as possible are employed.

2135 There are far too many overseas companies going bankrupt when they are working here, and they end up *owing* local companies money. So I will also be keeping a watchful eye on the future but I will support this amendment, sir.

2140 Thank you.

The Bailiff: Deputy Dorey, then Deputy Fallaize.

2145 **Deputy Dorey:** Thank you, Mr Bailiff.
As a Member of T & R, I will be opposing this amendment.

I started in a position that I did not want the capital prioritisation process delayed, and when we met at T & R that was my position. I listened to the information I was given and I have concluded that, for a six month delay, it is worth delaying the decision on capital prioritisation and I will, hopefully, try and explain why.

2150 What is also important, when you are trying to decide how to vote on this amendment, is that it is not about La Mare de Carteret School – that is not mentioned in the amendment. We have had an emotional speech about it. I am a Castel Deputy. I fully accept the need for La Mare de Carteret, but we must make evidence-based decisions. That's what the proposal from T & R is about and this amendment is not: it is the quality of information that we have that we base our

2155 decision on.

A number of civil servants have been working on the Strategic Asset Management Plan, which will identify the overall corporate needs of the States, in terms of land and property. Surely, that is crucial information for us, as decision-makers, to have, in order to decide where we should be spending the limited amount of money that we have.

2160 We know there is a limited amount of money: we are putting money aside for capital, and there's a debate about are we putting enough? But what is key is that we spend our money in the best possible way, and the best way to do that is to have the best information. We have heard, a number of times, in this Assembly, about making evidence-based decisions, also the IIP will be reported in the States Strategic Plan, which is in March, and that is looking to the next 5 to 20 years – and I think that's also important.

2165 So we have the IIP reporting in March 2013, the Strategic Asset Management Plan is due to report at the end of the first quarter 2013. We estimate that, with those pieces of information and a proper process, we will be able to come back to this Assembly in the first quarter of 2014. That's a six month delay on what has been proposed in this amendment.

2170 I don't want a six month delay but I think it is worth having that delay so that we have the right information in order to make, as I said, evidence-based decisions, because of the limited amount of capital we have available, so I ask Members to think and to not support this amendment, so that we can have the best information available to us.

2175 **The Bailiff:** Deputy Fallaize.

Deputy Fallaize: Thank you, sir.

2180 Deputy Dorey wants the capital programme to be delayed pending some plans. This Government has more plans than Blackadder! (*Laughter*) – but what it does not have is very much action. (**A Member:** Hear, hear.) There was a quote – which I can't find now – President Woodrow Wilson once said 'Nothing has ever been done so systematically as nothing is being done now' – and I think it could be applied to the first few months of this term of the States.

2185 We really are drowning in strategies and plans, but we don't have very much action, (**A Member:** Hear, hear.) and I am not confident. If I was absolutely confident that these plans and strategies were going to result in action in the early months of the New Year, then I would be inclined to back them wholeheartedly and to reject this amendment and say let's put things on hold and wait, but I don't have any confidence in that at all. I think that these plans and strategies very often are used, at least in part, to simply defer making decisions, and I don't think that's good enough.

2190 I actually think this is a fairly uncomplicated amendment and I am surprised, or perhaps more disappointed than surprised, that the Departments have not been able to work this through themselves without requiring this debate in the States because, when mention is made of the Island Infrastructure Plan, we are talking primarily about projects that will be sponsored by the Public Services Department. There is a fairly small category of projects which are included in this term 'infrastructure'.

2195 There is absolutely no reason whatsoever why the Public Services Department and the Treasury and Resources Department cannot work together on this Island Infrastructure Plan. They could come to the States with information about the projects that need to be pursued via that Island Infrastructure Plan in 2014, or in 2015, or whenever those two Departments will be ready to come to the States.

2200 But there is a difference between those sorts of projects and the kinds of projects which this amendment is clearly related to, which are not what we, in the States, would generally regard as *infrastructure* projects. We are talking primarily about projects sponsored by the Health and Social Services and Education Departments, perhaps one or two other Departments as well, but there is a distinction to be made between an infrastructure project and other types of capital project.

2205 Now, for the other types of capital projects a timetable was set out by the last States that bids would be required in quarter one of next year, and then there would be a capital prioritisation debate in quarter 3 of next year. I agree with Deputy Green, what evidence has the Treasury and Resources Department provided that we need to defer that process?

2210 Deputy Dorey says it will only be a six-month deferral. Well, he has added something new to the debate that the rest of us do not know about, because paragraph 4.37 says

'This should still enable the capital programme to be compiled and considered by the States in 2014'.

2215 It doesn't say anything at all about 'quarter one 2014'.

2220 Paragraph 4.32 makes it clear that the timetable that was outlined and, at present, applies for capital projects, means that, in the States, we will be debating and approving a firm capital programme during quarter 3 next year. T & R is proposing a different timetable which they *hope* would result in the States approving a firm capital programme sometime in 2014, but it seems to be a relatively vague hope and I should not be surprised, if this amendment loses, if we are not debating the next phase of the capital prioritisation programme until 2015, quite frankly.

2225 I want to say something about T & R's management of the capital programme. Capital prioritisation was started by the T & R Board when Deputy Trott was Minister. I cannot remember the projects which were pursued towards the end of that term of the States, but the prioritisation process was definitely started then. It was refined and improved by the last Treasury and Resources Department but T & R, in *my* view, although they have a very good record of putting together a capital prioritisation process, they don't have a very good record of *managing* the capital timetable.

2230 In 2009, when the States debated the current phase of capital prioritisation, there was a debate about how to fund, I think it was £301 million-worth of projects at the time and I laid an amendment, which is incidental really to this debate. But the point is that, at the time, T & R was adamant that, if the States did not approve their funding model, the Capital Reserve would very nearly run out.

2235 Deputy Dorey and I, who were putting forward this amendment, tried to persuade T & R that it would not because the timetable for capital projects that they envisaged was wholly unmanageable, because they had not allowed for any slippage or any change of Departments plans. But they *insisted* that they were absolutely right and the Capital Reserve would almost run out. Well, of course, it has not run out, it is not going to run out, there has been slippage in the programme and the Capital Reserve has tens of millions of pounds in it, and it's going to continue to have tens of millions of pounds in it!

2240 Deputy Trott referred to this, this morning, the economic model I think it was called. A key part of capital prioritisation is not *just* so that we got away, in the States, from the first-come, first-served culture that had existed previously, but it was to try and provide the construction industry with a relatively smooth timetable for capital projects, not just over one year or four years, but over five years or ten years.

2250 The way that the Treasury Resources Department has managed the capital programme thus far, the spending of money has been completely lumpy, and I think that their attempt here to defer the next stage of the capital prioritisation process will just make that worse. It will not help to smooth out the expenditure of money, it will just make it *even more lumpy*, and *even more inconsistent*, and I think the longer that we go on delaying and the more we move away from the idea that one capital phase moves seamlessly into the next capital phase, the less legitimate any kind of capital prioritisation process is. I think if T & R wants their capital prioritisation process to retain integrity, they need to ensure that there is a seamless transition from one phase of the programme to the next phase of the programme, and that is something which this amendment achieves.

2255 When I was on Education, we had several discussions with the previous T & R Department, trying to obtain seed funding for the Mare de Carteret School, and T & R's view at the time was you cannot obtain seed funding because the States has not yet approved the project. But T & R seemed to be labouring under the misapprehension that, on day one, the States approves the rebuilding of the Mare de Carteret School and, on day two, it starts.

2260 But, of course, there needs to be a great deal of planning and if the capital prioritisation process is delayed in the way that T & R wants it to be delayed, we are going to get towards the *end* of all of the current phase – in fact, past the end of the current phase of capital projects being built – and we won't yet be starting the next phase. Now that is not what the capital prioritisation process is meant to be about. I think T & R is provoking a very unsatisfactory stop/start process

2265 The third point I want to make is I think the *status quo* should prevail unless T & R can provide satisfactory evidence to the contrary, and the *status quo* is represented by Deputy Sillars' amendment. That is what the last States decided and, until the Budget Report was published, clearly HSSD and Education believed that that was still going to be the timetable for capital projects.

2270 So there does not appear to have been very much consultation and, suddenly, T & R just dismisses the present timetable in one or two paragraphs in their Report and says 'It won't be then. We are going to defer it now and we hope it might come back to the States in 2014.' Well, I don't think that is good enough. I think that we should require T & R to maintain the *status quo*, which is the present timetable outlined in previous Budget Reports, which matches with the present capital timetable, the present phase of capital projects – and that is represented by this amendment.

2275 If T & R, in the early months of next year, wants to come to the States with a properly though

through argument as to why *this* present capital timetable is no longer appropriate, they can. But in the absence of any of that evidence, I am not prepared to vote in a way which will delay projects which we know are already long overdue, when we know that there is money available in the Capital Reserve to get on with pursuing some of those projects.

Therefore, I would ask the States, in effect, to vote for the *status quo* in the absence of any good evidence to the contrary, and that means supporting this amendment.

The Bailiff: Deputy Lowe.

Deputy Lowe: Thank you, sir.

I will start off by speaking as the President of the Mare de Carteret High School Management Committee. Members will have received a letter with an invite to attend the School on Monday afternoon, to see the school while it was operational, rather than look at it when it is empty of an evening time.

I thank the Members who came along to see that. We could have done with more because it was so important for them to see how that school operates – it is a credit to the Head Teachers, the Deputy Head Teachers, the teaching staff and, indeed, the students, who are very proud to be at that school.

They work under cramped conditions, four of them squeezed at a table to do English. They have their books on the floor because they can't actually manage within that room. The teaching staff, two weeks ago, had buckets yet again in the classroom because the hailstones were coming through the roof, and the children are walking around the buckets. This amendment will go some way to achieving this new school to take place in time, in the next foreseeable future, rather than what is being proposed by T & R under their Budget Report.

Those taking their Eleven Plus next year, if they go to La Mare de Carteret School, they will finish that school at year 11, and the new school won't even be built and finished.

That is the message we are sending out to those taking their Eleven Plus next year, 'Dream on, youngsters. That school won't be finished by the time you leave La Mare de Carteret High School'. That is what you will be endorsing under the T & R Budget proposals here, and I would urge Members to support this amendment to make sure that we get on with it. We have a duty to get on with it.

The only ones that can, perhaps, sit comfortable that will not be too affected is the south-east in this Assembly, because all the rest of you have children at that school, in your districts. St Peter Port North, St Peter Port South, The Vale, St Sampsons, Castel – you will all have youngsters at that school. It covers seven parishes.

There are only six Members in here, from the south-east – because Deputy Sillars is the Minister and is actually supporting this amendment – not actually representing youngsters at that school. I think that's a stark reminder that these youngsters, who are going to be taking their Eleven Plus next year, of schools that were of the districts that we're representing... will not be in a new school. One youngster said to me this week he could not even go near the Beaucamps school because it depressed him. The thought of seeing the school, a new school, was bad enough – going past St. Sampsons or the Grammar School – but now that there's *another* spanking new school and they had heard obviously that it was going to be quite some time before a new school is built, they are pretty disillusioned.

The planning needs to take place. It needs to take place *now*. I heard Deputy Dorey say that it's a delay of six months... No, it's not. We are in December 2012, you were talking about 2014. That's not six months. I would actually like it to start in January 2013, not '*some time in 2014*', which is no guarantee because your Report does not actually say 'in the first quarter' either, which has been picked up by other Members. We need to get on with it. There is a huge role of planning. There are over 850 youngsters at those schools on that one site. There's a huge amount of planning to get this building going.

So, sir, I will, obviously, be supporting this amendment. There are great concerns about the delay, that we're talking possibly 2018 and I think we do have a duty. We do have the money available, that we can get on with this and I *urge* Members to support this amendment and think of that stark realisation those taking their Eleven Plus next year will not see a new school if you vote for the Budget Report.

The Bailiff: Deputy Kuttelwascher.

Deputy Kuttelwascher: Sir, I am somewhat disappointed this debate has turned into a debate on whether La Mare gets developed or not, because Deputy Lowe just said we need to 'get on'

with the planning.

2340 Well, only yesterday Treasury and Resources Department approved a vote of £100,000 to the Education Department to appoint a Project Manager to look at the site of La Mare de Carteret School. This is an ongoing issue. It has not been delayed and it will take some time liaising with the Planning Department as to what *can* be put on the site – and we still await a decision by the Education Department as to where they are going with their policy on whether or not they want to continue with the Eleven Plus. That would affect the buildings you need because, generally, if one

2345 went down a comprehensive route, you tend to have bigger schools.
It could be that, if we abandon the Eleven Plus you might want to extend (**A Member:** Hear, hear.) Les Beaucamps and St Peter Port High, so nothing is happening to the La Mare project, it has not suddenly stopped in its tracks... Things are ongoing and this, in part, is to deal with what has been a strategic overview of States asset management and Island resources to better inform

2350 what we need as a whole, not what Education needs of itself or, indeed, what Environment needs of itself. It is what everybody needs – and then deciding the priorities, having looked at everybody.
There was some concern about the date when this process may commence. The latest information we have – and it's a living process – from the staff dealing with it, then the first quarter of 2014, this process will commence. So nothing's coming to a grinding halt. It is certainly

2355 not a discussion about whether or not we do La Mare, or don't do La Mare. There are other issues involved. It is purely an issue about do we, or don't we, want to look at the *whole* of all the Island? When we look at Island infrastructure and asset management, which seems to be the way the Policy Council have wished to go – because these two projects, Island Infrastructure Strategic Assets, did not originate from within Treasury and Resources: this is what you call not being a silo

2360 Department – we are involved with other Departments and the Policy Council and we are, in a way, representing what is the general view of the Policy Council.

So I think it is being over-egged, this issue of La Mare. Certainly, the whole process has not stopped and, as soon as they can, the Education Department can appoint their project manager to go ahead with evaluating the site at La Mare.

2365 Thank you, sir.

The Bailiff: Deputy Sherbourne.

Deputy Sherbourne: Thank you, sir.

2370 It won't surprise any of you to know that I actually support this amendment, not just as a loyal corporate member of the Education Board, but also for someone who has spent most of their working life as a strong proponent of equitable provision for all the children in this Island.

I make no apologies for moving the debate back to La Mare de Carteret – I will leave the response to Deputy Kuttelwascher's comments to the Minister. I'm sure he's making notes at this moment (**A Member:** Hear, hear.) (*Laughter*) because this debate, in fact, as far as Education is concerned, *is* about La Mare de Carteret but it is also a wider issue. That is why you have a non-specific amendment in front of you. It leaves the door open for *all* Boards to make their case, from this moment, for *their* priorities to be heard, to be noted, to be discussed.

2380 I feel that this Assembly is fast becoming a wait-and-see review-focused Government. (**Several Members:** Hear, hear.) I fully support the need for carefully considered capital investment but there are things that cannot wait. Previous States have made commitments to provide an educational system and infrastructure which sits comfortably with the best in the world. As a result of the Torode/Berry amendment back in 2002, the States then committed to providing equitable facilities. That process started in 2002, was supposed to have taken six years and,

2385 certainly, in those early years, La Mare de Carteret *was* discussed as the prime first, the first priority, for a rebuild.

