



OFFICIAL REPORT

OF THE

STATES OF DELIBERATION

OF THE

ISLAND OF GUERNSEY

HANSARD

Royal Court House, Guernsey, Friday, 31st October 2014

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Present:

Sir Richard J. Collas, Kt, Bailiff and Presiding Officer

Law Officers

H. E. Roberts Esq., Q.C. (H.M. Procureur)

People's Deputies

St. Peter Port South

Deputies P. A. Harwood, J. Kuttelwascher, B. L. Brehaut,
R. Domaille, A. H. Langlois, R. A. Jones

St. Peter Port North

Deputies M. K. Le Clerc, J. A. B. Gollop, P. A. Sherbourne,
R. Conder, E. G. Bebb, L. C. Queripel

St. Sampson

Deputies G. A. St Pier, K. A. Stewart, P. L. Gillson,
P. R. Le Pelley, S. J. Ogier, L. S. Trott

The Vale

Deputies D. B. Jones, L. B. Queripel, M. M. Lowe,
A. R. Le Lièvre, A. Spruce, G. M. Collins

The Castel

Deputies D. J. Duquemin, C. J. Green, M. H. Dorey,
B. J. E. Paint, J. P. Le Tocq, S. A. James, M. B. E., A. H. Adam

The West

Deputies R. A. Perrot, A. H. Brouard, A. M. Wilkie,
D. de G. De Lisle, Y. Burford, D. A. Inglis

The South-East

Deputies H. J. R. Soulsby, R. W. Sillars, P. A. Luxon,
M. G. O'Hara, F. W. Quin, M. P. J. Hadley

Representatives of the Island of Alderney

Alderney Representatives L. E. Jean and R. N. Harvey

The Clerk to the States of Deliberation

S. M. D. Ross, Esq. (H.M. Senior Deputy Greffier) and
D. A. Knight, Esq. (H.M. Deputy Greffier)

Absent at the Evocation

Miss M. M. E. Pullum, Q.C. (H.M. Comptroller)
Deputy M. J. Storey (*indisposé*); Deputy M. J. Fallaize (*absent de l'île*)

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States of Deliberation

The States met at 9.30 a.m.

[THE BAILIFF *in the Chair*]

PRAYERS

The Senior Deputy Greffier

EVOCATION

Billet d'État XXII

States of Guernsey Budget 2015 - Debate continued

The Senior Deputy Greffier: Billet d'État XXII: the continuation of the debate.

The Bailiff: Members of the States, can I just take a moment of your time to take stock of where we are? We disposed of 12 amendments and there are now another six; and in the hope of perhaps expediting the debate I did take the opportunity last night to have a word with the Minister to see how many of the remaining amendments are not going to be opposed. I am pleased to say that most of the amendments still to be laid will not be opposed by the Department.

Obviously, the next amendment – the one marked LL – is the Department's own amendment. I understand that amendments M, N and O will not be opposed; amendment P, I am not sure what the position is, we will deal with that when we get to it; and you have had circulated a new amendment Q, but that is purely a technical amendment. You have approved two amendments to Proposition 11 and this amendment Q simply consolidates those two amendments into the wording of the original Proposition in order to produce a more workable Proposition.

So I hope that may help Members in preparing how long they wish to speak for and perhaps we may be able to get through these amendments fairly quickly and then get into general debate, in the hope that we might finish the Budget debate perhaps during the course of today, (*Interjections*) even if we end up sitting a bit late.

To put you on notice, if we get to 5.30 p.m. and we have not quite finished the debate I will be proposing that if it is possible to finish that we do sit late this evening in order to attempt to finish the Budget debate today.

The Bailiff: Deputy Gollop.

Deputy Gollop: The other question, sir, is do you think we should shave half an hour of our lunch hour or will that be necessary?

The Bailiff: Well, shall we see where we are at lunchtime, Deputy Gollop? If nobody has taken your lunch! I know you have been very concerned about... (*Laughter and applause*)

So the next amendment is amendment LL, to be moved by the Minister, Deputy St Pier.

Amendment LL:

To insert at the end of the words in Proposition 27: ' , and to lend on the capital thereby raised to States owned entities, trading accounts and funds, the Guernsey Housing Association, the Alderney Housing Association and/or the Ladies' College on such terms that the Department may approve, subject to each recipient repaying such borrowing in full from a secure income stream and without direct recourse to General Revenue.'

Deputy St Pier: Sir, this too I think is a technical amendment. It is, I guess, belt and braces on the advice, I believe, of H.M. Procureur, just to put beyond doubt that the Department does indeed have the capacity to lend on in the event of the approval of the Propositions in relation to the bond, and also the Department is taking the opportunity to reiterate once again the link and the requirement for there to be a secure income stream without direct recourse to general revenue.

The Bailiff: And Deputy Kuttelwascher you are formally seconding the amendment?

Deputy Kuttelwascher: Yes, sir.

The Bailiff: Is there any debate? No.

We go straight to the vote then on amendment LL. Those in favour; those against.

Members voted Pour.

The Bailiff: I declare it carried.

The next amendment is amendment M, which is to be laid by Deputy Brouard in the absence of Deputy Fallaize.

Deputy Brouard.

Amendment M:

To add the following words to the end of Proposition 27:

‘; and, in accordance with policies of the States affirmed in 2004, 2006, 2009 and 2014, to direct the Treasury & Resources Department to report to the States as expeditiously as possible, but in any event by no later than the 2016 Budget Report, to demonstrate how all such borrowing has been or soon will be allocated clearly to individual recipients and how each recipient will be repaying such borrowing in full from a secure income stream and without recourse in any way to general revenue.’

Deputy Brouard: Thank you, sir.

If you could for the first part of my speech just imagine a very good speech by Deputy Fallaize, (*Laughter*) outlining all the issues into every nook and cranny. Imagine that now finished. (*Laughter and interjections*) Before he left he did actually negotiate safe passage with T&R of this particular amendment and that gift has kindly been passed on to myself and Deputy Conder, who is very kindly seconding.

I probably will not be voting for the bond issue, but if you are you are going to need this amendment. You are being asked for a seismic shift in how the States does business and in the seat of power. Yet you as the elected Members will be no more in control of this bond than the sky diver who left his parachute on the plane.

The problem is we just do not know the make-up of the borrowings we are going to take over. We do not know the rates of interest they have. We do not know the rates of interest we are going to be paying. And I believe that we very much need this amendment which at least grounds the borrowing back to the States for us to have full accountability from Treasury.

I am going to leave a large passage out there, thank you.

The proposal is not radical. It is just asking for us, as States’ Members, to be accounted to by Treasury. Please support the amendment. Thank you, sir.

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

Deputy Conder: I do, sir.

The Bailiff: Does anybody wish to debate?

Deputy Kuttelwascher.

Deputy Kuttelwascher: Sir, I wish to propose what is known as a guillotine motion – that we go straight to the vote on this. I cannot remember what the reference is; I have not been able to find it.

The Bailiff: Well, I mean if nobody wishes to... Does anybody wish to debate the amendment? No. If nobody does then I suggest we go – (*Laughter and interjections*)

Deputy Kuttelwascher: It has had the desired effect then, sir!

The Bailiff: I put to you amendment M, proposed by Deputy Brouard and seconded by Deputy Conder. Those in favour; those against.

85

Members voted Pour.

The Bailiff: I declare it carried.

We move on then to amendment N, which is also to be proposed by Deputy Brouard.

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Deputy Brouard.

Amendment N:

To add the following words to the end of Proposition 28:

‘; and, in accordance with policies of the States affirmed in 2004, 2006, 2009 and 2014, to direct the Treasury & Resources Department to report to the States as expeditiously as possible, but in any event by no later than the 2016 Budget Report, to demonstrate how all such additional borrowing has been or soon will be allocated clearly to individual recipients and how each recipient will be repaying such borrowing in full from a secure income stream and without recourse in any way to general revenue.’

Deputy Brouard: I hate to repeat, sir, but if you can imagine again a very good speech by Deputy Fallaize, safe passage negotiated, same words, as I said. Please, sir, vote for the amendment.

95

Thank you, sir.

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

Deputy Conder: I do, sir.

100

The Bailiff: Is there any debate? No.

We vote on amendment N. Those in favour; those against.

Members voted Pour.

105

The Bailiff: I declare it carried.

Amendment O, to be laid by Deputy Soulsby, if she wishes to do so.

Deputy Soulsby.

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Deputy Soulsby: Sir?

The Bailiff: Do you wish to lay your amendment?

Deputy Soulsby: Yes.

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The Bailiff: Well, please do so. *(Laughter)*

Amendment O:

To insert an additional proposition between propositions 28 and 29 as follows:

‘28A If recommendations 27 and 28 are both approved, to instruct the Housing Department and Treasury & Resources Department to produce a joint report setting out proposals for the use of any such increase in the value of the Bond issue for the purposes of helping the people of Guernsey onto the property ladder by way of a first-time buyers’ scheme along the lines set out in section 7.14 of this Report; such joint report to also:

1. set out proposals that would help first time buyers but would not require funding from any Bond issue;

2. set out the financial implications of such proposals; and

3. be submitted to the States no later than 30 June 2015.

If recommendations 27 and 28 are not both approved, to instruct the Housing Department and Treasury & Resources Department to produce a joint report setting out proposals to help first time buyers; such report to also:

1. set out the financial implications of such proposals; and

2. be submitted to the States no later than 30 June 2015.’

Deputy Soulsby: Sir, I will be brief.

Really, my amendment is basically requesting Housing and T&R to knock heads together and give this matter the attention I think it deserves. I think that is what I need to say.

The Bailiff: Thank you very much.

Deputy Brouard, do you formally second that amendment?

Deputy Brouard: I do, sir.

The Bailiff: Deputy Dave Jones.

Deputy David Jones: Thank you, Mr Bailiff.

As described in paragraph 7.13 of T&R's Budget Report, Housing has looked at different ways of helping first time buyers, and concluded that the best way is to increase supply and the most cost-effective way to do this is via a pre-existing partial ownership scheme.

In order to expand the partial ownership scheme, we need to be able to find and purchase land, and to do this we need a certainty in funding, of course.

Housing is of the view that assisting first time buyers by lending them a deposit or assisting with their mortgage is inflationary and, unless balanced with a significant increase in supply, will only exacerbate the present problem.

That said, Housing is not close minded and will, of course, with T&R re-examine the pros and cons of different first time buyers' initiatives. We are looking to T&R to take the lead in that regard. They are the lead Department in respect of action area A in the Corporate Housing Programme which relates to fiscal policy.

If Housing is convinced of the merits of introducing the first time buyers' scheme, the cost of funding such a scheme could not come at the expense of the Department's Housing Development Programme, of course. The Board were also cognisant of the fact that the CHP Fund contains a finite amount of money, of which there is now to be £20 million less, which has been earmarked for land acquisition and development, not home loans and deposits.

If the States votes in favour of the bond and if some of the money raised can be put towards a new first time buyers' scheme, then the CHP Fund, and therefore our ability to buy and develop land, will not be compromised. But the risk inherent in Government lending money to prospective home owners and the risk of such intervention having an inflationary effect on the market will not go away.

Perhaps a happy medium is for Housing to have a healthy long-term housing development programme funded through the CHP and alongside it, and funded separately, a first time buyers' scheme. But T&R needs to do more work in examining the finer details around the supply and demand issues.

My advice is that Housing does not oppose the amendment but that you make a statement that makes the following points – which is the bit I should not have read out but I just did.

Thank you.

The Bailiff: Deputy Gollop.

Deputy Gollop: Sir, I do not oppose this amendment, as a report on housing will be useful.

As a Member of the Environment Department I cannot go into any of the land supply issues but I would say that when you turn to paragraph 7.14 it refers to the initiative of the UK Government's help to buy scheme or it could be a direct loan or a loan deposit guarantee-type of scheme. I am sceptical of those schemes for Guernsey. Sceptical because the UK has very different land values in many parts.

We have had a culture of being wary of Government intervention in housing, because it can benefit some people at the expense of others. That is not necessarily a reason not to extend partial share ownership or even right-to-buy schemes, but it is a consideration because we all know of cases where people have bought cheap and sold dearer over the decades.

Deputy Jones is actually spot on: it is the real estate price and the availability of land and the States' ability to acquire such land with building permission and pay the appropriate price for – I have actually referred to some of these issues in *The Globe* this week – because we have been through a long history of homes for workers in the distant past and the States' Housing Department, when I was a Member, was still offering loans to needy people. That scheme did not work as well as it could have done. It did not work because some shrewd Members of the day – I remember Deputy Bell made a number of speeches in this respect – pointed out the more the States funded borrowers, the more the prices went up, because the money available just chased the market. Who benefited? The vendor and, to a certain extent, property agents. You were just chasing a finite resource.

And it got worse than that even, because the States fell behind in the amount of money it was able to provide so money lenders, finance companies, filled the breach at rather high rates of interest and then Housing were left to make difficult decisions.

I think if one is looking at economic manoeuvres to acquire land... It is not that I am criticising Deputy Soulsby – who is very well-intentioned with this because there is a real problem of younger people getting on to the markets, as we heard at the IOD Conference – but there is a certain thinking in this report which suggests that there is a fiscal mechanism of achieving that, and I would argue precisely the opposite.

Let's imagine, in our wisdom, we decided to abolish all Document Duty on properties for sale. That would actually, in most cases, just raise the selling price, because there would be less costs to pay to the States as a form of tax, so people would have more money that they could use in cash or that they could borrow, to pay in the market and property owners would just raise the prices further.

We really do have to look more carefully at, for example, new construction or partial share ownership or restricting certain kinds of property to certain kinds of buyers. I would like to see all those options presented in the report, which is why I am not opposing the amendment. But I doubt very much that we will get an instant answer to our problems in that respect.

The Bailiff: Deputy Brehaut, Deputy Bebb and Deputy Brouard.

Deputy Brehaut: Thank you, sir.

I think we are going 'quick, quick' again today, when I would rather we just went a bit 'slow, slow', if you do not mind me saying, sir. I was hoping Deputy Soulsby was going to expand on her amendment. She will do, no doubt, in her summing up.

The amendment has a very emotive... well, an appeal to it: helping the people of Guernsey on to the property ladder by way of first time buyers.

Well, the Housing Department had a Homes for Workers scheme and that is what was referred to... Sorry it was... (**A Member:** Yes.) Yes, Homes for Workers was the initial scheme. It then became the States' Loan Scheme, but of course rates within banking dropped – interest rates – which meant that I think – Deputy Le Lièvre will no doubt probably correct me but – you would get a better rate from a bank than you would eventually from the States.

But the question is who qualifies for help? You would presumably have to means test somebody or would you have somebody that presents as a first time buyer who is on a relatively low income and a 'genuine case' or would you have the child of a very wealthy family presented as a first time buyer? And how would you determine the merit of each application when some people clearly would have assistance? And Guernsey families do help their children, obviously. But if you have somebody who is more able, how do you then determine the queue – who gets through? That is something that concerns me, because just how do you do that?

Of course, all you would do is, is you will... There is a supply shortage on Guernsey, although there are permissions outstanding with the Environment Department and we do not know quite why people apply, have permission granted and then do not act. There are a number of permissions outstanding.

If you make it easier for people to buy when the demand on housing is very high, all you would do is increase the demand on housing when we know that the supply other than the permissions granted... I think is the target 400 a year or something? We know we are not reaching that target, so we are assisting people to get finance with properties that just are not there and that can only be inflationary, and this is why I cannot support the amendment.

Again, when I was at the Housing Department there were also people who wanted to give land under the basis that we help people self-build and that we assist people with self-build projects. But, again, who qualifies for self-build? And how does the States intervene and discriminate against the worthy and those who are less able? Or is it just a universal assistance for everyone who presents as a first time buyer in a limited market, sir?

Thank you.

The Bailiff: Deputy Bebb.

Deputy Bebb: Thank you, Monsieur le Bailli.

I will be opposing this amendment and I would urge Members to think very carefully. It is not so much the amendment; it is also the fact that any involvement... the Budget Report itself is flawed in its statement of trying to assist the housing market.

I fear that some Members may not remember the disaster that befell the whole global economy very recently and the origins of that. We forget the subprime mortgages.

Now, if we look back at what happened initially there was an intention back in the days of Bill Clinton in Washington to assist American people onto the housing ladder, and they changed the criteria for

mortgage to be given. That was how Freddie Mac and Fannie Mae distorted the market, put in place inappropriate lending mechanisms and that toxic debt was then wrapped up so that no one knew what was going to be repaid and what was not – what was high risk and what was not. The total of that befell the world economy. The disaster of intervening in markets was writ large.

Any suggestion that we in Guernsey should participate in a small way in the housing market can only lead to a disaster. Wrapping up debt in order to pay someone to get on a housing market was the origin of that disaster.

Please reject this amendment and also urge the Treasury & Resources and the Housing Department not to waste valuable time in pursuing notions which are emotively attractive but financially disastrous, with a well track record of being financially disastrous. They will not assist those first time buyers in the long term.

Please reject this amendment and urge the Departments not to waste time in interfering in a market where there is no record of good coming from it.

The Bailiff: Deputy Brouard, then Deputy Dorey and Deputy Green.

Deputy Brouard: Thank you, sir.

One of the costs to our Island of having a buoyant and successful finance industry has been the effect on house prices over the decades. Those of us who entered the market in the early 1980's bought the average house for five times the average salary. Those who entered the market 25 years later in 2005 bought the average house for 10 times their average salary. In 2012 – some seven years on – the average house was bought for 15 times the average wage.

Many of us on the property ladder have benefited from rising house prices. Mortgages have melted away over the years as they become a smaller percentage of the value of the house as inflation erodes the value.

Many people still aspire to owning their own home and many still do. Mortgages over the last few years on the Island have been gently rising and now stand at about 9,500. Although the trend of home ownership is slipping, unfortunately, there are different calculations, but the 2001 census put home owners, as opposed to renters, at about 72% of the market. The latest stats from the policy unit give home ownership a trend slightly declining, at around 60%. I believe it is partly as the financial crash happened; a lot of people moved money out of banks and into properties to invest and therefore rent out.

When we look at the statistics – and it is a broad brush – for social housing, we have a constant waiting list of around 150 persons for the last 20 years. Guernsey Housing Association, who joined the market, also have their own list and a broader criteria for allocation – they have another 100 persons or so. So together, with the two lists combined, we have a combined waiting list of about 276 people waiting in 2013.

The problem is that we have expensive housing, way beyond the cost of the actual bricks and mortar. The price reflects the demand and the ability to pay for housing and that comes from those in reasonably well paid jobs, and sometimes many smaller jobs as families struggle and club together to purchase a home. We have also many local Islanders who do not earn the salaries to compete to purchase property. Yes, we do have the Guernsey Housing Association and their partial ownership scheme which is great, but again their waiting list stood, at the end of 2013, at 202.

I sometimes am critical of Treasury but I think they have opened a line in the Budget Report, 7.14, with initiative and I think if there is any reason to vote for this it was the short, sharp exchange we had on Wednesday between the Housing Minister and Treasury over who is holding this particular baby. I do not mind who it is but I want clarity. We need someone to drive forward, not only social housing but look at housing as a whole for the whole of the Island.

The opportunity comes with... if we do support the bond, there should be some funds there. But there is also another larger fund: the projected balance at the end of 2014 of the Corporate Housing Programme is £64 million. Even five years ago the balance was some £46 million. Are we using that to its best effect?

Deputy Brehaut highlighted his point that it is the supply side and, absolutely, I take his point. We have to increase the supply side and maybe we have got those difficult areas of how you then restrict resale, purchase etc.

The amendment calls for T&R to work jointly with Housing to report back to us, so some of the fears that Deputy Bebb was raising would come back to this Assembly. It will be for us to decide and to see what risks there are there.

I am sure that there will be further initiatives to release land when the new environment plans for the Island come out. With our pressure on housing, we need to see what we can do to help. So let's seize the day. Rather than just acknowledge the idea that T&R has put out on the table, let's get T&R and Housing, once and for all, to decide who is looking at the overall picture of housing and come back to this States with some ideas as to how we can help our youngsters get on to the property ladder.

Thank you, sir.

300 **The Bailiff:** Deputy Dorey.

Deputy Dorey: Thank you, Mr Bailiff.

I echo the words of Deputy Brehaut and Deputy Bebb. I, firstly, think it is very disrespectful to the Assembly not to make an opening speech on an amendment, particularly when an amendment goes so far as asking for a report to bring back proposals to increase borrowing. I see it as a quite far reaching amendment.

I echo their words because in 2002 – and it was published in the 2003 Billet – there was a very good analysis report done by an economist and it was called The Operation of the Housing Market in Guernsey by Michael Parr. One of the conclusions that he reached was the two owner occupier scheme mortgage interest tax relief and the States’ home loan scheme can only have created upward pressure on local house market prices, which in turn drag rates higher.

We have been there, we have had a States home loan scheme, and we have had an investigation done by an economist. It said all it did was increase house prices. The Housing Department did take that on board, as opposed to the T&R Department in terms of mortgage interest tax relief – though there was debate in 2012 and it was withdrawn; those proposals. The States took on board what was in this report and we ended the States’ home loan scheme and we introduced the partial ownership scheme, which is the right way of ensuring that we keep houses for first time buyers and also the most important thing about the partial ownership scheme is it means those houses are available for future first time buyers; because all the schemes in the past, we have ploughed money in and all that happens is the person who benefits from it gets an equity gain greater than somebody who does not benefit from that scheme and they are the ones who have benefited from the States’ involvement. The whole idea of the partial ownership scheme was to ensure that those houses would be available for future first time buyers.

If Deputy Brouard and Deputy Soulsby are interested in helping first time buyers, I would suggest it would be far better to vote against Proposition 15, which is to transfer out £20 million from the Corporate Housing Programme and direct Housing to take greater activity to ensure there are more partial ownership schemes. That is the right way. We have tried a States’ home loan scheme; we have rejected it. That is the right way to help first time buyers.

I want to help first time buyers so, please, do not waste time in looking at something which we have done before. It has been examined, rejected and replaced with something new.

330 Let’s work with what we know does work, which is partial ownership scheme, and charge Housing to get on and produce more partial ownership schemes.

Thank you.

The Bailiff: Deputy Green, Deputy Kuttelwascher, Deputy Conder.

335

Deputy Green: Mr Bailiff, thank you.

I can totally see where this amendment is coming from. Undoubtedly, it is well meaning and genuine – no doubt about that, whatsoever – but I do, nonetheless, have some reservations and, in all honesty, I do not think I can support this amendment, largely because of what are the unintended but perhaps very foreseeable consequences of a scheme such as that outlined in section 7.14 of the report – the first time buyers’ scheme.

Deputy Jones, I think, made the best point, which is that the best way to help first time buyers in this Island is to radically increase the supply of housing in the Island. That is the best way to help younger Islanders on to the property ladder. Deputy Dorey talked about partial ownership and that is exactly the right model.

The question is not: is it right to intervene in the market? The question is: how do we intervene in the market wisely? And I fear that a first time buyers’ scheme like the help to buy scheme in the UK would be inflationary and it would only fuel the cost of buying a house in Guernsey, perhaps in a way similar to the way that mortgage interest tax relief already does.

350 We already have big demand for affordable housing in Guernsey but the best solution is to meet that properly with rising supply as reasonably as we can; and the solution is not to run the risk of inflating prices and to make it even harder for the next generation of first time buyers who will want to, no doubt, get on the housing ladder.

I think in a way it is an emotional issue and quite rightly so. We live in a very aspirational culture. We live in a culture where home ownership is fairly deeply embedded in our psyche as an Island, and quite rightly so. It is an emotional matter, but I think it is one thing to be well meaning with an amendment, but you have to think about whether the certain model of market intervention is actually going to end up being counterproductive in the end.

So I think we have to consider appropriate and wise intervention in the housing market, but we need to make sure that whatever we do is not going to end up being counterproductive, and that certainly has been the experience, I think, of the help to buy scheme in the UK.

The Bailiff: Deputy Kuttelwascher.

Deputy Kuttelwascher: Another quiet day, sir. Thank you. *(Laughter)*

Sir, Deputy Gollop said that Treasury were proposing something, and that is not the case. 7.14 says nothing more than Treasury considers that there may be merit; that is not proposing. And that is relevant, I think.

We decided not to oppose this amendment because really how you spend money that may be forthcoming is not an immediate budgetary issue, if you like. The money will be there and how the States may want to dispose of it is another issue.

But I have got a problem with the drafting of this, because it says, ‘setting out proposals for the use of any such increase in the value of the bond’. Well, the possible increase is up to £80 million. Now, is this amendment suggesting that all of that – because that is what it says – will be used? Because that certainly is not the intent of any such increase. We had thoughts in mind about funding, possibly, another cable for Guernsey Electricity in France, but the way this is written, it suggests all of this extra money will go towards funding and helping first time buyers.

Now, there is cloud on the horizon regarding population. If Members remember, the figures for March 12 to 13 showed a decline in Guernsey’s population of somewhere around 350. I thought myself at the time that Alderney has caught a cold and Guernsey is sneezing. I am told by people familiar with the issue that we can expect a further decline in population for 2013-14.

The figures that I first mentioned took 14 months to appear. We were told about them in May of this year, relating to March the previous year. And I would ask the Policy Council statistics section to see if they could expedite delivery of these figures, because they could throw into some confusion all our projections on what this Island may or may need in the future because if a population decline becomes a trend that is most, most unwelcome.

So we are all presuming that we are going to have this ever-increasing demand. I know anecdotally that it is more difficult to rent houses in the upper levels of the market because there are less people in those sorts of jobs coming here to rent them.

Having said that, we have not opposed this because we have left it to the Assembly to decide if this is the way they want to go. But, having said we do not oppose it, I am going to abstain from this, which is my way of being ambivalent on this particular issue.

Thank you, sir.

The Bailiff: Deputy Conder.

Deputy Conder: Thank you, sir.

I will oppose this amendment reluctantly because I know the really very good intentions of the proposer and seconder.

I think I am old enough to have lived through so many housing booms in the UK and so many housing interventions that perhaps I can offer something in terms of commentary, and on many occasions I have benefited from those personally.

But every intervention I have seen in the housing market by Governments, as a result of making it easier to buy, has only had one consequence and that is to push the price of housing up, reduce the ability to pay or increase the ability to pay and, consequently, push the price up. It is inevitable that the housing market is almost a perfect market in terms of supply and demand. If there are more houses than buyers the prices will go down or stay static. If the buyers have more ability to pay prices will go up.

I was very supportive a couple of years ago of T&R’s attempt to phase out mortgage interest relief. I think perhaps the timing was not quite right, but the intention was absolutely right because anything you do to intervene in the market, whether it is first time buyers or mortgage interest relief, will affect and push up prices.

So I think, I hope, I am reflecting what Deputy Dave Jones said: what we really need to do, if we want to make houses more affordable, is to build for young people – first time buyers... is to build more small houses, increase the supply and, as day follows night, house prices will stabilise and the price will come down. So all power to Deputy Jones in terms of his endeavours, but I think this is the wrong initiative.

I just reflect perhaps back into 1988 and the then Chancellor of the Exchequer, Nigel Lawson’s, announcement that he was going to abolish double tax relief, mortgage interest relief on houses, but he was going to leave it for six months. That sparked the biggest increase, percentage-wise, in house prices over that six-month period because people just jumped on the band wagon to grab double mortgage interest

420 relief before it went. I well recall my house going up from £75,000, at the time, to £175,000; but then it just stuck there, as soon as the mortgage interest relief had gone, for about five or six years until inflation caught up.

425 So it is pointless, I feel, and I am reluctant to oppose this because I know how well-intentioned Deputy Soulsby is in proposing this. But I simply do not think it will work. It is the wrong scheme. What we need to do is increase the supply. So I would urge colleagues to oppose this amendment.

