



OFFICIAL REPORT

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STATES OF GUERNSEY

SCRUTINY MANAGEMENT

COMMITTEE

Policy & Resources Committee
Tax Reform Public Hearing

HANSARD

Guernsey, Monday, 6th July 2026

No. 4/2026

*Further information relating to the Scrutiny Management Committee
can be found on the official States of Guernsey website at www.gov.gg/scrutiny*

Members Present:

Panel Chair: Deputy Andy Sloan – President of the Scrutiny Management Committee
Deputy Liam McKenna - Vice-President, Scrutiny Management Committee
Deputy Haley Camp - Member, Scrutiny Management Committee

Ms Lisa Wonnacott – Scrutiny Officer

Business transacted

Procedural – Remit of the Committee 3

EVIDENCE OF Deputy Lindsay de Sausmarez, President, Policy & Resources Committee;
Deputy Yvonne Burford, Vice-President, Policy & Resources Committee, Deputy Charles
Parkinson, Member; Deputy Steve Falla, Member; Deputy Andrew Niles, Member – Policy &
Resources Committee 3

The Committee adjourned at 11.00 a.m. and resumed at 11.10 a.m. 23

The Committee adjourned at 12.00 p.m. 41

Scrutiny Management Committee

Policy & Resources Committee Tax Reform Public Hearing

*The Committee met at 10 a.m.
in Castel Douzaine Room*

[DEPUTY SLOAN *in the Chair*]

Procedural – Remit of the Committee

5 **The Chair (Deputy Sloan):** Good morning, everybody. For those of you who stayed up to watch football last night, it is going to be a bit of a hard slog this morning, but hopefully the euphoria will keep us going through the session.

As ever, this is a parliamentary hearing so parliamentary rules apply. There are obviously members of the public here but unfortunately you are unable to ask questions, I am afraid. This hearing is being recorded; it is being broadcast live via YouTube and there will be a Hansard transcript in good time.

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EVIDENCE OF

**Deputy Lindsay de Sausmarez, President, Policy & Resources Committee;
Deputy Yvonne Burford, Vice-President, Policy & Resources Committee;
Deputy Charles Parkinson, Member;
Deputy Steve Falla, Member;
Deputy Andrew Niles, Member –
Policy & Resources Committee**

The Chair: With no further ado, I would like to introduce my panellists; Deputy Haley Camp to my right and Deputy Liam McKenna to my left. If I may, Deputy de Sausmarez, if you would just introduce your team, as it were. I believe we have got the full team this morning.

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Deputy de Sausmarez: Yes, we have got the full team on the pitch, no-one has been red-carded yet, so that is all good.

I am Deputy Lindsay de Sausmarez, and I am President of the Policy & Resources Committee.

20 **Deputy Falla:** Deputy Steve Falla, member of Policy & Resources.

Deputy Burford: Deputy Yvonne Burford, Vice-President of Policy & Resources.

25 **Deputy Niles:** Andrew Niles, member of P&R.

Deputy Parkinson: Charles Parkinson, member of P&R.

The Chair: Good morning, everyone. Just for the benefit of the rules, therefore, there are five of you, so I will not be using a red card. I might use a yellow card because we cannot have all of you answering each question, we will be here until the cows come home. So I might be limiting you to just very quick.

As you appreciate, we have got a tax policy letter, which was published four weeks ago today, I believe. I know it has been 20 years in the coming, as I did hear to the Facebook live and listen to it, but in actual fact we have only had four weeks to review it and it is a new package. So we did think that on behalf of the public it would be an opportunity for us to go through this and ask a few questions that will not be able to be asked in any other manner.

Obviously it is a little bit last minute as some of the Douzenier meetings are being held this week, Deputy Falla. It is all being a bit compressed in the last minute and we have only got two hours to go.

If I may start, I am going to start by making a suggestion, if I may. I am going to ask you to challenge this assessment. When I was actually called by Peter Roffey the day that this was published and asked what my initial thoughts were, he never actually published what I initially said. I said it feels like this report is anything to introduce GST. That is what it has been designed to do, and for someone who actually is in favour of consumption taxes, it might be Machiavellian-wise, it is quite a jolly good thing.

I have got two reasons for believing that and the first is on 22nd June, Deputy St Pier, who I believe we all know, and I should imagine had a fair input into this, said that – he also could not resist himself. He said basically – he was saying it was the – given that Guernsey politics is an absolute unfettered right to an unlimited number of untaxed vehicles – sorry, reading that bit in the wrong. He said is it a damp squib or is it the art of politics? His argument was effectively this was a package designed to be sold. And sold it does feel it is, because if you go through on the first line we started off with the policy letter and it starts off with the first sentence:

The States have had a funding gap – in other words a shortfall between income and expenditure – since the introduction of Zero-Ten in 2008.