The point has been made, fairly, that successive Boards have changed their priorities. We have to live with that but, of course, what we have ended up with, ten years down the line, are two

2390 *wonderful* buildings for the children who are fortunate enough to live in those catchment areas: two buildings that this States should be extremely proud of. Those of you who have been there know exactly what I'm saying. You have seen, if you've visited those schools, a glimpse of the future educational world. Sadly, very few of you managed to get to La Mare de Carteret this week. There was a late invitation, I fully understand that, but you weren't there to see the contrast, to listen to those young people who took us round. They may well have been briefed to point out the shortcomings of the school – the odd crack, here and there. (*Laughter*) But someone who spent seven years there as a Deputy Head, I was saddened – not saddened, because the school had not been maintained... It is very difficult maintaining a school built with a life expectancy, if you like, of 25 years and we are nearly 50 years on... I was saddened. I had seven brilliant years at La Mare

2400 de Carteret: vital youngsters, lots of energy, a delight to teach, with high expectations. Forty years ago, this Island had very *low* expectations. I came, first of all, to St Peter Port School and I found youngsters there that had been written off because the Eleven Plus had determined they were *not* suitable for an academic education.

I know this debate is not about the Eleven Plus, it is about equal opportunity and facilities for all our children. I would suggest to you that we have a three-tier system at the moment. You are in danger, by delaying the rebuild of La Mare, of creating a four-tier system, that fourth tier being the youngsters that are going to sub-standard modern facilities, sub-standard by modern standards. I believe that the momentum must be continued. Any further delay results in 100, or thereabouts, of our students each year being educated in unsatisfactory conditions.

2410 The completion of the Education Development Plan is an essential part of this current Board's plans for the future and it *is* unfortunate – this has been alluded to – that this debate is being held *before* Education is able to get its vision of the future to you. Then your answers, Deputy Kuttelwascher, will become fairly clear because it is essential that that school is built for *whatever* happens in the future: even if the *status quo* is maintained, it is required. I call upon all Deputies to support this amendment and, in doing so, maintain this Assembly's commitment to the provision of world-leading educational opportunities for our children. I call upon those of you who represent communities already benefiting from the new buildings to support those children who are not yet benefiting in the same way. I call upon all the Deputies present who represent communities within La Mare de Carteret catchment area, to ensure this momentum is maintained and we have a speedy conclusion to the current building plan. Remember that our high schools educate 60% of the secondary age children in this Island These children are our future. You all accept that and they deserve the very best opportunities.

2420 We have heard that the construction industry has made representation and are anxious to keep *their* momentum going. I would like to add that history has shown us that, when delays *are* introduced of the sort that we are debating today, the outcomes are usually higher costs and an industry unable to meet accumulated demand. There is absolutely no need for us to wait for the outcome of two Reports before we facilitate the completion of a project started ten years ago. The needs are still there and the gulf between those provided with modern learning environments and those that do not is getting bigger.

2430 I would like to finish by saying that it was a great credit to those young people that showed us around La Mare de Carteret earlier this week that although, as I say, they had been primed to point out those shortcomings, they were still passionately proud of their school and they are looking for every single person in this room to provide *them* with the sort of facilities that the other children in this Island are currently enjoying, at the Grammar School, the new St Sampsons High and the Les Beaucamps. So I would ask you all to support this amendment.

2435 Thank you.

The Bailiff: Deputy Le Tocq.

Deputy Le Tocq: Thank you, Mr Bailiff.

2440 Sir, if it is possible for a dilemma to be multi-faceted, then I find myself in the middle of such a one. It would be my tendency to trust T & R, particularly because I believe we are in a new world, we are in a 'new normal' that is different from years ago. I am alluding to years ago because there is a certain tendency amongst some of us, and perhaps I was like this once, to think that the current economic and financial situation we find ourselves in is just a blip and that, somehow, round the corner, we will get back to the good old days at some point. So we do have to think differently, certainly.

2445 Sir, my background is that I was on Education in my first term in this Assembly between 2000 and 2004 and, at that time, as has been alluded to, there were strong arguments for rebuilding La Mare de Carteret *first* out of all the rest. I say that I was on both school committees that are on that campus at the time, despite the fact that I have had children that have gone to Les Beaucamps School which, obviously, got rebuilt quicker, although neither of my children saw it at that time. I understand there were also issues that future Boards of Education had to consider, with regard to logistics of having two schools on that site and dealing with the problems that causes.

2455 Sir, capital prioritisation began when I was on the T & R Board, during Deputy Trott's time as Minister for Treasury and Resources, and it seems to me that what has been referred to as the Strategic Asset Management Plan began back then. It has taken an inordinate amount of time to get to the place where we have that sort of information in front of us to make the decisions necessary.

Another aspect of my dilemma, sir, is that I am a Home Department Minister and I could very

2460 well bring a very similar amendment to say that there are strategic aspects of *our* capital
investment that *we* would like to bring forward. But I do sympathise with Deputy Fallaize, who
says it is just actually taking too long and, as a believer in children as our future, I am of a mind to
support this amendment, particularly because what it is doing – and somebody else has mentioned
2465 this already – is causing this Assembly to agree to what has already been agreed, not changing, not
becoming slightly fuzzier, which is perhaps the situation that we have on page 21 of the Budget
Billet.

So, sir, I am going to support it on the proviso – two provisos, in fact – first of all that, with
regard to La Mare de Carteret, it does not *suffer* in any way – bearing in mind all the good things
2470 that Deputy Sherbourne has just said and I agree fully with him – does not suffer from being
rushed in any way as a result of the constraints that are upon us and, secondly, with a proviso that
a strategic review, which I believe is forthcoming in Education’s vision, but I will say it here,
nevertheless, that a strategic review of primary and secondary education and our catchment areas,
is carried out and makes sense alongside what this amendment seeks to do.

2475 So, sir, I do encourage others to support this amendment.

The Bailiff: Deputy Le Lièvre.

Deputy Le Lièvre: Mr Bailiff, Members of the Assembly, I do not know if it is seemly to
praise the speeches of your Minister but I am going to do so on this occasion, (*Laughter*) because
2480 Deputy Sillars is not a natural speaker, he does not like doing it and he does not like writing them
and I think he has delivered a *cracking* speech today, (**Several Members:** Hear, hear.) without
falling into the trap, which I often do, of emotion. He has got away with raising the level of speech
to a new level for him (*Laughter*) and he has, actually, motivated the Board of the Education
Department. They do not need much motivation but he has motivated them in such a fashion that
2485 they are 100% behind him.

It was a wonderful speech and it made my job a lot easier. I think, in fact, that if it had not been
for Deputy Sillars we would not have noticed this minor reference, almost, in the Budget which
has been slipped in a bit like MITR. It has come under the door, so to speak, because if you read
2490 the 2012 Budget Report, it gives a completely different picture.

What the 2013 one says is that the Treasury and Resources Department is planning the
following outlined timetable for determining the 2014 – 2017 capital programme, ‘which will be
developed in accordance with the Island Infrastructure Plan’. That is what the 2012 Budget Report
said. It gave no indication that the IIP was going to be a hurdle, rather that it was going to be
something that almost helped the capital prioritisation approach, not that it was going to be a
2495 hurdle and, of course, there was no mention of the SAM. What the 2013 Budget Report *does not*
say, it does not make any reference to Paragraph 5.40, which followed on immediately *after* the
reference to the way the timetable was going to go for 2012. It says this:

2500 ‘It is considered that this timetable would *fit in* with the States selection cycle whilst ensuring the States capital
expenditure profile *does not have peaks and troughs and stop and starts* as the programme would straddle two
Assemblies.’

So the IIP was seen, in conjunction with capital prioritisation, as a tool for ensuring that we did
not have stops and starts – and what is happening now? The SAM and the IIP have been
2505 introduced as further hurdles. There was no reference to the IIP, in the 2012 Budget Report,
performing in such a function and, of course, no reference to the SAM at all but now they appear
to have reached such staggering levels of importance that they will cause a hiatus of at least twelve
months, although now we hear from Deputy Dorey it is not twelve months, it is probably only six
months. Where is the evidence of that? Where is the detailed evidence contained on page
2510 whatever-it-is in the Budget Report about capital prioritisation? Where is the evidence to suggest
that that will be the case? Nothing. It just makes vague references, *exactly the same as MITR*,
vague references to the way the SAM and the IIP are going to be compiled and they will control
the flow of capital prioritisation in the future. It does not give *me* any confidence whatsoever.

It might not surprise you to know that, when we enlisted the help of a fellow Deputy to draft
our amendment, we had a choice of four amendments. Two of them were quite clearly preferable
2515 and the one that the Board finally went with is the one that you are presented with today. But there
was one other and the other amendment was far more forthright. It did not talk about the States
capital prioritisation procedure at all, it simply talked about La Mare de Carteret and it talked
about Education working in conjunction with the Treasury to bring to the States a Report about
2520 that sole project. But it was not favoured by Education because the Board did not want – and I was
persuaded in the end – the Board did not want to be seen to be making a land grab: *we do not* want

to return to the old ways. But this has never been a land grab! Never. It has been on the books for twelve years. If it is delayed, then the first pupils will probably go into the new La Mare de Carteret in 2018. If it is not delayed, then it could be twelve or even more months further forward.

2525 So it is not a land grab. You do not call ‘a land grab’ something where you give twelve years’ notice of what your intention is. (*Laughter*) Furthermore, how do we know, and this is where I get confused, because we do have a process at the moment, the gateway process, where it controls the way projects move forward. It is a complicated, convoluted process that ensures that the projects
2530 end up in the rightful structure at the right time and the right place, and they are fit for purpose. So how is that, the gateway process, going to conjoin with the SAM and the IPP, or is the SAM and the IPP going to replace the gateway process? If so, why are we not told? Why is it not mentioned in this Budget? There is no explanation of how it is going to work whatsoever. It confuses me and I think it is meant to confuse. It is vague and this States, like any other States, does not need vague. What it needs is accurate and detailed reporting so that we make good, thoroughly thought-
2535 through decisions, not decisions made on vagaries.

Deputy Trott made the point that I think that La Mare de Carteret should have been built some years ago and he is absolutely right, but somebody, some school, had to be last and it is unfortunate that it is La Mare de Carteret, in my opinion, because La Mare de Carteret was probably not as good as the other schools it has replaced. Nevertheless, it was and it is, and we are
2540 where we are etc, and it is now up front and in our face and we *have* to do something about it.

We cannot delay for what are, at the moment... I would like somebody to stand up and explain exactly what the SAM and the IIP are and how they are going to work in conjunction with the gateway process, or not, as the case might be, and how they will work in relation to La Mare de Carteret, because I do not think anybody could. I certainly could not. Perhaps, possibly, the
2545 Minister of T & R will explain it to us all somewhat later. I do not accept it is going to be six months and the claims made by Deputy Kuttelwascher, that we want to look at everything before we do anything. I have heard it before. What it means is that you end up doing nothing and that is exactly what is on the agenda here.

Like Deputy Fallaize said, we are *drowning* in plans and strategies. We have got the SAM, we have got the IIP, the FTP, the SSP, the Older People’s Strategy, the Obesity Strategy, the Drugs and Alcohol Strategy... We have got plans and strategies by the bucketful. What we have not got are cupfuls of common sense and this amendment is a cupful of common sense. This school needs
2550 replacing. It is not a land grab, we need to give the commitment that was given twelve years ago by a former Assembly. I know that we cannot be held to account for pledges made by prior Assemblies but a pledge is a pledge and I would ask the Members to support the amendment.

Thank you, sir.

The Bailiff: Does anyone else wish to speak?

No? I see no-one rise. Oh yes, Deputy Conder.

2560

Deputy Conder: Thank you, sir, fellow States Members.

I would like to start my speech in the same way as Deputy Le Lièvre did and congratulate my Minister on an outstanding speech, which sets the tone.

2565 He and I just sometimes have intellectual jousting in our Education Board meetings and he has my absolute 100% support and has led us superbly in this matter. Sir, thank you for allowing me to speak on this amendment. I will not reiterate the points that the Minister, the Deputy Minister and other colleagues have made in respect of the macro-economic benefits associated with approving this amendment, the smoothing the economic cycle through Government-initiated building programmes... I think they have been made. I think those points have been made very clearly.

2570 Rather, I would, at the moment, like to speak about the importance of quality buildings in terms of the learning outcomes for students because schools are, of course, about learning. They are not about fabric, they are not, essentially, about what is inside them. It is about what goes on inside them.

2575 I would like, using that term ‘evidenced based learning’, to show just how important – on the basis of research – a quality learning environment is to the learning outcomes. Just before I start, I would just like to reiterate what Deputy Sherbourne said. We were together at La Mare de Carteret yesterday and I will say a bit more about it later. I am an academic. I have spent all of my life in the world of teaching and I have never really had a proper tour of La Mare de Carteret and I started going round the school, feeling a bit surprised, then a bit sad and then shocked and I have to confess, a bit angry as well. I just could not *believe*, given my experience of other academic
2580 institutions – primary schools, infant schools, secondary schools, universities – I could not *believe* that some of our young people are expected to spend five years of their life, part of each day, in

2585 accommodation like that. I just could not understand how we have come to that pass, in terms of what has happened in previous States and decisions that had been made, but I will revert to that, sir, that extraordinary two hours that I spent in that school yesterday afternoon. It was a shame that more colleagues could not have joined us. I quite understand there is an awful lot going on at the moment, but if you want evidenced-based decision making, the evidence was in front of our eyes.

2590 Many of us were at the Fiscal Policy Review a couple of weeks ago, where we heard Professor Geoffrey Wood make the assertion that the quality of the school environment had very little impact, if *any*, on learning outcomes. Indeed, he quoted his own experience a number of years earlier, I think, in Glasgow. Sir, far be it for me to disagree with Professor Wood, a far more distinguished academic than I might ever claim to be, but I would venture to suggest that perhaps it might be a little while since the Professor spent much time in a classroom because, frankly, my view is such a claim is – well, I wrote here ‘palpable nonsense’ but I thought that was a bit rude (Laughter) – simply wrong, as all the evidence shows quite the opposite, as I hope I will be able to prove.

2600 Those of us who spent quite a lot of time at the chalk face know, *with certainty*, the beneficial effects in terms of teaching, learning, motivation and behaviour which flow from providing our young people with an environment in which to spend their formative and, in many ways, the most important years of their lives. Any society which does not place the learning opportunities of its young people fairly near to the top of its priorities is letting down a generation for a lifetime and, potentially, brewing up problems which it will have to address at no small cost, for many years – excuse the cold, I have managed to contract the St. Peter Port North bug. (Laughter) Thank you very much, Deputy Bebb!

2605 Sir, I believe it must be self-evident to this Assembly that La Mare de Carteret School is not fit for service. I do not need to say again that every child that misses an opportunity in school has lost that opportunity for all time. Previous States, despite lofty promises and I am sure good intentions, have failed to address the issue of rebuilding that school, to the continuing detriment and lost chances for its pupils. This Assembly cannot, *yet again*, put the issue on a back burner. We owe it to those young people to grasp this nettle and get on with it *now*.