The Bailiff: Deputy Le Lièvre.

Deputy Le Lièvre: Thank you, sir.

430 This is an interesting debate because there are a few things that people I do not think are fully aware of. In fact, when I worked at Housing one of my duties was to look after Mike Parr and provide him with all the admin stuff he needed, and he said to me at one stage that Guernsey was so keen on housing people that it would eventually end up offering the last person a house for nothing in order to make sure that everybody in Guernsey owned their own property. He was a really good chap; he did a very good report and much of
435 what he said has stayed with me.

But there are a few things I think we should be aware of. Going back from just after, and possibly even before, the war, there were only two housing providers in Guernsey. Either you went to the bank or possibly you might have inherited or were gifted it, but Housing was the main provider and it did it through two schemes – the Homes for Workers Loan Fund and its social housing – and it was the main provider.

440 And, contrary to what my good friend Deputy Conder has said, Housing did not interfere with the market as such. There are more people living in Guernsey now – even today – in houses that were obtained through the Homes for Workers Loan Fund than possibly any other branch. And it worked excessively well, and the reason it worked well – as I have been reminded by Deputy Spruce – is that the rebate scheme for social housing tenants was identical to the loan scheme operated in respect of people in Homes for Workers
445 Loans. You never paid more than 25% of your income. So, as interest rates fluctuated, your capital element plus interest never exceeded 25% of your income. And that is exactly the system that is now in place and continues to be in place for the rent rebate scheme.

Housing operated both the Homes for Workers Loans and social housing at the same time, from the same offices, by the same people, and it worked exceedingly well. But, of course, as house prices rose, this
450 Homes for Workers Loan Scheme became less effective, which was disappointing but probably inevitable.

But what we are left with is a social housing scheme which is constantly changing as well, because it is not just the Homes for Workers Loan Scheme that has gone; Housing's scheme has changed.

Originally, it was a surcharge scheme where you paid a rent according to what you earned, plus, plus, plus if you earned more than that. Then they changed to a rebate scheme back in 1971, then it became the
455 new rebate scheme in 2005, then surcharges disappeared and now we are, through SWBIC, looking at converting the current rebate scheme and Supplementary Benefit into one scheme which will make it... and it will bring in people from the private rented sector.

So we are actually still evolving Housing's old scheme and what will come out of it probably will go further than what existed in the past, but not too far. It will start to involve the private rented sector which is
460 already there partially through social security Supplementary Benefit scheme.

The other thing that is happening is that we have now got less social housing than we had 10 or 15 years ago. The numbers of pure social housing units – I think Deputy Jones will confirm this – are significantly less than we had in 1995. But, of course, those have been supplemented to some extent by the social housing from the GHA but, still, if you add pure social housing units from GHA units and Housing
465 Department units, we have got less than we had 10 or 15 years ago, and we have only still got quite a small number of partial ownership – 112 at the last count, although I think there are a lot more coming on stream this year.

So we are in a sort of fluid situation: a new benefits system coming in and dropping numbers of pure social housing and increasing in partial ownership. So it is very, very fluid.

470 The other thing that has changed is that the income of tenants has changed. The workers in social housing are not earning what their counterparts earned 20 or 30 years ago. So there is a general shift in the nature of the people living in social housing.

But, as I said, the situation is very fluid; it is changing constantly and, although I can see there is a real need to... in fact if had thought about it I would have changed this amendment. It should not just be first
475 time buyers; we should be looking at the whole of our housing provision, because there, quite clearly, is not enough. (A Member: Hear, hear.) It does not house the right people. If you are single I think you can get in through the GHA, but there are no provisions for housing single people in social housing as it stands at the moment.

So I do not know quite where I am with this, but I would prefer to see a broader review of housing need
480 in the Island, taking into account that we are still only in the middle of our discussions on SWBIC and that

will have a significant impact, I believe, on the level of rents charged by Housing because those will undoubtedly come up as part of our discussions; and also there is bound to be some comment, I suspect, in SWBIC's report about the number of social housing units that are on the market at any one time, because I do not know that we are meeting our need.

So I do not think I can say any more to that. I possibly will vote in favour of this because I believe that any discussion about first time buyers is bound to involve these other spheres. You cannot just talk about first time buyers because who are they? Are they living in social housing? Are they possibly people who might be in partial ownership – although I do not think that that would be the case? But we really do not know what a first time buyer looks like, or indeed where they are at the moment; neither do we know how many there are and, indeed, would the people on the social housing waiting list at the moment qualify to be a first time buyer? I do not know.

So, in essence, I think I have probably talked myself into it really. (*Laughter*) I will probably vote for this, but it leaves a question mark that I would want the review to go further; I would want Treasury to actually push it and I am sure, with the knowledge that Deputy Perrot is building up through SWBIC, he might well indeed want to see this expanded into something much larger.

The Bailiff: Deputy Rob Jones, then Deputy Perrot and Deputy Hadley.

Deputy Robert Jones: Thank you, sir.

I want to support the amendment. I thank a lot of my colleagues for their opinions but we seem to have fast forwarded ourselves to June 2015 and I would like to have this debate again, but with the benefit of a report from both Housing and Treasury & Resources because, of course, all 7.14 says is that Treasury would like to discuss the merits of such a scheme and I think what Deputy Soulsby is doing with this amendment is simply ensuring that we do actually consider the merits of such a scheme.

So thank you all for your opinions and your anecdotal evidence about such schemes, but I would like to have that debate in six months' or eight months' time with the benefit of a report.

So I will support this amendment.

Thank you.

The Bailiff: Deputy Perrot.

Deputy Perrot: Perhaps first I should declare an interest, or a past interest, in that I have been involved in the building of houses for first time buyers – and indeed for last time buyers – some 80 of them, and it could well be that I would want to do that again in the future. So I want to be quite clear about that.

In rising, I am also very pleased indeed that, for the second time in two days, I am in agreement with my colleague from the West, Deputy Brouard, who is normally who I entirely oppose; you could normally assume that if I vote Pour, he is going to vote Contre. If I try it now and say 'white'... (*Interjection and laughter*) He said 'black'! That is fine. There is normally a sort of pavlovian relationship between us, (*Laughter*) but on this I think we find ourselves in agreement.

I have sympathy with those who express anxiety about the potential effect of this amendment, because I think experience tells us that almost invariably interference by governments in markets is wrong. (**A Member:** Hear, hear.)

If you want a good example of this in the Guernsey market, there was a ridiculous knee jerk reaction in the mid 1970's when, against anxiety that there was an increase in the prices in the property market in those days, we brought in the dwellings profits tax, which was the most disastrous... had the most disastrous – well, not disastrous but certainly had a *great* disadvantage on the market in those days.

So I am against unduly interfering in the market. But we must remember that we do have a culture of home ownership here. I know that the statistics show that ownership has declined somewhat – not a huge amount, but it has declined somewhat – but, nevertheless, there is still a prevailing culture here and it is culture actually not just in Guernsey or the Channel Islands but in the United Kingdom. It is quite a different culture from that in Europe and, as far as I am concerned, I would like to promote that culture because it is inculcated in me certainly. And I suppose here I ought to say I am speaking on behalf of a departed set of constituents. My parents and their friends, who were certainly at the bottom of the pecking order in those days, thought that the Homes for Workers Loan Scheme was absolutely brilliant.

Without it, they would not have been able to buy. To the best of my knowledge that did not have an adverse effect on the market in those days. So that was one example where interference in the market, as far as I am concerned – and I feel the shades of my parents on my shoulders as I say this – it was wonderful for those who could not otherwise afford it.

The other great thing that has happened – and all praise again to Deputy David Jones about this – is the Guernsey Housing Association; another great way of making sure that we do have property available for those who want to benefit eventually from the property market. So good for them

As to the potential adverse effect which this could have on property prices, it is up to us in producing a report, if this amendment is accepted, to make sure that, whatever the system is, it is properly circumscribed, so that the right people are allowed into the system and the system is not abused.

545 What is being asked for by this amendment, as Deputy Rob Jones says, is a report by the middle of next year. Can't we wait until the middle of next year to see whether or not this sort of idea ought to be kicked into touch?

550 If Treasury & Resources and Housing, together, cannot come up with something which satisfies this Assembly, then quite rightly at that stage it ought to be thrown out. But I do think that this is something which ought to be explored. As I have said, there are precedents or things in the past which we have done – interfering, admittedly, in the market – which have been brilliant. It could be that this could be brilliant again.

555 One last thing: of course I accept the property prices are a function of availability of land – and I look at Deputy Conder as I say this – but part of the rationalisation of the ownership of States' land and property would, I hope, eventuate in sites, old buildings and land generally, being available for property development. Sir, I hope that that is one of the beneficial effects of the SAMP exercise.

The Bailiff: Deputy Hadley.

560 **Deputy Hadley:** Mr Bailiff, the Housing Board did discuss the Home Loan Scheme, as Deputy Jones referred to.

565 We looked at Jersey. In Jersey in six months their trial home loans deposit scheme burnt £2.5 million. So let's not kid ourselves, if we go in for any scheme involving helping people with deposits, it is going to be expensive and, I think Deputy Jones said, will damage our ability to build more affordable housing, unless somebody else funds it. And I, for one, do not want the States of Guernsey to burn up millions of pounds on a deposit scheme.

I do agree entirely with Deputy Conder: any other assistance for buyers, I think, will be inflationary and the essential thing I think we should be doing is building more houses.

I thank those speakers who complimented Deputy Jones on his work with affordable housing.

570 So although on this particular issue, as to how we deal with the particular amendment, I think it is one of the rare occasions there was some dissension within the Board. So I think you will find us voting in different ways, because although I was fairly neutral on the idea of looking at ways to help first time buyers, on reflection we would just be wasting our time, in my view; because, as other speakers have said, anything we do is going to be inflationary.

575 I also feel another waste would be, as Deputy Le Lièvre said, doing a survey to find out what the need is. This is what the Department does; it does a housing needs survey every few years so that we find out what the need for housing is on this Island, and we set targets against the perceived housing need. So we are already doing this work. We do enough reports and survey, so I would urge Members to vote against this amendment.

580

The Bailiff: Does anyone else wish to speak?

Deputy Lester Queripel.

Deputy Lester Queripel: Thank you sir. I think I have finished my speech.

585

Deputy Trott: Well, that was quick! (*Laughter and interjections*)

590 **Deputy Lester Queripel:** The whole first time buyers issue has always intrigued me, sir, and the reason for that is: how do we actually establish an affordable first time buyers' market? Because the price of labour and materials is not really negotiable, because a builder and developer need to maximise profit in order to continue trading. So it seems to me that then only area where money can be saved is the price of land. And I wonder, sir, if Deputy Soulsby would agree with me that, to have any chance at all of establishing an affordable first time buyers' market, is for land to be available at a discounted price.

595 When my wife and I bought our first house 25 years ago, sir, we bought a wind and watertight house from a local builder. The plot cost £15,000 and the house itself cost £25,000. We spent another £20,000 on it over a two-year period. So our total outlay was £60,000 for a three-bedroomed semi-detached house. We later sold the house for £74,000 and the same house is currently on the market, 25 years after we first bought it, for £495,000. Now, that is an incredible increase in the price of housing, sir, and that is for a modest semi-detached three-bedroom house on a *clos*.

600 So I would like to know what exactly are we calling a first time buyers' market? No-one seems to be able to answer that question. Is it £495,000 for a house which was affordable to first time buyers 25 years

ago? Or is it £350,000 for a one-bedroom maisonette? Or is it perhaps £299,000 for a one-bedroom flat? What exactly do we consider a first time buyers' market to be?

My son and his partner have recently bought a two-bedroom wing of a house for £375,000 and that needs a lot of work, some of which I have been doing myself, sir, to help them. They both have well-paid jobs. My son works in finance; his partner is employed by a well-established recruitment agency. They do not have any children but they are struggling, and they have struggled for a long time to save enough money for a deposit. And there was a time when they were considering moving away from the Island to live and work in other parts of the world where they could have found exactly the same house they have now for half the price; and they were even offered well paid jobs in those parts of the world.

Sir, the cost of housing here is out of control. The cost of accommodation here is out of control. It is because the cost is out of control that some of our young people are considering leaving the Island or even have already done so. Now, I am not sure what we as politicians can do to address that. So I would like to hear Deputy Soulsby's view when she responds, sir, on her interpretation of what exactly a first time buyers' market is.

To finish on the issue of where exactly the land is that we need, we have 234 derelict or disused vineries in this Island – 234 disused or derelict vineries – and I often ride around on my push bike looking for derelict and disused vineries. In the Vale, St Sampson's, Castel and St Peter Port alone, I have discovered disused vineries with a combined currently totally useless land mass four times as big as Saumarez Park.

Every glass house on those vineries is completely flattened, the brambles are 10 feet high and broken glass flies everywhere in high winds. So we have got the land. I am not talking about developing every single disused vinery, but surely we should develop some of them.

I would like to hear Deputy Soulsby's views on what I have said when she responds, sir.

Thank you.

The Bailiff: I see no one else rising so I invite the Minister, Deputy St Pier, to speak.

Deputy St Pier: Sir, my colleague from the Treasury and Resources Board, Deputy Perrot, has really said much of what I would wish to say.

I think the comments of Deputy Dave Jones, the Minister for Housing and those of Deputies Green, Conder, Dorey and Bebb, I think, and others, were identifying the risks around any measures which simulate demand without an increase in supply are very valid, and we do share and recognise those concerns. And I think there is a recognition that this issue is one of significant public concern and, notwithstanding the Parr Report from a few years ago, we believe it is entirely appropriate that this issue is looked at once again, jointly with ourselves and Housing.

My natural instincts are probably very much aligned with those of Deputies Green, Conder and others, that this may not be the right solution, but I think it does warrant being looked at.

I think Deputies Brouard and Le Lièvre are absolutely right: that this is a mechanism by which the two Departments can look at the broader issues and report to this Assembly.

For that reason, sir, I will be supporting this amendment.

The Bailiff: Deputy Soulsby.

Deputy Soulsby: Sir, I thank the T&R Department and I thank the Housing Department for not opposing this amendment.

I did take great exception to the comment made by Deputy Dorey though. He may like to know I did have a longer speech to make in the opening debate, but I took note of the Bailiff's comments earlier and hence cut this right down. I would say that is far from being disrespectful and I would question whether he himself has been respectful by not declaring an interest as a landlord.

I think there are Deputies here who have jumped the gun and, as Deputy Rob Jones said most eloquently, all this report is seeking to do is to get Housing and T&R to work together to produce a report. Nowhere are there any options being proposed.

Deputy Kuttelwascher talks about whether I want all the £80 million to be used. Well, of course not; just as Treasury & Resources do not say, in Section 7.14, that they want the whole £80 million, that they think that should be used for such a scheme.

I thank Deputy Le Lièvre for his valuable comments and giving useful contexts. I understand his desire for a broader review and perhaps Housing and T&R may wish to take this on board.

I thank Deputy Perrot for his support. I am someone, like Deputy Perrot, who would not normally interfere in the market, but I know there are families who are living at home with their parents, and have been for years, because they cannot afford their own home.

Deputy Hadley talks about targets but not action, which is what this amendment seeks to do. And Deputy Lester Queripel talks about land. Well, this amendment makes available the option to purchase land

to build more new houses and there is a Corporate Housing Fund out there which has tens of millions of pounds sloshing around that could be used to do just that.

665 Definition of a 'first time buyer' – well, that of course would be one of the first things that the review will have to decide.

Now, whilst I appreciate that there is an issue in relation to the availability of housing and supply has as much a role in stimulating the market as demand, it is true to say there are houses for sale that would make ideal homes for first time buyers. However, they are unable to buy them, due to a number of financial
670 reasons, including being able to get a mortgage in the first place due to the difficult lending environment, being able to raise enough money for a deposit and the cost of purchasing a property.

There are lots of different schemes already in place in other jurisdictions – and not just the UK. Indeed, very close to home, Jersey has introduced various measures that appear to have stimulated the property market, including reduced stamp duty for first time buyers and a partial loan scheme.

675 Other jurisdictions with schemes include the Isle of Man, Scotland, and further afield, Australia, New Zealand and Canada. In fact, Guernsey appears to be the exception to the rule when it comes to support for first time buyers.

I am not totally convinced by the inflationary effects and this very much depends on the options considered, as Deputy Perrot made very clear.

680 This amendment just requests Housing and T&R to consider this matter and give it what I believe is the attention it deserves. I therefore urge Members to support this amendment.

The Bailiff: Deputy Dorey.

685 **Deputy Dorey:** Sir, a point of order.

Deputy Soulsby accused me of being disrespectful. It is nothing to do with being respectful to the Assembly; it is whether I follow the Rules or not. I do not consider that, as a shareholder in a company that rents out property, this had anything to do with a personal interest. If somebody judges that it does, I will declare an interest, but this is to do with the first time buyer market not the rental market.

690

The Bailiff: I look to the Procureur for guidance, but I do not see it as being an issue on which Deputy Dorey needs to declare his interest in a company that he happens to own.

The Procureur: Well, he has explained his position, hasn't he? **(The Bailiff: Yes.)** It is fine.

695

The Bailiff: So we vote on amendment O, proposed by Deputy Soulsby seconded by Deputy Brouard. *(Interjection by Deputy Soulsby)* There is a request for a recorded vote.

A recorded vote on amendment O.

700 *There was a recorded vote.*

The Bailiff: Well, while those votes are counted, we will move on Members with amendment P, to be proposed by Deputy Dave Jones, if he wishes to do so.

Amendment P:

To insert a new Proposition between Propositions 36 and 37 as follows:

'36A: To direct that when the Treasury and Resources Department and Social Security Department report to the States early in 2015 further to their review of personal taxes, pensions and benefits, as outlined in paragraphs 1.8 to 1.11 of the 2015 Budget, their report shall include an analysis of the advantages and disadvantages of introducing:

a) a sliding scale of reduced personal allowances for higher earners up to and including the concept of "20 means 20"; and/or

b) a progressive system of income tax with lower tax bands being applied to lower earners and higher tax bands being applied to higher earners.'

705

Deputy David Jones: Thank you, Mr Bailiff.

I really see this as a belt and braces amendment because I am not really sure what is in the up and coming tax and benefit review. I will just quickly read it. I do not have a speech on it:

'To direct that when Treasury and Resources Department and Social Security Department report to the States early in 2015 further to their review of personal taxes, pensions and benefits, as outlined in paragraphs 1.8 to 1.11 of the 2015 Budget, their report shall include an analysis of the advantages and disadvantages of introducing

a) a sliding scale of reduced personal [tax] allowances for high earners up to and including the concept of “20 means 20”; and/or
b) a progressive system of income tax with lower tax bands being applied to lower earners and higher bands being applied to higher earners.’

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Really it is no more than that.

Of course, Deputy Le Lièvre has agreed kindly to second this in Deputy Fallaize’s absent. What I would ask is if Treasury & Resources give us, now, a categorical assurance that that is exactly what is in the tax and benefits review then I am happy to withdraw it.

715

The reason I wanted to take this amendment was because I do not believe indirect taxation is a fair tax system; it is not based on anybody’s ability to pay. This clearly would be and is something I want to see in the future. I have asked around the Policy Council table a couple of times, but I have not really received the kind of assurances that I am hopeful I might get here today.

720

The Bailiff: Are you giving way to Deputy St Pier?

Deputy David Jones: Yes, sir, I am giving way to the Treasury Minister.

Deputy St Pier: Thank you to Deputy Dave Jones for giving way.

725

He was seeking some confirmation as to what was in the Personal Tax Pensions and Benefit Review. I did actually address this issue in my opening speech yesterday when I spoke to some comments on this amendment before your ruling, sir, and I think firmly indicated that these were precisely the issues that were being addressed through that process.

730

Deputy David Jones: Well, all I can say is I can ask my seconder whether he agrees that he is happy with that statement and whether he agrees that we could withdraw the amendment.

The Bailiff: Deputy Le Lièvre.

735

Deputy Le Lièvre: I certainly do, sir.

The Bailiff: In that case the motion then is to withdraw the amendment. Those in favour; those against.

Members voted Pour.

740

The Bailiff: The amendment is withdrawn.

We then come to the final amendment, which has been circulated this morning, which is amendment Q.
Deputy St Pier.

745

Deputy St Pier: Sir, very briefly, as you said at the beginning of this meeting, this is a purely technical amendment. It seeks to consolidate the amendments which were approved yesterday in respect of the St John Ambulance change for HSSD and the Beaucamps change for Education and I am grateful to the proposer and seconder of each of those amendments who have agreed that this could come forward, sir.

750

The Bailiff: Deputy Kuttelwascher, do you formally second the amendment?
Any debate? No. We go to the vote on amendment Q. Those in favour; those against.

Members voted Pour.

755

The Bailiff: I declare it carried.

Amendment O:

Carried – Pour 34, Contre 7, Ne vote pas 2, Absent 2

POUR

Deputy Perrot
Deputy Brouard
Deputy Wilkie
Deputy De Lisle
Deputy Burford
Deputy Inglis
Deputy Soulsby
Deputy Sillars

CONTRE

Deputy Quin
Deputy Hadley
Alderney Rep. Jean
Alderney Rep. Harvey
Deputy Brehaut
Deputy Bebb
Deputy Dorey

NE VOTE PAS

Deputy Kuttelwascher
Deputy Conder

ABSENT

Deputy Luxon
Deputy Storey
Deputy Ogier
Deputy Fallaize

Deputy O'Hara
Deputy Harwood
Deputy Domaille
Deputy Langlois
Deputy Robert Jones
Deputy Le Clerc
Deputy Gollop
Deputy Sherbourne
Deputy Lester Queripel
Deputy St Pier
Deputy Stewart
Deputy Gillson
Deputy Le Pelley
Deputy Trott
Deputy David Jones
Deputy Laurie Queripel
Deputy Lowe
Deputy Le Lièvre
Deputy Spruce
Deputy Collins
Deputy Duquemin
Deputy Green
Deputy Paint
Deputy Le Tocq
Deputy James
Deputy Adam

760

The Bailiff: Just before we move to general debate I can announce the result of the voting on amendment O is 34 votes in favour, 7 against, with 2 abstentions. I declare the amendment carried.

We move now to general debate.

Deputy Bebb.

765

Deputy Bebb: Thank you, Monsieur le Bailli.

I thought that I would speak early because I will actually outline and start the debate on what I know many will want to talk about and that is the bond issue.

770

I have to say I am personally very disappointed to see such an issue being brought within the Budget. I think that it is a fundamental difference in policy and it warrants its own policy letter.

Regardless of that, I would urge Members to think very carefully about whether they would support it. I personally cannot.

775

When we set up commercial companies it is with the intention that they are commercially viable, and if they need to gain access to the market in order to gain borrowing then that surely is part of their commercial responsibility.

The idea that the States of Guernsey should suddenly act as though it were a corporation or a bank, as opposed to the States of Guernsey acting as a Government, is something that I personally find offensive. It is a Government and to think that we should therefore be propping up what we have said to be commercial entities is anathema to me.

780

The language that has been described as a bond replacing existing underwriting is also deceptive. I do not agree with that. I doubt that any underwriters would agree with the same statement. Underwriting and actually servicing debt are two very different economic arguments. They have different principles behind them and the confusion in the language is quite simply unacceptable.

785

Underwriting a company, a commercial company, is a very different venture. May I suggest that commercial companies should remain commercial? If they need to access the market and their business models are such that they attract higher rates, then surely that is an indication as to how successful they are. The idea that we as a Government start participating as a bank on the back of that is wrong and I would urge Members to, please, reject the Proposition.

790

There is one other thing that I am sure other Members will make far more eloquently and I do think that is the case. It may well be a thin end of the wedge and I know that that is a concern that many in the community share. Once we start on a bond issue then of course it becomes attractive to use that money, first of all towards servicing first time buyers, and then I am sure there will be other schemes that will come along and, before we know it, it will be used as the opportunity, repeatedly, in order to fund gaps in our spending. We know that our current corporate portfolio is actually not fully funded, but would there be an attraction to that?

795

I would argue that we need to remain a jurisdiction that has no debt and I would argue very strongly that the community, Islanders, are looking to us. And I have not heard one person who has contacted me in relation to this, saying it is a good idea – *not one* – but I have heard a large number who have said that it is a

disaster; that it will not happen today but, in the same way as other problems that we have, when it really causes a problem – it will not be in our term, it may not be next term, nor the one after, but it will come – we are entering into something which I believe is not necessary and I believe would be foolish.

I commend the Department on much of the work that they have done in bringing a balanced Budget. I think that much of what they have done in this Budget is absolutely right. The freezing of personal allowances is a difficult decision that I personally will applaud. Many difficult decisions are included in this.

I think it is excellent in many ways, but it is very fundamentally flawed by bringing in such a major change in the Budget. I cannot possibly support Propositions 27 and 28 and those that are dependent upon it, and I would urge all Members to reject those proposals.

Thank you.

The Bailiff: Deputy Conder, Deputy Green, Deputy Brouard.

Deputy Conder: Thank you, sir, Mr Bailiff.

I think we are starting where we finished yesterday. *(Laughter) (Coughing)* I apologise.

Mr Bailiff, colleagues, many Members of the Assembly have laid or seconded amendments to the Budget which have met with varying degrees of success. Others have spoken with authority on various aspects of the Budget.

In rising to speak, I wish to congratulate the Treasury Minister and his team on their efforts to achieve and deliver a balanced Budget, which surely must be an imperative for this Government and, in many cases, was a key promise which we made to the electorate in 2012. I thank the Treasury & Resources team for enabling us to come near to delivering on that promise.

Sir, others, much more experienced than I in matters of the States' finances, have or will comment on the finer detail contained within the 39 Propositions. I will confine my comments, as Deputy Bebb just has, to Propositions 27, 28, 29 and 30, all of which relate to the proposed States of Guernsey bond.

I should state at the outset that I am opposed to this Proposition and the concept of this or any other Guernsey Government borrowing, to fund infrastructure or revenue expenditure, with or without an income stream, or transferring debt from the balance sheets of States-owned companies to the States of Guernsey's balance sheet. **(A Member:** Hear, hear.)

Sir, notwithstanding the economic and financial travails of the world and this little Island over the past 10 years, one of the great reassurances that we have been able to give ourselves and the citizens of this Island, as we struggle to bring our finances back into balance, was that we have had no public sector debt and no public sector borrowing requirement. We live within our means.

This has been our situation whilst we observe the United Kingdom and many of the fringe nations of the EU struggling to bring down their level of debt, whilst at the time being at the mercy of international rating agencies or, in the case of Ireland, Greece, Portugal and half a dozen other small European states, at the mercy of the European Bank and its masters.

Guernsey, despite its difficulties, could at least address its own problems in its own way by reducing current expenditure or increasing taxes and charges.

In the case of the United Kingdom, being outside of the European Monetary Union, it could at least address its own debt crisis by managing its interest rates and money supply. The smaller countries in Europe did not and do not have that luxury, and are thus at the mercy of powerful forces controlled by the dominant northern states within the EU.

In some ways, Guernsey, in its relationship with the United Kingdom, reflects that of the fringe European states and their relationship with their powerful northern neighbour members. Guernsey is not able to determine its own interest rates or money supply. We take both from our powerful neighbour, the United Kingdom.

It is my contention that if a country is unable to control its money supply, exchange rates or interest rates, it should not borrow to fund public expenditure or, ultimately, it will risk placing the control of its economy and all that goes with it, in the hands of authorities and institutions outside of its borders.

This Budget Report does of course make the case, in paragraph 7.5, that the States of Guernsey has:

'In the recent past... facilitated a material amount of borrowing for their owned or associated commercial entities.'

The report goes on to say:

'Borrowing is a necessary and accepted tool in the business models for these companies...'