That is the first sentence. My first question is: could you tell me what the deficit was in 2008?

Deputy de Sausmarez: In real terms in today's money?

The Chair: No, 2008 money will do.

Deputy de Sausmarez: Okay, 2008. What I know is that in today's money, according to a Fiscal Policy Panel report that I believe you helped to author the – or maybe it was – no, sorry I do apologise. I think it was the Tax Review Sub-Committee, the income that was lost from the corporate sector was around –

The Chair: No, I am not asking what the income was lost. I am asking what the deficit was in 2008.

Deputy de Sausmarez: It was £148 million in the value of today's money that was lost and some was compensated.

The Chair: No, I am not asking that question, Deputy de Sausmarez. I am asking what the deficit was in 2008.

Deputy de Sausmarez: It would have been –

80 **The Chair:** I will save you all looking it up; it was not. There was a net surplus after routine capital of £34 million. The revenue income was £348.8 million and revenue expenditure was £296.7 million. That first sentence that says there has been a shortfall between income and expenditure since the introduction of Zero-Ten in 2008 is not true.

Deputy Parkinson: Well it depends, that may have been the surplus after routine capital but obviously not after the levels of capital investment that the States should have been spending.

85 **The Chair:** That is not true either, Deputy. If we had a 2% target in 2008, it would have been in balance. The net revenue expenditure was included in the 2% target.

Deputy de Sausmarez: I do not believe it was.

90 **The Chair:** Then I can ask you, because since 2008 – because in those days 2% of GDP would have been £14 million because we calculated GDP in a different manner and it was £1.9 billion in 2008.

The next question is, actually could you tell me what the revenue surplus was in 2017? Revenue surplus in 2018.

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Deputy de Sausmarez: If we had had some forewarning of these questions –

The Chair: Revenue surplus in 2019 –

100 **Deputy de Sausmarez:** Deputy Sloan –

The Chair: – they were all higher than £75 million.

105 **Deputy de Sausmarez:** I think we are coming back to the thing that we discussed at our last Scrutiny hearing a couple of weeks ago, which is the difference between the revenue surplus and the structural deficit, which –

The Chair: The capital expenditure those years would have been £60 million –

110 **Deputy de Sausmarez:** Sorry?

The Chair: – on the 2% target.

115 **Deputy de Sausmarez:** Sorry, I missed that.

The Chair: Capital expenditure would have been £60 million on a 2% target, and we had surpluses in those three years. We had surpluses in 2008, yet the policy letter, its first sentence says we have a shortfall between income and expenditure since the introduction of Zero-10 in 2008. That is not true.

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Deputy de Sausmarez: It is the difference between an operation surplus and structural –

The Chair: Can you tell me how much spending went up between 2019 and 2023 in real terms?

125 **Deputy de Sausmarez:** There is a difference between an operating surplus and a structural deficit, which is something we spent quite a long time discussing at the previous Scrutiny hearing. So I think the assertions –

The Chair: It is not an accounting issue, Deputy de Sausmarez.

Deputy de Sausmarez: No, exactly.

The Chair: It is not an accounting issue.

Deputy de Sausmarez: It is a structural issue.

The Chair: We had surpluses of over £75 million in three years consecutively which more than covered capital expenditure of 2% in those years.

Deputy de Sausmarez: But were not –

The Chair: And that was using the accounting standards then, not the ones that were published the other week.

Deputy de Sausmarez: The average expenditure on CAPEX over the last 20 years or so has averaged between 1% and 1.5% of GDP in that time. We have been historically underinvesting in our infrastructure, as you yourself cited in the Fiscal Policy Panel report. Actually it was your report –

The Chair: The thing is £75 million – I am asking you a different question now. Demographics are a big driver of this, are they not?

Deputy Niles: Can we just come back to that point?

The Chair: No. Demographics are a big driver of this so why do we use 2050 demographics to derive income in three years' time? You have got your review in 2030.

Deputy de Sausmarez: Yes.

The Chair: Why are we using 2050 demographics to justify that then?

Deputy de Sausmarez: We are not. We are using demographic trends which obviously have to be done over a long planning horizon. But I think, Andy, you had something you wanted to say.