2610 Sir, I come from a humble background, Everything I have achieved in my professional life is as a result of the education opportunity that I was granted. I suspect that many Members of this Assembly benefited from a post-War system of education that laid the groundwork for much of what they have achieved in life. In some cases, those learning experiences will have been enhanced by the courageous and innovated determination of UK and Guernsey Governments to provide post-War babies with an education that established opportunities for all, has smoothed out some of the unfairness and lost chances with a characteristic of a pre-War educational scene. It ill behoves us to offer our young people significantly less than we enjoyed ourselves or, indeed, that we offer our own children. I must say, again, a year lost in education is a year lost forever and this is precisely what this amendment is seeking to avoid. We have waited too long to address the issue of the quality of La Mare de Carteret School.

2620 As I have already mentioned, the buzz word is ‘evidenced-based decision making’. No doubt we all use it, some clever management book served it up, we all swallowed it and we trot it out as the latest mantra. As I said, if colleagues had been at the school yesterday, the evidence is before their eyes. However, evidenced-based decision making is all very well but I think a bit of passion or emotion will do, as well as so-called evidence but I suppose you would wish a superannuated academic like me to at least have done some research.

2625 The research is there, sir. There is *absolute evidence* that a poor quality learning environment affects children for life and I will just refer to a few of them in conclusion. In 2005 the Design Council, in partnership with Newcastle University, concluded, in a study called ‘The Impact of School Environments’, that there is clear evidence that environment elements, for example poor ventilation or excessive noise – come to La Mare de Carteret if you want poor ventilation and excessive noise – have negative effects on students and teachers and that improving those elements have significant benefits.

2630 The same report says that the causal chain between environmental change and changes in student attitudes, behaviour and achievements is complex but includes increased self-worth, morale for staff and students who benefit from fit-for-purpose buildings. There is strong, consistent evidence for the effect of basic physical variables – air quality, noise, temperature – on learning. You could hardly breathe in some of those classrooms yesterday which had 20 or 25 six foot young men squeezed into classes which I would not have put an infant child into. There is conflicting evidence, but forceful opinions on the effect of lighting and colour and staff morale as a crucial aspect of the effectiveness of the learning environment. A more detailed study by the Victorian Institute of Teaching in 2009 found that studies about student achievement and building

2645 conditions conclude that the quality of the physical environment *significantly* affects student achievement. The report says there is sufficient research to state, without equivocation, that the building in which students spend a good deal of their time learning does, in fact, influence how well they learn.

2650 Other research acknowledges that student achievement lacks in shabby school buildings and one study shows significant improvements in the learning environment were attributed to the better attitudes to teaching and learning, where improvements and physical environment were available to all users. Sir, elsewhere there is a plethora of research that examines the effects of physical conditions of teaching and space – which includes spatial density, noise, acoustics, climate, thermal control, air quality, vandalism and playgrounds – on students’ engagement, attainment and wellbeing. I could go on... I will not go on, but it is quite clear from the research, if you want the evidence, the evidence is there. I might, perhaps, present it to Professor Wood next time I meet him!

2655 I could go on with a litany of this evidenced-based research but I hope I have got enough to scotch this nonsense that the quality of schools, classrooms and facilities do not impact upon learning outcomes and a child’s life chances.

2660 Sir, yesterday Deputy Sherbourne and I were shown round the La Mare de Carteret School, as I have already referred to, by Jess, one of the deputy head girls, and Tom, the deputy head boy. As we walked round, as I have already said, we saw leaking roofs, holes in walls, stifling temperatures, blocked toilets, appalling changing room facilities, rodent infestation and tiny classrooms.

2665 As I have said, I have been involved as a school governor of primary and secondary schools in the UK and, very recently, I was honoured to be a governor of Elizabeth College here for six years. I have *never* seen anything like it. When I made a presentation, along with my colleagues, to Treasury and Resources, one of the Members of Treasury and Resources, when I described the school as ‘third world’, said I was being over-emotional. Having spent the time walking round that school yesterday, I would reiterate that, I suspect there are some third world countries which would have better provision – and we should be ashamed.

2670 I hope I have produced some of the evidence, sir, for the evidence decision making but, as I said, sometimes you do not need evidence, you just know it is wrong – and it is wrong to delay rebuilding the La Mare de Carteret School for a day longer than is necessary. Deputy Kuttelwascher said – and I quote him – ‘It is not an issue about whether we do, or do not, rebuild La Mare de Carteret...’ Fine, it is not an issue, so let us get on with it. We owe it to the children and staff of that school to place no impediment in the way of its early completion.

2675 Sir, I urge colleagues – and perhaps I could be accused of being ‘emotional’ – I do not just urge colleagues, I implore colleagues to vote for this amendment.

2680 Thank you. (*Applause*).

The Bailiff: Does anyone else wish to speak?

In that case, I will ask the Minister to speak immediately before Deputy Sillars replies.

2685 **Deputy St Pier:** Thank you, sir.

I will just start by agreeing with Deputy Le Lièvre. I think the Minister for Education made an excellent speech.

2690 This, as Deputy Sherbourne has said and a number of other Members of the Education Board have said, is an attempt by the Education Department to jump the prioritisation queue. It is quite clear to any of us who have seen La Mare recently – and I am grateful for the private tour which the Minister of Education arranged with me last week, ahead of today – that it is a worthy cause. In fact, I would say it is a very worthy cause for capital spending. I think *that* is not beyond doubt and the evidence is before your eyes, as Deputy Conder has said. That makes... indeed, I am sure the Minister for Education will confirm that, actually, my comments to the senior management team was that the case has been made.

2695 There is nothing stopping Education continuing to plan for the re-development of that school. We have met with the Education Board, T & R is ensuring that funds are being made available to allow that process to continue, and I hope that gives some reassurance to both Deputies Lowe and De Lisle.

2700 I would just like to deal with a number of other comments that were raised by a number of other people. I think Deputy Laurie Queripel was quite right and, indeed, Deputy Lester Queripel, talking about the need to provide work, particularly for local contractors. La Mare de Carteret is not necessarily going to be the answer to help them. I think we need to draw a distinction, in *this* debate, between economic stimulus and whether there is a need for that – we have talked about

2705 that in Question Time a couple of times since the election – and, if there is a need for economic stimulus, finding projects of £1 or £2 million that would be of benefit to local contractors *and* capital prioritisation. Some of the big capital projects that we are talking about, if you look at the big projects we have – and La Mare de Carteret would be one of those – it is not necessarily the silver bullet for local contractors which some may hope for.

2710 In relation to Deputy Fallaize's comments, I just want to respond on a number of those. It is not T & R's job to manage the capital programme. That is the job of the Departments that are sponsoring the projects. Indeed, he also called for a seamless length between one plan and the next and that, indeed, is exactly what the Strategic Asset Management Plan is supposed to be all about. The present timetable was not a States decision or resolution – as he describes it, the *status quo* –
2715 it was merely the indication given by Treasury and Resources before as to an appropriate timetable.

Deputy Le Lièvre commented on the delay, or the fact that IIP has somehow become an impediment but, of course, the IIP was not finalised in the last States Strategic Plan and that was, I guess, an issue for the last Policy Councillors as to the reason for that. Deputy Le Lièvre also
2720 called for decisions that were not built on vagaries and that is precisely what we want. That is precisely what we want. That is precisely why we are saying we need to have the additional information, and I will return to that in a moment as well. Deputy Le Lièvre also asked about the length between the Gateway process, the IIP and the SAM. The Gateway process is all about how you *manage* a project once it has been approved, so that comes at the next stage.

2725 Sir, thankfully, we *have* moved away from the first-come, first-served in capital spending. The capital prioritisation process was a welcome development, allowing this Assembly to determine the States priorities from a wish list of Department needs. Now the next step – and it is a logical next step – is to begin not with a wish list but, actually, a list that is based on need and that is the purpose of the Strategic Asset Management Project and the Island Infrastructure Plan, the purpose
2730 of which is to look at our Island's infrastructure needs, what assets the States already has and how they can best be used. We should allow time for that process to take place, which will allow the Assembly's prioritisations/decisions to be soundly based. We are undertaking to return to the States in the first quarter of 2014, and that is not a significant or material delay from the timetable in last year's Budget Report, to have the prioritisation debate in the third quarter of 2013.

2735 To listen to *some* of the speeches today, you would think that there was *no* capital spending going on at all and there was the suggestion we have got money in the capital account and, therefore, we should be spending: it was almost the implication. This year – both 2012 and 2013 – will be the first time, I think, in the last five years or so that we will have achieved our objective of spending 3% or more of GDP, in accordance with the Fiscal Plan, which is something we may talk
2740 about in relation to a later amendment.

I think the comparisons with other jurisdictions, whether it is the UK or others, are simply not necessarily appropriate in our context. We will be pumping £74 million of capital spending into the economy in 2013 and much of that will stretch out into 2014, so there is not going to be this great hiatus. Maison Maritaine, Longue Rue, Cour du Parc, other GHA projects, will be continuing
2745 to feed local contractors, in particular.

Secondly, I would actually suggest this amendment is hugely challenging. It demands that Departments submit their reports by the first quarter of next year and that timetable is incredibly tight. I would suggest it is actually even too tight for the Education Department to be able to determine its own needs for the La Mare site in advance of the Assembly's sight and consideration
2750 of their vision for education. That is a point that has already been made.

The vision *will* shape the role, needs and size of any new school that is put on that site and this will not be ready by the first quarter of 2013. So we will be asked to commit, without knowing exactly what we are committing to, in terms of the size and nature of the school that we are going to be putting there.

2755 Therefore, I would suggest to Deputy Le Tocq that we will – the school may not be, but we will be – suffering as a result of the process having been brought forward. It is a little bit of a surprise to me that quite a number of members of Policy Council have spoken in support of this amendment. The Financial Transformation Programme's Strategic Asset Management Project is, of course, the Financial Transformation Programme – it is owned by Policy Council and those that sit around the Policy Council table.

2760 Finally, I would like to just say, actually this amendment is unnecessary. If the Education Department determine that their own needs are a priority above and beyond all others it, of course, remains open to them, as it does with any Department, to bring their own States Report to this Assembly to seek approval for the capital project outside a capital prioritisation process but we should not throw away the capital prioritisation process just because of one particular worthy
2765

project.

For those reasons, sir, I do encourage Members to reject this amendment.
Thank you, sir.

2770 **The Bailiff:** Deputy Sillars will now reply to the debate.

Deputy Sillars: Thank you, sir.

2775 I will try and be brief. A lot has been said and a lot of people have summed up on my behalf, so I thank them. I would like to thank all those Deputies that have supported this amendment and there were some great speeches.

2780 Deputy Queripel and Deputy Queripel – it's an easier way round that one: I agree that as much as money must be saved on-Island as is possible, and I just... History says, for example, that Les Beaucamps, it was a genuine local company that was the lead contractor on that. Obviously, we cannot predict who will come in but they certainly appear to have done a good job. They were on-Island.

Deputy Stewart, you endorsed my main concern and my main worry re the statement in the Budget, 4.37. That needs repeating. Thank you for that.

2785 Deputy Hunter Adam: I would like to thank you very much because you seem to be one of the few who have actually recognised that this is a corporate amendment. It is about all of us putting it forward. I know it is not a passion on La Mare de Carteret. We are Education and, obviously, we will put La Mare first, *but* it's for everybody, too, so if Home want to put something forward, if HSSD, anyone... We do not want that going back.

2790 At the end of the day, it is about after the Assembly has prioritised the capital spend: a Department would still have to come back to the Assembly with their final costs, preferred contractor etc, after which the subject is taken back to the Assembly and the construction could then commence. Typically, the time between the capital debate and returning with the costs is something like twelve months. So even third quarter 2013 is still going to be late 2014, and still no building work then. It may well be 2015, even at the timescales we are wanting to protect. If the capital debate is not until 2014, as has been alluded to – and it may or may not, and we still have not had a guarantee it will – that will be 2015 and could still go into 2016 before construction. I do not want to be a pessimist, but this Assembly will have been dissolved by then: we will not have done anything in this time and so much for, you know, we were elected on 'change'. Well, we will have failed succinctly, I would suggest.

2800 Just to go through a few other points. Deputy Trott, I was going to thank you and I will thank you. I thought you were starting off slowly in support, but thank you for getting there in the end. I appreciate that.

Deputy De Lisle, you are absolutely right.

2805 Deputy Dorey, only six months' delay: this is one and a quarter years away at least. It is not only about La Mare and, as I could say about Deputy Adam and the others, they have already made their points and *of course* we should spend our money in the best possible way. That means, as Deputy Trott has said, the States are in a great position to negotiate good contracts whilst the building industry is really rather keen to have more work.

2810 Deputy Fallaize, thank you. It is a lot of plans and no actions. Thank you for that. That sums it up for me, and thank you for your support in helping to sum up because, actually, you do a far better job of that than I do, so thank you for that.

Deputy Lowe: yes, you are absolutely correct.

2815 Deputy Kuttelwascher, I would like to just pick you up on this: the figures will not be exact, but T & R took £1.6 million away from us at Education, which is all part of the EDP 1 process, of which some £700,000 of that was to get us to start the full funding for taking the La Mare project forward. Well, I am pleased – I think I am pleased – to hear that you approved yesterday £100,000 to, I think you said, to appoint a project manager. That is great but we actually have to then come back to T & R for any more money and that money will have to be for the project manager to presumably project manage something. Though you have given us £100,000 for a project manager, we have no money him for to project, or her, sorry, to manage that project, so we did ask for £285,000. We then got kicked back on that and you said you could have £100,000 – but we started this term with £700,000 for this project to go forward, so it is very slow work, I'm afraid!

2820 Deputy St Pier: thank you for the... Well, actually, there's one other thing I wanted to say: page 3 – sorry, it must be here somewhere – yes, Deputy Le Tocq, thank you for your support. As I said earlier, if Home have a project please bring it forward and we will have that debate, hopefully, in quarter 3, 2013. I assure you that the project will not be rushed and I can assure you that our vision does include La Mare de Carteret and, as the Education Board, we will be bringing

our vision forward to the States and to the public, I hope in January 2013.

2830 We have already shared parts of that vision with the T & R Board because they made those valued points: ‘Well, if you want La Mare...’ Yes, we definitely do. So we have shared that with them.

Deputy Le Lièvre: thank you for your compliment – I think. *(Laughter)*

2835 Just to quickly go on to Deputy St Pier: thank you for coming round and seeing us and thank you for the support that the school certainly needs to be built. I agree. I think that’s what you said, so I agree with that. We certainly are not land grabbing. It does allow the building projects for *all* Departments to put their bids in for third quarter 2013 and we are passionate about La Mare, of course. Yes, we are, but also we do not want unemployment and watching our economy get worse when we do not need to. No capital spending, but it is the building capital we are talking about and there is very little, from 2014 going forward.

2840 Yes, this amendment is challenging but let us have this Assembly rise to the occasion, as we are expecting our students to rise and raise their expectations. I am proud to head up my Board and I thank them all for their great speeches.