Well, of course it is, but surely there lies the rub: these are commercial entities, albeit owned by the States, but they are expected to trade commercially. That is why they were set up in that way. **(A Member:**

Hear, hear.) They can have a high-risk profile and, in *extremis*, if in trouble they can put up their prices to service their debts. They could potentially be taken over and any debt be taken on by the new owner, and of course they can fall back upon their guarantor – us, the States.

Unfortunately, when a nation state takes on debt very few of those options are available to it. Rather, as we have seen throughout Europe, a nation state in financial difficulties must either impose austerity, default on its debts with all that entails or print money to inflate away the problem. That immoral luxury that is printing money to devalue the currency is not in our gift, as I have already mentioned.

Sir, as Professor Woods said so eloquently last week, the transfer of liabilities from the balance sheets of the States-owned companies to that of the balance sheet of the States is not a zero sum of gain. The implications and liabilities of the States owning the debt are, as Professor Wood said, different to those of acting as guarantor to our fully-owned companies.

However, sir, it is not with the consolidation part of this proposal that I most take issue. That debt exists. We are the guarantors and, in reality, we know that we have to stand behind those companies.

Rather, my concern is with the second part of the recommendation in para 7.19 which are:

‘... the Policy Council is given delegated authority to approve an increase in the value of the States of Guernsey bond issue by a maximum of an additional £80 million.’

Sir, this is new borrowing for possible future States’ projects or capital expenditure. This is new territory. This is the States of Guernsey deciding that rather than fund infrastructure or new projects from reserves accumulated during times of prosperity we will borrow ostensibly because the cost of borrowing is at this time advantageous.

For me this changes the philosophy of Guernsey’s public finances, albeit in only the most modest way. But it does potentially open the way for our successors to follow the route of so many other small nations and so many ambitious politicians who cannot wait to attach their name to another vanity project.

Sir, to illustrate why this might not be the best time to secure debt on the cheap, but one of the worst times. I would quote a recent authoritative article entitled ‘We are Entering the Ninth Circle of Hell in Economics’. This article by a leading commentator details the current and unique set of circumstances in the global economy; a description which gives us all cause for concern. This report describes the tightening by the United States and China as having caused global liquidity to evaporate. The author said that what initially had looked like a gentle tap on the brakes by the two monetary superpowers has proved too much for a fragile world economy still locked in secular stagnation. Markets are suddenly prey to the disturbing thought that five and a half years’ expansion since the Lehman crisis may be over before Europe has regained its previous levels of output.

That is the chief reason why the price of Brent Crude has crashed by 23% since June and it is why yields on 10-year US Treasury bonds have fallen to 1.96% and why German Bunds are pricing in depression at historic lows of 0.81%. It could be that recent economic expansion is over before the world economy has returned to its former levels of productivity.

If this growth scare presages the end of a growth cycle, the consequences will be hideous for France, Italy, Spain, Holland, Bulgaria and others already in deflation or close to it. Their higher debt ratios will worsen the damage.

Sir, Morgan Stanley states the gross global leverage indebtedness has risen from \$105 trillion to \$150 trillion since 2007. Debt ratios are at record levels in developed and emerging markets. These debt levels signal global stress that is doubly dangerous today because the whole industrial world is one shock away from the deflation trap – a psychological threshold where we batten down the hatches and wait for cheaper prices.

Even as recently as yesterday, the Institute of Economic Affairs warned the UK government that it would need to slash public spending by a quarter – 25% – in order to get Britain’s debt mountain down. The IEA calculated that government spending cuts equivalent to £168 billion per year were needed to reduce Britain’s debt to GDP ratio to 20% by 2063.

The Office of Budget Response believes Britain’s debt pile will rise to 84% of gross domestic product by 2063, from today’s level of 76.5% even when extra cuts are taken into account.

Sir, I know that these are not direct comparisons but, notwithstanding the reassurances of T&R – and I have huge confidence in them – is this really the time to be dipping our toes into the water of public sector debt, when in truth it really is not necessary or essential for the management of our public finances?

Sir, I think we have to be careful of the beguiling suggestion that today’s interest rates are so low that we would be mad not to take our share now. We all know the salesman’s line, ‘Buy now. I am only allowed to offer you this special rate today because the offer closes at midnight’. So we end up buying the overpriced rubbish double glazing we really did not want! (*Laughter*)

Today the danger is not of rising interest rates or inflation. I note yesterday the Swedish Riksbank cut its interest rate to zero and its deposit rate to -0.75%. So, sir, today the danger is not of rising interest rates or

inflation, rather it has changed to nascent deflation. If it became established, deflation would wreak its own havoc on debt dynamics, because increasing the burden and cost of debt is one of deflation's most deadly side effects – the exact opposite of inflation, which of course inflates away debt. So these low interest rates today in deflationary circumstances will look very high interest rates tomorrow. Is this really the time to be dipping our toes into public sector borrowing?

Colleagues, you will not be surprised to know that I do not believe that for an independent jurisdiction financially and economically structured as we are, there could ever be such a time.

Finally, sir, just a brief reminiscence, if you will indulge me. Many, many years ago now, when I was first awarded a chair by my university, one of my first duties as a new professor was to give my professorial inaugural lecture – an event even more daunting than my maiden speech to this Assembly; not much but a bit more daunting.

My lecture was entitled 'Identifying the Causes of and Predicting Corporate Failure'. A snappy little title, I am sure you will agree. The research I and my research assistant did in preparing for the lecture was to look at a range of successful and failed companies and to build a financial model using a technique called multi-factor discriminant analysis – a modelling tool we have heard of before within this Assembly.

Having built the model, we then tried to identify which part of the model was most clearly driving the performance of any one company over a number of years. The constituent parts of the model include, amongst others, the working capital ratio, growth and turnover, profitability, stock turnover and the gearing ratio.

We found that for every company that failed and went into liquidation, the curve of the overall model was exactly matched and driven by the gearing ratio, but the other ratios in the model followed quite different trajectories. In other words, the companies that failed in our sample were always over leveraged – that is, they had excessive debt. The companies that survived and prospered had entirely different shapes of performance curves and the gearing ratio tended to follow the curve of all the other ratios within the multi-discriminant model and was not the key to drive for the model.

As an aside, some of the companies we examined had a higher turnover than the total GDP of Guernsey; perhaps not a good comparison – and thank you for indulging me – but, for me, it was certainly a salutary one.

Sir, I end my speech with a figure I quoted earlier: total global indebtedness of \$150 trillion. I would not like to suggest that our proposed borrowing –

I am sorry.

The Bailiff: Giving way to Deputy Trott.

Deputy Trott: Sir, I was going to ask could I, through you, ask Deputy Conder when it would be convenient to interrupt him and ask him a question, because that was such an excellent speech. Is the time right now or should I wait just a moment longer?

The Bailiff: Well, I think you have interrupted him, Deputy Trott! *(Laughter)*

Deputy Conder: It appears to be right now!

Deputy Trott: Sir, this is a superb speech – very thought provoking, from a very intelligent man – but I do wonder whether my good friend, Deputy Conder, has missed one fundamental point. The scenario that he describes may, in fact, be the scenario that we face. We could face a period of deflation, we could face a period of inflation. But surely the issue is that the existing liabilities are going to be matched. In other words, the profit margin is going to be locked in almost immediately and therefore the gain to the residents of Guernsey *per se* will be immediate and sustained.

The Bailiff: Deputy Conder.

Deputy Conder: I think I understand the question, and it relates I guess to the – Sorry, this is a bit like a lecture theatre, forgive me – *(Interjection and laughter)* and I think my concerns are that the profit will be locked in. This is in terms of the companies that we are funding, that we own, and indeed my concern is more with the additional £80 million, as I said earlier in my speech. But the risks associated with independent companies are very different to the risks that have taken the debt on to our balance sheet. That is my concern and I think I said earlier in my speech that commercial entities have different ways of removing their risks than we do as a States. I think that perhaps outside the Assembly, if I may, because I suspect I have not fully grasped the points you make. And I do apologise; this is not a lecture theatre, sir, and I apologise.

If I may, I will just wrap up my speech.

The Bailiff: Please do.

980 **Deputy Conder:** Sir, I end my speech with a figure I quoted earlier: total global indebtedness was \$150°trillion. I would not like to suggest that our borrowing of £250 million or £330 million is likely to tip the balance towards global financial Armageddon. That might just be overstating it, but with figures of that magnitude we can be sure that a global financial reckoning will come. It is an inevitability.

I do not want the people of this Island or the generations that follow to be any more vulnerable than they have to be. I believe that, as far as we are able, it is our responsibility to protect this community and, 985 equally, future generations from the consequences of a western world that is sunk in a quagmire of debt, that must in due course lead to default and austerity, the like of which we have yet to experience.

Sir, I urge colleagues to reject Proposition 27.

Thank you. (*Applause*)

990

The Bailiff: Deputy Green, then Deputies Brouard and Stewart.

Deputy Green: Mr Bailiff, thank you. Members.

Overall, I do think T&R deserves credit for taking the action necessary to balance the Budget.

995 Restoring sense to our public finances by 2017 is the right thing to do. It is a Budget that does contain some pain, of course, with some tax rises; but overall I think the ends do justify the means. And the Island is crying out for a balanced Budget.

We perhaps should not get too carried away though because, when you look at the detail of the Budget, we will continue with an estimated 2015 deficit of £4 million, and even a deficit of £800,000 in 2016. That 1000 is covered on page 47 of the Billet, but the good news is that the estimate for 2017 is when we will actually return to a proper surplus.

So we turn to the big picture. I do welcome the Budget and I will be supporting the majority, if not all, of the Propositions.

I do have some specific reservations about certain aspects of the Budget, particularly as regards the 1005 freezing of the personal tax allowance, which will hit many working people on low and middle incomes, just at a time when actually the UK coalition government is pursuing an assertive agenda of actually increasing the personal allowances there.

Of course the other thing is T&R have not taken any measures in this Budget on personal tax allowances for higher earners, and we can only hope that that will be a feature in next year's tax review policy letter, 1010 whenever that emerges.

Secondly, the reduction of the mortgage interest relief cap from £25,000 to £15,000 is, I think, undoubtedly going to sting many local working families when or if interest rates inevitably start to go upwards in the near future, possibly as early as next year. But, of course, it was and it is necessary to make difficult decisions to balance the Budget and I think, broadly speaking, T&R have made some difficult 1015 decisions and they do deserve credit for that.

As I say, from the detail of the Budget it appears that we will actually be moving to a surplus in 2017. So you could perhaps raise the question – is the real question perhaps why haven't T&R actually taken the difficult decisions necessary to properly balance the Budget in 2015 or 2016, rather than in 2017.

Finally, I just want to say a few words about the Guernsey bond. I do actually agree with the case for 1020 consolidating our existing debt and clearly we can take an opportunity here to lock in low interest rates, as our colleagues in Jersey have already done. But I do not want us to ever depart from our existing policy of borrowing only if there is clear income stream attached to pay off the debt liability. We should stick to that principle, in my opinion.

Guernsey, historically, has only ever borrowed more broadly with recourse to general revenue in 1025 extreme situations – in the Napoleonic Wars, during or around the World Wars – but clearly at this time, in my opinion, we are not in any situation, we are not in a state, whereby we need to even consider much more general borrowing which does have a recourse to general revenue.

I think the idea of this bond is actually a very big deal and it is, as Deputy Bebb said, a very material change in policy. I do think that this Government bond issue could very well be a slippery slope in due 1030 course; it could be the thin end of the wedge.

In fact, at the Castel Douzaine on Saturday, Mr Bailiff, rather unusually, Deputy Barry Paint and I agreed on a matter (*Laughter*) and I think it is possible the first time it has happened since the election in 2012 (**Deputy Paint:** And the last!) and possibly the last! (*Laughter*) But we were like-minded in terms of what this change of policy could actually represent. It is not so much what is going to happen today. I do 1035 not think. I think it is quite easy to exaggerate the effect of the proposals that we have in front of us today. It is more in terms of what might happen further down the road, and I would certainly preach caution, in general, in terms of Government borrowing. As Deputy Conder said, we are not a jurisdiction that has ever had any great deal of Government debt, apart from when in extremis, and I think we need to remember that.

And I actually agree with Deputy Bebb as well. I think bearing in mind how material the change is in policy here, I think we could have done with a separate debate. I think we should have had a separate policy report on this. I think tucking it away within the Budget was probably a mistake, probably a misjudgement, but nevertheless we are where we are, as they say.

With regards to Propositions 27 and 28, certainly the original Propositions un-amended were entirely silent on the existing States' policy, with regard to only borrowing from a secure, discreet income stream. That has been mitigated to some extent by the amendments and I take comfort from that. I am not 100% sure whether I will support those amended Propositions. I may well do.

But, in conclusion, as I said, generally speaking I will support the vast majority of the Budget Propositions. I do think T&R deserve some credit for finally biting the bullet and seeking to take the difficult fiscal measures to eliminate the Budget deficit in a responsible way and certainly to take us back to surplus by 2017.

The Bailiff: Deputy Brouard.

Deputy Brouard: Thank you, sir, Members of the Assembly.

I recently had to buy a new hob. It is not an overly-complicated device. I am not fully familiar with it yet but you turn a knob and it glows red, you put a pan on it and it heats up. And, just for Members' use, I brought the instructions manual with me. It is 20 pages. It is in four languages. I think the mathematicians are well ahead of me here: that is about five pages in English for a device that turns on and glows red.

And for a multi-million pound bond issue – the first time for many years that we enter the realms of sovereign debt – we have five pages of advice and data from T&R.

Now, Deputy St Pier, in encouraging us to dismiss the amendment F – which was the list from HSSD of the proposals which added up to £1.24 million – said it was not a good enough evidence base – not on the back of one sheet of A4 paper. So, by his own calculations, we should have had a least a 200-page report.

Sir, but when it is the other way round – and I picked up, at random off my desk at home, the outline business case for the replacement fisheries protection vessel – the outline case, not the full case, because that it being prepared. The outline case is 78 pages of detail. I mean the full business case, which no doubt will have all the details like the new name. I think we are thinking of Keep Ever Vigilant in Nautical or whether just to use the initials! (*Laughter*) Us mere mortals in Departments could not get a £2.50 pencil sharpener in under 20 pages. Yet £250 million, and the rest, and it is in five pages between a paragraph on indicative cash limits and the use of delegated powers. And I would say to the Treasury Department – I have telephoned them and the lady there has been very helpful with some of my questions but – the answers just were not there.

Another thing – I hate to be critical; I will be nice later on, but at the moment... do not book the bond meeting when we have got board meetings back to back on the same day. We have got a very narrow window but, please, for something as big as this I think we should put a little bit more time in it.

I have got two central themes that I just want to touch on with you and one is the centralisation of power and how that plays out in the States, and how that plays out to the bond, and then, of course, the bond itself.

A wise sage, I think, of the States, Deputy Guille's, words used to be, 'It is never about what it is really about', but when you emasculate Departments so that they only each have just about enough cash to do the day job – like we have allowed and it has been our choices – and all the extras are held centrally, the centre becomes more important.

When the Civil Service set up business partners – basically, that is the senior staff in our Departments, the finance staff and the HR staff – and when those staff now report centrally, the centre becomes more important. When we annex our remaining balance of our Contingency Reserve – the £32 million – and give it across to T&R with their discretionary use, the centre becomes more important. And then you add in the central services of the hub, where we are reliant on professional, fast, good services with regard to accounting and regard to paying our bills and also regard to HR, the centre becomes more important. And when, eventually, if you ever decide that you want to do a bond, you have the people who are borrowing the money have to go to the centre to get the permission for the new cable or the new jet or whatever, the centre becomes more important.

Now, I have no criticism of individuals of T&R or the staff. I think they are a really solid good bunch of lads; we could not have a better team there. I voted for them. But it is the structure – the structure that we ourselves have put in place. We have allowed these individual things to happen, which have put a lot of power now into the centre – and it is not about trust; it is probably more about governance.

So in the days where a Department could carry over unspent balances, the Department had a little bit of a margin to play. Now, that 5% margin, or whatever, is held at T&R so the Department has to ask T&R to have their Budget – the excess Budget which T&R are holding – to come back to them to use it. And that move of control to the centre means that the Departments have slightly less.

1100 And you also have a strange... and this is human behaviour: if you have to ask someone else for that money, you then have to be nice to those people, and you get this constant thing by Ministers going round and saying, 'I have got a really good relationship with T&R. Gavin St Pier is a real friend of mine'. That is not what I want to have happen. I do not want to be friends with T&R! (*Interjections*) If I am, that is a bonus. I want T&R to be professional and act fairly and honestly with all of us. They are holding our money that we are asking them to hold for us.

1105 I can remember Deputy Bell... I do not recall him smoodging up to Deputy Trott in those days. He used to say, 'Can I have some more money for roads?' But we seem to have got into that culture that we have to be nice to T&R to ask them for things. And then the things that they actually manage themselves – things like the hub, which has not always been a great success, and the hub for HR has not always been a big success – you have got Ministers then in a difficult position; do they criticise T&R because the hub is not delivering the services they want, but they know they are going to have to ask in the next breath for an extra bit for the new school or an extra bit for something else?

So when we gather, as a structure, all the power in the centre, we have got to be very careful.

1115 Now, at the moment, non-Department entities – such as Aurigny, who will be the customer of the bond, and they will be the re-payers – have some degree of autonomy where they can borrow and at least they can negotiate their own rates, for how long, with the Government standing behind as last resort. But not any more. With the bond, T&R will decide if they have the funds or not. T&R will probably give them the rate, decide how long for and T&R will also have that real awkward position that they have got to make sure that someone is borrowing £250 million from today and 20 years out or 40 years out. They will have to fill in those gaps to make sure that there is someone always in play borrowing money, otherwise there is no-one to pay the coupon to the customers who have bought the bond.

1120 So you can get some perverse things of maybe saying to a particular entity, 'No, you really do need to buy a new plane because we have got this gap to fill and you are going to be repaying it. We really do need this 'whatever it is', because we need you to be in the frame to repay it.

1125 So, in effect, these entities will lose their present lines of control and the danger for me is that, instead of solid strong boards, they will become puppets of the centre that we have created.

And should they protest? Well, then they would be in the same position as Ministers are now. If they protest they will just annoy T&R even more and be less chance of getting whatever it is that they want.

1130 I just remember the unhealthy sort of position that Royal Bank of Scotland got themselves into, where no-one would dare challenge the management because it was not in their own interest to do so. And I just think that the way we are gathering our structure, we are making a very strong centre. Now, that has got a lot of advantages but there also needs to be some controls in there.

1135 It is a fundamental change from being a guarantor to being a direct lender. I mean just think of it in your own family. If your son or daughter wants to buy a car and wants you to help, it is one thing to say, 'Well, off you go; go and get the loan from the bank and sort it all out, and if the bank needs it I will stand behind you as guarantor. I am the last resort of the loan, but it is very much my daughter's loan. I have little control; she has the control and the responsibility. But it is a completely different matter when I say, 'I will lend you the money and you pay me back'. I have the control and now my daughter's responsibility is to me and that lessens the control. It is a completely different dynamic.

There are many problems with the bond and the lack of information, I think, is just one of them.

1140 Now, I have asked T&R for the matrix of how they will fill in all the slots for the bond to be maintained at £250 million at all times. Obviously, they are not going to have all the picture because looking 40 years out is more than most people can do, but at least I would like to see how they are going to be matching that up.

1145 I have asked for what the present interest rates are that the borrowers are paying now. I do not know if they are paying 2% or 10%. And I think Deputy St Pier mentioned in one of the examples he was giving, say Aurigny were borrowing at 5.5%, I think is one of the expressions in one of the return emails, but he should be saying, 'They are borrowing at this for that loan and that for that loan,' maybe. I do not know. I am sure the information is there and were should be seeing what that sort of turned saving this magic bond is going to be doing.

1150 I am very much with Deputy Conder, that the rush for 3.5% 'will not be here long; get it before midnight' – the salesman comment. As a stubborn Guernsey donkey the first time someone says that to me I am taking a step back already before you even start.

Deputy Fallaize said yesterday in a speech, we are not a bank. Welcome to being a bank. When you take that debt on and then lend it out again with a turn you are becoming a bank.

1155 But you know what, really I am not really interested in the answers that T&R are going to give, because I do not believe we need to start off a national debt.

Now, my colleagues – and I am sure we are going to disagree between myself and Deputy Perrot next to me – (*Laughter*) will argue that being a guarantor is just the same, really, as a lender. Well, 28 years in banking and I can tell you, fundamentally, it is not. We will end up holding the baby and we will change the

1160 whole dynamics and those who are borrowing from us will have their autonomy taken away because they will have to report to the centre on what they are doing next and what they have.

Now, maintaining a secure income stream for 40 years – what a challenge that is going to be. Say interest rates dropped to 2%, what happens then? We will be paying all the people who own the bond – 4% or 5% – and everybody else we could have borrowed it too. I do not know. But okay, somebody said to me, 1165 ‘Oh, that is all right, we just buy back the bond’. Ah! You will love the maths for this. Say in nine years’ time we do not need the £250 million-worth of borrowing and we decide we want to buy back the bond, but the interest rates have fallen to 2%. But to buy back say £50 million of our bond, which we are paying a coupon on of 4%, in round terms they are going to have to use the best part of £100 million to buy that £50 million back. So it will be a valuable coupon, to have £50 million earning a return of 4% when 1170 everybody else in the market place is at 2% or 1%. So just be very careful. You have become a bank; you are starting leveraging the debt. And to save what? A little bit of interest here or there. It is just not worth the risk.

Now, the same rules should apply, because if we have got this so-strong sovereign position – which we have, and I think Deputy St Pier mentioned the other day we have now got a AA+ rating; the highest we 1175 can possibly get – surely when our subsidiaries go into the bank and say, ‘I would like to borrow some money for a new aircraft or a ship or whatever it is,’ knowing that there is a guarantee in the background, knowing that Guernsey stands behind at the last resort, can’t they negotiate a good deal? I just do not see the difference. They should be able to put as much weight behind... and if Treasury want to highlight that particular issue, I think that is the way of doing it. Perhaps look at what rates we are paying by our different 1180 suppliers and negotiate hard with them.

Just as a throwaway, I had a couple of lines spare so I was able to quickly note down, when Deputy Harwood was speaking about IT projects and using some of the money that we are moving across in the Budget for some of the modernising of the centre, just be very careful please on IT projects. The last one, the hub, please make sure someone, before they phone up to buy whatever it is, reads the lessons learnt, 1185 because it was not successful. The actual systems may be fine but the training and the implementation was not up to scratch. So please let’s learn those lessons now before we go ahead with that.

I do not think we meant to stifle Departments with the way we are running the Budget now, but I think we need to move to a proper fairer budgeting system. Because we have got a subjective system where we give, basically, Departments back what they had last year, plus a bit more; and I think we really need to 1190 look at that sort of bottom up, and I know it is coming, but it will just take away some of that smoodging that has to be done to say, ‘We really need some money for this’. And of course, from Treasury’s point of view, what a decision! Whose case is more valuable? Is it for some infrastructure? Is it for the Hospital? Is it something for Education? So we really need to have that real hard subjective view rather than this subjective of who gets on well with Treasury. I must admit I would like to be Treasury because then of 1195 course everybody is smoodging up to me, but... (*Sigh*) (*Interjections and laughter*)

Just to sum up, Members, there is a dearth or lack of information with the bond. Please, please reject it and I would ask the States’ Review Committee and SACC just to reflect on some of the combined effects of what we have done over the last few years with Departments, where every bit of cash, apart from the day-to-day, you have to go to Treasury; with the Civil Service reporting in centrally, with the dedicated use 1200 from money from the Contingency Reserve, with rules which are yet unwritten.

So if Treasury are going to make up the rules as to how these monies are used as they go along then there are no rules, which becomes a more subjective gift from Treasury to us. And of course we have some good guys there and I do trust them, but I would like to have a bit more of a reassurance around how people access the other monies that we need, some of these apart from the day-to-day money.

1205 The central core services that Treasury provide – we also need to have some sort of service level agreement between Departments so we know where the boundaries are, so we are not placed in that dilemma. I think the Treasury Department, hopefully, will agree with that; that they need to come forward with some system that bills will be paid in so many days, applications for HR will be processed in... So we have got some idea of exactly the standard of service that we should be expecting.

1210 So, for me, it is a no to the bond. It is a massive commitment. We have got extremely scant information here. And for the rest of the Budget, I think it has been very well thought out and I commend Treasury on it.

Thank you, sir.

1215 **The Bailiff:** Next, I will call Deputy Stewart followed by Deputy Paint and Deputy Langlois, then Deputy Spruce.

Deputy Stewart: Mr Bailiff, fellow States Members.

1220 Yesterday Deputy Fallaize paid me a huge compliment. He said Deputy Stewart wants the States to be more like a business, and I make absolutely no apology for saying, ‘Yes, I do’. We all have our own opinion on how we think the States of Guernsey can improve, and we are all feeding into the machinery of

Government and I do think we need to be a lot more business-like in our approach. So I make no apology for saying I actually think that some –

Oh hang on, I will give way.

1225 **Deputy Luxon:** Sir, point of clarification. I do not think Deputy Fallaize was paying Deputy Stewart a compliment at all! (*Laughter and interjection*)

Deputy Stewart: Oh, I am destroyed now!

1230 Deputy Bebb makes a point earlier in his speech. He said, ‘Not one person I have spoken to agrees with this’ and I am struggling with that because actually a lot of people I have met do think that issuing a bond at this time is a very good idea.

But I do think there is a total lack of understanding and I think a lot of the way that this has come across in the media, by some parts of the industry... have put out, which I think are a bit misleading. I am a fairly simple soul so I think, for the benefit of people listening, this is sort of my take on what we are doing. ‘So for listeners on *BBC Guernsey* here is a simple explanation from Kevin whereas on FM you can listen to JKT doing a phone-in on “is it okay to put two fag ends down a drain?”.’ Sorry, sir. (*Laughter*)

So here is the simple explanation: let’s look at the history. This is –

Deputy Brehaut: My confidence takes another dent, sir!

1240 **Deputy Stewart:** So let’s look at the history. And I do spend a lot of time in that Members’ Room looking through a lot of the old Billets and one thing that really comes across – particularly reading about the period pre Second World War and post Second World War – is how much the States changed, how adaptable they were, how they dealt with some really difficult challenges at times where there was not a lot of money swimming around.

One of the things that I thought was very enterprising was at the beginning of the 1930’s they had a real problem with their water in the Island. How do we cope with future demands for our water? And the way they tackled this was really quite amazing and something that I do not think we would actually have the gumption to do today. They looked at a beautiful valley out in St Saviours – it was farmland. There were people’s houses; there they had lived there for years. They did not have a way of funding it. They did not even have the labour on this Island to build it at this time. But in a very short space of time they solved all those problems back in the 1930’s. Labour came in from all round the country – Wales, Cornwall – to build it. They dealt with all the planning issues. You can imagine the upset – people were being moved off land when they had been there for hundreds of years farming.

1255 And how do we get the money? They issued a bond. They issued a bond! And in a very short space of time they solved our problems which we are now benefitting from – I am trying to do the sum in my head – over 80 years later. From the States being nimble, from being business-like and dealing with a unique challenge.

Now, that is the history. What are we doing now? We are recognising an opportunity and everything Deputy Conder said – and it was a very good speech but you can quote all sorts of figures about growth and all the rest of it... On the other side of some of the figures that Deputy Conder quoted, US growth is now 3.5%, Chinese growth is 7%. It is not all gloom and doom. You can mix and match the figures and you can talk to two economists and you will get three opinions.