Deputy Niles: I just wanted to come back to the Fiscal Panel policy review that was carried out in 2023 which, Deputy Sloan, you were a member of at that time. That clearly demonstrates on figure 14 general revenue deficit assuming 2% return on revenue and then a CAPEX of 3%. Since 2013, it showed between a £50 million structural gap in those two parameters and it never showed a surplus.

The Chair: That is a 3% figure, not a 2% figure which is the policy.

Deputy Niles: Correct.

The Chair: So in terms of the demographics, which is a large driver of these proposals, could you tell me what the contribution of demographics is to our funding shortfall by 2030 when the next review is made?

Deputy de Sausmarez: Sorry, can you just say that question again? I am not really catching what you are saying.

The Chair: In the policy letter, we use 2050 demographics and we also say by 2060 the Social Security Funds are exhausted, but that is 25 years' time. In three years' time, when there is a review, how much has been – what is the contribution of demographic to the funding shortfall between 2028, when these are introduced, to 2030; that is three years?

Deputy de Sausmarez: Okay. Obviously the demographic trends are instructive here. There is one particular figure which I think is quite helpful in understanding the contribution that demographics makes to the pressure on public finances, and that is just in terms of providing like-for-like provision in healthcare and in social care, we need to spend around £6.5 million more each year than the previous year, and that is on top of inflation. That gives you an idea of the growing spending pressure because more and more people are falling into the age categories or progressing into the age categories where they are more likely to need more expensive health and social care. That is one example of the demographic drivers that do affect our demographics.

Obviously by 2028, or more pertinently by 2030, because you are asking about the review, one of the super priorities is around establishing a more sustainable model for health and social care. One of the things that we think is going to be very relevant to that review is any policy decisions that move that baseline that have been taken as a result of that work, that is being undertaken at the moment by HSC or indeed any other workstreams that impact on it. That is a material example of how demographics do have a very real effect over a short number of years.

The Chair: Okay, I will give you that one. So £6.5 million over three years, £18 million might be the contribution over those three years.

Deputy de Sausmarez: That is on the demand side obviously.

The Chair: My question then is in terms of the demographics, in terms of the solution, we have obviously got an assurance review after three years. We have been 20 years in the making, which I find perverse that after 20 years we are only doing something that is a stopgap solution for three years. On figure 18 in the policy letter, what you see is that actually by 2030, on your central projection, we are £21 million short of the solution on your own figures. Then by 2035, it is now £45 million against £50 million. These are real terms numbers, by the way. These are not adjusted for inflation. There is no need to do that.

So we start off with a problem of £50 million today and in less than 10 years' time the problem is £45 million on your central assumptions. Why is that?

Deputy de Sausmarez: Because those core assumptions assume like-for-like policy direction as now. It assumes, for example, that that key super priority that I mentioned a moment ago on finding a more sustainable model of health and social care has not happened, and obviously we know that is a super priority of the States, so it will happen. We are hoping that that will move the dial.

It also does not take into account things that at this point in time are not certain but we will have more clarity on by then. For example, the extent of efficiencies and savings that we will have undertaken give the effect – hang on.

The Chair: But you have modelled the efficiencies and savings in these numbers.

Deputy de Sausmarez: No, there is only an element of efficiencies that is modelled. It does not take into account further efficiencies that might be found. It also does not take into account the potential upside if Pillar Two receipts are higher than we are currently modelling. It also does not take into account, for example, any potential revenue from offshore wind. It also does not take into account any impact, positive or negative, of AI, and these are all things where we will have more certainty in a few years' time.

It does make sense to take that review and actually the figures that you have cited, you are right about the core assumptions, that is what you are quoting, but also we do have an adverse and a favourable scenario parameter. Obviously that can be expressed, that is a greater range of assumption – well, that is a greater range of assumptions and potential outcomes. Actually if, for example, Pillar Two receipts are higher than anticipated, if the economic growth strategies are underway, for example, the finance sector growth initiative is successful then we are going to be looking more towards the top end, more towards the favourable scenario and the top end of those parameters.

So it does make sense to review where we are at in a few years' time so that all of those factors on which we will have more up-to-date information at that stage can be taken into account. Because I am sure you will know, as an economist, it is important to check how your model is playing out against reality and if the facts change that should inform the modelling. It is really an opportunity to do more accurate modelling, taking into account the information that we will have more clarity on at that point in time.

These are things that obviously we do not yet know how the finance sector growth strategy 2035, how effective that might be. We do not yet know what the actual Pillar Two receipts will be, etc. These are the kinds of considerations that should be taken into account in 2030.

The Chair: So you are happy to accept that you are not actually solving the problem that you are purporting to set out. No, you do not.