Please vote for this amendment. Thank you.

2845 **The Bailiff:** Members, we will vote, then, on the amendment proposed by Deputy Sillars, seconded by Deputy Le Lièvre:

To insert between Propositions 3 and 4:

2850 ‘3A. To agree that the timetable for determining the next phase of the States’ capital expenditure programme shall remain as set out in the 2012 Budget Report (at paragraph 5.39 of Billet d’État XXII of 2011), namely:

λ Quarter 1 2013 – bids for capital programme new projects for the period 2014 to 2017 submitted;

λ Quarter 3 2013 – Capital Prioritisation States debate to determine the firm capital programme for the period 2014 to 2017.’

2855 A recorded vote has been requested by Deputy Le Lièvre.

There was a recorded vote.

Carried – Pour 39, Contre 7, Abstained 0, Not Present 1

	POUR	CONTRE	ABSTAINED	NOT PRESENT
2860	Alderney Rep. Kelly	Deputy Kuttelwascher		Deputy Ogier
	Alderney Rep. Arditti	Deputy Langlois		
	Deputy Harwood	Deputy St Pier		
	Deputy Brehaut	Deputy Spruce		
2865	Deputy Domaille	Deputy Collins		
	Deputy Robert Jones	Deputy Dorey		
	Deputy Le Clerc	Deputy Perrot		
	Deputy Gollop			
	Deputy Sherbourne			
2870	Deputy Conder			
	Deputy Storey			
	Deputy Bebb			
	Deputy Lester Queripel			
	Deputy Stewart			
2875	Deputy Gillson			
	Deputy Le Pelley			
	Deputy Trott			
	Deputy Fallaize			
	Deputy David Jones			
2880	Deputy Laurie Queripel			
	Deputy Lowe			
	Deputy Le Lièvre			
	Deputy Duquemin			
	Deputy Green			
2885	Deputy Paint			
	Deputy Le Tocq			
	Deputy James			
	Deputy Adam			
	Deputy Brouard			
2890	Deputy Wilkie			
	Deputy De Lisle			
	Deputy Burford			
	Deputy Inglis			
	Deputy Soulsby			
2895	Deputy Sillars			
	Deputy Luxon			

Deputy O'Hara
Deputy Quin
Deputy Hadley

2900 **The Bailiff:** While the votes are formally counted, Members, we can continue with the next amendment.

I propose that we go back to the amendment proposed by Deputy Burford and seconded by Deputy Conder.

2905 Mr Procureur.

The Procureur: There is a bit of a shortage of people to distribute things!

Deputy Burford's amendment is proposed to be replaced with a very *slightly different* one, which will be circulated just as soon as there are people able to do so. I fought on behalf of Deputy Burford because the technical drafting of the amendment is more my fault than hers.

2910 I would explain, very briefly, that yesterday I was contacted by a member of Treasury & Resources staff who said 'This is all very well. You have changed some of the numbers but there's about another 150,000 numbers that you have to change...' and so, rather than attempting that, she very helpfully gave me a new form of words.

2915 What it really comes down to is I said, in accordance with Deputy Burford's and Deputy Conder's wishes, that there should be an extra £50,000 going to Health and Social Services Department that is to come from this increased revenue, again, from tobacco taxes. What I have not said is where it has got to come from and where it is going to come from is funded by a transfer from the Budget Reserve. That is the technical advice from Treasury and Resources.

2920 When you get this other amendment, there are lots of words but, take my word for it, (*Laughter*) those are the only ones that really make any difference. I thank you and so Deputy Burford will move a Proposition, first of all, to suspend the Rules of Procedure in order to allow this amendment to be debated, not having had five days' notice. What I simply say there is you *have* had five days' notice but not, technically, of the exact form of words, so I trust that you will give her the grace, and me the grace because, otherwise, it is my fault (*Laughter*) for at least approving that part of the motion.

2930 **The Bailiff:** Just before we have that circulated, I have now got the result of the vote on the Deputy Sillars/Deputy Le Lièvre amendment. There were 39 votes in favour and 7 against. I declare it carried.

If the revised amendment could now be circulated, please. This is the Deputy Burford/Deputy Conder amendment.

The amendment was circulated.

2935 **The Procureur:** Thank you very much for that, Members of the States.

The Bailiff: Everyone now has a copy, then.
Deputy Burford

2940 **Deputy Burford:** Yes, I understand, sir, I have to put the proposition first to suspend Rules 13.(2) and (3), if the Assembly is happy just relating to the time limit.
Thank you.

2945 **The Bailiff:** Do you have a seconder for that?

Deputy Conder: Yes, sir.

2950 **The Bailiff:** Deputy Conder seconds that.
I suggest we go straight to the vote.
Those in favour; anyone against?

Members voted Pour.

2955 **The Bailiff:** It is carried.
So this revised amendment replaces the earlier wording. The substance is the same: just the technical detail is different.

Deputy Burford, then, will propose the amendment.

Deputy Burford.

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Deputy Burford: Thank you, sir.

Two weeks ago, this Assembly debated the Tobacco Licensing Framework. During that debate, several Members, aware that the funding and resourcing of smoking prevention initiatives was being reduced or withdrawn, urged the Minister of Health and Social Services to make sure that these programmes were protected. Such pleas were understandable and, indeed, laudable but, with the manifold pressures existing on the Department at the moment, the likelihood of these exhortations being realised seems doubtful.

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As an aside, I also have concerns around the increasingly prevalent discourse which advocates outsourcing to the third or voluntary sector but without the funds for the task following. Whilst this is presented as a way of engaging the community and reducing the size of the State, it runs the risk of simply becoming a method for Government to abrogate responsibility, in the hope that there are enough caring people, with sufficient time on their hands, to take up the slack.

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Sir, before addressing the reasons why I believe it is important that such initiatives and programmes are funded, I am aware, in bringing this amendment, that there has been a reluctance historically to endorse any form of hypothecation. In 2009 the Environment Department brought forward proposals to introduce an annual parking clock charged at £26.00, with the funds so raised being ring-fenced for the Transport Strategy. Treasury and Resources' supporting and supportive letter appended to that Report stated the following

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'There is, of course, often a fine line between a charge and a tax and the Treasury and Resources Department's stance on opposing the hypothecation of any tax is well known. However, on balance, my Department has concluded that the Environment Department's proposals are for the introduction of a new charge rather than a tax'.

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However, that was not the end of the story, as Deputies Brouard and David Jones brought a successful amendment to the Report which, amongst other things:

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"agreed that the Island's Road Transport Strategy should be funded in part by an increase of 1.2 pence per litre in the duty of petrol and gas oil."

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So we have it clearly shown that the hypothecation is the ring-fencing of taxes, not charges and, in 2009, despite Treasury and Resources' aversion to the concept, the States passed the amendment and approved a hypothecated tax for the Transport Strategy.

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One might, of course, observe that, on that day in 2009, the aversion to any form of paid parking ran deeper than the aversion to hypothecation (*Laughter*). I do hope, therefore, that the fifteen Members in this current Assembly who supported the Brouard amendment will consider today that they are more averse to people suffering from avoidable smoking-related illnesses than they are to hypothecation.

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Having reminded Members of that precedent, the next issue I would like to dwell on briefly is the efficacy of the programmes that this amendment is designed to fund. In essence, there are two main objectives: firstly, to help people to stop smoking and, secondly, and equally importantly, to try and discourage them from starting in the first place.

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Smoking rates have been in decline for some time but this is not due to just one single factor and *that* is an important point. Progress has been made precisely because numerous factors have come together to pull in the same direction. If we are to see this decline continue, then we need to ensure that multiple measures, such as incremental legislation, pricing strategies and educational and other assistance programmes are maintained.

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I have done some research on the value of smoking prevention measures generally. In a recent peer review study of over 10,000 young people, it was shown that appropriate programmes delivered effective and sustained reductions in the uptake of smoking and had an impact in changing cultural norms around smoking. The *British Medical Journal* review of the effectiveness of anti-smoking interventions from the Cochrane Library found that the most productive measures included structured interventions from medical professionals, nicotine replacement therapy *and* individual and group programmes. The report also emphasises that many people make attempts to quit and will benefit from the availability of a range of aids and programmes to assist them.

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The Assist Programme, which is a peer-led intervention, has shown, in a controlled group study, a sustained reduction in the number of schoolchildren taking up smoking. It is particularly important to try and discourage young people from starting to smoke. Figures from the Guernsey Adolescent Smoke-free Project show that, since it started in 1997, the incidence of smoking by 15-year old boys has fallen by two thirds, from 35% to 12%. In the same period, however, the number of 15-year old girls smoking has fallen by less than one third. This is, of course, of additional

3020 concern if and when these young women in the future become pregnant and have difficulty giving up smoking. Evidence shows that at least two thirds of smokers would like to quit. At paragraph 3.18. the Budget Report states that

3025 ‘There is strong world-wide evidence that the demand for tobacco is price sensitive... [and] real-terms increases [...] are a powerful motivator for smokers to quit and to deter young people from starting...’

3030 So the effect of this amendment, which would increase the cost of a packet of twenty cigarettes by 3.5 pence on top of the 21 pence in the Budget, will help to deter people from smoking, both from a cost point of view and, at the same time, by providing them with assistance to stop smoking or to avoid starting.

I, therefore, move:

3035 *1. In Proposition 5 to add at the end of the words ‘, but to direct the Treasury and Resources Department to increase the 2013 budget of the Health and Social Services Department by £50,000, funded by a transfer from the Budget Reserve, to be used specifically to fund appropriate States and/or voluntary sector educational and other programmes to discourage commencement and/or encourage cessation of smoking’.*

2. In Proposition 6 to delete

3040	<i>‘Cigarettes</i>	<i>£248.78 per kilogram</i>
	<i>Cigars</i>	<i>£231.02 per kilogram</i>
	<i>Hand rolling tobacco</i>	<i>£215.13 per kilogram</i>
	<i>Other manufactured tobacco</i>	<i>£186.60 per kilogram</i>
	<i>Tobacco leaf – unstemmed</i>	<i>£207.13 per kilogram</i>
	<i>Tobacco leaf – stemmed</i>	<i>£209.22 per kilogram</i>

3045 *and substitute therefor:*

	<i>Cigarettes</i>	<i>£251.13 per kilogram</i>
	<i>Cigars</i>	<i>£233.20 per kilogram</i>
	<i>Hand rolling tobacco</i>	<i>£217.16 per kilogram</i>
	<i>Other manufactured tobacco</i>	<i>£188.36 per kilogram</i>
3050	<i>Tobacco leaf – unstemmed</i>	<i>£209.09 per kilogram</i>
	<i>Tobacco leaf – stemmed</i>	<i>£211.20 per kilogram</i>

3. To insert after “The Excise Duties (Budget) Ordinance, 2012” in Proposition 7: ‘, but subject to the deletion of:

3055 *‘1. Tobacco and tobacco products*

	<i>a. Cigarettes</i>	<i>£248.78 per kilo</i>
	<i>b. Cigars</i>	<i>£231.02 per kilo</i>
	<i>c. Hand rolling tobacco</i>	<i>£217.16 per kilo</i>
	<i>d. Other manufactured tobacco</i>	<i>£186.60 per kilo</i>
	<i>e. Tobacco leaf – unstemmed</i>	<i>£207.13 per kilo</i>
3060	<i>f. Tobacco leaf – stemmed</i>	<i>£209.22 per kilo’</i>

and the substitution therefor of:

	<i>‘1. Tobacco and tobacco products</i>	
	<i>a. Cigarettes</i>	<i>£251.13 per kilo</i>
	<i>b. Cigars</i>	<i>£233.20 per kilo</i>
3065	<i>c. Hand rolling tobacco</i>	<i>£217.16 per kilo</i>
	<i>d. Other manufactured tobacco</i>	<i>£188.36 per kilo</i>
	<i>e. Tobacco leaf – unstemmed</i>	<i>£209.09 per kilo</i>
	<i>f. Tobacco leaf – stemmed</i>	<i>£211.20 per kilo’</i>

3070 *EXPLANATORY NOTE*

3075 *The effect of this amendment would be to increase the cost of an average packet of 20 cigarettes by 3½ pence (and other tobacco products by a proportionately similar amount) over and above that increase recommended by Treasury and Resources in paragraph 3.16 of the 2013 Budget Report by means of an additional 1% increase in excise duty, thereby raising £50,000 to be used to discourage commencement and/or encourage cessation of smoking.*

I would ask Members to support this amendment.
Thank you.

3080 **The Bailiff:** Deputy Conder, do you formally second the amendment?

Deputy Conder: Yes, sir.

3085 **The Bailiff:** Thank you.
Deputy Gollop.

Deputy Gollop: Sir, I am actually – despite being a smoker – going to support this amendment for a variety of reasons.

3090 One of them is that the actual impact of the amendment, within itself, of the 3½/4½ pence is very marginal for smokers. I actually think, in a broader context, that the States as a whole, Heath and Social Services and even Treasury and Resources, should think more seriously about the cost of indirect taxation which they pile on alcohol, and especially tobacco, because a very large number of not very well off people find themselves addicted or drawn to those products and it represents a very regressive tax on people, some of whom have disabilities, mental health impairments and so on.

3095 Nevertheless, what we cannot do today is right all the wrongs of our incoming equalities and other factors and looking at the merits of this amendment, it was a very curious debate last month that Health and Social Services won the day with a package of measures, against a degree of opposition from Commerce and Employment and elsewhere – yet it was revealed that they had reduced funding to Quitline and that kind of thing. Given their financial status, that was not *entirely* surprising but that makes the point that if we as a House and an Assembly, going beyond the Departmental decision-making, want to make the point that the carrot is better than the stick and we should be encouraging the third sector, the partnership, the education, we must support the amendment on those grounds, on public health and children’s welfare grounds.

3100 But I think, too – and the point has been flagged up already – this does also represent a way forward that, from time to time, there are special cases, the buses being another exception, where a degree of hypothecation and *targeted* taxation works. Did I not hear the other day – I was fascinated to hear – quite a lot of news about the increasing efficiency of the Housing Department and the changes being made, in terms of a quicker turnaround with housing licences? At the same time, it was reported that there would be a slight fee increase and that fee increase did not just reflect RPI, it reflected a better service. That is a degree of hypothecation because it is not going into General Revenue and coming out again.

3105 So, for all those reasons, it is time to be less dogmatic on the point and support this amendment.

3115 **The Bailiff:** Does anyone else wish to speak on the amendment?
Yes, Deputy Soulsby.

3120 **Deputy Soulsby:** Firstly, I would like to declare my interest in this debate, as Patron of GASP. I welcome this amendment. In the debate on tobacco licensing last month I requested that the Minister of HSSD confirmed that, if he was not *able* to direct resources on services that prevent young people from smoking, his Department would think laterally as to how it could raise those funds, either through fees or duties, to ensure that we do not see a reversal of all the good work that has been done over recent years to reduce the prevalence of smoking in under-18s. I did not get any assurance that would be the case and the Deputy Minister said there was no chance of getting any funding. This is despite the fact that the solution is simple and easy to implement.