1260 As Deputy Trott so rightly points out, what we are doing is giving ourselves some certainty here. We are locking in that profit. We know we have got trading bodies. And I think for people listening at home, what, in essence, are we doing, in very simple terms? It is a bit like a couple of years ago when my wife went berserk one Christmas and up go the credit cards and we will do a holiday as well so, we had Visa, MasterCard and all those things, and then of course you have got to pay them off and the interest rates there are 8%, 9%, 10%, 11%. What we are really doing here is consolidating our States’ credit cards. Now, one thing I did when we did consolidate them was I nicked them all out of my wife’s purse, but that is another story and that did not go down at all well!

1270 And this is what we are saying we are going to do as the States. We have revenue streams from the companies that we have a stake in, that we own, that will fund this. We are locking in that profit; we are locking in that. Essentially what we are doing is we are consolidating our credit cards. And this is Angela Merkel economics; it is Hausfrau economics and, in a very simple way, that is what we are doing. We are not borrowing to fund some great capital expenditure. This is borrowing we already have. We have that debt. It is a bit like my wife trying to hide the credit card statements from me. She may have tried to hide them but we still owed the money. And the fact of the matter is we owe money. The States of Guernsey has underwritten all this debt. We owe it! And, if I am remembering the figure right – but if not my friend, the Treasury Minister, will correct me – I believe it is about £2 million we can save, a year. Why would you not want to do it?

And here is the thing: it is absolutely laid out in Propositions 27 to 30, what we are borrowing this money for. We are not going willy-nilly off doing pet projects left right and centre. This is just to refinance existing debt. This is consolidating our credit cards. This is saving the taxpayer £2 million a year. Now, we have to make sure that we do not go down the road... I totally agree with Deputy Conder, we do not want to go down this let's borrow money for capital projects here. But there is no guarantee that people will not bring things to the States. It is up to us to either accept or reject that in the future. People can bring all sorts of things to this Assembly – whatever they like. There is no guarantee that people will not bring that. It is up to us at that time to reject.

But let's look at what is on the table now. Let's not get involved in what may or may not happen. What we are saying is we have a whole bunch of debt, it does exist, it is a £250 million, it is not on the best rates it is just like your credit cards, and it is like you or me wandering down to the bank saying, 'My wife went berserk this Christmas. Can we consolidate our credit cards? Can we pay them off, save a hell of a lot of money by consolidating and rip up our credit cards?' That is, effectively, what we are doing now. And that maybe a very simplistic view, but in my view that is what is happening. We have an opportunity now and we have to recognise that opportunity. We can lock in our profits. It will give us certainty and what any business needs, and I believe what any Government, if you want to reduce risk, give yourself certainty.

I will be voting in favour of Propositions 27 to 30, really.

The Bailiff: Deputy Paint.

Deputy Paint: Sir, Members of the Assembly.

I would like to ask a few questions about these bonds, if I could please.

Should the Assembly adopt taking up the proposal for bonds and this money will be used to pay back the £250 million or so already owed by State-owned entities, what will happen to this money that is being paid back? Will it enter the States' coffers? Could we say to finance other projects, held aside for the repayment of bonds eventually, or will it be just frittered away?

Could the Minister of T&R also explain what is expected to be paid back on the existing loans by way of penalties?

Thank you, sir.

The Bailiff: Deputy Langlois, to be followed by Deputies Spruce and Dorey.

Deputy Langlois: Thank you very much, sir.

Sorry, I was surprised by the sudden end of the last speech. Apologies.

I hate to interrupt this little festival of 'end of the world is nigh'. There is a lot of it about today. On Friday it is not uncommon to, at the end of the day, say to your colleagues, 'Well, have a good weekend.' Well, I certainly will not be saying that to a couple of them today, because it is clear that, whatever I say, they will not have a good weekend because they are so depressed about the future and the threat and so on.

I certainly will not say it to Deputy Stewart, because he will have a weekend trying to explain to the wife why he was quite so disparaging about her spending habits – (*Laughter*) but that is a different problem.

Those of you who have seen me through two terms here, you will be very familiar with the next word because can we please get a sense of proportion back into this debate? So far, Deputy St Pier has been accused of starting the next global financial collapse (*Laughter*) or various other crimes, all by having the temerity to suggest that actually consolidating a set of existing borrowing might be to the benefit of the States and hence to the benefit of the Guernsey taxpayer. This is what we are talking about today.

We are not being asked to approve or vote on what happens next, and what happens when we have got an unserviceable national debt. We are not being asked for that. Just look at what you *are* being asked and then treat your decision rationally and cautiously without getting carried away. It is simple financial management. It is not a national debt. It is not unfettered leveraging. It is not a slippery slope. Right? It is just good prudent Treasury management.

Now, that has got that one out of the way, so can we actually go back to the rest of the Budget because otherwise we are going to spend all day talking about just two Propositions?

Sir, as Minister for the Social Security Department and as Deputy Chief Minister who acts as policy lead for employment matters, I would not normally want to add anything to the report of Treasury & Resources Minister in the Budget. It goes without saying, in most of the cases that I will be supporting his Committee's proposals. I congratulate them on a very good balanced Budget. It totally fits with the short to medium-term and longer-term movements that are taking place. It takes account of things like the Personal Tax and Benefits Review and so on, and I say, 'Well done!'

However, on this occasion, I would like to say a word or two about the need to maintain our firm grip on public sector expenditure and what that may mean for a vital part of the Policy Council's role. What must be clearly understood is that the Island has not grown its way out of a deficit, as was thought possible

some time ago. When Zero-10 was put in place, part of the mechanism was growing its way out of deficit. We have grown but we have not grown enough. So the prospect of a balanced Budget next year is very good news, in a way. In its own way it is good news. But one should never forget the difficult decisions that have been made to produce that possibility. And further difficult decisions are needed.

The word 'balance' is an important one. Other things being equal, the proposals under consideration today, if approved, should produce a situation where our income and expenditure next year are broadly the same. There is no expectation of a surplus but the 'balance' word is the important one. This means that there is little or no leeway to get things wrong. If you are in a period of surplus and you get it slightly wrong it does not tilt over the edge. With a balanced Budget, you only need to get it slightly wrong and it tilts over the edge.

Now, as Treasury & Resources make it clear, the income side of the balance sheet will remain under pressure as the effects of the general economic downturn or slowing continues. And, with constraint on the income side, it means that tight control of public expenditure simply has to remain the order of the day. In other words, before we think that we are out of the woods we have got to have a little bit more of the same medicine.

Now, when people talk of expenditure control in the public sector they should always do so in the knowledge that payroll costs – wages – are by far the greatest single element of our expenditure. If pay restraint had not been successful in the last two years we would not be considering a balanced Budget today. It has been successful. I and others have paid tribute to our employees in showing that restraint. We would not be where we are today if they had not done so.

The Policy Council has got a key role to play on behalf of the States in public sector pay matters. It will, therefore, be anxious to avoid any pay settlements in the year and two years ahead that could undermine the prospect of the balanced Budget that T&R want to achieve.

Clearly, if public expenditure is to be controlled successfully very difficult decisions lie ahead. We simply cannot allow pay awards in the public sector to undermine the objectives we set for the Island as a whole with regard to public finance.

And I suppose, having ended on that serious note, I probably won't wish myself a happy weekend either! (*Laughter*)

The Bailiff: Deputy Spruce.

Deputy Spruce: Thank you, sir.

I will keep this brief and focus on those that have spoken against the bond issue.

As you might expect, I am 100% behind the proposal to issue a States of Guernsey bond.

It is interesting to hear some Members congratulate us on the strength of this Budget and then suggest in the next breath that we have totally lost the plot, just by suggesting we issue this bond. If we have not lost the plot we are megalomaniacs who want to have the power to control everything. (**A Member:** Hear, hear.) Which is obviously not true! (*Laughter*)

We are told that dire consequences will follow when, in fact, the funds raised by this issue will actually result in significant financial savings for our trading entities and, thereby, significant savings for all their customers – our local taxpayers. Why would we not seek to reduce the cost of capital? Why would we want our trading entities to pay more for their borrowing than they could if they received their funding through T&R?

In my view, Deputy Conder's speech was totally over the top. It was full of dire consequences. It was not a good speech. Yes, it was full of facts but they were facts that bear no relationship to what this bond is all about.

Our proposals are specifically linked to debt, which we currently guarantee anyway, and to entities which have a secure income stream. It is best that everybody remembers that. This is all about saving money for our trading entities and, thereby, our taxpayers.

Members, we have not lost the plot. We seek only to reduce the debt repayment burden for our trading entities.

Please, please support Proposition 27 and 28.

Thank you.

The Bailiff: Deputy Dorey.

Deputy Dorey: Thank you, sir.

I just ask Members to turn to page 6 of the Budget. My concern is about the presentation of the information and I think it seems to be presented in a way to mislead and that gives me cause for concern.

If you look at that table on page 6 – the 2015 Budget table – you would see the transfer from General Revenue Reserve account, £4 million, above the deficit line and shows there is no deficit. If I go back –

which you will not have with you – to the 2011 Budget, those transfers from the General Revenue Reserve and the Contingency Reserve Tax Strategy and were below the line and they show some deficit there. So this should be presented as a £4 million deficit with a transfer from General Revenue Reserve.

It is ironic that the actual money in the General Revenue Reserve came from the Contingency Reserve Tax Strategy, so that emphasises it more, but it is presenting it as if it is a balanced Budget but there is a £4 million deficit.

But it goes further than that. If you look on that page again, look at the 2013 actual column, you see transfer to Strategic Development Fund, £3 million. Now, what we discussed in my amendment is in relation to transfer to the Transformation and Transition Fund and the Economic Development Fund. Those make £32 million. They are, effectively, expenditure which could be all spent in one year – I accept unlikely, but the Strategic Development Fund has been spent over three years.

So in 2013 it was considered to be above the deficit line and shown as part of the deficit that transferred to that fund, but when we get to 2015 they do not even show there. If it was consistent in the way we showed it, below the operating service line there should be two lines: one transfer to the Transition Transformation Fund and one to the Economic Development; which would make the deficit altogether £36 million, which would be quite a different picture. But that would be consistent with how they presented it before. So it is very easy to present figures differently and to give a different picture.

We constantly use the word ‘balance’. I do not think we do have a balanced Budget. It is an improved financial position, I fully accept, but we are raiding our Contingency Reserve to a significant amount.

While you have your Budget open, if you then turn to page 17, ‘Document Duty’, I am pleased to see in paragraph 2.35 that T&R have admitted that their temporary reduction in Document Duty rates... there is no evidence to suggest it has facilitated any increase in property conveyances and Document Duty income.

That is exactly what I said last year it would not do. I voted against it. They have wasted half a million pounds. I do appreciate you four owning up and saying that it was a mistake, but when I go back to Mike Parr’s report I think it is clear from that report.

Then, again presentation – page 25. They talk about the – 3.32 Note 5 – the Budget for HSSD. They talk about the increase from the 2014 Budget to the 2015 Budget, but I think again that misrepresents the situation because in 2014 a considerable amount of money was added and £8 million extra was added to the Budget Reserve and one of the specific reasons was that they knew that FTP savings were not deliverable in 2014.

So, effectively, part of HSSD’s Budget was in HSSD’s Budget and part was in the Budget Reserve. So it would have been far better to make the comparison to what our expected outcome... what HSSD’s expected outcome is – I must stop putting it in the first person – in 2014, which was £111.5 million, which means it is only a 1.21% increase, not the 7.2% increase that they say there. I think that would be a far fairer presentation of the information.

Then I ask Members to turn to page 110, to the Propositions. I do not intend to vote for all the Propositions. I made clear in the debate on Deputy Soulsby’s amendment that I will not vote Proposition 15. I fully accept that they have looked at Housing’s programme and they have said there is enough money, but I think they need to up their programme because they need to increase the number of partial ownership houses, therefore I would want to see – particularly with the new development plan due, although I accept it has been delayed slightly – that they would come back with proposals to increase the supply of housing, and they would need that £20 million to do that.

Proposition 20, Deputy Perrot, yesterday when we were discussing amendments K and L, spoke about building up the Contingency Reserve. Well, that – or the Investment Core Reserve, as it is going to be called – is exactly what T&R is not doing. Firstly, they have raided £54 million from it, and I go back to the 2010 Budget when the Contingency Reserve Tax Strategy was originally first mentioned and they said:

‘This is a purely presentation issue and the fund will continue to be invested as part of the Contingency Reserve.’

That is in relation to tax strategy. It is a presentation issue.’ So they have taken money out of that fund so you cannot say you want to build it up.

But also Proposition 20 says they want to take all the interest above maintaining in real terms. That has been another way that we have built up the fund. So I am against raiding the fund again by taking the interest which is above maintaining in real terms. I think that should stay in the fund. Part of the idea is that it benefits from the investment return. I do appreciate that they are investing it by changing the policy and making it long term – investing it to get a better return than they have in the past – but that benefit should stay in that fund and not be moved out of that fund.

I will vote against Proposition 22 as well, to transfer the money to the Economic... I think that I am unhappy with the governance and the controls on it. I think Deputy Stewart spoke about 19 people. I think Deputy Gillson talked about 10. Basically that money could be used if six people in this Assembly agree:

three on C&E and three on T&R you only need a majority. I think that is unacceptable. I want them to come back with a proper governance system.

Because amendment L was accepted, I am happy to vote for 23 and accept the views of the House.

1465 For the reasons – and I do not intend to go back over them, but the very good speeches that have already been made – I will vote against 27 and 28. I do have some sympathy with what they are doing but I think it needs to be a proper report that comes back to this Assembly. I think we have had inadequate information and I am not prepared to vote for a bond on that inadequate information.

1470 I think some of the information that we need to know... We need to know the length of existing loans, the interest rates on existing loans, the breakage cost of those existing loans. We do not know how long those loans... If we take a bond out for 40 years they could be paid off in 10 years by one of the trading organisations. Then for the next 10 or 20 years we have the... If interest rates have dropped we cannot pay off the capital without adding a lot of money, as Deputy Brouard explains. Also £42 million of the money is internal loans already and £11 million of the £251 million will be financed from Capital Reserve. So in fact
1475 you do not need to take out the full £250 million because of that.

Propositions 31 and 32 I will also vote against. Proposition 31 is quite confusing because, combined with 32, 31 talks about... that they only need to report once a year against what is referred to in paragraph 8.2, which is on page 54. That is when they report back on increasing an individual Department's Revenue Budget by greater than £250,000 or 2% in a financial period etc.

1480 I notice that there is no appendix in the Budget containing that. If I go to the 2014 Budget there are two pages which show the delegated powers they have used over the year. We have none of that information – perhaps they have not done any delegating responsibility, but it seems like they have almost taken note of that before we have voted on it.

I am concerned... We spoke in relation to those two amendments yesterday about governance and controls. We have got that 2% – £250,000 – which we give to T&R as delegated responsibility. Above that we have to bring a Proposition to the States. But if you read Proposition 32, which overrules 31 because it refers effectively to paragraph 8.3 on page 54 – it is complicated! – it removes the limit of 2% or £250K, whichever is greater, so that they can use the Budget Reserve without reference to this Assembly. I do not think that is a good move. We spoke about the importance of having governance. We put £100,000 limit on
1490 the Transformation and Transition Fund. We seem to be going one way with one situation and another direction in another area. So I think, from transparency, that I would vote against both of those Propositions.

Sir, I will sum up by saying that I am concerned, I think that this Budget is... many people have praised it; I do not praise it. I think there is poor presentation in it. I think they have tried to push through quite
1495 major decisions in an inadequate period of time for Members to consider them, knowing we have a very small period of time for amendments, and I add my thanks to somebody's yesterday, to the Procureur, who put in considerable time (**A Member:** Hear, hear.) on the Friday trying to sort out my amendments and I thank him (**A Member:** Hear, hear.) for that.

We had inadequate time to consider this Budget as an Assembly before we had to put amendments in. I
1500 do not think that is good Government. There are major decisions which should not be in a Budget Speech. Previously, when there were proposals to bring borrowing, under the previous T&R it was in a completely separate States' Report. This is not a good way to govern. We have raided the Contingency Reserve by £54 million; we are using interest from that fund. I just do not think this is a good way to govern and I would ask T&R in future years if they want to bring major policy changes do it in a separate report, do not
1505 (**Several Members:** Hear, hear.) leave it to the Budget. (**A Member:** Absolutely.)

Thank you.

The Bailiff: Deputy De Lisle.

1510 **Deputy De Lisle:** Thank you, sir.

There is quite a different tone to the Budget this year, which is obviously welcome overall. I thought that the Minister might, in his opening couple of pages to the Budget, have just put in a few points about how things *have* improved to the extent that he believes they have, in terms of a few numbers, perhaps indicating this for the general reader.

1515 I am pleased to note the drive towards a balanced Budget but obviously prefer for this to come through doing more with less, rather than increasing TRP to individuals and businesses.

However, I support the broadening of the Company Intermediate Income Tax rate, the 10%, to include income from the provision of administration services. I have been calling for this to happen in questions to the T&R Minister, past and present.

1520 There is no reason why our Zero-10 should not embrace the finance sector, by and large, consistent with that applied in Jersey. The publication of three-year estimates and multi-year financial forecasts I think is a

positive development and long overdue, replicating the way other jurisdictions have worked to improve forward planning over the years.

The continuation of expenditure is strained and leaner Government objectives are commendable for the future, replicating initiatives taken in the private sector to changing global economic circumstances. And I was pleased to hear Deputy Langlois, and also his efforts and others, in terms of modifying pay settlements to control our public expenditure and that to continue, hopefully, through into the future.

I was also pleased at the recognition of difficult current economic circumstances in the Budget through the development of the Economic Development Fund, thereby providing a drive, if you like, to maximise opportunities in business at this time, encourage new initiatives and assist in the diversification of the economy and the creation of new jobs and prospects in the employment sector.

I was also pleased to note the Minister's assurance of close liaison with other Crown Dependencies to monitor international tax developments such as the current trend towards territorial tax systems, but I just wondered whether this was strong enough in the way that he put the point.

There has been a trend, in the past in Guernsey, for Guernsey to follow and I have, with others, asked for Guernsey to work with Jersey and Isle of Man in reappraising the current Zero-10 corporate track strategy altogether and to take a leadership role in this, given that it has left all parties with deficit budgets. Should not Guernsey aim to provide a leadership role in review and drive for change?

And I would encourage T&R to play a more assertive role, in other words, in the area of corporate tax policy, not only to ensure Guernsey remains a sustainable, competitive jurisdiction, but also to ensure that Guernsey works pro-actively with other Crown Dependencies, to seek changes in corporate tax to benefit the Island's fiscal position.

My concerns with the Budget. I have stated in the past, concerns with respect to freezing the personal allowances for two years, which is a £2 million hit really on earners on this Island, and also the jump in domestic TRP by 15% – many times the 2.5% RPI inflation rate. And, with respect to the Capital Reserve, I make the point again: an enormous amount is being transferred – £37 million – into the Capital Reserve. My concern here is that the drive for austerity should be reflected not only in the Revenue Budget but also in monies transferred to the Capital Budget also, and I have always thought that £25 million would suffice at this time.

I also want to just make a comment on debt, because that worries me, whether a bond or not, although I understand that we have considerable reserves. The difficulty is that £250 million plus £80 million, or £330 million, will amount to over £5,000 in borrowings for each individual Guernsey person; and that will amount to one third, actually, of the debt carried by the individual Briton across the water. Each household in Britain pays an average of around £2,000 per year in taxes to finance the interest. Now we could find ourselves financing a third of that each year in the Budget. Let the trading entities finance their debt in their own accounts against earnings and work to reduce their debt rather than perhaps transferring that debt onto the shoulders of the people.

So I would ask for a separate vote on the recommendations in 27 and 28. But, all in all, I encourage the T&R Department to move ahead wisely and to take austerity seriously into the future so that we can rapidly erase the deficit and look to more promising economic circumstances in the future.

Thank you, sir.

The Bailiff: Deputy Dave Jones.

Deputy David Jones: Thank you, Mr Bailiff.

I do not have a profligate wife, of course. I have a wife who will not allow me anything sharp or money, at all.

I just want to really address two issues in the Budget. I had a good say on some of them yesterday, in general debate. One is the bond issue and of course the other is the £20 million transfer from the Corporate Housing Fund.

Just to pick up the comment that the Deputy Chief Minister said about this balanced Budget. I still maintain that we have pulled the rug from under those who can least afford it, by not continuing to support those people through the Reserve. But I made that point yesterday, sir. I just wanted to answer that point.

Mr Bailiff, Members of the States, just another thing before I start. Deputy Dorey, we have many plans to increase the supply of housing, not least of all partial ownership; it is land we do not have and that is the major problem and this speech will address that, and that also applies to those who raised the issue in the amendment presented by Deputy Soulsby.

When the Corporate Housing Programme was agreed in 2003 it was characterised by two things that, at the time, were almost revolutionary.

You have to remember that in 2000, when I joined the States, I came up the steps at that first meeting with a Requête in my hand on housing and it was signed by Deputy Trott, I think, who was a surviving Member, also by Deputy Gollop, I believe, and Deputy Francis Quin; and I am not sure if Deputy Lowe

supported it. It was thoroughly defeated at the time, but three years later it became the Corporate Housing Programme – and I was very proud of that because I think we have done nothing for 30 or 40 years to address the appalling condition of social housing in this Island. But that Corporate Housing Programme was built on a foundation of cross-departmental working with Housing and T&R and HSSD and others accepting that they all had a part to play in achieving the aims of the Housing Strategy.

Secondly, it was given long-term security of funding, thanks to an arrangement whereby Housing kept all of its rental income and received an annual top-up from T&R in respect of income foregone because of the rent rebate scheme.

The Corporate Housing Programme Fund was not designed to pay for just the next housing development, it was designed to pay for multiple loans over a rolling programme of 10, 15, 20 years. And I would remind all Members that this programme and its funding were set up to help the poorest families in our community – those with disabilities who needed housing purpose built for their needs, older people unable to afford private rental. Also, after scrapping the States' loan scheme which we heard a little about this morning, the partial ownership scheme was set up to replace it, using funds drawn down from the Corporate Housing Programme to kick start that scheme.

The partial ownership scheme has been hugely popular. It has helped over 115 households to date to get on the property ladder, and there are currently over 260 couples and families waiting for partial ownership property to become available.

Now, we have some in the pipeline on the old Boys' or Girls' Grammar School in Brock Road, we have some in Cour du Parc and others that will come on-stream shortly, but it is nothing like enough even to meet the demand. Again I come back to this issue: we want to build a lot more partial ownership, but we have not got the land, at the time, to do it.

Twenty years ago the Housing Authority's build programme was piecemeal and totally reactive. It was one-off developments being built hurriedly in response to political pressure or spikes in the waiting list numbers. But this was clearly not the way to solve the worst housing crisis the Island had ever seen.

What was needed was a radical solution – a solution which involved a long-term development programme, security of funding and the political will to do it. That is why the Corporate Housing Programme and the Corporate Housing Fund are so important and that is why, I believe, that Housing has had some success.

Now, I was very grateful to Deputy Perrot. I cannot take all the kudos because I have not done it on my own. Originally, Deputy Flouquet, who was the Housing Minister, took up the initial cudgels, with me breathing closely down his neck most of the time. But Housing has been successful in that regard, because it was a corporate programme.

This is why the Housing Department was exceptionally wary when T&R first approached us to discuss taking £20 million from the fund. The money was earmarked to be used by Housing to purchase land in 2018 and 2019 and beyond that. However, T&R have decided that it would be better used to help meet the cost of today's capital programme. And it is not our money, it is your money, it is the taxpayers' money. It belongs to the States and T&R, as the Department or the Committee responsible for looking at all States' financing, has a perfect right to look at these funds. I was not a happy chappy when I went to that original meeting with the States' Treasurer and the Treasury Minister, I can tell you, but Housing has been a corporate player all the way through.

Our concern was, and still is, that come 2018 the fund would be empty and the Island's affordable housing development programme would grind to a halt – and that would be repeating all of the mistakes of the past and the very reason the Corporate Housing Fund was set up in the first place. I would also like to remind Members – and many of you will not have been here, but – a few years ago – four years ago, perhaps a bit longer – £10 million had already been taken from the Corporate Housing Fund and, with this additional £20 million, it will be the equivalent of the entire States' FTP savings, that have come out of Housing. Now enough is enough, please.

Now, I am not saying that we are going to be broke because clearly we are not. I think there is going to be something like roughly, off the top of my head, £44 million left in the Fund to do the programme we want but until we get land... And the problem that all this money is sloshing around in there – as Deputy Soulsby said this morning – is simply because we have not had the land to develop. Had the SAMPS Programme gone through when it came to the States and the sites that Deputy Perrot referred to this morning, the Fund would look a lot more depleted than it is at the moment. But, because it is sitting there plump and juicy and ripe for the picking, we have now lost another £20 million.

But I do not want Housing to be looked at as a convenient cash cow and, having had meetings with Treasury... and you will see in the wording of Proposition 15 and I will just read it:

'To transfer the sum of £20,000,000 from the Corporate Housing... Fund to the Capital Reserve on 1 January 2015 with, from 2018 onwards, the funding for the Corporate Housing Programme being met through a combination of allocation from the Capital Reserve as part of the States Capital Prioritisation... and the transfer of States-owned sites.'

So it is the land that is the key here. But after a lively discussion around our Board table, Housing dropped its initial resistance to a transfer from the CHP fund after T&R gave assurances that reflected in the Propositions that I have just read and laid before the States. So, namely, again £20 million would, in due course, be returned to the Corporate Housing Fund either as cash or in the form of transfer of States-owned land which can be used to provide affordable housing.

Now, just a caveat on that. When that programme comes back before this Assembly, and if you support this move today, I do not want people then standing up moving amendments to try and pull the rug from under us at that time, because we have said, okay, we do have money in the bank and it is the land we need; but please, I beg you, when we do get an opportunity for more sites and continue building the development programme for partial ownership and other social housing that you support that move. But, to be perfectly frank, it is land we need desperately right now, if we are to have any development programme at all.

Now, Housing has been meeting quite a lot recently to put forward an interim development programme to try and keep the whole thing from falling off a cliff and we have managed, I think, successfully to do a few things over the next year or so.

So, while Housing is not seeking to block the transfer of the £20 million from the Corporate Housing Fund, we would want to make one thing absolutely clear: if T&R in future fails to provide Housing with sufficient capital to acquire land and grant funding for new housing developments, the results are going to be catastrophic. Without a steady supply of affordable housing, waiting lists will surge, more people will be inadequately housed and families renting privately will struggle to get a foot on the housing ladder because the partial ownership scheme will simply run into the sand – it will not be there – and that is important for us all to remember.

In fact, I believe, the whole successful Corporate Housing Programme will have been destroyed in a single term. We do not want that and I am pretty sure that you do not want that. The people of this Island most certainly do not want that. And I do not want to be back here with another requête to this place, to get the Corporate Housing Programme kick started all over again.

So that is what Housing's position is on this £20 million. We accept that there are other Departments that have real calls on funding from the States and I think that we are showing that we are behaving corporately by not objecting strongly to this transfer because, as Treasury have pointed out, we have money in the bank, we will still continue with our programme, but it is the land that we need and I implore all of you to make sure that that is forthcoming in future debates.

Thank you, Mr Bailiff.

The Bailiff: We have five minutes or so.
Deputy Domaille.

Deputy Domaille: Yes, I am happy to do mine next. Whether it is any good or not is another matter!

Okay, first of all, well actually my speech is a bit short because I echo much of the comments that Deputy Dorey and actually Deputy Brouard, Deputy Conder and Deputy Bebb have made.

I am more than happy to be persuaded about the bond issue, but only when I get a proper case put in from of me and I can examine properly all of the issues. So if Treasury wants to come back with a *proper* report on that I am more than happy to look at it, but for the moment I am not prepared to support it.

Just one thing. Deputy Stewart mentioned the reservoir. Of course that bond, I think, was taken out in 1938 and one year later we were at War. Events come along when you start doing these sorts of things! *(Interjections and laughter)* So, just to be clear, I will not be supporting Propositions 20, 22, 27, 28, 29 and 30.