3125 Members may know that there was a 2011 update Report to the Tobacco Strategy for 2009 – 2013. In Section 11 of that Report, it states that the HSSD Minister wrote to the T & R Minister of that time, requesting a Tobacco Duty increase from RPI plus 3% to RPI plus 5% for 2012 and 2013 and that this was accepted and incorporated in the December 2011 Budget for 2012. However, both this year and last year, the proposed increase was actually RPI plus 3%. I am still awaiting an answer from HSSD regarding this anomaly. It may well be, therefore, that it was always the intention to raise duty by more than that proposed by T & R.

3130 Guernsey has seen great success in reducing the incidents of teenage smoking, due in no small part to the educational programmes which have been in place over the last fifteen years. It seems only right and proper that we raise and ring-fence what is a relatively small amount of money to ensure that the educational and other associated programme providers can continue their good work. Without any States funding, GASP *will* cease to exist. This will be cruelly ironic in this Olympic year, when it has played a big role in bringing the Olympics alive in Guernsey. For example, GASP organised for 300 youngsters to have pride of place in the smoke buster fan zone during the torch relay, producing a good luck banner for our three Olympians, Heather Watson,

Carl Hester and Lee Merrien and producing a booklet called 'From Torteval to London – how to become a Guernsey Olympian', written about Lee who, incidentally, is a GASP ambassador.

3145 None of the people I know who smoke, want to smoke. They all of them started smoking when they were at school. Peer pressure and wanting to look cool amongst your friends are the strongest influences on young people and this will always be the case. Also there are smokers I have talked to who have reservations about the efficacy of a licensing regime. There has not been one I have met who has objected to paying more for a packet of cigarettes if it meant that the extra funds raised would go directly towards tobacco education and to help protect the health of their children.

3150 I would urge Members to support this amendment, which is fully aligned to the future 20/20 vision of promoting, improving and protecting the health and social wellbeing of all.

The Bailiff: Deputy Luxon.

3155 **Deputy Luxon:** Sir, thank you.

I would not normally want to tinker with T & R's Budget Report and Deputy Fallaize did just remind me, on the way out, that it seems odd that Policy Council do not fully support the Treasury and Resources Minister but I do not think it is odd: we are here to listen and to make our own decisions.

3160 Two weeks ago, when we had the debate on the Tobacco Health Licensing Regime, I did not agree with many of the Propositions but one thing I think we could all agree with was that a 38% reduction to 16% – I think I have quoted correctly from the Minister of HSSD – was a fantastic achievement over the last few years in terms of the number of smokers in this Island. The one regret was to see that there was going to be a reduction of money spent on that educational process of trying to ensure that children do not start smoking.

3165 In Jersey, sir, their Budget Report recently announced a 13.5% increase in duty so, even with this surcharge that Deputy Burford is proposing, it would still be half the rate of the increase that Jersey is seeing. Therefore, I do think it aligns itself to the Tobacco Strategy – although it is not within the Tobacco Strategy – and I will support this amendment.

3170 Thank you, sir.

The Bailiff: Deputy Trott.

3175 **Deputy Trott:** Sir, briefly, I thought Deputy Burford was very candid and very fair with the Assembly, when she proposed this amendment, by making it clear that, on the one and only previous occasion where this Assembly has supported hypothecation, it did it because, under those circumstances, it was *absolutely* the lesser of the two evils. The reasons why it is very, very rare – it is not unprecedented but, certainly, there is only one previous occasion, as we have said – is because what amendments like this do is micro-manage Department's budgets and, at the same time, make the Treasury and Resources job that much harder.

3180 Whilst, on the face of it, it is laudable and, in isolation, almost everything that comes before this Assembly *is*, I would ask Members to reject this amendment, not because the sentiments are not entirely, as I say, laudable but, because if you do, you will open a Pandora's box that will see, I think, a *plethora* of Budget amendments in the future. That will seek to micro-manage, as I say, and to create an environment where it would make it *extremely* difficult for the Treasury and Resources Department to know quite where it was:

The Bailiff: Deputy Duquemin.

3190 **Deputy Duquemin:** To pick up on Deputy Trott's points, I think, if I heard him right, he was talking there about making the job of the T & R Minister, in 2012, making his job harder. I am not interested in that, to be honest, I am interested in making the job of the Health Minister in 2050, I am interested in making *his* job easier.

3195 I do not think it may be Deputy Adam in 2050 but, whoever is in the hot seat, the teenagers that Deputy Burford spoke of, that GASP... and I spoke at our last meeting on the subject of tobacco legislation with great admiration of what GASP are doing, to have made a big contribution towards reducing teenage boys' smoking by two-thirds, teenage girls smoking by one third... We want that work to continue because prevention is certainly a lot cheaper than cure.

3200 **The Bailiff:** Deputy Fallaize, then Deputy Hadley

Deputy Fallaize: Thank you, sir.

It is difficult to disagree with the case made by Deputy Trott. *However*, I am going to vote for this amendment (*Laughter*) for two reasons.

3205 The first relates to this issue of hypothecation. T & R's position has always been that hypothecation was undesirable for the reasons that Deputy Trott has laid out. However, in the last States – and I knew I would be able to get Rule 15.(2) into this debate somewhere... (*Laughter*) T & R was very, very keen on establishing Rule 15.(2)... I do not have my Rule Book in front of me, but I know that Rule 15.(2) requires that any – I don't think I need it, Mr Procureur, (*Laughter*)
3210 you have pointed it out to me enough times! – Proposition which would have the effect, or could have the effect, of increasing the aggregate revenue expenditure of the States must do certain things, one of which is to identify where the additional revenue will come from.

In the days when T & R started opposing hypothecation, that Rule did not exist, so it would have been quite reasonable for Deputy Burford to have laid an amendment proposing an additional
3215 £50,000 for HSSD but not trying to prescribe exactly where the money would come from, simply making the case for the additional investment in anti-smoking programmes, and leaving T & R – if the States approved that amendment – to decide exactly how to fund that. As I say, it was T & R who fought for the introduction of this Rule 15.2, which requires Members who move amendments which have spending consequences to identify exactly where that money was going
3220 to come from. I remember arguing, as a member of SACC at the time, to T & R, 'If you push the States down this route, you are bound to provoke a whole series of amendments, in which Members propose spending initiatives of only a few thousand pounds and they will be trying to raise duty by a few percentage points on this, or raise income tax by a little bit and that would not be in T & R's interests.' I think today vindicates that view.

3225 Deputy Burford has not got any choice if, as a States, we believe that it is necessary to fund these anti-smoking programmes and surely, in principle, we do. Deputy Burford, in moving this amendment, has *got* to identify a potential source of funding. If this amendment is going to make the life of the Treasury Department so difficult, if I had been in the position of the Treasury Department I would have laid an alternative amendment, saying to the States, if you want to give
3230 HSSD an additional £50,000 to run anti-smoking programmes, do it and *we* will decide exactly where the money will come from because we are the Treasury. But that is not what T & R has done. I do not think that T & R can continue to be vehemently opposed to hypothecation *and* force Members moving amendments to identify exactly how they would fund spending initiatives, because they are mutually exclusive.

3235 The *second* reason that I will vote for this amendment is to do with an interview that I heard with Professor Richard Dull – it was obviously a very old interview because the gentleman died six or seven years ago, but I only saw the interview recently – he was the gentleman who first established a link between tobacco smoking and lung cancer. He said if he could give policymakers one piece of advice it would be *not* to pump investment into trying to discourage
3240 people from *starting* to smoke because all of the research shows that relatively short periods of smoking while people are young *does not* have a very significant effect on the number of years lost. He said 'I would pump all the investment possible into programmes to try to encourage people to stop, because all the money that you spend on smoking cessation programmes, you will save many times over', as Deputy Duquemin referred to, through your Health Service in later
3245 years.

So it seems to me that the case is very, very strong to invest this £50,000 in smoking cessation programmes and, for the reasons that I have just outlined in respect of hypothecation and Rule 15.(2), I do not think we can hold the first part of this amendment against Deputy Burford. Therefore, I think, as a package, we should support it.

3250 Thank you, sir.

The Bailiff: Deputy Hadley, then Deputy Sherbourne.
Deputy Hadley.

3255 **Deputy Hadley:** Mr. Bailiff, I rise to disagree with Deputy Trott – not for the first time in the last Assembly – I think we have an excellent form of government.

The problem is that we elect Departments of five people to set the policy and set the agenda. They don't *always* get it right. In the last Assembly, we were all continually criticised for micro-managing Departments. Well, I don't think we are micro-managing Departments: what we are
3260 doing is saying, this particular incident, you haven't got it quite right, we want to make this change...

I think it is vital that we continue to challenge Departments and place amendments. It is what makes our system of government so much better than elsewhere, where you have little power to

overcome what the Government wants to do.

3265 So I would urge Members to support this very sensible amendment.

The Bailiff: Deputy Sherbourne, then Deputy Brouard and then Deputy Paint.
Deputy Sherbourne.

3270 **Deputy Sherbourne:** Thank you, sir.

Mr Bailiff and fellow Deputies, during the debate on Tobacco Licensing, I requested the Minister of HSSD to commit to a review of the implications of them reducing and/or removing financial support from organisations like GASP, who currently provide anti-smoking education in our schools.

3275 This amendment proposed by Deputy Yvonne Burford will go some way to maintaining current educational provision. It is essential that the progress made to date is maintained, as tobacco companies are still battling for the hearts and minds of those who have the potential to become smokers. The important work undertaken by private organisations and support groups in our schools and our community need to be encouraged. In fact, the evidence that we have heard
3280 about this afternoon suggests that they are the best sort of joint venture, where Government supports private individuals with their work. However, these initiatives cost money and it is to the credit of HSSD that they have previously supported this work. It is just a great shame that they feel unable to continue with this support, due to other health-related expenditure.

3285 I am reliably informed that GASP will *not* be able to continue with its supportive work in schools since the reduction has been announced. Therefore, I do ask, as a small measure but a very important one, that we support Deputy Burford's amendment and ensure that monies are made available for these joint ventures to continue.

3290 **The Bailiff:** Deputy Brouard.

Deputy Brouard: Thank you, sir.

I, like Deputy Soulsby and Deputy Sherbourne, also asked the Minister of HSSD, when we were having the tobacco debate, as to where the funding would come from in his summing-up, but I did not hear it then. I think we are very lucky this afternoon to have the opportunity to put that
3295 funding in place.

We are not always blessed with amendments which actually have real meaning. This is one that has got real meaning: it is not on some archaic point of law. It actual exists. We hypothecate
3300 *now* there is a very, very thin line between taxes and charges. It really depends on smoke and mirrors when you deal with the Departments because, one day, if they want to do it, it's white, if they don't want to do it, it's black – and the next day the colours turn around! Sir, we do do it now. It just depends on who has got the majority at the time.

And I think, thinking about the words from one of my colleagues this afternoon, we have an opportunity here for a 'cup of common sense'. This is probably about the best present we could give our kids on the Island this Christmas. Let them have that.

3305 Thank you.

The Bailiff: Deputy Paint.

3310 **Deputy Paint:** Sir, Members of the Assembly, I will be voting against this amendment. I know I will be in the minority, but there you go.

I am rather surprised that, as was said earlier, Jersey is seen to put up their prices by 13½%, which will put them at very nearly UK prices, yet at the presentations we had regarding this the Customs, I believe, were telling us there would be massive smuggling. So there won't be any
3315 smuggling for Jersey? I think that was a bit of an overkill.

I do not *believe*, as was said earlier, that we should be supporting any pressure groups, of any sort. People, pressure groups can only focus on one thing, that's all. We have seen some that have borrowed money to go out on initiatives that they cannot pay and have not worked. So are we
3320 [*Inaudible*] supposed to have a ministry of pressure groups? Perhaps we need another Minister on the top table. I don't think so.

I think I have said all I can say and I am sad to lose this one.

The Bailiff: Deputy Adam.

Deputy Adam: Thank you, sir.

3325 I feel I have to answer some of the questions that have been posed about... to help in the health direction. But, first of all, the amendment has changed. It states quite clearly

'...to be used specifically to fund appropriate States and/or voluntary sector educational and other programmes.'

3330 It is, I believe, not as prescriptive as it was. It is much better, that wording. Why do I say that? The issues, as far as we are concerned, is that if it was direct to specify GASP, or something, then that's fine, but what HSSD have done about education is actually taken it in-house to a certain extent. At the present time, the education in the schools consists of a PHSE post – which is a
3335 Personal Health and Social Education post – that is hosted between Education Department and HSSD health promotion. This person goes into schools to support the teaching of PHSE in schools and, in particular, to support primary school teachers, who teach good tobacco education. This post also supports other school-based health education, e.g for alcohol harm awareness. It represents good value for money and is a splendid example of Health and Education working together. It is neither evidence-based, nor cost effective to send in a specialist teacher to teach
3340 under-11s. It is much better for teachers who are primary trained to do this, supported by lessons, materials and training from the PHSE co-ordinator and health promotion. So we have one PHSE worker.

The next thing is that HSSD is going to employ what is called a tobacco education worker as soon as possible. That will actually provide specialist tobacco education lessons to Year 6 – that is
3345 the last year of primary – and in secondary schools, one lesson in each school year for each class. That is how the service that has been provided by GASP was brought in-house. The other aspect is that we have also committed to £10,000 to start delivering what Deputy Burford said was ASSIST, which is an evidence-based programme to deter young people from smoking. So, as I say, if this amendment is successful, the money *will be* spent in these areas not, as I say, for assistance – we
3350 are funding that ourselves – not necessary for the tobacco worker, either, because we are funding that ourselves, *but* it will make sure it gives a firm footing and future proofs the PHSE worker that is jointly funded by Education and Health.

Sir, I just want to mention briefly there to Deputy Gollop the reduced funding to GASP was because of taking over the teaching aspect and not Quitline. Deputy Soulsby mentioned the fact
3355 that, one year, we sneaked in RPI plus 5% increase in tobacco and I am not too sure why it is not in again but it is not.

The other thing is hypothecation aspects. I did, or the HSSD Board did, write to T & R in relation to hypothecation earlier on this year and got a letter back which was less dogmatic than
3360 the last time the last Treasury Board wrote, who said just 'No, you cannot do that'. When I asked the Minister of T & R about it, in relation to paying for the licences for retailers, they decided that it was not a suitable way of collecting money for that.

Deputy Paint mentioned the increase in tobacco and the risk factor: if you put it up too high, that you have got the increased risk of smuggling or excess duty free. As you say, Jersey put it up
3365 by 50 pence for a packet of twenty because their Customs does not feel that it will make that much difference. Different opinions from different Customs...

All in all, since it is £50,000, yes, I would be quite happy this *did* come to HSSD and, *yes*, I can assure you that it will be used, as I said, for the teaching aspects and make sure that it is future proofed.

3370 Thank you, sir.

The Bailiff: Deputy Storey.

Deputy Storey: Sir, I am absolutely *amazed* by the comments made by the Minister of HSSD.

Here we have a voluntary organisation, which is providing a service which is of use to the
3375 community, and HSSD feels it appropriate to recruit additional people onto the staff of the States to do exactly the same job. I am not aware that any business case was presented to show that *either* that it was going to be cheaper, or that it was going to be more effective. I suspect neither and I am absolutely amazed that, as a result of *this* amendment, HSS are going to grab hold of an extra £50,000 into their maw to increase the number of people they employ and starve a very good and
3380 effective voluntary organisation of the funds to enable them to carry on with their job.

I honestly feel, as I was sitting here, listening to the debate, I did not have a particularly strong view either way. I am happy to say that what the Minister has said now has absolutely amazed and annoyed me and I really do believe that there is something considerably wrong with the way that we run business in this States.

3385

The Bailiff: Deputy Conder.

Deputy Conder: Thank you, sir.

I have... [*Inaudible*] As my friend Deputy Dave Jones frequently reminds us, smoking is an entirely legal activity and I agree with *him* in believing that, as far as possible, parliamentary institutions should minimise the extent to which they tell their fellow citizens how they should lead their lives. Like him, I would be against making smoking illegal. However, having said that, governments *do* have responsibility to make their fellow citizens aware of the dangers presented by activities in which they freely choose to engage. Through education and fiscal policies, governments should actively discourage the public from engaging in activities which will be detrimental to themselves and a significant financial burden to their fellow citizens.

Sir, I am pleased to second this amendment, as I believe it is imperative that we, as an Assembly, commit ourselves to the steady and progressive elimination of smoking within the population, as I said, by persuasion rather than legislation. This amendment is entirely cost neutral in terms of the exchequer, in that it is achieved by hypothecating the additional taxes raised, to be utilised in educating non-smokers and existing smokers as to the dangers of smoking. Indeed, if it has *any* fiscal impact, it is almost all entirely positive, in that, for every individual who is persuaded not to smoke or give up smoking, there is a significant long-term saving in terms of reduction in long-term care, working days lost and productivity.

I am aware that hypothecating tax is usually an anathema to Treasury officials and I apologise to the Treasury Minister for seeking to impose this amendment upon him and his team at such a time, but I believe that research and experience elsewhere in the world demonstrates that hypothecation, in *this case*, is an effective tool and fully justified. Hypothecated taxes are sometimes called ‘ear mark taxes’ and there are those whose revenues are designated to be spent on a particular programme or use. There are many examples of hypothecated taxes, including some licence fees, road tolls of certain insurance contributions. Such taxes provide taxpayers with in-built accountability for public spending and can inform people about the cost of a particular service such as, in this case, healthcare education.

Understandably, finance ministries rarely endorse hypothecation as it undermines their mandate to allocate budgets, as they see appropriate. Indeed, there are other documented arguments against hypothecation. Again, I apologise to our Treasury Minister who, in my opinion, has the toughest brief in our Government and is handling that brief with extraordinary skill and energy. However, on this occasion, I do hope this modest amendment will not add to the burdens of his office and he will feel, even at this late stage, able to support it.

Hypothecated taxes are often described as ‘sin taxes’. They are levies on consumption of products that are harmful on health but not illegal. They raise funds on health spending and discourage health-damaging behaviour. By way of example, in 1987 the Australian State of Victoria implemented the world’s first hypothecated tax for health in the form of tobacco control legislation That added a 5% levy on tobacco products, whose revenue was then used to fund a newly formed independent health promotion foundation called Big Health. Australian medical researchers argued that the combined effects of education, mass media campaigns, restrictions on tobacco advertising and increases in cigarette price account for most of the continued decline in tobacco consumption in Australia. By one estimate, the Australian Government saves twice as much in health care costs as it spends on education programmes.

Other countries that fund health care education promotion from hypothecated tax include Finland, South Korea, Portugal, Thailand, Belgium, Egypt and, in the United States, Alaska, Arizona, California, Maryland, Massachusetts, Michigan, Oregon and Utah, to name a few.

Sir, the benefits which would flow from this proposal are twofold. Firstly, all research shows an increase in the price of tobacco products are a cost effective way of reducing consumption, as tobacco has a price elasticity of around 0.5%, which means that a tobacco price of 10% reduces consumption by 5%, so there is a direct link between increase in price and falling in consumption. A study of eighteen European countries proved that tobacco tax increases were the most effective component of nationwide tobacco-controlled policies in inducing quitting and that, for every 1% increase in price, consumption reduced by 0.49%. That is exactly the same figure as I quote just now but from a different source and, indeed, this figure was higher for young adults and teenagers in colleges.

I should contain this cold within St. Peter Port North, if I can help it – (*Interjection and laughter*) Sorry. A more recent piece of research concluded that a rise in excise taxes and prices is effective in reducing tobacco consumption and the prevalence of tobacco use and helps the prevention, initiation, uptake amongst young people. Thus the first outcome... that this amendment is entirely positive, in terms of what I think is all of our objective, is a reduction in

smoking. An increase in the price of tobacco products decreases uptake and continuation of smoking. That is the first effect of this amendment.

3450 I now turn to the second beneficial effect of the enactment of this amendment, and that is a reduction in smoking through the implementation of educational and other programmes to discourage commencement and/or encourage cessation of smoking. Studies have shown that, in some countries, the smoking prevalence of between 3.4% and 17.1% in secondary schools and the main factors influencing smoking habits of adolescents is peer influence, parental influence, advertising and, most significantly, low levels or no anti-smoking education. Research also shows
3455 that the younger the age at initiation of smoking, the more tolerance and dependence on cigarettes, and cessation of smoking is more difficult. Anti-smoke health education and intervention programmes in a variety of countries have found that, amongst children exposed to education, children's confidence increased and the use of tobacco decreased, compared with children who did not receive anti-smoking education.

3460 Sir, a recent 2011 study reported in a health science journal utilised a group exposed to anti-smoking education and a control group who were not. At the end of the study it was shown, amongst those exposed to anti-smoking education, the number that were still smoking had fallen by 4%. Of those *not* exposed to anti-smoking education, there was no reduction. So there was an immediate 4% reduction in those who benefited from anti-smoking education. Further, of those
3465 exposed to the anti-smoking education programme that were *still* smoking, a further 16% intended to stop as a result of the anti-smoking education programme whilst, in the control group, not exposed, less than 6% intended to stop.

In conclusion, Health Education has been demonstrated to be effective in improving the knowledge of students and others to the dangers of cigarette smoking and it also has changed attitudes towards cigarette smoking, as many of them now wish to stop. Is it because there was a significant statistical difference in the knowledge and attitudes of responses in the intervention group, compared with the control group? There is clear, researched evidence that increasing tax on tobacco products and exposing potential and existing smokers to anti-smoking education, has a significant combined, measureable and cumulative effect upon levels of smoking.

3475 I would normally be one of the last Members of this Assembly to propose an increase in taxation or revenue expenditure but this hypothecated tax on tobacco products achieves significant gains at both the input and the output stage. This is a piece of legislation that we could enact which would impact positively on significant parts of this community now and in the future, with no increase in net revenue expenditure and of which we can all be rightfully proud.

3480 Let us give this Island a Christmas present which will not just be for this Christmas, but will last for generations. I urge colleagues to approve this amendment.

The Bailiff: Deputy Adam, you wish to correct something, I understand.

3485 **Deputy Adam:** Yes, sir, I feel what Deputy Storey said was not quite accurate.

He suggested that HSSD had 'taken over' this duty. In March of this year the Medical Officer of Health, the Environmental Health and Pollution Regulator and Health Promotion had discussions with GASP, because the teacher they had at that time had been successful in getting a full-time teaching job, I think in St. Sampsons High School, and they felt that it was really quite a burden to someone having to recruit and arrange and everything for a teacher. Therefore, they were, at that time, quite happy for us to take over the teaching and these aspects.

The system that has been put in place, yes, it is slightly cheaper –

3495 **Deputy Soulsby:** Point of correction, again, there.

As I said, in the meeting last month, yes, it was last month that actually GASP, when they had that meeting, were under the impression that the actual work would continue exactly as before, that HSSD would do the exact... use a full-time worker to complete the same tobacco education as GASP did. It is only subsequently did we understand that it is a part-time person, working part-time only and still, at this moment in time, there has been no tobacco education since September and they still have not managed to recruit that person.

Deputy Adam: Sir, I accept that we have not managed to recruit that person yet. It is advertised but no-one has been able to be recruited.

3505 The way of providing the education *is* evidenced based, it is considered cost effective and it is felt better by the Education side to have the PHSE post training the classroom teachers to provide the education through classes and providing the material etc The system from Jersey *is* effective... sorry, not from Jersey, Jersey *is using* it. It is effective, is evidenced based and is, therefore,

proven to be as good, if not a better, way of providing the education that is required.

3510

Thank you, sir.

The Bailiff: Does anybody else wish to speak on this amendment?
Alderney Representative Arditti.

3515

Alderney Representative Arditti: Thank you, sir.

This amendment, in my view, clearly constitutes special pleading during a Budget debate.

Although on other occasions I would – I do – support Education about smoking, I will vote against this amendment because it seems to me it does not properly form part of a Budget debate. This is not the proper way, in my view, of conducting a Budget debate. This is not the time for special pleading.

3520

Indeed, I wonder, if we were to pass this amendment whether, in fact, this Assembly would find itself in bad governance. I do not know if the Assembly is capable of ‘bad governance’, but it just seems to me that the passing of this amendment would qualify as bad governance.

3525

The Bailiff: Chief Minister, Deputy Harwood.

Deputy Harwood: Thank you, sir.

I can assure Deputy Conder that the cold is spreading to St. Peter Port South as well as St Peter Port North! (*Laughter*)

3530

I will be joining Deputies Trott and Paint, again a very small minority. I will be opposing this particular amendment and I do so because of my concern about the principle of hypothecation.

3535

Deputy Trott, in his speech, referred to the opening up of a plethora of similar amendments. I would prefer to use the word ‘precedent’ because, if we concede this particular amendment, we will be opening up a precedent which can be used frequently against this Assembly on future occasions. I think that is very dangerous and I would urge all Members of this Assembly, therefore, to vote *against* this particular amendment, notwithstanding that it is highly laudable.

3540

I am sure none of us would doubt the sincerity and the principle behind it but I would also add that I am aware that there are a number of grants made to the voluntary sector by individual States Departments, but those grants are within their individual mandates and are also at the discretion of those individual Departments. I think that is the appropriate method for supporting such projects as GASP or any others.

So I would urge all Members of this Assembly to reject this particular amendment.

The Bailiff: Deputy Brehaut.

3545

Deputy Brehaut: Thank you, sir.

I will be a couple of minutes – special pleading – asking that Members do support this amendment.

3550

Let us not get lost on what we mean by hypothecation. This is a very simple amendment that attempts to right what was fundamentally a wrong. The axing, of necessity, of funds to a charity has left a gap which is being picked up by this amendment through hypothecation and, with regard to the exchange between Deputy Storey and my Minister, the amendment says:

3555

‘Treasury and Resources Department to increase the 2013 budget of the Health and Social Services Department by £50,000, funded by a transfer from the Budget Reserve, to be used *specifically* to fund appropriate States and/or voluntary sector educational [and other] programmes...’

3560

So there is a spirit and intent and absolute wording to that amendment that any Department would have to interpret and act on, in the manner that this Chamber would expect it to. But let us not lead them by the strategic hand all the time to the moral high ground of the obesity strategy, to well being, and then *argue* over children’s health because of the integrity of hypothecation. The absence of hypothecation is *killing* the bus service. The absence of hypothecation is killing the bus service. The absence of hypothecation has the very real risk to harm children’s health, so *please* support this.

3565

There is a speech missing here today – and I cannot remember who usually makes it: ‘This is an attack on the *working man!* (*Laughter and interjections*) This is an attack on the *smoker!* Why don’t you get off the back of us?’ We are not going to hear that speech today because there might be a Minister in the offing somewhere, sir! (*Laughter*) (**Members:** Oh!).

The Bailiff: Is there anyone else wishing to speak?

3570 Deputy Langlois you are on your feet...
Okay, he has given way. Deputy James, if you can switch your microphone on first.

Deputy James: Thank you, sir.

I get to my feet in essence to support Deputy Storey's comments and reiterate them.

3575 In essence, when Deputy Burford spoke to me about supporting this particular amendment, I was very mindful to do so under the assumption and, obviously maybe wrongly, that any monies raised from this amendment would, in fact, go towards supporting the voluntary sector. I may have been wrong in assuming that because my thinking, my belief, on it was in the context that HSSD had withdrawn the funding from GASP, so the concept of it, I was very supportive.

3580 I now have a great deal of anxiety about where this additional funding will actually go to and I find myself thinking, listening to the debate, whether we could be in a similar scenario in five years' time, where budgets are tight once again and funding of this nature is stopped or withdrawn so, at this point, I now have a great dilemma without any *assurance* of where this funding will actually go.

3585 Thank you.

The Bailiff: Deputy Langlois.

Deputy Langlois: Thank you, sir.

3590 I will be very brief but if the Members will look at page 48, there are some quite big numbers there and I would just like to get this in perspective because we have got a problem here. It has been expressed as hypothecation. It has been expressed in various other ways, as micro-management and so on.

3595 The *real* aspect of this Budget debate is has Treasury and Resources, by and large, broadly got the equation right for the coming year? We are going to hear, later on this week, about the performance or otherwise against a budget. A budget is a plan, it is something that is set in advance and it helps you to monitor and control, on occasions, what you are spending. But, overall, this is a *big* picture.

3600 If you take one of the figures on that page, you have got £370,370,000 – a suspicious repetition there. You never know with those coincidences, how they come about. It could be a figure out of the air, but I am not suggesting that. What I am suggesting is you have got nearly £400 million worth of expenditure over the year and we are spending time this afternoon talking about £50,000, which has gone through all sorts of other processes: it has gone through a Department with *specific* responsibilities in this area, who can make another appeal to change their budget on various occasions. This is a slippery slope.

3605 Please reject this amendment because we have got to look at the big picture.

The Bailiff: Deputy Perrot.

3610 **Deputy Perrot:** Just to please Deputy Brehaut, this is an attack on the working man... (*Laughter and applause*). This is an attack on the smoker. (*Laughter*)

Deputy Brehaut: Is this 'Jones-by-proxy'? Is that a condition you can get, sir?

3615 **Deputy Perrot:** I know that Deputy Brehaut loves clichés and he uses them all the time, (*Laughter*) so it is my turn now! (*Laughter*)

3620 The point is tobacco is lethal. If we are going to have crocodile tears about smoking, let us ban it. Let us criminalise it, rather than collecting the thick end of £8 million in duty. There is an awful lot of hypocrisy spoken about smoking and I agree with Alderney Representative Arditti, this is just bad governance. If we really believe smoking is bad, let us outlaw it.

The Bailiff: Does anyone else wish to speak?

No? Deputy St Pier, then, immediately before Deputy Burford replies.