A few other points. I would expect some form of economic commentary to be in this Budget. There was some last year. I realise our advisors have left for different pastures, but I am sure Treasury & Resources could access expert opinion on that. There are some notes on it in Professor Woods' Report, but I would have thought that some sort of scene-setting on the economy would be a good idea. I ask if the Minister will agree to do that in future.

This is where I got confused. I am easily confused really sometimes, but – If Members turn to page 19 – you do not have to – because it is a table there that explains that, in fact, we are meeting the requirement for a real-term freeze on aggregate States' revenue expenditure. I do not understand the explanation, so what I did was I looked at the revenue expenditure figures and, if you turn to paragraph 1.5 on page 6 – which I found easier to understand – it shows the revenue expenditure for 2014 as being estimated at £353 million – that is the revenue expenditure – and this Budget allows for revenue expenditure of £366 million. That is an increase of 3.7%, which is more than the 2.5% that is allowed for inflation in the Budget.

And even if you then start adding in sums for routine capital allocation and if you accept the increase in expenditure for the Transport Strategy, which for some reason does not count as an increase in expenditure, you still have an increase that is more than the 2.5% – unless my calculator is like Deputy Queripel's.

So I would appreciate it if the Minister could actually explain that to me and satisfy me that we are, in fact, complying with this requirement. And also it would be helpful if he would also explain what the impact would be if the delayed FTP savings are not, in fact, delivered.

1705 Just a presentational point actually. In the corporate objective, stated on page 7, it would be very helpful if, in bracket figures perhaps, they could actually put what this current Budget is doing against each of those. So, by way of example, taxation income in 2015 is expected to be 17.5% of the GDP estimate. It would be useful if that was actually on this thing. It is in the report but if it was at the front like that it would be helpful, I think.

1710 The next point is the measure regarding inflation allowances. RPIX was adopted by the States as preferred measure of inflation in 2009. In paragraph 3.5 we are told the Budget has been prepared on the basis of RPIX forecast at 2.5%, but when we turn to the calculation for the excise duties it is all based on RPI and they are talking about RPI and not RPIX. For the period, RPI was actually 0.5% higher than RPIX. I am just asking the Minister to explain why we have used RPI and perhaps to suggest that we should be consistent and use RPIX on everything in future.

1715 When I looked at revenue expenditure I then started thinking about the States' operating income. States' operating income is permitted to be offset against Departments expenditure. Therefore, it follows that any increases in expenditure can be hidden by budgeting for higher increases in operating charges. So I think Members need to satisfy themselves that this, in fact, is not happening.

1720 When I looked at page 70 I actually saw that the headline figure was for operating income to be falling. Now, I know that is wrong and when you go into the Report – and it is in the Report – you find that actually most Departments' operating incomes are increasing, but for PSD and for Housing – from memory now – it is falling.

1725 I rang the staff at Treasury, and as always they were extremely helpful and I am very grateful, and they explained to me that is because the States had decided they were going to move some of the operating income for waste or waste account and some of the operating income for the care homes was being taken out. Now, I understand that – that is quite correct; they are right to do it – but I think the Budget should include some sort of notes to that effect and some sort of analysis, so that Members can satisfy themselves that the operating income – Deputy Jones' point about charges going up – is actually at a reasonable level.

1730 So I would just ask if that could be done in future. Just while on this topic of fees and charges and operating income, Professor Geoffrey Wood refers to fees and charges in his fiscal policy review and he highlights there that, in fact, the underlying principles for levying charges by the States are not clear. I ask again if Treasury & Resources would look at this and come back to the States with the underlying principles they think should apply to those charges.

1735 Core Investment Reserve proposals and the creaming off of any excess returns – Deputy Dorey has already referred to that. I would only add that the Report is silent on what happens if the Fund's investments fall in real terms and do not actually exceed it.

1740 Oh, yes, paragraphs 4.27 and 4.28 refer to an external review of the appropriate level of investment return that should be generating States' trading assets. A very sensible idea – I applaud that. But, within that, reference is made to debt equity structures which seems to infer part-ownership. Will the terms of reference include consideration of partial private ownership of States' trading assets?

Another point, on page 74: grants and subsidies are budgeted to increase from £28.9 million to £30.9 million. This is an increase of 6.8%. Can the Minister explain why the proposal to rise more than inflation?

1745 I am nearly finished.

1750 Pages 97 to 107 contain the accounts of various trading accounts and funds. Each of those seem to have different headings and different degrees of disclosure. For instance, States' Works refers to transport and plan, the Dairy refers to building maintenance, but Guernsey Water does not give anywhere near these sort of details. There is no consistency in approach and I do not think there are any supporting notes, yet we are being asked to approve the probable outturns. I merely ask if the Minister would look into this and try to achieve a degree of consistency in future budgets.

1755 I have tried to be quick. I have tried to brief. There is one last thing I would like to say: despite all those comments I have made, I would like to thank the staff who have patiently answered my questions and I would also like to thank the Board Members and, in particular, the Minister, for the work that has obviously been put into this Report and the subsequent presentations. I found him to be extremely open on this whole matter, despite my criticisms.

Thank you.

1760 **The Bailiff:** Well, Members, when we resume after lunch I will call first the Chief Minister, then Deputy Soulsby and Deputy Luxon.

We will rise now and come back at 2.30 p.m.

*The Assembly adjourned at 12.34 p.m.
and resumed at 2.30 p.m.*

**States of Guernsey Budget 2015 -
Debate continued –
Amended Propositions carried**

The Bailiff: Members, we resume the debate on the Budget and I call first the Chief Minister, Deputy Le Tocq.

1765 **The Chief Minister (Deputy Le Tocq):** Thank you, Mr Bailiff.

Sir, there are several action or inactions that one can take when driving which put you, your passengers and, potentially, other road users at risk, causing everyone to treat you with caution. These may include things like: poor navigation; giving vague or incorrect turn signals too early or too late, or avoiding them altogether; driving in inclement weather with deficient visibility, with poor quality wipers or unclean
1770 headlights; fused bulbs, making progress slow and hazardous; even seeking to set out on a long journey without a full tank of fuel; or lack of ability to purchase additional fuel *en route*. One of the worst actions you could take maybe to drive under the influence of alcohol or drugs.

In contrast, sir, this Budget sets us on a journey with clear short, medium and even long-term navigational aids. It sends out all the right signals, clearly and in a timely manner. It seeks to ensure we
1775 have the best possible visibility in order to steer through potential storms which lie ahead, enabling us to illuminate our way more effectively, also providing us with adequate reserves to fuel our progress, as well as the potential resourcing for our future energy needs.

This is also a sober Budget. It has been presented to us with much detailed sobriety of thought, in a calm and controlled fashion and it deserves to be considered and affirmed soberly by us.

1780 There may be trouble ahead – (*Laughter*) I thought of singing that but I will not – but while... (*Laughter*) we are being encouraged not just to face short-term challenges and goals, which perhaps has been our tendency in the past, but properly and responsibly focusing our attention on medium to long-term risks with a view to the fact that in the future multi-year budgeting may well be more appropriate in key areas.

1785 So, specifically, what are the prudent actions and signals which this Budget is enabling us to take?

Firstly, this Budget signals a return to a balanced position, following six years of structural deficits since the implementation of Zero-10.

The States should welcome and take pride in achieving this and in adhering to strict fiscal rules over that period. This self-discipline in itself is a positive sign and should be highlighted for future Assemblies too.
1790 Although it has taken slightly longer to eradicate the deficit than the fiscal framework required, it has nevertheless been done in a sustainable way which ensures that service provision does not need to be unduly affected and that due regard has been paid to the economic position and the impact of tax changes on our community. So it is vital now that this lesson of self-discipline is firmly embedded so it continues to ensure that we return to surplus over the period as forecasted and that we make a firm commitment to
1795 rebuild our reserves.

We also see a continued focus of expenditure restraint, coupled with continued evolution of thinking and culture around policy making and development and implementation of that which is fit for Guernsey's size and purpose.

1800 Restructuring our reserves: this Budget contains significant proposals which are before us, to establish a new enduring reserve by way of the Core Investment Reserve. This will be better than the Contingency Reserve – not just a rebranding, I believe, but something of a marker setting a milestone where we determine that we must invest prudently and keep that investment for prudent purposes. There are not many in this Assembly that can remember the Contingency Reserve, the so-called rainy day fund, and I am glad that that is being discouraged in terms of its application, because only about 15 years ago that was raided in
1805 order to do some work at Longue Hougue; not that I disagreed with that work, but it goes to show that we have learnt a few lessons since then and I think the changes in restructuring our reserves are a very good move.

In fact, this demonstrates that we mean to preserve our family silver and to make it work best for us by generating returns which can be then reinvested into capital infrastructure for future generations.

1810 This move is indeed good discipline for us – I welcome it – but also for the future as it means there is no automatic recourse to a Contingency Reserve for any deficits. It also forces us more effectively to plan for the medium term, which T&R are encouraging us to do so through the establishment of the Economic

Development and Transformation and Transition Funds, but also by putting funding into the General Revenue Account Reserve to manage minor cyclical fluctuations in income.

1815 Investment through these funds is essential if we are to grow and deliver the economy and the growth that we want to see in our economy and, at the same time, to develop more fit-for-purpose, affordable and sustainable public services for the future.

1820 Sir, I wanted to make a few comments on the States of Guernsey bond proposals. This is indeed an important decision and we should certainly tread with caution in proceeding. Is this a slippery slope? Does issuing a Government bond always involve a slippery slope? The pictures painted by Deputy Conder and others were stark and almost Doomsdayesque. In fact, if they are to be believed, we are all doomed in any case I would make out, whether we issue a bond or not, due to our currency being pegged to sterling and our community and businesses all intrinsically linked to British Financial Institutions. If they are to be believed, we are already following to a greater or lesser degree the Doomsday fate of the British, if not the global, economies.

1825 Whilst I believe we need to tread with caution, I do not see such a gloomy forecast. To me it need not be Doomsday for us simply because we make this decision today. It is for this Assembly – and I repeat ‘this Assembly’ – to decide if we borrow and for what.

1830 Thirdly, there is an overwhelming commitment to continue the existing policy which has served us well for decades now, that we only borrow where there is a secure income stream. If we have been committed to this for so long we should be assured that we can reaffirm this now and we must.

1835 The existing debt we guarantee is certainly more expensive than it needs to be. It is commercially focused and so I believe will primarily benefit the customers of those entities. Of course many of those customers are also taxpayers and so it is totally appropriate we should consider this and do it today and now. Proceed with caution, but let’s do it.

This is a steady as she goes Budget. We are already vulnerable by being a small jurisdiction in a world full of larger players today. Nevertheless, this should not make us so adverse to risk that we become blind to the existing risks we already have and have grown comfortable with.

1840 Here is the risk: not so much now – and others have mentioned this – maybe not even in the next Assembly, but what happens in the 2020’s and 2030’s? So it is very good for future generations, I believe, that the caution, even perhaps the nay saying that has been voiced today, has been said. Let’s not forget this caution because it will be important to remind future Assemblies in looking back to this day. Let’s make our decisions with eyes wide open.

So my encouragement to this Assembly is proceed with caution certainly, but proceed we must.

1845 Thank you.

The Bailiff: Deputy Soulsby.

1850 **Deputy Soulsby:** Sir, the Public Accounts Committee recognises that the production of a report such as a Budget requires considerable sustained effort from numerous people and would like to acknowledge the substantial endeavours of those involved in putting it together.

1855 However, with regard to the presentation of this Report, the Committee agrees with comments already made: that, even for those of considerable financial experience, what we have here is – and like what the Chief Minister just said – at best, difficult to navigate and, at worst, completely impenetrable. How an interested lay reader could gain any meaningful understanding is highly questionable. This is something that I raised last year and I am disappointed that nothing has been done to make what is one of the most important reports put before this Assembly more accessible.

1860 The Committee therefore requests, as it did last year, that the Treasury & Resources Department considers a need to make future reports more accessible to the general user to ensure greater transparency. There is a clear need to support taxpayers to better understand how the States of Guernsey uses their money.

1865 We agree with what Deputy Dorey has already said: that some sleight of hand has been used to present a balanced Budget. When looking at page 43, where we are provided with a summary of our financial position, we see that no deficit is forecast for next year. This is because of a transfer from General Revenue Account Reserves which is a transfer above the line and like where such a transfer came from in previous years, the Contingency Reserve Track Strategy, which appears below the line. Without this change we would be seeing a £4 million deficit.

1870 The Committee also agrees with Deputy Dorey in finding it concerning that the current process for releasing the Budget, including its presentation to Deputies, provides very limited time for proper consideration. As a matter of good governance it is imperative this process allows some meaningful public and political scrutiny, as is evident in other jurisdictions. As such we would call upon SACC to review this issue within their deliberations as a matter of significant importance.

Now, last year I spoke of the Committee's concern about the use of a RPIX figure of 3.3% in the 2014 Budget. We believe this to be overly optimistic, especially bearing in mind that RPIX had not reached this figure in the last four years and it would require a significant jump in a very short period of time from the then 2% to enable the average to be maintained at 3.3% for this year. Our caution does appear to have been justified, with an average RPIX so far for this year of just over 2%. We note that the budgeted RPIX for next year is 2.5%, and believe this figure, which is still higher than has been experienced in the last two years, is more reasonable.

We also raise the issue of RPIX and RPI last year, which Deputy Domaille highlights today. Again, whilst consistent with previous years, the disparity demonstrates a need for the current system of determining taxes, pensions and benefits to be reviewed.

I should just advise that the Committee has identified a number of areas within the Budget worthy of further investigation. However, the comments that I make now focus on only a few key points the Committee believe should be brought to the attention of Members at this stage – namely the restructuring of the reserves and the capital expenditure.

The Committee is in general support of the principles of restructuring reserves, that has some clear development and financial rationale, though it would have welcomed a simple schedule depicting the before and after scenario, especially bearing in mind the amendments presented in this debate.

The focus on the investment returns of the Capital Reserve, be it balanced with the required liquidity of the funds, makes sense. As quoted within the Report, a loss of £17 million of potential investment return over the last three years is not insignificant and if this can then be improved upon through this restructuring then all the better.

Looking specifically at the Transformation and Transition Fund, the investment into the key areas of work identified within the Report, such as the Personal Tax, Pension and Benefits Review, SWIBIC and SLAWS, as well as the various transformation programmes, provides a means of addressing the medium to long-term fiscal pressures facing the States, future service provision and further efficiency savings.

In terms of capital expenditure, the Committee is mindful of the scale of public money being invested through the SCIP process, which together with the Category D projects equates a capital expenditure in the region of £400 million. The fiscal framework clearly states that investment in capital expenditure should average 2% of GDP and it would appear that over the last few years this has been achieved. However, it would also appear that during the last 10 years the apportionment from General Revenue has fallen somewhat short of the required level to sustain this expenditure. The Report itself states that the Capital Funding Programme will have a shortfall of £57 million by the end of 2017 and this being after some sale of property and investment returns.

The Committee is not as yet convinced that the chosen solution of taking a one-off lump sum of £20 million from the Corporate Housing Programme Fund and 10% reduction in costs per project through the SCIP processes and maintaining the current apportionment in real terms, addresses a medium or long-term shortfall in funding for this programme. Nor do these measures necessarily mitigate the inherent risk of any significant increases in forecasted costs for these major projects.

So, in conclusion, until the Committee sees the General Revenue gains consolidated, the projected income streams delivered, as well as the investment in and expenditure on capex aligned, together with the long-term future of the social security funds being addressed, the Committee will continue to be cautious.

The Bailiff: Deputy Luxon, then Deputy Inglis and Deputy Kuttelwascher and Deputy Gillson.

Deputy Luxon: Thank you, Mr Bailiff.

Sir, it is a long time ago since before lunch, but I just wanted to refer back to a couple of really interesting speeches. Deputy Conder's excellent speech reminded me of the sublime and Deputy Brouard's, with the utmost respect, reminded me of the ridiculous. Sarcasm happens too often in this Chamber and I do not like it but here I am using it, so I apologise to you both.

Can I share a secret with the 54 people here in the Chamber, although the numbers may have changed? The world economy, the world's finances, are actually a basket case – bust! It cannot get any worse because it is globally as bad as it will ever get. Reality check. That is how it is. But, of course, we all and they all pretend it is all okay, because they and we have no choice to do otherwise.

But, sir, back to our real reality here. I think this Budget Report is excellent. I think it is an excellent compilation of myriad complex fiscal proposals in one report to advantage Guernsey's financial and future position.

Sir, it is excellent. It is a 121-page Report and I think possibly it may be one of the very best Budget reports this States Assembly has ever debated. And I recognise many Members do not think that is the case.

Sir, it is an excellent idea to consolidate our existing – *existing!* – borrowings or debt – and, by the way, it is our debt; it was us who agreed to it and it already exists. It is real. This proposal is not a change; it is not a wedge in the door to a new reckless fiscal policy. It is the consolidation of existing borrowings –

existing borrowings – to exploit an unusually low bond rate opportunity before that opportunity drifts away. To decrease – to *decrease* – the cost of borrowing currently being incurred on behalf of the States of Guernsey by its various owned entities.

Sir, this is not a new risky quantum step change that some Members have purported it to be. It is a tidying up logically to save the taxpayer unnecessary higher interest costs. We remain as an Island and this Assembly fiscally conservative, and I am glad that we are and long may it be so. I fully agree with Deputy Conder and Deputy Brehaut's desire to apply true caution. And I think this Budget, the bond proposal, absolutely does not breach that caution.

Well done, T&R. Well done for being brave and bold in their fiscal vision for the States of Guernsey financial position. Thank you and well done.

Yesterday, sir, we talked about pro-active economic stimulation for Guernsey bearing in mind the new world order post 2007-08 financial market collapse. The need to be more pro-active to initiate the luxuries that we had pre 2007 to coast on a wave of easy global growth was wonderful. That is not where we are now. We did not need to have economic or fiscal growth strategies or enablement, perhaps. Why? Because we did not have to. The markets grew around us regardless of what we did or, more accurately, did not do. We were lucky then and we stayed lucky, but it is now a new world order when we have to act and do things differently. We have to do things differently and pro-actively if we want our place on the global stage and we want our economy to perform for this Island.

Today we talk about the risk of financial Armageddon by moving this Island into national debt. Sir, the borrowings already exist; what we are doing is simply tidying them up. I think T&R have got it absolutely right and I think we have confused ourselves.

Sir, I wrote to the T&R Minister and Board when I saw the first draft of the Budget Report with 45 comments or queries. They did not take much notice of very many of them, (*Laughter*) but nevertheless I did get a response.

I think it is an excellent Report and I commend them for trying to draw so many complex issues into one Report, not, as some Members have said, to bury things or hide things. Some of the e-mails we have had from some of our Islanders have been quite ridiculous, frankly. I understand their caution as I understand Deputy Conder's caution and Deputy Brehaut's but this is not about taking risks; this is about good old Guernsey common sense.

I commend the Budget Report, sir.

The Bailiff: Deputy Inglis.

Deputy Inglis: Thank you, sir.

What is being said around the Assembly at the moment is something I want to concur to and I do commend the T&R Department on a very even, controlled Budget that reflects where we are.

We are moving into very difficult times, as we all know. This message is being repeated at every meeting that we have had this year as to the concern as to how we are going to provide for all the facilities that the taxpayer seeks to have. There has been a firm hand on the tiller but this is required because less calm waters are ahead of us; having said that, it was mentioned earlier by Deputy Langlois that public sector spending needs to be vigilantly maintained.

Maybe an observation that I would like to point out and ask the Minister in his summing up is to maybe give us some indication as to what the Treasury & Resources Department is getting at in terms of, on page 25, line 329, the Treasury & Resources Department has included an additional £100,000 to fund a new post with responsibility for States-wide health and safety. Now, that is very commendable but each Department has the coverage of its own health and safety persons. So maybe the Minister could give us some indication as to the exact extent of that new post coming in?

Moving on to the bond, I believe that we as a Government should consider it because of market conditions and what effectively is an opportunity to provide financial benefit for the taxpayer.

My good friend, Deputy Conder, gave us a very clear analysis of what could happen but, unfortunately, Deputy Conder, I see that as text book analysis.

If, for example, in the last 30 years I followed the text book analysis my business probably would not be here. You have got to be prepared to take up challenges and work off a gut reaction. Now, that is not to say that T&R are doing that. T&R are quite clearly, as Deputy Luxon has indicated, consolidating what we already have and ensuring that we get it at a better rate than we already have and that surely has got to be good for the taxpayer.

Some have indicated concern that this is being rushed through. I would say that market forces have prompted this action and yet Deputy Lester Queripel, two meetings ago in this Assembly, asked the same question: what are we thinking of doing about consolidating debt? So it is not a hidden secret. It has clearly been something that we have all been talking about but, as I said before, market forces sometimes push these sort of decisions right to the forefront of our decision making.

It is clear our standing in the financial world is strong. We have over £2 billion in deposits, which is a reflection on the capability of how we have governed this Island, and therefore the financial markets take great comfort from that. We only saw this week that Standard and Poor's have given us yet again the full AAA certification. Remember, Members, that cost us a lot of money to achieve that and I would like to see it put to good use.

So, on reflection, I will support us taking on the bond and I would like to thank staff and Members of the Treasury & Resources, as Deputy Domaille hinted before, who have been very courteous and clearly have not hidden anything and answered questions as and when I have felt it appropriate to ask.

I would ask Members to support this.

The Bailiff: Deputy Kuttelwascher.

Deputy Kuttelwascher: Thank you, sir.

First I would just like to refer to two issues raised by Deputy Dorey relating to Propositions 15 and 20. 15 is quite obviously the transfer of £20 million from the Corporate Housing Fund to the Capital Reserve and I thank Deputy Jones for confirming it is not the amount of money in the pot right now that is the problem, it is the lack of land.

At this point it might be beneficial to look at how the Capital Reserve is actually broken up, and it is on page 30, 4.11. You see there that at the moment there is a shortfall of £57 million. This £20 million that we suggest gets appropriated to that would reduce that to £37 million. Now, that is a good thing and I would suggest that those of you who sit on Departments that have projects that are in the SCIP process be careful what you vote for because I do not think there is any way of making up £57 million on the projects that are there now.

Also Proposition 20 again would increase the deficit of that portfolio. If you look just above it you will see that they mention that £218 million of funding level includes excess Core Investment Reserve investment, which is in the order of several millions pounds a year. So if you vote against 15 and 20 our shortfall will be more than £60 million. I have not got the exact figures, because one has to guess what the Core Investment Reserve might be.

Now, T&R, who are managing the SCIP process, have done everything they could think of to try and close this gap and, with possibly some reductions in project costs and scopes, it may actually all happen. So I suggest that voting against these Propositions will guarantee that the whole SCIP process will not be funded and something will have to go or there will have to be reductions in some of the project's scope.

Secondly, Propositions 27 and 28. My colleague, Deputy Harwood, asked me have you got a Plan B if these fail. I said we do not need a Plan B, we just will not do anything; we will leave things as they are. We will not take the advantage that is available at the present time of reducing the cost of our core capital and making genuine savings.

Deputy St Pier actually was quite right: this is a housekeeping exercise. Primarily to, as it were, replace existing debt... It is like re-mortgaging your house when rates go down. People do it all the time – but anyhow. Some people do not believe it, but that is what it is.

The extra up-to-£80 million is slightly different. However, there will requirements, especially from Guernsey Electricity and possibly laying cables of further funding. Now, if that is not accepted, well, fine, they would have to go to the market and pay whatever the going rate is on the day – and who knows what that will be.

So not voting for these two Propositions will mean we just will not do anything. We will just leave things as they are. Which, if that is what you want to do, well, that is what you want to do, but it is not what I would prefer to do. It is an exercise for which there will be savings to every member of this community.

Lastly, I want to refer to page 21, item 3.16 and I must say when I read this I was a little amused, if not bemused, because it mentions there, as a result of the incentivisation arrangements that we introduced in the last Budget, the Environment cash limit has been increased by £86,000 and the Royal Court by £29,000. Now, at the time, Deputy Burford not only spoke rather aggressively against this whole process and voted against it, and I ask her now that, since we have already dipped in to our Budget Reserve in the order of more than £1 million, would her and her Board consider returning this to the Budget Reserve to try and top it up a little?

Having said that, I obviously support all the Propositions as they are, as amended – No, I am not giving way – (*Interjections*)

Deputy Burford: You asked a question. (*Interjections*)

Deputy Kuttelwascher: I am not easily persuaded but I (*Laughter*) but it is just a question. Now she cannot answer it because she would have to talk to her Board. So we will see what happens.

2055 But anyhow, in the interest of corporate behaviour, it might be, shall we say, a reasonable idea if they were to just say, 'Well, have the £86,000,' because, believe it or not, the Budget Reserve has already diminished by over £1 million and we have not even agreed on the Budget. Amazing! But there we go.

Thank you, sir.

2060 **The Bailiff:** I was going to call next Deputy... No, I was not going to call Deputy Burford. I was going to call Deputy Gillson.

Deputy Gillson: Sir, I am happy to give way to Deputy Burford if she wants to respond.

2065 Okay, I am going to start by being critical of T&R and this Report, mainly because it includes a lot of things, like the bonds, like the restructuring of reserves, which I do not think is core to a Budget debate. And, whilst some people have taken the view and made very valid comments about business cases not being fully in here, because it is quite small, I look at it from a different way: the Budget Report is unique in that there are significant restrictions on the ability to lay amendments; the deadline is a lot earlier. Now, they make absolute sense in relation to Propositions about increasing taxes and revenue and setting
2070 expenditure, because the last thing that would be acceptable would be somebody bringing last minute amendments to change expenditure and T&R not review it.

But some of these, like the bond, like some of the reserves, do not need that one-week, one-working-week protection, so it is shame that they are within this and I think that does impact on debate and the way people can react to the debate. So, to that end, I have spoken to the Chairman of SACC and suggested that
2075 when they next bring their reports they amend that particular Rule so the limitation on bringing amendments applies only to those Propositions which are core to the Budget, because I think that would be better for democracy, better for Government.

Now, I am critical in another respect on some of the Propositions. I mentioned it yesterday. Somewhere the narrative does not quite match the Proposition. I spoke yesterday, when we were talking about the two funds being preted up... the narrative says Policy Council will be involved in reviewing them but the
2080 Propositions do not. That is quite poor for me, to have a Proposition that does not match a narrative. We vote on Propositions so the Propositions should contain any safeguards that are there.

But, on the whole, fundamentally it is a good Budget. I think that we have to be cautious of the fact that it is, depending on your view, a near balanced Budget... caution that it sends a message that the bad times
2085 are over, because I think the bad times are not over. It is a steady as you go Budget. We need to be cautious. We need to demonstrate restraint in spending.

But, just going back one point to the questions people have raised about balanced budget or not, I think the important line of the table on page 6 is the revenue surplus line, because all of our FTP savings have been in relation to revenue expenditure or revenue income and we can see there that from 2013 the surplus
2090 on revenue has gone from £15 million to £28 million this year, to a massive increase of £40 million in 2015 and that is quite remarkable. To produce a Budget like that, I think that T&R should be applauded but also all the Departments for operating and making savings in a way which allow T&R to produce that Budget. (A Member: Hear, hear.)

I have touched on the FTP so I will mention a little bit more about it, because Home Department is
2095 mentioned in here. We are one of the Departments that are not going to make their target – we are going to be about £300,000 short – and T&R are proposing that £100,000 of that is rolled to next year with £200,000 to 2016. Home Department should be okay through 2015; 2016, to slice out £200,000, is going to be very difficult and I think we need to look at the FTP savings and the targets that Departments were given – and this is not just us; Education and others – as to how we got them and just what they are.