3625 **Deputy St Pier:** Sir, having basked in Deputy Conder's compliments, I fear I am going to disappoint him. (*Laughter*)

3630 With regard to Deputy Fallaize's comments on Rule 15.(2), in fact I think he is slightly mistaken. This amendment could have been brought just with the first part of the amendment, because Rule 15.(2) directs where should the money come from and it says it will come from the Budget Reserve. So it would have been quite possible to have presented this amendment without

the second part of raising the excise duty, not that I am encouraging that, but just to deal with that.

3635 The second part of Deputy Fallaize... I did not think this moment would arrive but I think it has, quite early in my parliamentary term, where I fear that Deputy Fallaize may not actually have properly read the amendment (*Laughter*) because he said he felt that the money should be spent on encouraging the cessation of smoking. This amendment says it should be spent on ‘discouraging the commencement *and/or*’ so it is up to the Health and Social Services Department how to spend it. They may choose to spend it all on merely discouraging the commencement of, which is not necessarily what he wanted.

3640 I think many in the Assembly will be disappointed, or perhaps left confused, by Deputy Adam’s comments that, actually, this money will be spent on the PHSE rather than GASP, because that does not do what Deputy Brehaut said, that it replaces the funds that were axed as a result of the cuts earlier in the year. The implication very much is that this will be spent by HSSD, rather than through the voluntary sector and, again, the amendment says ‘and/or’ so it is up to the Health Department how they choose to spend it.

3645 But this amendment will, I imagine, command some sympathy. I am, indeed, quite sympathetic towards it myself. Those impacted command little support and sympathy and, in view of the debate last month, the logic of raising more funds for anti-tobacco education is quite obvious but, despite this, my Board, with the exception of Deputy Dorey dissenting, will oppose it for three reasons.

3650 Firstly, it will increase overall public expenditure by £50,000 and, in order to stay within the fiscal strategy of no real terms expenditure, it has to be funded by reducing... or from the Budget Reserve which, obviously, reduces the Budget Reserve for other uses. As the Procureur has explained, that is the funding mechanism.

3655 Secondly, this is not part of the wider Tobacco Strategy. We have consistently applied that Strategy in setting Tobacco Excise Duty, as Deputy Soulsby has noted Treasury and Resources follows HSSD’s lead on this topic. There is no evidence, from the Strategy, to support why this is the right sum: this is an *ad hoc* response outside the Strategy and, as Deputy Langlois very clearly put it, it is micro-managing.

3660 Thirdly, in essence, as Deputy Burford has acknowledged, it is hypothecation and the States has historically had a policy of non-hypothecation and a precedent, to take up the Chief Minister’s point, going back some time. The Statement of Principles adopted by the States in July 1996 includes the following:

3665 ‘Income raised by way of tax duty and other sources accrues to the General Revenue Account for allocation across the whole range of States General Revenue activities. Such income is not earmarked for expenditure in the area from which it was raised.’

3670 This is a Trojan horse, as Deputy Trott has said in his speech. This Assembly cannot sensibly and reasonably pander to every Member’s pet project and concern by hypothecation and we do urge Members to reject this amendment.

Thank you, sir.

The Bailiff: Deputy Burford, then, to reply to the debate.

3675 **Deputy Burford:** Thank you, sir.

3680 Referring to the comments by Deputy St Pier, first of all. In fact, he alluded to them earlier on this morning. The 2008 Billet on the Tobacco Control Strategy: these States resolved that there should be an increase in duty on tobacco of a minimum of RPI plus 3% for the five years to 2013. So I do not accept entirely, as the Minister suggests, that this is contrary to the Tobacco Control Strategy. Further, the recommendations for the Strategy, going forward to 2020, also support further increases in duty for the purpose of deterring smoking.

3685 I thank Deputy Soulsby, who is clearly knowledgeable on this subject, for her support. She has explained how GASP will cease to exist without funding, but I am obliged to make it clear to Members – and I think it came out from Deputy Adam’s comments – that in no way does this amendment tie the hands of HSSD on how it should be used, except that it must be used to discourage the commencement and/or encourage the cessation of smoking.

3690 Deputy Trott is worried about throwing open Pandora’s box. If this amendment is successful, and in the highly unlikely event that this Assembly is then deluged in hypothecation requests, I trust Members will vote in an intelligent and informed way on each of them.

I thank Deputy Fallaize for his points on Rule 15.(2) and agree that it would have been infinitely preferable to simply bring the requests for the funding and the T & R to decide where the money should come from.

3695 Coming on to Deputy Adam's comments, I am a little bit confused. I deliberately left the amendment wide open so as not to be too prescriptive because, from my point of view, all I am really concerned about is that the objectives are achieved. I do not wish to be too prescriptive about how they should do it. But I am not too sure, if Deputy Adam convened a meeting of the Health and Social Security Department – Social Services Department, sorry – at lunchtime and the Board then decided how, if this amendment were to be successful, they would spend the funds... Maybe, that is not a decision for today.

3700 I thank Deputy Conder for seconding this amendment and all the supporting evidence he supplied.

Deputy Harwood worries about the precedent being set for hypothecation, but I think Deputy Brouard must take that on.

3705 So I would ask Members, please, to support the amendment.
Thank you.

A Member: Could I ask for a recorded vote on this, please.

The Bailiff: A recorded vote, then.

3710 This is a recorded vote on the amendment proposed by Deputy Burford, seconded by Deputy Conder:

3715 1. In Proposition 5 to add at the end of the words ‘, but to direct the Treasury and Resources Department to increase the 2013 budget of the Health and Social Services Department by £50,000, funded by a transfer from the Budget Reserve, to be used specifically to fund appropriate States and/or voluntary sector educational and other programmes to discourage commencement and/or encourage cessation of smoking’.

2. In Proposition 6 to delete

3720 ‘Cigarettes £248.78 per kilogram
Cigars £231.02 per kilogram
Hand rolling tobacco £215.13 per kilogram
Other manufactured tobacco £186.60 per kilogram
Tobacco leaf – unstemmed £207.13 per kilogram
Tobacco leaf – stemmed £209.22 per kilogram

3725 and substitute therefor:

Cigarettes £251.13 per kilogram
Cigars £233.20 per kilogram
Hand rolling tobacco £217.16 per kilogram
Other manufactured tobacco £188.36 per kilogram
3730 Tobacco leaf – unstemmed £209.09 per kilogram
Tobacco leaf – stemmed £211.20 per kilogram

3. To insert after “The Excise Duties (Budget) Ordinance, 2012” in Proposition 7: ‘, but subject to the deletion of:

3735 ‘1. Tobacco and tobacco products
a. Cigarettes £248.78 per kilo
b. Cigars £231.02 per kilo
c. Hand rolling tobacco £217.16 per kilo
d. Other manufactured tobacco £186.60 per kilo
e. Tobacco leaf – unstemmed £207.13 per kilo
f. Tobacco leaf – stemmed £209.22 per kilo’

3740 and the substitution therefor of:

3745 ‘1. Tobacco and tobacco products
a. Cigarettes £251.13 per kilo
b. Cigars £233.20 per kilo
c. Hand rolling tobacco £217.16 per kilo
d. Other manufactured tobacco £188.36 per kilo
e. Tobacco leaf – unstemmed £209.09 per kilo
f. Tobacco leaf – stemmed £211.20 per kilo’

There was a recorded vote.

3750 *Carried – Pour 25, Contre 20, Abstained 0, Not Present 2*

	POUR	CONTRE	ABSTAINED	NOT PRESENT
	Deputy Brehaut	Deputy Kelly		Deputy Ogier
	Deputy Le Clerc	Deputy Arditti		Deputy Le Tocq
3755	Deputy Gollop	Deputy Harwood		
	Deputy Sherbourne	Deputy Kuttelwascher		
	Deputy Conder	Deputy Domaille		
	Deputy Bebb	Deputy Langlois		
	Deputy Lester Queripel	Deputy Robert Jones		
3760	Deputy Gillson	Deputy Storey		
	Deputy Le Pelley	Deputy St Pier		
	Deputy Fallaize	Deputy Stewart		
	Deputy David Jones	Deputy Trott		

3765	Deputy Le Lièvre Deputy Duquemin Deputy Green Deputy Dorey Deputy Adam Deputy Brouard	Deputy Laurie Queripel Deputy Lowe Deputy Spruce Deputy Collins Deputy Paint Deputy James
3770	Deputy Wilkie Deputy Burford Deputy Inglis Deputy Soulsby Deputy Luxon	Deputy Perrot Deputy De Lisle Deputy Sillars
3775	Deputy O'Hara Deputy Quin Deputy Hadley	

3780 **The Bailiff:** Members, while the votes are counted, I suggest we move on to the next and final amendment, proposed by Deputy Sillars and... No, sorry, I've got the wrong page there. The final one is proposed by Deputy Fallaize, seconded by Deputy Green.
Deputy Fallaize.

3785 **Deputy Fallaize:** Thank you, sir.
I would like to say that you have decided to leave the best and biggest amendment 'til last (*Laughter*) but, sadly, I can't because, of all the Budget amendments moved, the one proposed by me and seconded by Deputy Green is probably the least far-reaching and, in my view, should be the least contentious and, probably, if one was trying to design an amendment to look as boring and as un-sexy as possible, (*Laughter*) this is the kind of wording that one would come up with:

3790 *To insert the following Proposition between Propositions 4 and 5:*
'4A. To direct that as expeditiously as possible, and in any event by no later than December, 2013, the Policy Council and the Treasury and Resources Department shall jointly present to the States of Deliberation a States Report which sets out credible proposals, including a timetable for the implementation of such proposals, to reconcile the inconsistencies which exist at the present time between the States' Fiscal Framework and the prevailing fiscal policies of the States.'

3800 Nonetheless, Deputy Green and I do think that this amendment concerns a reasonably serious issue and an issue which needs addressing, and has needed addressing since 2009. In 2009, the Policy Council persuaded the States to endorse something called a Fiscal Framework, which was, essentially, a set of rules or, as the Policy council referred to it at the time, 'a set of parameters to guide all future States fiscal policy'.

3805 Now, it seems to Deputy Green and I that it might be a useful idea to ensure that the actual fiscal policies of the States are consistent with the fiscal rules or fiscal parameters laid down in the Fiscal Framework because it is the rules of the Fiscal Framework upon which the fiscal policies are meant to be based. But it is not the case that, at the present time, there is consistency between the fiscal policies and the fiscal rules. Indeed, this is the fourth consecutive year in which the annual Budget has been prepared in a way which, to some extent or other, is not fully consistent with the Fiscal Framework.

3810 Much of the Framework *is* adhered to and always has been. For example, the Framework demands that gross borrowing may not exceed 20% of GDP, and it does not. The Framework demands that the annual operating deficit of the States may not exceed 3% of GDP, and it does not. However, it is no secret that, in two, perhaps three, areas, actual fiscal policy is not aligned fully with the rules set out in the Framework. One area is capital expenditure. The second area is balancing the Budget and the third area, about which I accept there is slightly more dispute, is the level of taxation and public expenditure expressed as a percentage of GDP.

3815 Taking capital expenditure first, I draw Members' attention to paragraph 4.26 of the Budget, which explains that

3820 'The States Fiscal Framework assumes a norm for permanent capital expenditure of 3.0% of GDP...'

and, second, to paragraph 4.27, which sets out the level of capital spending over the five year period up to 31 December 2014 and which states, to quote T & R's Budget,

3825 'On this basis, achievement of the States Fiscal Framework [...] would necessitate an increase of around £20 million in the annual transfer to the Capital Reserve.'

3830 Paragraph 4.28 explains that, hitherto, the norm has excluded capital expenditure (capex) of what used to be known as the trading entities and speculates that may be revised in the future. However, at the present time, we know, not from the information I am providing, but from the information provided by T & R, that this is one area where fiscal policy is not fully consistent with the Fiscal Framework and, clearly, that will remain the case until one or other is changed.

3835 That inconsistency has been noted in successive editions of the annual Fiscal Report. This year's version, for example, read:

'The Fiscal Framework sets a target level of expenditure of capital expenditure equal to 3% of GDP. Since the Framework was approved, allocations have been consistently below this level.'

3840 Turning now to the States Budget deficit which, for 2012, is estimated at £31 million and, for 2013, at £17 million, this, too, is not fully consistent with the rules laid down in the Fiscal Framework. The Framework states that identified deficits will be addressed within five years of their appearance, economic conditions permitting, and that measures to counter identified structural deficits are agreed within two years of their identification. The Budget deficit was identified six and half years ago.

3845 There may well be optimism, within the Treasury, that 2014 may herald a return to surplus. Of course, that would have taken a longer period of time than envisaged in the Fiscal Framework but, in any event, it is based upon potentially risky assumptions: most especially, GDP growth of 1.3% in 2013, and greater in future years; continuing to under-invest, at least according to the fiscal rules in capital expenditure; and the Health and Education Departments realising FTP savings of a much greater value than either has been able to record thus far.

The States annual Fiscal Report reads

3855 'The current continuing fiscal deficit and the speed of its planned reduction are inconsistent with the Fiscal Framework.'

No projections beyond 2013 are included in this year's Report but it is questionable whether the structural fiscal position of the States will be sufficient to generate funds to replenish Reserves utilised in the post-2008 period, and replenishing Reserves used to smooth out any operating deficits from year to year is another feature of the Fiscal Framework.

3860 Turning now to taxation and public expenditure as a percentage of GDP, the Fiscal Framework assumes a norm of 21% income was close to 21% of GDP until 2007, when it declined to an estimated 17.7%. Expenditure, meanwhile, was around 21% in the early 2000s before decreasing to 17.6% of GDP in 2007. This year's annual independent Fiscal Report notes:

3865 'In 2011 revenue and capital spending equalled 19.6% of GDP ,well below the 21% parameter set by the Fiscal Framework.'

In that respect, little has changed in 2013, nor will it under the proposals put forward by T & R for 2030.

3870 In laying this amendment, I am passing no comment on the merit or otherwise of any of the targets, norms, numbers or percentages contained in the Fiscal Framework or in the fiscal policies employed by the States. I am seeking merely to highlight that, since the inception of the Framework in 2009, there have been inconsistencies between the rules of the Framework and prevailing fiscal policies. Furthermore, one cannot point to any obvious detailed plan of action to remove each of those consistencies in the foreseeable future, so one has to conclude that the States is *not* raising revenue and spending public money entirely in the way agreed in 2009 and laid out in the Fiscal Framework, against which the fiscal performance of this Government is meant to be judged. That Framework is meant to be the fiscal rules of our Government.

3880 Deputy Green and I are not prescribing exactly what should be done, we are merely putting before the States the view which seems perfectly reasonable to us that States fiscal policies should be consistent with the rules for fiscal policy set out in the Fiscal Framework. In other words, one or both of the fiscal rules or the fiscal policies should be changed to ensure that they are consistent with each other and our amendment proposes that Policy Council and T & R should, jointly, make recommendations next year in order to bring about that consistency.

3885 In closing, I want to emphasise that final point. Deputy Green and I are not prescribing that fiscal policies must change to match the rules in the Fiscal Framework, or that the fiscal rules should be changed to match the existing fiscal policies. The judgement about which of the rules or the policies to change is left entirely for the Council and the Department to propose to the States.

3890 We are merely seeking consistency between the fiscal rules of the States and the fiscal policies proposed each year in the annual Budget.

I do think, sir, that this should be, for the Policy Council and T & R, an uncontentious amendment and I hope that the Minister is able to support it.

Thank you, sir.

3895 **The Bailiff:** Deputy Green, do you formally second the amendment?

Deputy Green: I do, sir.

3900 **The Bailiff:** Before I open the debate, I will just announce the result of the vote on the amendment proposed by Deputy Burford, seconded by Deputy Conder.

There were 25 votes in favour, 20 against.

I declare the amendment carried.

Deputy Trott.

3905 **Deputy Trott:** Thank you, sir.

That was a typically skilfully proposed amendment because Deputy Fallaize wants a lot but, by talking about not wanting to be too prescriptive, he got out of saying how he would reconcile the really difficult question and that is, if you look at the amendment and, in particular, the final sentence after the penultimate apostrophe... I will read it:

3910

‘...including a timetable for the implementation of such proposals, to reconcile the inconsistencies which exist at the present time...’

3915 Let us just look at what some of those ‘inconsistencies’ are. On page 15 of Professor Wood’s independent Fiscal Policy Review, he reminds us that the parameters of the Fiscal Framework currently cover only General Revenue income and expenditure. The Framework, he tells us, has little impact on the expenditure and income of the Social Security budget. However, as non-contributory benefit rates are set through the Social Security budget but finance from the General Revenue budget, Social Security expenditure has an impact on the General Revenue balance.

3920

When pressed at two consecutive annual presentations, Professor Wood has confirmed that, in his esteemed opinion, the expenditure and, indeed, the income of the Social Security Department *should* come under our existing Fiscal Framework and, if it did, sir, it would run a coach and horses through our policies.

3925 So what I ask of Deputy Fallaize, when he sums up, is whether he agrees with the eminent economics Professor Geoffrey Wood, when he says

‘While Social Security expenditure is outside the scope of the Framework, it is *reassuring* to see the States commit to a joint review of the personal tax and Social Security regime, recognising the need to view States income and expenditure in its entirety...’

3930

because *if* Deputy Fallaize and Deputy Green’s amendment seeks that objective, it has my support. If it does not, it does not.

Thank you, sir.

3935 **The Bailiff:** Does anybody else wish to speak?

Deputy Brehaut.

3940 **Deputy Brehaut:** Yes, typically brief, sir, but just because it was raised and Professor Wood has cropped up in many an amendment today, when I was at the Policy Council on the last occasion, I did raise issues regarding the independence of someone who has now presented a third annual report.

3945 If you look at the original intent, or spirit, behind the review, it was a panel of three people doing an entirely independent fiscal review. We are now inviting the same person to do it again for a third year and I just wonder, sometimes, whether relationships can become a little too familiar and not to be as removed or truly independent as we would like to see them.

Thank you.

The Bailiff: Deputy Green and then Deputy Gollop.

3950 **Deputy Green:** Mr Bailiff, I will be very brief because, obviously, Deputy Fallaize has raised

the key points to this amendment but I will add two points.

3955 Firstly, and this, I think, is an entirely common sense point, if it is worth having a Fiscal Framework at all, it must be sensible for Government to consider, from time to time, whether its fiscal policies are sufficiently consistent with that overall Framework. In my view, that is simply good housekeeping and I think that is really what is at the nub, or the substance, of this amendment.

3960 The second point is, at a time when we are about to undertake a major review of personal taxation, it seems to me that it would be sensible to consider the overall Fiscal Framework, as well as the existing fiscal policies, all at the same time. There is nothing inconsistent about that with this amendment. So, sir, I would suggest that this is a very modest and straightforward amendment, it is a good housekeeping amendment. I hope it will be supported. There is nothing particularly radical in it and, essentially, there is no particular disadvantage or risk in this amendment to the Policy Council or to Treasury and Resources, so I hope Members will feel they can support it this afternoon.

3965

The Bailiff: Deputy Gollop.

Deputy Gollop Yes, it is phrased, though, in quite broad terms, the amendment.

3970 I will support it because we do need to find some cohesion between the policies and the financial constraints but I do not really want another Report. That is just vague and imprecise and without real choices being made.

3975 Deputy Brehaut alluded to the Professor, who did an interesting Report and gave us a thought-provoking presentation but I thought it was not entirely value-free because economists not only have different opinions about predictions and scenarios but they sometimes come with a degree of a political framework that underlines their arguments.

To my mind, there are two fundamental questions that have to be resolved – it is simpler than just reconciliation. The first is how are we going to afford the capital expenditure programme under our current Fiscal Framework because that point is not clear, going back to the economic model.

3980 The other point is a more simple one, such as what is the role of income tax, allowances, benefits and indirect taxation in sustaining and enhancing our competitive economic position whilst ensuring, as Deputy Trott said in the previous Assembly, that there is a degree of redistribution of wealth to needy personalities. I do not think the current Framework fully answers those questions but that would mean making difficult decisions.

3985

The Bailiff: Does anyone else...?

Yes, Deputy Storey.

3990 **Deputy Storey:** Sir, I would just like to raise the point, following on from the point made by Deputy Trott, that part of the problem that I *think* is being addressed by this amendment is the problem that we built for ourselves when we effectively changed the Social Security Fund from an insurance policy into, effectively, a form of taxation. That, inevitably, links the two together in a way which it was not linked prior to that decision.

3995 I think it is quite important that, when we look at the Strategy going forward, it looks particularly at that relationship and the implications for taxation and Social Security contribution policy, going forward, because I think that has not been properly addressed, in where we just change the structure. We have not really integrated the two properly into our Strategy and I think that is one of the areas that needs careful looking at.

4000

The Bailiff: Anyone else?

Deputy St Pier, then, and Deputy Fallaize to reply.

4005 **Deputy St Pier:** Sir, this is a superficially logical and potentially attractive amendment. *However, (Laughter)* my Board unanimously urge Members to reject it.

The amendment talks about reconciling the inconsistencies which exist at the present time between the Fiscal Framework and prevailing fiscal policies. I actually think the amendment would have more credibility if it urged a review of the Fiscal Framework which, after a number of years, could be ripe for review. For example, the wording of the original Framework included the proviso 'subject to economic conditions at the time'. This was actually removed by amendment and, given world economic events, it may well have been sensible, with hindsight, to have retained this proviso. In due course, it may be sensible to reinstate the proviso.

4010

As Deputy Trott has said, Professor Geoffrey Wood has urged the States to consider including Social Security spending within the Framework.

4015 Deputy Green has referred to the Tax Review and he is quite right, that whole consultation process may well inform what the Fiscal Framework should look like but we will not know that until we have undertaken it.

4020 Capital spending, which is another issue that has been raised: the whole question of capital spending will be informed by, dare I say it, the Island Infrastructure Plan and the Strategic Asset Management Plan and, indeed, the Capital Prioritisations Process, which will now be undertaken next year, in accordance with the previous amendment.

Deputy Gollop does not want to see yet another Report and Deputy Fallaize spoke earlier about a plethora of reviews and plans – yet this is precisely what is being called for.

4025 The Budget Report itself notes that certain capital spending, such as that of the States Dairy and Guernsey Water and so on, is actually outside the scope of the Framework and, again, perhaps that should be included. In essence, now is not the time for such a review. The economy is weak, tax receipts have been lower than expected and the FTP still has to deliver the largest part of its work on the expenditure side of our books. This is a question which may be far more credible and valid in a year from now. By then, we will know whether and, if so, how embedded our structural deficit is. We will know whether the world and our own economy is experiencing meaningful growth and, most important of all, we will know whether we will deliver on our commitment to Guernsey taxpayers to reduce our demands on General Revenue by £31 million through the FTP. If it appears that our deficit is truly structural for the longer term, at that point – not now – will be the right time to ask the question: how are we going to address it? Are we going to change the Fiscal Framework or are we going to change fiscal policy?

4030 Secondly, the amendment requires Policy Council and Treasury and Resources to set out *credible* proposals. What does this mean? Credible proposals are all in the eyes of the beholder. My idea of what is credible may not be the same as Deputy Fallaize. As a result, this proposition *cannot* be delivered, as drafted. This amendment is worded in the wrong way, it is presented at the wrong time and it should be rejected, sir.

4040 **The Bailiff:** Deputy Fallaize to reply.

Deputy Fallaize: Thank you, sir.

4045 Now, I was scribbling furiously but what were the words that Deputy Trott needed me to say for him to vote for the amendment? (*Laughter*). No, it is alright, sir, I am only joking. It is alright –

Deputy Trott: ‘You are right’ will suffice, sir. (*Laughter*)

4050 **Deputy Fallaize:** That might be difficult! (*Laughter*).

Deputy Trott: Then you were listening, after all. (*Laughter*)

4055 **Deputy Fallaize:** Deputy Trott raised the very valid point – very, very valid point – that Social Security expenditure is currently outwith the Fiscal Framework. Now *I* can say I think it should be incorporated because it seems to me that it is clearly public expenditure and, if the Fiscal Framework outlines the fiscal rules of the States, then it is sensible to incorporate all forms of public expenditure within those rules.

4060 However, clearly, *I* cannot give Deputy Trott or anybody else a *pledge* that, in the event that this amendment is carried, in future Social Security expenditure will be brought within the bounds of the Fiscal Framework, because I am not prescribing, in this amendment, exactly what the Fiscal Framework should look like, or what the fiscal rules should look like. That is a matter for the Policy Council and for T & R. All I am proposing is that the two should be consistent but, yes, I agree that Social Security expenditure should be brought within the fiscal rules of the States.

4065 This is not a complicated amendment and it really should not be onerous, in my view, for the Policy Council and for T & R to comply with it. I do not want another Plan, I do not want another Strategy. What the amendment says is that Policy Council and Treasury and Resources should set out credible proposals to reconcile the inconsistencies which exist at the present time. I am talking about the Council and the Department putting propositions before the States, not some kind of woolly strategy, but actual policy changes, Propositions before the States, which reconcile the inconsistencies between the Framework and the fiscal policies.

4070 Deputy St Pier said that the amendment would have been better had it encouraged a review of the Fiscal Framework but that is not precluded by the amendment because all the amendment is

4075 suggesting is reconciliation between the Fiscal Framework and the fiscal policies of the States. If
 the Policy Council and Treasury and Resources believe that, in order to reconcile those
 inconsistencies, what is needed is a fundamental re-think of the rules contained in the Fiscal
 Framework, then that is a matter for the Policy Council and the Treasury and Resources
 Department. There is absolutely nothing in this amendment which undermines anything which
 Deputy St Pier and his Department, or Deputy Harwood and his fellow Ministers on the Policy
 Council, might want to do in terms of which of the Framework or the fiscal policies to modify. It
 4080 simply requests consistency between the fiscal rules of the States, against which the States is
 meant to be held to account and the fiscal policies which are put forward in the annual Budget.
 They have not been consistent since 2009. I said, on an earlier amendment, the purpose of putting
 deadline dates in amendments: I am not going to go through all that again, but I do find it
 4085 extraordinary, actually, that we have in place fiscal rules and we have not been meeting the
 demands of those fiscal rules fully since 2009. Then I lay an amendment, which asks the Policy
 Council and the Treasury and Resources Department to tell us, at some point within the next
 twelve months, how they intend to reconcile the Fiscal Framework and the fiscal policies and that
 is objected to by the Treasury and Resources Department!

4090 I just, really, do not understand what is objectionable in any way about this amendment. I am
 not trying to take T & R's mandate away from them, I am not trying to tell them what to do, I am
 not trying to determine their policies. I am merely asking the Policy Council and Treasury and
 Resources to work together and, within the next twelve months, to come back to the States with
 some proposals to reconcile fiscal rules and fiscal policies. When Deputy St Pier says he objects to
 the term 'credible proposals' in this amendment, I mean yes his credible proposals might not be
 4095 the same as mine but that is why we have a States debate. Treasury and Resources and the Policy
 Council would lay their credible proposals before the States and the States would determine
 whether they *agree* that they were credible proposals, so I think *that* objection clearly falls down.

4100 So Sir, I am merely asking for consistency to be established between the fiscal rules and the
 fiscal policies over the course of the next twelve months, but the alternative is that we continue to
 have fiscal rules against which we are meant to be judged and we continue to have fiscal policies
 which are inconsistent with those rules, well that to me does not seem a particularly logical way to
 operate a Government so I would ask Members to support this very non-contentious amendment.

Thank you, sir.

4105 **The Bailiff:** We come then to the vote on the amendment proposed by Deputy

Deputy Fallaize: Sir, could I ask for a recorded vote, please.

4110 **The Bailiff:** The amendment proposed by Deputy Fallaize, seconded by Deputy Green:

To insert the following Proposition between Propositions 4 and 5:

4115 '4A. To direct that as expeditiously as possible, and in any event by no later than December, 2013, the Policy
 Council and the Treasury and Resources Department shall jointly present to the States of Deliberation a States Report
 which sets out credible proposals, including a timetable for the implementation of such proposals, to reconcile the
 inconsistencies which exist at the present time between the States' Fiscal Framework and the prevailing fiscal policies
 of the States.'

We will have a recorded vote.

4120 *There was a recorded vote.*

Lost – Pour 21, Contre 24, Abstained 0, Not Present 2

	POUR	CONTRE	ABSTAINED	NOT PRESENT
4125	Alderney Rep. Arditti Deputy Brehaut Deputy Le Clerc Deputy Gollop Deputy Sherbourne	Alderney Rep. Kelly Deputy Harwood Deputy Kuttelwascher Deputy Domaile Deputy Langlois		Deputy Ogier Deputy Le Tocq
4130	Deputy Conder Deputy Bebb Deputy Lester Queripel Deputy Le Pelley Deputy Trott	Deputy Robert Jones Deputy Storey Deputy St Pier Deputy Stewart Deputy Gillson		
4135	Deputy Fallaize Deputy Laurie Queripel Deputy Le Lièvre Deputy Duquemin	Deputy David Jones Deputy Lowe Deputy Spruce Deputy Collins		

4140 Deputy Green Deputy Dorey
Deputy Adam Deputy Paint
Deputy Perrot Deputy James
Deputy Wilkie Deputy Brouard
Deputy De Lisle Deputy Soulsby
Deputy Burford Deputy Sillars
4145 Deputy Inglis Deputy Luxon
Deputy O'Hara
Deputy Quin
Deputy Hadley

4150 **The Bailiff:** Members, while the votes are being counted, can I just have an indication of how many people intend to speak in general debate on the Budget, because we have now concluded...?

Several Members indicated their intention to speak

4155 **The Bailiff:** I see there are several people, then, who wish to speak. I will be proposing, once the votes have been counted, that we adjourn and resume tomorrow morning.

4160 **The Bailiff:** Members of the States, I have the result of the vote on the amendment proposed by Deputy Fallaize, seconded by Deputy Green.
There were 21 votes in favour, 24 against. I declare the amendment lost.
We will rise now and resume tomorrow at 9.30 a.m.

The Assembly adjourned at 5.35 p.m.