2100 If we remember back to the original FTP there were 107 sources, I recall, or opportunities that totalled £31 million – many allocated to Departments, many allocated as cross cutting. Of that £31 million, the total allocated to Home Department for specific Home Department savings was under £100,000, so it is incredibly creditable for the Department to achieve just shy of £2 million – the vast majority of that not being cross cutting.

2105 Now, I know the FTP ends this year and T&R, in the Budget, are carrying forward these balances, and I accept that the balances must not be lost and I accept we need to make those savings. So I agree with the proposal to carry them forward but with a proviso. The question is not whether they should be carried forward, but how they should be carried forward and how that saving should be achieved.

2110 In Q1 next year the Policy Council is due to bring the report on FTP2. We do not yet know really the shape or structure of FTP2, other than it will not be a cost-cutting exercise; it will be wider than that.

But what FTP2 must include into the mix is how the balances, the unsaved balances, are dealt with and considered, because the unsaved, unachieved balances are on one side of the calculation on the table. On the other side are all the cross-cutting savings that have yet to be achieved. When you look back, the initial indication for SAMP was it would achieve £4.5 million in savings. Wide Area Network, I think, was

2115 £1.7 million. Those are going to be carried forward into the next year and into FTP2. So it makes sense for those to be carried forward and where they apply to Departments, they get applied to Departments.

I do not want to be in the position of – and I will speak specifically on Home although, as I mentioned, it is Education and other Departments – having to consider cuts to make this £300,000 target, whilst T&R are making savings through SAMP and Area Network, whatever, and keeping those to themselves and not applying them across. So I think when the report on FTP comes in it has got to look at how we move forward with a whole and just not say, ‘You have got those targets. Tough, you are lumbered with them.’ I think that is all on the FTP.

2120 The rest of the Budget, I think is a good Budget. As I said at the beginning, because there is so much in it, it overshadows the true Budget. The whole debate has been overshadowed by the bond and the way the reserves are structured.

2125 Which neatly brings me into the bond. Deputy Bebb referred to, ‘Commercial companies should be allowed to operate as commercial companies,’ and there is an element of truth in this, but we have to consider a normal commercial company will operate for the benefit of its shareholders and those shareholders will be a minority of the population. States’ companies are not held for commercial benefit of the shareholders, they are held for strategic reasons and those strategic reasons will justify them being treated and acting differently.

I know that many of us attended a presentation by an eminent economist in Guernsey – whose name, embarrassingly, I have forgotten – (A Member: Professor Wood) Professor Wood. Yes, thank you very much. He mentioned the question on companies – that if we issued a bond and can give them an interest rate that is lower than they have commercially, whether that is a subsidy – a hidden subsidy.

2135 In true economics it is, but you have to put that in the context of where an economist comes from. A free market economist looks at anything which will interrupt the market as not necessarily being a good thing, because it could make companies less efficient. And in a commercial situation it is true, but we are not in a commercial situation, we are in a situation where those companies are strategic assets owned for the benefit of all of the public. So if they can operate at a slightly lower cost then it does not necessarily mean inefficiencies in the market, it means benefits to the wider population. So I think, yes, we do have commercial companies; they are semi-commercial, but they are strategic in nature which makes them very different.

2140 I think Deputy Conder, in his speech, highlighted risks of States-owned businesses failing and what would happen. Well, if that happened I think our economy would be in such a mess that the market price of bonds would plummet and so the chances are we would not need to repay them at full par – I will give way.

Deputy Conder: Thank you, I actually said that we would never let those fail, we would stand behind them.

2150 **Deputy Gillson:** Exactly, but – (*Laughter*) Yes, exactly, ‘We would not let them fail’.

I think there has been mention by some people in and outside the Assembly of an interest rate risk. Well, the bonds are an interest rate opportunity, rather than risk, because they fix the upper limit. Issued at 3%, that is the maximum amount we will pay.

2155 But it does give us an opportunity and to understand this opportunity really, I am going to go into a bit of technicality and look at the relationship between the coupon, the price and the yield. Now, if you issue £100 of bonds at a 3% coupon – 3% interest rate – the yield is 3%. Investors in the market will be comparing, looking at the yield as much as anything and the yield comparative to other investment opportunities.

2160 So if interest rates in the market were to go down the bond becomes more attractive and the price goes up, which is where Deputy Brehaut said, ‘If that happens he would spend £200 million or £100 million to buy back the bond’. Well, you just would not buy it back; you would just wait until the maturity and pay it at par. Where the real opportunity comes is that when interest rates go up (*Laughter*) the bond that we have issued is less attractive and so the price would come down, so the market price of bonds are likely to reduce.

Deputy Brehaut: Sorry, sir, point of correction. You will be delighted to hear, on this occasion, Deputy Brehaut said nothing. (*Laughter*) It was Deputy Brouard. There is always confusion over our names.

2170 Thank you.

Deputy Gillson: You are absolutely right and my apologies to both of you. (*Laughter*)

2175 So, as I was saying, as the interest rate goes up investors look for a yield. Because they are only getting 3%, to match the yield of a higher interest rate elsewhere, the price of the bonds go down and that gives us the opportunity to actually buy back the bond at a lower price. It is not a guarantee and nobody issuing bonds factors that into the full business case. But it is a potential upside – I will give way.

The Bailiff: Deputy Brouard.

2180 **Deputy Brouard:** The point I was making... I appreciate that there is an upside but there is also a downside and it works just as equally, and that is the point I was making; that you may have a situation where we are having to feed the monster at 4% when everybody else is borrowing at 2%.

Deputy Gillson: Yes, but you then went on to say that you would have to buy them back and the point I am making is you do not have to buy them.

2185 **Deputy Brouard:** Thank you, sir.

The point I was making was that if somebody had told me that one of the options were that we could buy back the bonds because you want to reduce the liability... but of course when you do that you then have to pay the market price of buying them back. And I appreciate it could be a profit but it could also be a very big loss.

2190 **Deputy Gillson:** Well, I am just saying you would not buy them back if there is a loss. But we will move on.

I think basically I am not going to say... Well, there was one comment I think has been made outside the Assembly which was about other countries which have built up massive debts. Argentina was one that was given. It has caused huge problems. It is not comparable with us because those countries invariably borrowed in a currency other than their home currency. In the case of Argentina, it borrowed in US Dollars so as the foreign exchange rate changed their debt increased. We will be issuing bonds in sterling, which is our currency, so there is no possibility of a foreign exchange loss or gain there. It is perfectly stable.

2200 I started off being critical of Treasury & Resources with the Budget. I think, on the whole, the Budget itself, the fundamentals of the Budget, is a good Budget. It is a steady-as-you-go Budget. I will support it. I think this is a great opportunity to issue bonds. It makes a lot of sense. It is good housekeeping for us to issue those bonds. It is good financial housekeeping and I urge people to support all of the Propositions.

2205 **The Bailiff:** I was going to call Deputy Perrot next. Deputy Perrot, if you are ready?

Deputy Perrot: Thank you very much.

My colleague Deputy Brouard has been hyperactive this afternoon so I wonder if he is going to interrupt me. Could we get it over with now (*Laughter*) before I start?

2210 **Deputy Brouard:** Can I reserve my right? (*Laughter*)

2215 **Deputy Perrot:** Oddly enough, although I am one of the proposers of this Budget, I am actually not all that happy with it and the reason why I am not happy with it is that I had hoped that Guernsey would be back in balance now – not in a couple of years' time. And for those of us who made those promises – I am sorry to go on about it, but we did – a couple of years ago, we have failed to bring everything back into balance when we said that we were going to. So, to that extent, I am not over happy.

But could I also say other people have been very kind in complimenting Treasury & Resources on the Budget generally, but can I give some pointed praise to the Minister? I am not doing my usual crawling routine here. It is really quite extraordinary the amount of time and effort that he has put into this.

2220 I would also like to congratulate the States' Treasurer and her team, who do a phenomenal amount of work. It is not just on the Budget; we have got the Personal Tax Review and all that sort of thing. How such a relatively small Department is able to cope, with all of the background work which goes into this, is really quite stunning. So I thank them.

2225 I also wish to say publicly that I deprecate the sort of public comment which somebody such as the Minister has had to endure, on emails, in anonymous cowardly letters to *The Press* and in cowardly anonymous comments on *The Press Blog*. No-one should have to withstand that sort of thing. (**A Member:** Hear, hear.) It is cowardly and vile. (**Several Members:** Hear, hear.)

2230 Despite what people might say, I cannot believe that anybody who knows what goes on in the States' Departments can believe that we are there somehow for our own egos – to massage our egos. It is damn hard work and I would hope that members of the public, when they are making comments, make comments on a rather more informed and *much less* personal basis. So again, for the public record, if people want to criticise Deputy St Pier, criticise me as well and Deputy Spruce and Deputy Kuttelwascher and Deputy Adam. We are all in it. We are all united in relation to this Budget.

2235 Having got that little rant off my chest, can I also say that I have got the greatest possible sympathy with those who do not wish us to have a public debt? I go along with it I have always been like that. I had not

realised until relatively recently to what extent we already have a public debt and I look again at Deputy Conder when I say that.

Of course there is some history of public debt notwithstanding that we always say that we do not have public debt. I seem to remember that there was public debt of a sort when we built the original market in the 1820's – (*Interjection*) 1822 – thank you very much from Deputy Le Pelley. We also had public debt in relation to the supply of water, but public debt, in its most recent manifestation, came in in quite a big way at the end of the 1980's. The beginning of the 1990's, I think it was when we put in that electricity cable. What happened then was the States were agreeable to guaranteeing the loan which was then made by the old Electricity Board.

So, for good or ill, it has been with us for some time. But I do not like deficit funding. It is easy, I know, if you do not like deficit funding, if you do not like what we are proposing to do in this Budget, to compare us somehow with other countries which have got a huge appetite for deficit funding; but they are different countries.

This funding will be matched by income streams. If you take a country such as the United Kingdom which has the most appalling, unhealthy appetite for deficit funding... Why does it do that? It is because of party politics. It is because the Governments always want to promise jam tomorrow. They are always scared of saying we cannot afford to do this, that and the other, and that is why deficit funding in the UK, for example, has grown to such an unsustainable appalling level.

It is also very easy, because these countries are very much in the news, to talk about the 'PIGS'. Those countries in Europe which also have got huge unsustainable levels of public debt. But why are they in trouble? Not only because politicians have been too cowardly to say, 'We cannot afford to do this,' but they have done it because there are in that mad-house which is the euro currency. (*Interjection*) You have got a complete miss-match – I am looking at Deputy Conder again – between different economies, but all of them within the same currency.

So if we are going to compare, let us compare like with like and let us remember of course we cannot be complacent but, as a Government – which is what we collectively are – we do not go in for hollow promises. There are very many bat squeaks of protest when we say that we cannot afford something, but we are honest enough to say that.

This public debt we must also bear in mind – for that is what it is; I do not care what Deputy Brouard says; we already have a public debt now... Why do we have it? It has not been as a consequence of jam tomorrow-type promises to people whereby we have gone in for all sorts of fluffy expenditure. The reason why we have it is for good strategic reasons.

It was necessary to buy Aurigny. What would we have done if we had not bought Aurigny? It was necessary to put in that cable. Actually, at the time when the original cable went in that was only going to be a sort of safety valve – an adjunct to our electricity supply. Well, I am blown! Everything has turned on its head and the electricity cable connecting us with the European grid is now our cheapest and main source of supply. That was really good strategic thinking. But it cost! We could not afford it, so we had a public debt, in that the States gave a guarantee to the amount that was being borrowed by the then Electricity Board. It is the same with the fuel ships. We saw that we were potentially in grave difficulty and went ahead with fuel ships. That is also part of strategic reasoning. So that is why, in the main, we have public debt.

There has been some criticism about whether it is right to have brought some of these far-reaching financial proposals into a Budget. I have to say, actually where else are you going to do it? A Budget should be the place where you examine them. It would be nice, if you have got the time, to have a separate policy for everything but, for example, in respect of the bond, when the rates are what the rates are at the moment you cannot hang around. So a huge amount of work has been done in order to make sure that the idea of the bond fell within the Budget.

There is a history you know of important things being done in Budgets. I remember in about 1983 I had the temerity to challenge the Budget of that day and what I was trying to do was to right a wrong which was that self-employed people were not able to make contributions into their own pension schemes. And I remember the president of the then Income Tax Authority behaving like a proposition aunt when I suggested that we do that, and one of the objections was that that was no place to do it. But then I seem to remember only a year later the same Income Tax Office actually brought in retirement annuity trust schemes and that was in the Budget.

I think my memory plays me right there. I always look at Deputy Le Lièvre on cases like this because he has got such a fantastic memory going that far back. I am sure that he will stand up and tell me if I am wrong. (*Laughter*) There we are. Mind you, that is not to say I am right, but I think and hope I am.

Deputy Bebb – I think it was Deputy Bebb – also said that underwriting was different from lending. No, it is not. It is exactly the same and I know that I can almost hear the cogs going round on my right here in the brain of Deputy Brouard. But the fact is the States, when it owns 100% of a company and gives a guarantee in relation to that company, is putting itself completely on the line in relation to that company.

So, whatever words you use, we are on the line at the moment for a quarter of a billion pounds and what we want to do is to tidy that up. It is senseless having various rates of borrowing.

2300 If we went to a taxpayer and said, 'Look, we have the opportunity of, let's say, making 1% a year on this, so we can make, let's say, £2.5 million a year. Do you want us to do that or would you prefer that we do not do it?' What would any sensible taxpayer say? 'Yes, save the money!' That is what you always see in letters to *The Press* – that we spend too much money. Well, we could also save money and that is what we are doing in this way.

2305 Deputy Bebb also said that we need to remain a jurisdiction which has no debt. My goodness me, I agree with him. If only that were so, but the fact is that debt exists. If Guernsey Electricity Ltd were to go down the tubes now, who is responsible? We are. What happens if Aurigny goes down the tubes? Who is responsible? We are. What happens if the company which owns the ships goes bust? Who is responsible? Of course, we are. All we are doing is tidying up the financing in relation to that existing debt.

2310 One of the other criticisms which have been made is that we have put this somehow into the Budget; we have used sleight of hand, we have slipped it in, we are using the techniques of the snake oil salesman in some way. We are not. Who could have been more open than the Minister in the way in which this Budget has been presented? Nothing is hidden here.

2315 I have to say, if you look at all of the e-mail correspondence which passes through our electric machines, (*Laughter*) you will see the extent to which the Minister has had the patience to explain time and time and time again in an open and honest way. He has answered all of the questions put to him about the Budget and I commend him for it.

Another point which has excited people somewhat is this idea that we could have another £80 million factored into our borrowing.

2320 One of the reasons for referring to the extra £80 million in the Budget is that this takes us up to our limit within the Rules relating to borrowing. For the issue of a sovereign bond, £250 million is the sort of sum which gets the institutional investors' juices flowing. That is the right amount of money; the correct size if we are playing with the big boys in relation to sovereign bonds.

2325 There would be a problem if we subsequently said we want another £80 million and issued that as a separate sovereign bond because it does not fall within the correct size of sovereign debt. So the point about all of this is... and you are being given a choice – again, everybody has been completely open about this – that you are being given the choice of saying, 'Okay, if we want to go along with the bond it will just be a quarter of a million.' But there is *also* the choice of adding a further £80 million and that then observes all of the conventions in relation to the issue of debt of sovereign debt.

2330 As to what you do with that £80 million, we can see all of the demands coming up already, but until such time as a demand manifests itself, goes through all of the business analysis, we would actually be making money on that because of the way in which we have made relatively high returns in the past in respect of States' investments.

2335 I am actually fed up with listening to myself so I imagine that everybody else is. (*Laughter and interjections*) I think –

Deputy Brouard: Can I come in now?

Deputy Perrot: Back! Right, there we are. Yes, good, we are back to the old verities. I will leave it there. Most of the other points that I had I think have been touched on by other people.

2340 I hope that Members are not too beguiled by the thoughts which I have about debt. I do not like it either, but we have got to do something, in my view, about the debt which already exists.

The Bailiff: Next, I will call Deputy Adam and then Deputy Laurie Queripel.

2345 **Deputy Adam:** Thank you, sir.

Sir, I believe I am, what you might call, a canny Scotsman! (*Laughter and interjections*) I am cautious and I am risk adverse, which is very useful if you do a high-risk job like I was employed to do.

2350 Therefore, if some of you remember, we have had a debate about bonds before – not this Assembly – I think about six years ago, in actual fact, when the then Treasury Minister wished to take a bond out to cover the cost of the capital programme for the following four years. And the gang of five – of which Deputy Dorey was one Member; so was Deputy Fallaize and Deputy Le Lièvre and there is another two, Deputy Domaille and the fifth one is not in the Chamber – brought this report and suggested a different way of funding the capital expenditure over six years, instead of four.

2355 The reason that was successful was because the bond was simply for capital expenditure on schools, hospitals and such like. And the reason I voted for that was very simple as well: I do not believe in borrowing money unless you have an income stream to pay it back. In fact, my Scottish nature and certainly the nature of my parents was very simple. 'Boy, you only borrow money for your mortgage to buy your

house and then you have got an asset!’ And I had the audacity to buy a car when I was younger. It was a beautiful car, if anyone knows anything about cars: it was a Lotus Elan Plus 2 – a little sports car. And I went and borrowed money and it was terrible, my mother found out and, gee whizz, I got a lecture from my mother and father for half an hour, ‘You do not borrow money unless you have got a good solid asset and you have got revenue stream!’

Deputy Brehaut: You could have lived in the car! *(Laughter)*

Deputy Adam: My father was getting old and found it difficult to get into that height of car, but never mind. But, as I say, the reason I am supporting this time is for a very simple reason: any money borrowed and put against... any sum that is put against this bond must have –

[There was a technical difficulty with the recording]

The Bailiff: Right. Now, normal service is resumed. *(Laughter)*

Deputy Adam: As I say, the reason that I feel we all should support this bond is because it is going to have a revenue stream for any monies that it is used for. A revenue stream. That is so important.

Deputy Perrot mentioned a lot about the bond, and, as he quite rightly said, £250 million is the minimum amount – sounds crazy but never mind, it was the minimum amount all those years ago as well – and we have already borrowed or guaranteed that amount of money. It is a sensible housekeeping procedure in this case; the same way as you go and get a mortgage and you hope to get the lowest rate for that mortgage, and pay it back because you have got a job and an income.

Now, as far as the Budget itself is concerned, as it is noted, it is a balanced Budget. It is a balanced Budget if we care to keep to what is laid down in that Budget. It is so easy to say it is balanced Budget.

It is also quite interesting Deputy Dorey, and Deputy Soulsby actually, mentioned about the table on page 6. And also Deputy Dorey mentioned the fact that HSSD actually is not getting an extra 7.6% increase in their budget this year. In actual fact they are getting a 7.6% increase on the previous Budget.

I accept he had this second fund called the Budget Reserve that they used to pay for various other things and therefore the total amount above what he considers was the correct Budget for this year is 1.6%. That happened to me as well in 2009 because, at that time, off-Island placements and off-Island treatment was ring-fenced and it did not matter how much we spent, I was accused by the Treasurer and the then Chief Minister, Deputy Trott, that I was over budget by £5 million or £6 million.

But, anyway, a balanced Budget. My concern is that to a certain extent the estimates for a balanced Budget are not strictly guestimates but you can have areas which you do not have any control of. The increases to achieve this balanced Budget are nicely tabled for you on page 5 and for those who think personal tax and duties have been put on to the public – that includes all of us; a huge amount – actually if we look at the amount the corporate sector is going to have increased is £4.65 million and personal taxes and duties, only for personal aspects, is £3.35 million. There is another £0.95 million which is due to petrol, but then of course, petrol affects the personal plus the corporate people and, therefore, that is why it is in a separate group.

So it has helped to get to the balance stage, but what are the variables? What are the things we cannot do anything about? ETI – unfortunately, it is 74%. We are relying on that 74%. Now, it can go up, it can go down; it depends what the economy is like. In actual fact, if you look at finance sector – again, one of the major aspects of our economy – it is continuing to struggle; it is improving slowly and we hope a bit more next year. But also remember in the finance business that, since 2008 to end of 2013, finance employment declined nearly 11%. So these are all potential risk factors.

Other things that can happen are various things like petrol. If you put petrol up more, in actual fact people might use less; also they might buy smart cars that are more economical.

Document duty – as you all know, the market at the moment is absolutely flat. And tobacco – if you keep putting tobacco up too much, fortunately, more people stop smoking and, therefore, your actual tax take starts flattening off. So all these things have to be considered in the income aspect.

Expenditure aspect – that varies. Obviously, you all know what is called ‘the formula led’, that is SSD and we have seen it going up in the last two or three years. Another one is what I call medical formula led costs, which is increased operations, increased cost of drugs etc.

So you have these variables and therefore I am delighted it is balanced, but we all have to take on board that it is the responsibility of all Departments across our Assembly and our States to ensure they stay within Budget.

Also FTP2 has been mentioned for the savings are a necessity. We cannot be complacent; we cannot sit back and put our feet up. We must keep the eye on the ball. Keep looking to see where there is

rationalisation of property portfolio, remainder of the FTP saving, cross-cutting measures. That is the only long-term sustainable way for a small community like Guernsey.

2420 So I hope, I trust, you will all have what I would call common sense and accept the Budget in total. It has been hard work for the staff, as previous Deputies stated quite clearly – it is unbelievable the amount of work they have to do – and produce lots of mini papers and especially the Minister has also puts his effort into it.

2425 So please support this Budget. It is balanced. It is sensible. It is not extreme amounts and personal tax, because corporate tax is as much, and the long-term aspect of the bond is good housekeeping – bringing all the sums that we have, guaranteed into one pot.

Thank you, sir.

The Bailiff: Deputy Laurie Queripel.

2430

Deputy Laurie Queripel: Thank you, sir.

I am always a bit amused when Deputy Langlois stands up and presents himself as a voice of reason and of balance, because that is a matter of opinion for the listener of course. And if anybody puts forward a different version of events, sir, they are often classed as harbingers or prophets of doom.

2435 And, yes, clearly Deputy Conder did present quite a gloomy picture, but much of it was based on expert economic analysis. And, yes, there are two sides to every story, as ably demonstrated by Deputy Stewart, who rightly pointed out that the US economy had grown by 3%, sir. But what he did not say was the combined debt of the US is \$50 trillion. That includes their federal debt, their budget deficits and their trade deficits, sir. And that approximately 80 cents of every dollar is spent on or consumed by servicing that debt. So there are two sides to every story.

2440 Now, sir, I actually thought that Deputy Conder and Deputy Bebb made excellent speeches and I cannot match their technical expertise or their eloquence. My thoughts and opinions are normally more home spun, more rustic, sir. But there is enough unease, enough doubt in my mind, to consider voting against the bond borrowing proposals, even though I voted for some of the amendments that might benefit from those proposals, such as the Deputy Soulsby/Brouard amendment.

2445 And I am also a bit surprised that Deputy Langlois was surprised that there has been so much focus and discussion and debate on those two proposals, because they are incredibly significant and perhaps far reaching sort of policy proposals, sir, so it is no wonder that our minds have been focused very much on that. That is my opinion, sir.

2450 Firstly, a Budget should not contain such significant, perhaps far reaching proposals. They are worthy, as many Members have said, of a report in their own right and they should not be just part of a Billet, as this. They are disproportionately presented, sir, because they are so significant.

2455 The lead in time is too short, sir, for a proper analysis, to understand potential benefits, the possible pitfalls, the ramifications, especially – and I am not afraid to admit it – especially for a layperson such as myself. Only in the last few days have we begun to hear from people and organisations with expertise in the areas of finance. There has not been a proper period of consultation. It is too much information to absorb and it all seems, to me anyway, a bit *gung ho*, and instinctively, sir – *instinctively* – that makes me wary.

2460 We can talk all we like about being disciplined in regard to borrowing, about sticking to caps and frameworks. History shows that it is rarely, if ever, the case. Lessons from our own past, let alone other jurisdictions, confirm this. And I know Deputy Gillson has said that we cannot compare our situation to other jurisdictions, but that is ringing in my head, sir.

We can talk about avoiding the slippery slope but the truth is, as soon as you make this kind of move you have one foot on that slippery slope. It does not matter how surefooted you think you are, the potential for slippage increases.

2465 If we take this step, sir, it is very likely or it is possible that future States will follow in our footsteps, because there will always be more needs, more requirements and, most worryingly, more wants. So it should not be a surprise to Members, sir, and they should not be dismayed that there is caution here and that these proposals are being seriously questioned.

2470 Sir, there is no such thing as easy money, but I get the feeling that is how this is being sold to us – an opportunity we need to grab quickly, a limited offer. That makes me wary.

2475 The spending is the easy part. We all know that. Most of us will have borrowed at some time in our lives, as Deputy Adam said, sir. The hard bit comes after that and we do not know what the future holds. So when it comes to personal borrowing, a person could look at their situation and think they have a secure job with a good income, sir, but those circumstances and those assurances can change. We should be even more circumspect when it comes to public and national debt and public monies, sir.

So what right have I, or what right have any of us, what mandate have we – most of us will only serve perhaps one or two terms... what right have I to commit the public of this Island to a possible – *a possible* – 40-year debt burden? To put that into some sort of context, sir, the equivalent of 10 political terms.

Even more context, sir: I believe the cherub-faced Deputy Fallaize – we have not got the privilege to look upon his visage today – was 30 years of age when he stood for election in 2012. If he served for another nine terms, from 2016, he will be 70 years of age by the end of those nine terms and it is possible that bond would still be running! *(Interjections)* And Garry, Deputy Collins as well, sir, is just as cherub-faced, I might add. *(Laughter)*

Sir, it seems to me, from the comments we heard at the presentation Deputies received, the casual attitude has already kicked in. Not only the proposal of a £80 million float, for no particular reason other than they can, but there has already been talk of perhaps borrowing £500 million because market conditions are so good at the moment. The eagerness to unwrap the presents; the gold rush has already started.

So, Deputy Perrot, sir. I admire and respect Deputy Perrot enormously and he spoke very eloquently and very persuasively. The only trouble is, sir, I am not particularly persuaded. *(Laughter)*

I have to wonder, if we take on a liability to the trading entities in this way, and perhaps borrow money to fund their future capital projects, which could take anything up to 40 years to repay, why aren't they under direct States and public control. What responsibility and what risks are being taken by the boards and how are they really accountable? And think what else might be needed by those trading entities during that period of time, sir. And if it is good for the trading entities how long before that thinking extends to other projects?

Now, I totally agree with Deputy Dorey and Deputy Brouard. They spoke about the lack of detail in regard to the guarantees that the States have on behalf of these trading entities. We do not know about the percentages in regard to the interest they are paying. We do not know about the time in regard to the extension of credit to them. We could be taking on a bond for 40 years and some of these guarantees might only be for 10, 15 or 20 years.

Sir, the truth is, in my simple way, I think there is a marked difference to giving guarantees as the States do now and going down the proposed route.

I remember the words of my football coach, many years ago, when speaking about defensive duties, 'If in doubt, kick it out.' *(Laughter)* That does not mean the game is over; it just resets and it restarts.

This might be – I doubt it, but it might be – the right time to take this course of action, but at the moment I am simply not convinced. It is new territory, it might be exciting, it might be an adventure for some but I need more time. I think we all need more time to understand it, to think it through thoroughly, to contemplate the scenarios.

Also, sir, if the States are to bear this debt in this way it does become a sovereign debt. I really believe it is different to offering guarantees. We are free of that at the moment, sir, and I do not think we should lightly give up that particular status, especially when we observe other jurisdictions who have chosen this route, sir. They are further down the slippery slope and do not seem to know how to apply the brakes. This is a very sobering lesson and one we should take very careful heed of. We are a micro States, as much more ably pointed out by Deputy Conder and others. We do not have the fiscal freedom or options of larger jurisdictions and we would do well to remember that.

Sir, if we are going to debate this, and I am quite happy to debate it again and reconsider it, but if we are it should be after the findings of the Personal, Tax, Pensions and Benefits Review has been disclosed and analysed and we have more information on this particular set of proposals.

So on this occasion, sir, I will be voting against the bond proposals.

Thank you, sir.

The Bailiff: Deputy Gollop.

Deputy Gollop: Sir, Deputy Queripel is technically right in one respect. One of the issues with this particular format of the Budget is the bond issue and some of the other deeper PTBR issues and fund transfer issues are of course, by being incorporated in a budget format, only given a two or three-week window for States' Members to look at, rather than the customary six weeks, which of course makes a material difference, at least for some Members.

But leaving that point aside, I am convinced by many of the arguments I have heard that, to be technical about it, this is not a strict borrowing issue. It is a re-transference of existing guarantors' undertakings to a new, arguably, at least in the short to medium term, more efficient vehicle of achieving the same objectives.

We had a digression from Deputy Brouard earlier about how different is a guarantor from a lender, or somebody who takes on a loan. I sometimes hate to say this but, in my case, it might come to the same thing. If somebody guarantees me to pay, they might end up paying, if my lunch is eaten by Jersey people or anyone else *(Laughter)* and so I think that is an academic argument and as I would see it, although I suspect the Treasury Minister might correct me, if we have a guarantee to pay, let's say, £150 million on various undertakings and we have the money in our account, we effectively have to reserve and ring-fence that money to a degree. If we then issue a bond, the money will come in – the commitment will be the same but it will make us more liquid in a sense too.

2540 I am not happy about the extra £80 million really, at this stage. I do not think we really know enough. I am accepting of the principle in broad terms, but I think that the consensus in the community is that borrowing in this climate is only acceptable if there is a revenue stream that is virtually guaranteed and I do not know if we have that information on that.

2545 I think probably we have said enough about borrowing at this stage, because it has been misleading things said by some members of the community who perceive it be borrowing to build La Mare de Carteret School or some other project. That is not how it is. That is a completely different set of arguments.

Two other points I would like to bring up as a final rejoinder is I have been listening to all of the speeches, whether in here or outside and nobody has mentioned the rest of Budget really. It has been bonds, bonds, bonds. We have not really talked about the extra duties on tobacco (*Interjection*) or the motor car, or
2550 – alright Deputy Dorey did – but there have not been many and I think we should look carefully as those.

I think particularly, if I could declare a minor interest, the cigarette tax and the alcohol tax (*Laughter*) is horrendously harsh and aggressive. It is a pure sales tax in tooth and claw that targets, in some respects, the most vulnerable – that is to say addicted people or people who, for various reasons, seek relaxation using those legal drugs, rather than have other lifestyle choices. And I think that point should be made.

2555 I think it is interesting, as I said earlier, that to a degree the Treasury & Resources Department are embarking on a new role as a kind of motivator of economic development in conjunction with Commerce & Employment. And I think that that remains to be seen – the impact of that on policy and revenue – and that will be a consideration too. And I feel perhaps we have not done full justice to the wider issue of looking at how those funds will be used and how they can stimulate ideas for change in policy and improvement.

2560 Because I amused one or two of my colleagues who said that they would politically almost blackmail me over this, because at one of the recent presentations I said that you can forget about the conventional priorities that most people say; if you ask people what do they want the States to do, it is usually the best possible health care, care for our elderly, support for disabled people, improve the road transport system in one way or another. All those are mentioned. They do not say what is actually a very important priority and that is to pay the best possible civil servants to work for us and improve and define our policy making process. We have had a shortage at the hub, at the centre, of people implementing and delivering cost saving and public service initiatives, and until we get that right we cannot deliver.

The relevance of that to the Budget is, of course, the Transformation and Transition Fund will have the resources to headhunt and maybe put in place officers who will be able to deliver on many of the policies, strategies, and other endeavours that have got a bit lost in translation the last few years, in some respects.
2570

Finally, I think one area that perhaps we underestimate in Guernsey as one way to improve our budgetary performance in future years is very much emphasised, as Commerce & Employment to a certain extent already do, are buy local and develop local, whether it be business, produce, retail – (**A Member:** Hear, hear.) And I did my bit! I cannot get it out now but I bought a pumpkin earlier, so (*Laughter*) that would be a Halloween surprise! (*Laughter and interjections*) (**A Member:** Do you want a hand?) (*Laughter*) Something different! Made by former States' Members – (**A Member:** Put your lunch in) It was actually... Lunch included! (*Laughter*) And this was actually sold and produced by a former Member of this House, who has been very successful in the growing and enterprise sector. (*Laughter*)

2580 **The Bailiff:** Alderney Representative Jean.

Alderney Representative Jean: Thank you, sir. I

I am very unhappy about the bond issue. I now see and hear, here in Guernsey and in Alderney, people are having problems with their loans. They are having all sorts of problems. The recession seems to show
2585 all the time new peaks and new waves and new twists, and I do not know, with that kind of level of borrowing, that we should do that. To me it is the wrong thing altogether.

I certainly feel that what has already been borrowed, in the way that it has been borrowed, should be honoured and kept, but I think that anymore... I think the people of Guernsey would be very unhappy with that. I think it is entirely the wrong approach. And I know that I borrowed some myself and that has not
2590 been an easy situation in Alderney and I would not like to see Guernsey tied up to something as difficult as that in these troubled times.

We know already that Income Tax receipts probably will fall back. We know that income is changing. We know that the parameters are changing in lots of ways and different areas. Is this right? I am certainly not happy about it. It is not something I would want to put my name to or my vote to.

2595 I think caution is the order of the day and the Financial Transformation, continuing to drive home the savings as best you can and keeping a close eye on everything and close control... and I worry about precisely what Deputy Laurie Queripel said, and that was that future generations of the States, when we are gone, the temptation is all too easy to continue and extend the bond, and that is an enormous worry to me and I do not think we should do it. I think Guernsey is doing the right thing now. It is doing the best it can

and I think that is the way it should go and, yes, the recession is troublesome. We are all troubled by it and we wish it was not there, but it is and it is reality and this does worry me. No.

And my colleague, I know, is going to get up and not agree with me! (*Laughter*)

The Bailiff: Alderney Representative Harvey.

Alderney Representative Harvey: Thank you, sir. It is just like Tweedledum and Tweedledee, isn't it really. There was a concern that as the hour advances and the sun goes down, my colleague and I would be turning into pumpkins, or Trislanders as some people know them, but it was always pretty apparent that we were going to cancel each other out – so reassurance to the T&R Minister there, at least.

I hate to sort of do one-upmanship and I listened with great respect to Deputy Brouard's 27 years in banking. My 40 years in banking suggested to me – (*Laughter*) My 40 years in banking suggested to me that the powers and rights of a guarantor are very often weaker than those of the principal debtor. We are in debt or the Bailiwick is in debt; there is no getting away from it, it has been said by other people. If there was a battle to be had it was probably some years ago, long before I was here.

One of my colleagues, very interested in financial matters – a States' Member in Alderney – asked me to ensure that the bond, if we sign on the bottom line, is a Guernsey bond and not a Bailiwick bond. However, turning to page 50, I shall remind him that the Alderney Housing Association is included within this refinancing; James Co, the boat that serves us as it serves you with fuel; and, of course, Aurigny are also all involved and therefore I think we shoulder our fair share of the burden on these.

One of the tenets I always try to follow, which has obviously been referred to before, as a banker was that the term of loan should never exceed the useful life of the assets. Obviously, the refinancing covers a rather mixed bag of refinancing and assets: everything from good old bricks and mortar in Guernsey, which will have a hopefully extremely long life, down to some of the assets of Aurigny. Well, I am sorry it is not. Particularly financing Trislanders with their shelf life of about five minutes, I feel.

So I think it is important that the term of the bond, when it is finally agreed, reflects the blend of assets and the term and value of those assets. But if we are spared to get to the vote before our plane leaves I shall be voting in favour of the bonds and I do take Deputy Gollop's point of view that there are other issues in this Budget which perhaps should have been discussed and I probably will not be allowed back into Alderney for not discussing the duties on liquors.

Thank you, sir.

The Bailiff: Deputy Brehaut and Deputy Sherbourne.

Deputy Brehaut: Thank you, sir. I will be brief.

I am just looking at what Deputy Gollop thinks is a pumpkin, I do not know whether he should eat it or take it to the vet! (*Laughter*) It does not look very well at all.

Just listening to what Deputy Gollop said, I thought by Jove he has got it. I thought what a stroke of genius. We are talking about the bond, we are not talking about the Budget and both are going to sail through. So well done, T&R.

I just want to talk about process, which I know does get people down. I was reminded when Deputy Jones, with regard to the Deputy Soulsby amendment, mentioned the Guernsey Housing Association because it was Deputy Bernard Flouquet, who is remembered for other things, but came to this Assembly in 2003 with a report on housing associations and it was the States' Assembly 2003 with Deputy Bernard Flouquet as Minister of that Department who started the process of housing associations, so all credit to him. And we remember that because it is consolidated in States' Resolutions. When scrutiny did a piece of work some time ago – I do not whether it happened – what we did is we had a folder within the basement of Frossard House with every extant and every States' Resolution in it. The bits that I do not think happened were those Resolutions were then made available on the database so you can look them up.

And the point of having these Resolutions gets you round this obstacle of what... and I agree entirely with what Deputy Perrot said, that the T&R Minister is generous in spirit, is very easy to deal with as T&R Minister, plays it absolutely straight and he has given assurances. On this day we accept them and we accept the spirit and the intent.

Sadly, that is never consolidated at times in a Resolution, (**A Member:** No.) because time moves on and if you go back to the Budget debate earlier, particularly with regard to the amendments and HSSD, assurances are great, they are fantastic, but without a Resolution, sometimes because of the passage of time, they simply, you know they are dust in the wind or can be if we are not careful.

Also what I hear that does bother me a little bit is that we are almost getting T&R by proxy through the Tax and Benefit Review and that concerns me a bit, because we are hearing that... I have said before that as a community we are too timid to tax. Some people think that TRP is outrageous. I do not; I think there is more headroom in TRP, but if we are hoping that the Tax and Benefit Review and, actually if we look at the

makeup of people who are aiming to produce that Tax and Benefit Review, who may be just hard wired to be a little bit fiscally conservative, what do we expect from it?

I am worried that the Tax and Benefit Review is becoming the... We are waiting for that; there is great expectation. What would it actually look like and its impact on the Budget, I think maybe... What I am saying is if we are going to increase taxes the time to do it is in the Budget. I sense that there is a reluctance to do that because we have not seen the Tax and Benefits Review, but I am actually worried that itself may not produce what people are hoping it produces, but I do wish them well.

In closing, sir, I agree with Deputy Bebb in what he said earlier: that this is a Budget; within the Budget we have had the bond issue wrapped up and I understand about that, but with this change of direction, with this change of view on the bonds, I think it should have been in a report separate to the Budget and the debate in isolation, because I know I have got the opportunity to talk about the Budget now in the dying embers of the day but the bond issue has not overshadowed but has taken focus away from some of the issues in the Budget that perhaps the community will be more directly impacted by.

Thank you, sir.

The Bailiff: Deputy Sherbourne.

Deputy Sherbourne Thank you, sir. Thank you, Members.

I will be brief. I was hoping, through this long extensive debate of very good speeches, that I would receive guidance from those with a fiscal background, whether they be bank managers, economists or lecturers in business studies. Apart from being a very good friend, Deputy Conder made me feel depressed, quite honestly, and I do not like feeling depressed. At my age you cannot be depressed. Maybe Laurie Queripel, because of his youth, is not at the stage where he can say, 'No, sometime we need to mollify the caution that is being offered,' and I would love to be able to convince you to vote the other way. It is probably unlikely, but I would love to do that.

The thing is that we have heard views from those bankers, from those financiers, from lawyers and I am still not really sure because they cannot agree. They do not really know. Individually, they are sure of their own position, but for someone like myself, a layman as far as financial matters are concerned, I do not gain a lot of comfort from the arguments that I have actually heard, because for me it is either an optimistic view on life and the options that are presented to us or a pessimistic one and I prefer to take the optimistic view.

This Island needs to move forward – I have said that in a past speech – and I think that the proposals that have been put to us in this Report *are* sensible. I totally accept the need for the bond. In fact, I am probably one of the few Members here that would go further, because I think we need to kick-start our economy. I think we need to invest money to make money. We need to be able to invest in the future.

I will give you an example with Housing, the Environment Committee very are often criticised for being pernickety, too much detail, turning people down. I believe that they have actually given permission for over 300 applications for properties in the Island, that the developers have actually failed to act on. Now, there are ways that maybe Housing can look at applying pressure – I do not know; I am not experienced enough in that. But what I do know is that if this Assembly facilitated the release of land that the Housing Department could then build upon, my word, you would see those developers get into some sort of movement. That is my opinion.

I believe we need to invest in our future. I would borrow to invest without an income stream. It would obviously have to be under very stringent control. There are 47 of us that have got that control. That is why I do not understand the fear. I think the proposals have been well put together. I would have liked the bond actually to have been looked at in a different way. I do not want those bonds to be sitting in London, like the Jersey bonds. I would like to see them here. I would like to see investment for local people in local initiatives, in local buildings. We have not even entertained the idea of borrowing against property – the sort of capital that we have tied up – and I would like us to be just a little bit more adventurous. This, in my mind, is a step along the way.

I do understand those of you -cautious people – that you do not want to take that initial step – but, I for one, will.

Thank you.

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

Deputy Wilkie then Deputy Burford.

Deputy Wilkie: Thank you, sir.

I will be brief as well. I just want to give a quick history lesson. I know we said about not looking to other jurisdictions but the UK at the moment is refinancing £218 million of bond debt, which comes from the £2 billion debt from the First World War. Now, these were issued by Winston Churchill in 1927 but not only did he refinance the debt from the First World War this was also refinancing some bonds that go

further back than that and were issued by William Gladstone in 1853 – William Gladstone, who was also sorting out some debt from the South Sea Company that started in 1711. And we all know about the South Sea Company and the bubble that occurred and that debt occurred in 1720. So this debt occurred in 1720, and is still being refinanced today.

All I would say to you is just give that some food for thought.
Thank you.

The Bailiff: Deputy Burford.

Deputy Burford: Thank you, sir.

I think the moment has possibly slightly passed, but nevertheless. Deputy Kuttelwascher is right: last year Members may recall I laid an amendment against T&R's idea to incentivise Departments to go beyond their FTP target by bribing, incentivising, giving them 40% of the proceeds of any such savings.

T&R, and indeed the majority of the Assembly, did not support this amendment. It is ironic, in the extreme, therefore that the only Department to benefit from this incentive, to the tune of £86,000, from this hare-brained scheme, was the Environment Department – but by making an FTP contribution that would have been made regardless of the scheme, but nevertheless, thank you. *(Laughter)*

The Treasury Minister has already suggested that we hand the money back. My response to Deputy Kuttelwascher is the same as my response to the Treasury Minister: you had your chance!

Moving to just a brief word about Proposition 22. Yesterday it was stated that applications to the Economic Development Fund would receive the scrutiny of 19 Members of this Assembly. Sixteen of those 19 voted against Deputy Fallaize's amendment to bring proposals over £250,000 to this Assembly – no surprise there – and equally unsurprising was that 17 of the remaining 27 Members wanted such proposals to come back.

Deputy Stewart knows lots about business. He tells us we need to be more business-like, business is fleet of foot, business is unencumbered by process, business is the only way to do it. Guernsey Plc. I know something about business too, sir. 80% of businesses fail! *(Laughter)*

Of course, I support economic development. We need to diversify our economy, but we need to do it correctly. We need to do it in the context of the effect that it would have on population and infrastructure, in the context of our low unemployment figures.

Unfortunately, I missed part of Professor Wood's annual presentation to States' Members this year and I am really disappointed because the half that I did catch was fascinating. The good Professor appeared to have gone off script somewhat. I swear I heard the trembling of teacups against saucers when he said that the poor are not poor by their own fault. *(Laughter)* He also quoted Reagan – that well known anti-business leftie – *(Laughter)* who inverted an old adage and said, 'Don't just do something, stand there'.

Finally, on the issue of the bond, I will be listening very carefully to the Treasury Minister's reply to all of the debate today and I am still to make up my mind on that.

Thank you.

The Bailiff: I see no one else rising, I –
Deputy Lester Queripel.

Deputy Lester Queripel: Sir, if I were Treasury Minister I would be pulling my hair out!

A Member: So would we! *(Laughter)*

Deputy Lester Queripel: There is always somebody willing to take the bait, sir, isn't there.

But looking at our Treasury Minister, sir, it does look as though he has been doing a bit of hair pulling lately and I do empathise with him, sir. He and I are in the same hirsute camp. Neither of us have a great deal of hair left to pull out, but what he really needs to pull out of course is a rabbit from a hat, or a white dove from underneath his coat. He needs to be a magician and conjure up money from somewhere; but, as I have said before in this Chamber, sir, we are not magicians, we are politicians.

So, apart from pulling his hair out, what is our Treasury Minister to do? Whatever he does, he is usually considered to be wrong and decisions his Board makes often upset people, but one thing T&R have done right is print the Budget in black and white *(Interjections)* and that might not sound like a big deal to some of my colleagues, sir, but a Department can save thousands of pounds of taxpayers' money by printing documents in black and white.

And seeing as Departmental Budgets is what this debate is all about, I congratulate T&R for saving thousands of pounds of taxpayers' money by printing the Budget in black and white. It is not the first time they have done it. They printed last year's Budget in black and white and saved £5,400. Presumably they

have saved a similar amount of money this year, so that is a saving of almost £11,000 and that has to be good news for taxpayers, and long may it continue.

2785 Sir, our mums and dads and grandparents often said, ‘Look after the pennies and the pounds will look after themselves,’ and it seems to me that, in this day and age where we talk of millions, we often forget that an accumulation of minor savings eventually results in a major saving.

2790 When Deputy Harwood was Chief Minister, in reply to one of my Rule 6 questions, he stated in the media that significant savings had been made to the Policy Council’s printing budget by printing documents in black and white, and he went on to say that States’ printing costs could be halved if Departments printed documents in black and white instead of colour.

It is ironic, sir, that I should be advocating the use of black and white because I do not think there is enough colour in the world! But these documents will sit on shelves gathering dust once they have been read a couple of times and surely it is no great hardship to read documents in black and white a couple of times if it is going to save taxpayers’ money.

2795 The message I am trying to get across to the Assembly, sir, is it is just as important to save a few thousand pounds as it is to save several hundreds of thousands of pounds.

To conclude, sir, of course we have to also bear in mind that our T&R Minister is also our FTP champion, so all credit to him and to T&R; they have certainly done something right by printing the Budget in black and white.

2800 Thank you, sir.

The Bailiff: Does anyone else wish to –?
Deputy Trott.

2805 **Deputy Trott:** Sir, I rise to speak very briefly indeed, because I think all the important issues, apart from maybe two or three, have been covered or at least will be covered when the Treasury Minister sums up.

2810 There is one area that he slipped into his opening speech regarding hedging mechanisms. He explained that a hedging mechanism may be used at some stage in the near future, should the States approve these proposals, in order to take advantage of current market conditions. I think that is very wise because on the day that States’ Members convened in the Emma Ferbrache Room to listen to the presentation on this matter – the special presentation that was laid on – the yield on the 30-year sterling gilt on that day was some 20 basis points lower than it is today. What does that mean in real terms on £250 million over 40 years? Well, the answer is about £500,000, so in that short time the market has moved against us, if you like, by that magnitude. It could easily go back the other way and it will be interesting to see if the Treasury Minister has any ideas on whether we just be hedging on the downside as well as the upside. I look forward to that answer.

2820 Sir, on paragraph 4.26 in the Budget Report we are reminded of the paybacks that we have received from some of our trading entities – Guernsey Post and Guernsey Water in particular; States Works, I beg your pardon – and somewhere in the report – I cannot remember precisely where but – there is a paragraph that tells us of the intention to carry out a review carried out by an independent reviewer at a cost – a consultant, if you like – in order to determine what is the appropriate level of return for these assets.

2825 Now, I wonder why we need that? (**A Member:** Hear, hear.) I see that as a classic example of where we could get together a group of citizens with experience in these matters, who I am certain – a style council, if you like – would gladly offer their expertise to us in order to ensure that we found the right balance between the demands of the consumer and the demands of the shareholder. So that might be something worthy of consideration.

2830 Now, sir, on page 37 of the Budget Report, under paragraph 5.13, two figures jump out at me and sort of hit me full in the face, and that is the first reference to the establishment of the £7 million Economic Development Fund, the virtues of which were discussed earlier when we were debating various amendments and of which I can totally support. But the very next figure, beneath the £7 million to establish an Economic Development Fund, is £25 million to establish a Transformation and Transition Fund.

2835 Now, how does that look at face value? £7 million to stimulate the economy that pays the bills, that funds the public sector, and yet an amount of three and a half times more is allocated in order to help bring about a transformation and transition.

2840 I think what it does is it shows that how much more work there is in changing the culture within the public sector. It also brings into stark focus just how little, even in the aggregate, even after these Propositions are passed, we actually spend on economic development. And I applaud my colleagues in the Commerce & Employment Department for their boldness in the manner in which they are addressing this very worthwhile issue.

Sir, one slightly current matter, on page 78, looking into the detail within the Billet – in particular His Excellency’s expenses. I know it is a little bit of a taboo subject, but I do think it needs to be mentioned.

There is some confusion, I think, in the general public as to how much Government House costs us. The numbers are here in the Billet. The answer for next year is a forecast of £800,000 and I know that there are many in our community who think that represents good value for money.

Now, sir, the bond issue. I completely understand and appreciate that on any subject in this Assembly there are varying degrees of understanding. That said, my good friend Deputy Laurie Queripel and I have seen things differently on fiscal matters for as long as I have known him. He was an arch critic of Zero-10, which in my view, sir, is probably the single most successful policy that the States of Deliberation (*Laughter*) has agreed to in my 14 years in this Assembly.

But leaving that obvious statement aside, sir, Deputy Laurie Queripel tells us he is fearful of the slippery slope – a slippery slope that has the potential to save this community £3 million or more a year. Now, that is one slippery slope I want to be involved in any day of the week, Deputy Queripel.

Deputy Queripel: Slide away! (*Laughter*)

Deputy Trott: Sir, I asked the Treasury & Resources Department if they could do a calculation for me or maybe they asked their actuaries – I know not – but that was, if we look back over the last 40 years at the inflation that the UK economy has experienced, and we assumed that the same level of inflation would occur over the next 40 years, what would the bond issue today be worth in real terms in 40 years' time? Because this idea that somehow or other we are mortgaging future generations troubles me as well. I have some children as well, including one who is really quite young and will be very economically active during that period.

The answer, sir, is £37 million. The value at today's money in 40 years' time if the same inflation rate occurred would be £37 million. That is a little over half of a La Mare de Carteret School. That would be the legacy even if we decided not to build up a pot to repay it at that time. So it shows just how damaging inflation can be.

Now, I am not suggesting for one moment that the inflation of the last 40 years is likely to be the same over the next 40 years – it would be foolish to do so – but what I do know is this: Guernsey's success as an international finance centre, as an economy, as a community, is also one of its biggest weaknesses, and that is that we are very strong on the asset side of our balance sheet and very weak on our liabilities side – in other words, we have got very few liabilities. We should have more, which is why people who understand these things to a much greater extent than I am so supportive of us having a bond of sorts.

Now, the reason for this is if you have a period of hyperinflation – and that is as likely as a period of hyper deflation, if not more likely, history would suggest – the value of our assets today get deflated away; they get reduced in value as inflation eats into the value of the assets. If you have got liabilities on the other side, the same effect happens to those liabilities. So you are hedging your exposure in a way that sees the damage done on the left hand side of the balance sheet, the asset side, is matched by the damage that is being done to liabilities side. And in any risk assessment of Guernsey Plc, that is fundamentally important.

Sir, I think it is fair to say that I really have given this matter, over the course of the last few days, possibly even longer, a very great deal of thought and I am able to conclude at the end of that deliberation that I think the Treasury & Resources Department have got this Budget just about spot on, and they will have my absolute support when we come to vote on the Propositions. Well done to you all.

The Bailiff: Does anyone else wish to speak? No. I will invite the Minister to reply.

Deputy St Pier. Thank you very much, sir. And thank you, I think, to the 28 Members who have spoken. (**The Bailiff:** 30, I make it.) Sorry?

The Bailiff: 30, I think.

Deputy St Pier: Okay, I was not quite keeping count.

I shall try and address the very many points which have been raised throughout this lengthy debate, sir.

I think I will start by reinforcing Deputy Langlois' comment in relation to praising the restraint shown in the last couple of years by all employees of the public sector and, as I noted in my opening speech, that period of restraint is likely to be an ongoing challenge for us in managing our public finances in the future.

Sir, there are going to be many references to the bond, clearly, because that has been very much a dominant issue during this debate. So I will be jumping around, if I may, but I will try and address the questions as presented.

I think the first thing to emphasise is that the on-lending from the States of Guernsey to the underlying trading entities will of course be subject to their own formal agreements which will be in place. I am not sure if that was entirely apparent to some.

I think a number have obviously criticised the fact that the borrowing proposals were not dealt with in a separate States' Report, and indeed the suggestion that perhaps it warranted 200 pages of States' Report. I would say, sir, that this is a simple concept and it is one that we either grasp or we do not grasp.

These are not the same proposals at all, in any shape or form, as those which were presented to those who were in this Assembly in 2009 or indeed the borrowing of other Governments. And I think, in order to reinforce that statement, I think you need to look at those who were in the Assembly in 2009 who were opposed to borrowing then who are now supporting this proposal, because they recognise it is a very different proposition.

Deputy Bebb referred to the commercial companies and the fact that they were different. The point I would make to him, sir, is of course not all of our trading businesses are incorporated commercial businesses; we have a number of trading entities which are within the States of Guernsey – Guernsey Water, of course. If you look at some of the loans that we have at paragraph 7.7 on page 50, we have the Health Department with an internal loan of £2.2 million for the accommodation block, we have James Co with an internal loan of £16.6 million and we have, interestingly, in the Waste Strategy Fund with a proposal over £29.5 million.

So at the moment if we were to be extending that loan we would do it at the States' Treasurers' rate, which is currently 6% – £1.77 million a year. If we were to do it at a bond rate of let's say 3.5% that would be a rate of just over £1 million each year. That is a saving of £12 per annum per person in Guernsey in relation to waste alone. So for those who are concerned about the costs of the Waste Strategy they should be taking those sorts of numbers very seriously, sir.

The other point I would make of course is the States' Treasurers' rate is a floating rate. It reflects the performance of our underlying investment funds and of course that makes planning very difficult for those that are borrowing at that rate. And of course it has to be a floating rate, otherwise the States would end up carrying the risk of lending at one rate whilst it is only receiving a return on its investments at another. So that is a deeply unsatisfactory and indeed an uncommercial way in which to be borrowing and lending money between ourselves and our related entities.

Deputy Conder, there is absolutely no intention whatsoever to be using these funds for new infrastructure. It could not be more clear. There must be an associated revenue stream. There are now multiple Resolutions to that effect, including the one laid by the Deputy Minister and myself.

'Is this really the time?' was his question. The answer to that, quite simply, is yes. Interest rates could go lower, of course. That is a point. I think realistically it is unlikely that they could go that much lower. But the point is, sir, that even if they did... Let's look at it another way: had we gone back and borrowed this money five years ago, we probably would have been borrowing at 4.5% rather than 3.5% – sorry, probably nearer 5% based on gilt yields at that time. So we would have been paying more than we are now, so we could face that prospect that we lock in now at 3.5% whilst in a year's time two years' time it could be 2.5%. But the point is we will still be saving around about 125 basis points on the commercial loans which are currently available to those entities. So, in a sense, whatever rate we borrow at, it is still cheaper than the current borrowing of the entities that we are seeking to pass this benefit on to.

'The risks are on us rather than off balance sheet,' was another point which Deputy Conder made. It is and again I think I addressed that in my opening speech, sir, that Professor Wood made the same point. But I would argue, as I think Deputy Gillson made the point, that our relationship with our commercial and trading businesses is very different because it is not an entirely free market and the idea that pure economics will apply and that, in the event of default by one of these trading businesses, the market will clear that debt by some third party coming in to pick up the pieces of those businesses and therefore we would only be exposed to the extent that there was any residual liability under guarantee. I just see no application in the situation here in Guernsey for our strategic assets, such as Guernsey Electricity and our airline. It is a theoretical argument which, sir, I suggest simply has no application to us in Guernsey.

Deputy Green, thank you for your comments of support. You do make the point about the £4 million, as others did, in relation to the proposed transfer from the General Revenue Account Reserve for next year. Of course, I would make the point, sir, that that relates purely to the delays in delivering on the FTP, but the structural deficit has been dealt with.

The personal allowance point, again, is a very good one – that our personal allowances are now lower than the UK. That is something to be recognised and again Deputy Green will know, through his work previously when he was a Member of Social Security, that that is an issue of substantial concern to Social Security and Treasury & Resources in the work of the Personal Tax Review, and we believe that that does need to be addressed. But of course, as he will recognise, the only way it could be addressed is by finding revenue from elsewhere in order to enable those rates to be raised.

The mortgage interest cap, he quite rightly identified. The move from £25,000 to £15,000 of interest per annum. Again I would make the point that it is 300 of the 10,000 households will be impacted by that and it is simply a prudent step to ensure that the taxpayer is protected from the liability or the exposure of interest rates rising.

Deputy Green was also suggesting, sir, that ‘Why not a balanced Budget now?’ and I think, in many ways, Deputy Perrot was making the same point – that he would very much have liked us to have moved to a truly balanced Budget. Our view was that that would simply have been £4 million of additional pain too much which the economy and the taxpayers could not bear at this point. That is simply a judgement call, but I accept this comments. Again, I emphasise that the borrowing is simply against an income stream.

‘Is it a slippery slope?’ Well, I absolutely see no reason why, sir. We all have personal credit cards. Is that the slippery slope to us all ending up in penury. (*Interjection*) Of course it is not. (*Laughter*) It is entirely down to how we choose – we choose; we are in control – to manage that situation.

Deputy Brouard – I was busily trying to make notes and then he actually said he was not interested in what T&R had to say, (*Laughter*) so I felt I do not really need to respond to anything he said, (*Laughter*) but I will, however, make one point, which was in relation to the rates applicable to the loans. Sir, I would draw his attention to the questions and answers, which I did distribute to all Members, which indicated that the blended rate that are currently being paid in respect of the commercial loans, including the costs of breaking any terms, is 4.87%. So that is the current exposure.

Deputy Stewart – sir, for the younger Members of the Assembly with children and grandchildren, they may have seen a film called Despicable Me, and I have been compared, perhaps favourably or unfavourably, depending on your point of view, to a character in Despicable Me called Gru, who also does not have much hair. But I have never been compared to Angela Merkel! (*Laughter*) That is an entirely new one on me. But I do agree with Deputy Stewart that this is *hausfrau* economics. This is about being more business-like and this is a corporate Treasury function. If I was the chief financial officer of a corporation I would be failing in my duty if I did not bring a proposal like this to you as our board of directors.

Deputy Paint asked what would happen to the existing stock of – I am going to perhaps ask Deputy Adam not to talk to Deputy Paint whilst I am seeking to address this point. I am anxious to convince Deputy Paint on this point, so I do not wish him to be interrupted, even by a Member of my Board. (*Laughter*)

Sir, Deputy Paint – the £250 million: ‘Where will it go if we were to go down this route?’ Well, there are two directions it would go. First of all, the commercial loans, of course – the funding that came from them would go back to the banks. The money which we currently lend, the internal loans that we currently make, of course would come back to Treasury and would therefore be available for investment with the rest of our reserves. And, as Members will see on page 36 of the report, paragraph 5.7, the returns that we have had on these funds in the last three years average 4.8% on the general investment pool and 9.1% on the superannuation funds. So a sort of blended rate of return we would expect based on historical performance around 5% or 6%. So the money would come back and would be reinvested.

I thank Deputy Langlois for his comments.

Deputy Dorey made a number of comments. Proposition 15... I am trying to read my notes, sir. I think, yes, in essence, I think the point I would agree with is that the principal challenge for Housing is one of the supply of land and not the... Actually, that was perhaps the reason that the Minister for Housing and his Board agreed to the proposal, because they could see they were not going to be making use of these funds in the next x number of years. They are not going to be making use of the cash. They could make much better use of the land that the States’ may well have, whether it is the Coutanchez site or others, that could perhaps be put to better use.

I think, in relation to Propositions 31 and 32, Deputy Dorey does have a point that the cross references to the text is bit clumsy. It is not ideal, but I think the intent is quite clear and to the extent that Proposition 32, if you like, follows and therefore overrides 31, I think the intention is quite clear. I would also say, that I seem to recall that when he was Health Minister we did have a number of discussions about the extent to which Treasury could use its delegated authority and I think the preference all round at that time was very much to be able to use delegated authority up to the amount that is in the Budget Reserve, which of course is now incorporated in the Propositions.

Proposition 31 and the absence of the normal list of delegated authorities, again is a very good point and I do apologise unreservedly to the Assembly for that not having been included in this Budget Report. That should have happened. It was not intended to be presumptuous not to have done so, and I accept the point. We will prepare that list. It will take probably a couple of weeks to get that together and to have it checked and we will circulate that to Members and if the Proposition is adopted in future we will then be producing that annually as part of the annual accounts.

Deputy De Lisle was talking about the corporation tax position of Zero-10. Sir, I would say to him now that our position is very much consistent with Jersey, if having adopted the Propositions today to extend to fund administration businesses. Perhaps the only difference – and I have alluded to this in the briefing to Members – is in relation to a custodian business and that is again something that we will keep under review. But, as I have repeatedly said and as I think many in this Assembly will recognise, any changes to the Zero-10 regime I would counsel must continue to be cautiously adopted and managed.

3025 In relation to his request that Guernsey take a leadership position in relation to the current... and I think I am prepared to give him that undertaking that I prepared to initiate those sorts of discussions, but I would suggest, sir, that I perhaps envisage one of the outputs of the Personal Tax, Pensions and Benefits Review to be some of the questions that have arisen in this area. So it is an issue which remains very much on the table.

3030 I would also say, sir, to him – he referred to there having been a freeze for two years in personal allowances – as I said to the Minister for Housing yesterday, I think, the proposal is only for a freeze for this year. We have assumed that that will apply for next year for purposes of our forecasts, but that is not a Proposition today. The recommendations will come back next year for you in light of the economic and fiscal conditions at the time.

3035 In relation to Deputy Dave Jones's comments and the Corporate Housing Plan – I am desperately hoping I can get through to Alderney Representative Jean's comments and the vote before they have to disappear because I believe I might be able to convince him to support the bond, but time is against me.

3040 The Corporate Housing Plan. I think it is important to stress that the transfer of £20 million, as I have said, is simply a recognition that the plans are that that will not be used before 2018. Deputy Jones also referred to the £10 million which was returned to General Revenue, not of course Treasury & Resources, in 2008 and that of course followed a joint report or joint review, I should say, as it was considered surplus to their requirements at the time.

3045 Deputy Domaille had very many questions and his first one in relation to an economic commentary, I think simply recognises the limitations that we have had on – Alderney Representative Jean is clearly lost to me now! – (*Laughter*) our resources this year. We will keep it under review, but I am not going to make a commitment which could not be honoured if we have not got any appropriate resources to include a commentary.

I can slow down now because (*Laughter*) that is one vote I am not going to get.

3050 The table on page 6 Deputy Domaille queried and in particular the explanation of the real terms increase. Actually, sir, we are not comparing Budget to Budget, we are comparing the 2015 Budget to the prospective 2014 forecast outturn, because obviously the numbers will have changed. So there are various adjustments there for the timing of the FTP delivery, the Transport Strategy and inflation at 2.5% but we do comply with the target, but it is understanding that we are not comparing with last year's Budget.

In relation to the FTP not being delivered, there is £5.5 million allowed for timing of FTP in 2015.

3055 RPI versus RPIX – a very good point which has been raised by I think a couple of other people, sir. We do always use RPIX but there is one exception, which is tobacco duty which starts with RPI, and that is simply because of States' policy. The extant – well, it is no longer extant because I think we are out of that policy period from the Health Department, but that was the policy, the recommendation, until we get a new Tobacco Strategy we will continue to work with that, which is RPI rather than RPIX.

3060 Operating income – again some good points made by Deputy Domaille. We do try and add explanatory notes where possible and will continue to do so, but I think, in relation to 'Professor Wood's comments about the principles for levying the charges are not clear,' when I read that in his report I disagreed and I still disagree, because I believe that the Policy Council guidance on this, which was produced a couple of years ago, is clear and I think it has been applied well by Departments, but clearly we do need to review that and perhaps get a better understanding of what Professor Wood's comments were, or what his concerns were.

3065 Core Investment Reserve – we are not proposing to sort of cream off the surplus, but just to use the excess returns, if they are achieved, and of course he did raise this question of, 'What happens if the returns are not achieved if the value of the fund goes down?' The objective will be to maintain its value in real terms. So, clearly, if one year it were to decline, we would not be able to take anything out of it again until such time as it had got back to its 2014 real terms value.

In relation to the trading entities review, sir, the primary purpose of that is to review the capital structures of those businesses.

3075 For a very short speech just before lunch, Deputy Domaille did have many points. (*Laughter*) The increase in grants and subsidies – that has been caused largely by the increases in relation to the Transport Strategy and the Bus Service on page 83.

The format of the trading entities budgets, I think again is a very valid point, of course recognising that the trading entities sit within various different Departments and do have different businesses and clearly operating to different standards. I think it is a point that is well made. We will attempt to look at that.

3080 I thank the Chief Minister for his comments, along with those of Deputies Luxon, Kuttelwascher and Adam.

Deputy Soulsby – I think I probably said this last year, sir – we would certainly welcome PAC's input on how they feel that the report could be improved in presentation terms to make it more easily understood, and I would like to extend that as an open invitation to Deputy Soulsby's Committee to provide us with

some assistance there so that we can perhaps do better next year, as obviously we have failed to answer her concerns this year, compared with last year.

We did of course distribute a schematic showing reserves before and after. I do appreciate that has only gone to States' Members and is not in the Report and, again perhaps with the benefit of hindsight and a bit more time, it might have been a good idea to have had that schematic in the report as well.

In relation to capital spending, she is of course absolutely right, sir, that if we are to invest 3% of GDP in the long term we will need to increase appropriations, but we simply cannot do that until such time as we are starting to generate surpluses again, I would suggest.

Deputy Luxon raised one point with me outside his speech which I wish to reply to on the record, which is just to confirm, as is set out in paragraph 2.25, that following the Home Department's review with Treasury & Resources in relation to the taxation of alcohol and the introduction of a scheme of alcohol by volume, there is indeed no intention to depart from the scheme which provides a lower rate for small independent producers.

Deputy Inglis raised a very good point in relation to the health and safety point. He did raise this, sir, with me outside the debate and I am happy to reply again on the record. Sir, this arose from actually one of the actions that came out of the fraud in 2012. Members may recall that Policy Council, at my suggestion, had a risk steering group which comprised of the then Chief Minister, myself and Deputy Luxon, to help oversee the officer team, to ensure that we were actually really taking seriously and addressing the risks across the States – not just the financial risks that would have become apparent with the fact that we had become a victim to fraud, but all the risks that we are potentially exposed to.

In the course of that work it became clear that there was an internal audit report in 2012 which had identified as a high priority the need to appoint a health & safety head of profession. Yes, every Department does have health and safety professionals, but again they are all working to different standards and some Departments have much better developed methodologies and plans than others. So that was done and a plan for implementation of the recommendations was formulated and the implementation costs, sir, are £45,000 in 2015, £32,000 in 2016 and then £8,000 a year thereafter. So it is just a temporary increase and I hope that addresses Deputy Inglis' point, sir.

In relation to the question of whether the bond has been presented in haste, I guess it is rare for the States of Guernsey to be accused of doing anything in haste, but I think again the point has been made that it has been driven very much by the state of the opportunity in the markets.

Deputy Gillson made a number of comments at the beginning of his speech which, I think it is fair to say, are noted and also in relation to FTP. Again it is point which he has made in Policy Council in relation to what should happen to those in the post FTP world.

I would say to him, sir, that the across the inter-departmental so-called cross-cutting savings are also being carried forward and the benefit of those will be delivered within departmental budgets; they will count towards the achievement of his and other Departments targets. We all know that those projects have been slower but they are now getting traction and, in a departure from the order of the speeches, I am sure Deputy Lester Queripel will be delighted to know that one of those projects which has developed ahead of steam is in relation to printing. Not only have we managed to save money by printing the Budget in black and white, but printing procurement across the States has saved around about £80,000 and is one of the projects which has finally started to deliver.

But I absolutely agree with Deputy Gillson, sir, that the amounts carried forward will very much need to be reviewed in light of any successor programmes and I hope that does give him some reassurance that perhaps he was looking for.

Again I thank Deputy Perrot.

One thing which was not spoken to at great length during the debate was in relation to the second Proposition for an additional £80 million of borrowings and I think it is probably worth me just spending a moment or two to talk about that.

Our trading entities are largely, I would suggest, sir, uniquely funded by equity capital and have very little debt capital in them, and our view, again as part of that philosophy of good housekeeping, is that we do need to lift the covers on that and see whether there is any opportunity to lower the cost of capital for those businesses.

In other words, we would replace some of that equity capital which, going back to Deputy Paint's point earlier, could then come back as some kind of special dividend or whatever to Treasury to be invested, with lower cost borrowings, and that is the principal opportunity which I think exists in relation to that £80 million and that is what we want to look at and, understanding some Members' concern, I would ask them to continue to support us to enable that to happen.

I thank Deputy Adam for his comments.

Deputy Laurie Queripel – I think, sir, history does show actually that the frameworks we have had in place... we have stuck to the frameworks, they have delivered and they are largely responsible for the

position that we are currently in. I absolutely agree with him also, sir, that there is no such thing as easy money. There are risks, but we are already carrying those risks as well.

In relation to the term of the loan and again it was a point that a number of people have made – the terms of there perhaps being a mismatch between the borrowings and the requirements of the businesses – sir, I would suggest that is not the challenge which some Members may not have the concerns that perhaps some Members do, because it is very likely that the assets that are being funded by those borrowings within those entities will themselves need replacement – whether that is Aurigny needing new aircraft in 10 years, 15 years, whatever it will be. So there will be a natural replacement requirement within those businesses within the overall term of the bond.

In relation to Deputy Gollop, again I would emphasise the point that a revenue stream must be guaranteed. That is an absolutely fundamental part of these proposals.

The reason, sir – and it is shame that I have lost Deputy Jean because I really did genuinely believe I might be able to convince him, because if you look at the borrowings for Aurigny, Aurigny's total borrowings across all the various aircraft and so on now are around the region of £50 million; so an opportunity to perhaps save 2% on that would pretty well cover the costs of supporting the Alderney routes.

And we do know that one of the challenges we face is how we are going to provide an appropriate level of service to the members of our community in Alderney. So we have, I would suggest, sir, a responsibility to do what we can to lower the operating costs for Aurigny and that is one way in which we can do it.

We talk, sir – often people talk about sweating assets. It is a term I have used many times in this Assembly and I emphasise again that these proposals are very much within the keeping of that. It is an opportunity to, again to coin a phrase, take some of the lower hanging fruit. These are some of the easiest things we can do for these businesses and ultimately for the consumers of these businesses, our fellow Islanders – is do what we can to lower the costs of those businesses.

Deputy Sherbourne – 'Optimistic versus pessimistic,' I think was his analysis of the debate and he was disappointed that he had not been persuaded more by the arguments. Sir, I would say I am not sure I would agree with his optimism versus pessimism. I would say it is much more pragmatism versus pessimism. I do not think it requires a great deal of optimism to back these proposals. I think it is much more pragmatic, but I do thank Deputy Sherbourne for his support and I know that he almost certainly is the most adventurous in this Assembly and would go far further than perhaps anyone else, including Members of Treasury & Resources.

I have no idea whether I have done enough to convince Deputy Burford at this point, but I guess time will tell.

Well, I certainly was pulling my hair out, what little I had – what little I had left at Deputy Lester Queripel's speech, but again, I hope he is reassured that the Budget is more than of course just the printing costs and I hope, in turn, that... He did not speak about the bond and again I do not know what his position is on the bond but, sir, I would say to him that, whilst he is right to be concerned about the printing costs of the Budget, there is a huge opportunity to save costs across the public sector, which is considerably greater than the printing cost of the Budget and I would ask him to keep that in mind as he makes his decision on which way to vote.

And Deputy Trott. I thank Deputy Trott for his comments and his support, and I think the points he makes, sir, in relation to the size of the Economic Development Fund versus the Transformation and Transition Fund are very valid. Indeed it was an issue which concerned us as we put these proposals together for your consideration today, sir.

The conclusion we came to, and to emphasise, is that we envisage the transfer to the Economic Development Fund being an initial transfer. We feel that if it proves its mettle in terms of its effectiveness then there would be a good case to come back to this Assembly with proposals for further transfers to that fund in due course, in order to undertake further economic development; but we feel that that will be something that will be tested by time. So I emphasise to Deputy Trott that our view is that it is an initial £7 million and any further transfers will be based on success and actually growing the economy and the tax base to enable that to happen.

But the Transformation and Transition Fund is a one-off and that is why we were so keen, sir, to defeat the amendment yesterday, because we felt that it was very important that that one-off transfer should be at an adequate level that avoids us having to go back into the Core Investment Reserve for all the reasons I described yesterday.

So I do hope in that fairly rapid canter through, I have managed to address most Members' questions on that, sir. I do ask Members of the Assembly to support all the Propositions.

The Bailiff: Well, Members, as you know, there have been a number of successful amendments (**Deputy Lester Queripel:** Sir –) and there is about to be handed round a consolidated set of Propositions which includes the amendments.

Deputy Lester Queripel has a question.

3205 **Deputy Lester Queripel:** Sir, I just rise to ask the Minister if there is any possibility of my receiving a commission, for saving £80,000 in the printing documents in black and white? (*Interjections and laughter*)

The Bailiff: Well, Members, I hope you all now have a set of the consolidated Propositions – the amendments consolidated in them. It would be helpful to me before we go to the vote just to identify which
3210 Propositions people want to have a separate vote on.

I do not think there is any on the first page. Is that right? Number 9. That is not on the first page. Up to number 5. Right, number 9. A request for a separate vote on number 9. Anything else on the second page? No. On the third page I have already got a note of a separate vote on Proposition 15, Proposition 20 and Proposition 22. Any other requests on that page? (**A Member:** I said 21 as well.) 21. (**A Member:** And 27)
3215 That is on the next page.

Deputy Trott do you wish to have one on –

Deputy Trott: Yes, sir, it was –

3220 **The Bailiff:** On 17.

Deputy Trott: Yes, the Treasury Minister did not answer any of my questions, but that does not matter. As long as we vote against 17 everything will be fine.

3225 **Deputy St Pier:** Sir, Deputy Trott knows the answers to all of his questions, so that does not matter! (*Laughter*)

The Bailiff: So just to recap on that page, separate votes on 15, 17, 20, 21, 22. And 27 – that is on the next page. (*Interjections*) Numbers 5 and 6, you would like separately, would you? Sorry, let's go back. So
3230 a separate vote on 5 and a separate vote on 6.

Well, now I go on to page 4 – the page that begins with Proposition 25 – a separate vote on 27 and then if 27 is passed we get to 28 and I will assume there will be a separate vote on 28 and 28A, possibly, although maybe 28A, 29 and 30 will have fallen if 27 has not been approved. Does anybody wish to have a separate vote on those two? No.

3235 Number 31 – I think there was a request for a separate vote on 31 and on 32.

Any others? No.

We will wait to see how many of those have to be recorded votes. We may be here a long time.

So if you are all ready, we will start at the beginning and I will take the first four Propositions together. That is Propositions 1 to 4, inclusive. Those in favour; those against.

3240 *Members voted Pour.*

The Bailiff: I declare them carried.
Proposition 5. Those in favour; those against.

3245 *Members voted Pour.*

The Bailiff: I declare 5 carried.
Proposition 6. Those in favour; those against.

3250 *Members voted Pour. (One Member voted Contre.)*

The Bailiff: I declare 6 carried. (*Laughter*)
We will take 7 and 8 together. Those in favour; those against.

3255 *Members voted Pour.*

The Bailiff: 7 and 8 have been carried.
Proposition 9. Those in favour; those against.

3260 *Members voted Pour.*

The Bailiff: I declare Proposition 9 carried.
I think we can then take 10, 11, 12, 13 and 14. So 10 to 14 inclusive. Those in favour; those against.

3265

Members voted Pour.

The Bailiff: I declare them carried.
Proposition 15. Those in favour; those against.

3270

Members voted Pour.

The Bailiff: I declare it carried.
Proposition 16. Those in favour; those against.

3275

Members voted Pour.

The Bailiff: I declare it carried.
Proposition 17. Those in favour; those against.

3280

Members voted Pour. (One Member voted Contre.)

The Bailiff: I declare 17 carried. *(Laughter)*
Proposition 18 and 19 we can take together. Those in favour; those against.

3285

Members voted Pour.

The Bailiff: I declare them carried.
Proposition 20. Those in favour; those against.

3290

Members voted Pour.

The Bailiff: I declare it carried.
Proposition 21. Those in favour; those against.

3295

Members voted Pour.

The Bailiff: I declare it carried.
Proposition 22. Those in favour; those against.

3300

Members voted Pour.

The Bailiff: I declare it carried.
Proposition 23, 24, 25 and 26. So 23 to 26 inclusive. Those in favour; those against.

3305

Members voted Pour.

The Bailiff: I declare them carried.
Next, Proposition 27. We have a request for a recorded vote?

3310

Deputy St Pier: Please, sir.

There was a recorded vote.

3315

The Bailiff: Sorry, Deputy Bebb?

Deputy Bebb: Sorry, could I just in advance, whilst the Greffier is counting, request a recorded vote on 28 as well, please?

3320

The Bailiff: We will do, yes.

Carried – Pour 28, Contre 15, Ne vote pas 0, Absent 4

POUR

Deputy Perrot
Deputy Inglis
Deputy Soulsby

CONTRE

Deputy Brouard
Deputy Wilkie
Deputy De Lisle

NE VOTE PAS

None

ABSENT

Alderney Rep. Jean
Alderney Rep. Harvey
Deputy Storey

Deputy Sillars	Deputy Burford	Deputy Fallaize
Deputy Luxon	Deputy Quin	
Deputy O'Hara	Deputy Brehaut	
Deputy Hadley	Deputy Domaille	
Deputy Harwood	Deputy Conder	
Deputy Kuttelwascher	Deputy Bebb	
Deputy Langlois	Deputy Lester Queripel	
Deputy Robert Jones	Deputy Le Pelley	
Deputy Le Clerc	Deputy Laurie Queripel	
Deputy Gollop	Deputy Lowe	
Deputy Sherbourne	Deputy Dorey	
Deputy St Pier	Deputy Paint	
Deputy Stewart		
Deputy Gillson		
Deputy Ogier		
Deputy Trott		
Deputy David Jones		
Deputy Le Lièvre		
Deputy Spruce		
Deputy Collins		
Deputy Duquemin		
Deputy Green		
Deputy Le Tocq		
Deputy James		
Deputy Adam		

3325 **The Bailiff:** Well, Members the result of the vote on Proposition 27 was 28 votes in favour, 15 against, so I declare Proposition 27 carried.

Now we move to a recorded vote on Proposition 28. Proposition 28.

There was a recorded vote.

3330

Carried – Pour 26, Contre 17, Ne vote pas 0, Absent 4

POUR	CONTRE	NE VOTE PAS	ABSENT
Deputy Perrot	Deputy Brouard	None	Alderney Rep. Jean
Deputy Inglis	Deputy Wilkie		Alderney Rep. Harvey
Deputy Soulsby	Deputy De Lisle		Deputy Storey
Deputy Sillars	Deputy Burford		Deputy Fallaize
Deputy Luxon	Deputy Quin		
Deputy O'Hara	Deputy Brehaut		
Deputy Hadley	Deputy Domaille		
Deputy Harwood	Deputy Conder		
Deputy Kuttelwascher	Deputy Bebb		
Deputy Langlois	Deputy Lester Queripel		
Deputy Robert Jones	Deputy Le Pelley		
Deputy Le Clerc	Deputy Ogier		
Deputy Gollop	Deputy David Jones		
Deputy Sherbourne	Deputy Laurie Queripel		
Deputy St Pier	Deputy Lowe		
Deputy Stewart	Deputy Dorey		
Deputy Gillson	Deputy Paint		
Deputy Trott			
Deputy Le Lièvre			
Deputy Spruce			
Deputy Collins			
Deputy Duquemin			
Deputy Green			
Deputy Le Tocq			
Deputy James			
Deputy Adam			

The Bailiff: Well, Members, the result of the vote on Proposition 28 was 26 votes in favour, 17 against. I declare Proposition 28 carried.

3335 Proposition 28A, you will note, is in two parts. The first part beginning, 'If recommendations 27, 28 are both approved...' as they have been. Then the second part begins, 'If recommendations 27, 28 are not both approved...' So we can strike out the second part of 28A, as drafted, and we vote simply on the first part of Proposition 28A.

I see no-one requesting a recorded vote, so I put to you Proposition 28A. This in favour; those against.

3340

Members voted Pour.

The Bailiff: I declare it carried.

Propositions 29 and 30 we will take together. Those in favour; those against.

3345 *Members voted Pour.*

The Bailiff: I declare them carried.

Proposition 31. Those in favour; those against.

3350 *Members voted Pour.*

The Bailiff: I declare it carried.

Proposition 32. Those in favour; those against.

3355 *Members voted Pour.*

The Bailiff: I declare it carried.

Propositions 33 to 36, inclusive. Those in favour; those against.

3360 *Members voted Pour.*

The Bailiff: I declare them all carried.

Then you have to turn to the very last page to find Propositions 37, 38, 39 and 39A. I put all four to you together unless anyone requests otherwise? No. 37 to 39A inclusive. Those in favour; those against.

3365 *Members voted Pour.*

The Bailiff: I declare them carried. (*Applause*)

**Procedural –
Further business deferred until next session**

3370 **The Bailiff:** Well, Members it is now very nearly 5.30 p.m. We could commence the other (*Laughter*) business for the October meeting. I suggest instead that we resume at – (*Interjections*)

Would it be the wish of the Members to hear the statement which I think you are referring to – the statement to be delivered by the Chief Minister in respect of St John Ambulance? (*Interjections*) I put it to you that we deal with that business. Those in favour; those against.

3375 *Some Members voted, Pour others voted Contre.*

The Bailiff: Well, it is not clear from this.

I see that the statement might be completed by 5.30 p.m. but then there is 15 minutes of Question Time, (**A Member:** Yes.) so I do not think there is a clear majority in favour of doing it now.

3380 I suggest we leave that and come back in two Wednesday's time, and deal with it then.

So thank you very much all for your attention.

Thank you.

The Assembly adjourned at 5.28 p.m.