Deputy de Sausmarez: No.

The Chair: So after 20 years of proposals, you are not solving the problem.

Deputy de Sausmarez: Well, it could and there are some –

The Chair: No, you have to make a central assumption, Deputy de Sausmarez, and work around your central assumption. Not ifs and buts. It is prudent policy to make it to work around your central assumption. From your central assumption you do not solve the issue, and in 10 years' time, driven presumably by the demographics, it is the same size as it is today. That does not make sense to me, which is why I believe this package is put together just to sell GST.

Deputy Burford: Let us come to the 'just to sell GST'. You referred to Deputy St Pier's article in *The Press*, I think it was. Of course, Deputy St Pier attempted to introduce GST as a standalone tax in 2015 as part of the pensions tax and benefits review, I think it was called, or all of those words possibly in a different order. But that did not go forward because although that particular package was not designed to raise any money it was very regressive in terms of GST being simply a standalone tax within that package.

You asked why we settled on GST at all. Well, you did; you said, 'You have obviously brought GST in, why have you done it, it is only 3%?' So I think I think the reason –

The Chair: When did I say that?

Deputy Burford: In your opening salvo I think. I will not refer to it if you do not want me to comment on that, that is not a problem. But I thought you wanted to know why we put GST into the package at all. Because you questioned whether it was – the purpose of it was to just get it on the table. Okay, I will carry on.

In that case, we looked at different scenarios, what Deputy de Sausmarez has just said, and we felt that at this time with pressures on inflation, with pressures on households, everything else, we felt that it was perfectly prudent to bring this in to raise in round terms £40 million a year without

looking at efficiencies, which is going to make – there is no way anyone can argue that £40 million is not going to make a significant difference.

285 First of all, it is going to stop reserves running out by 2031, that is a huge difference in itself, and in fact if you go back to the fiscal policy framework. When I think you were possibly involved in it, I think there was a part which I am not sure was actually in writing, but I think it was an understanding that our reserves would be kept – our general reserve would be kept at a figure equivalent to one year's revenue expenditure. We would have been at that time looking at about
290 £600 million. We have not been close to that for many years.

I am not suggesting at all that the purpose of this package is to replenish the reserves because it is clearly not going to do that, but it addresses the issue with the reserves of them decreasing. I think this Committee also understands fully the value of diversifying the tax base. It is something that has been needed to have been done for a long time and it starts to do that not just by a 3%
295 GST but also by the hand-in-hand cuts in Income Tax, so it moves it away from Income Tax.

The Chair: Stopping there, Deputy Burford. Two things, obviously you talk about diversification of the tax base; we will come on to that. I have got one final point to make before Deputy McKenna has some questions about GST per se.

300 The reason I stopped you, I did not mention the 3%; I just said GST. I did not say – and I think that betrays the thinking that the 3% that you were – you were defending the 3% level not the introduction of GST. Actually, this probably does not work, but when you say you raise £40 million through GST, let us canvas this. I am not entirely sure, but this is from Deputy Parkinson's article on 15th June where if you see on the Income Tax packages over here, you effectively have net net on
305 individuals, nothing more than £4 million. Net net from individuals, and when you change the GST – right, okay.

Now £4 million, in terms of the share of revenue of social security and Income Tax raised off individuals what do we think that might be roughly? It is trivial, is it not? It is less than 1%? It is not even a rounding error. Again my contention is, having gone through all of this to introduce GST
310 and then for there to be no change it is a huge change in the system not to raise – the revenue is being raised elsewhere, is it not?

Deputy Parkinson: The revenue is being raised from companies, tourists and employers.

315 **The Chair:** Well, the majority of it is not from GST though, is it?

Deputy Parkinson: A lot of it is from GST –

The Chair: Some of it is, yes.
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Deputy Parkinson: – and the fee that will be paid by companies in the financial services sector to be exempt from GST, which will raise £11 million.

Deputy Niles: But Charles is absolutely right. From businesses and tourists, that is where 80%
325 of all the revenue is going to come from.

The Chair: Of the net GST revenue.

Deputy Niles: Yes.
330

The Chair: There is still social insurance and the ISE and all the other, the motor tax, which is nothing to do with –

335 **Deputy Niles:** If your assumption that households in Guernsey are protected, the aim is to aim it predominantly from –

Deputy de Sausmarez: Exactly.

340 **Deputy Camp:** What portion of that though comes from measures that are reliant upon GST being introduced?

Deputy Parkinson: It will be the ISE charge.

345 **Deputy Camp:** No, it is not.

Deputy Parkinson: Why not?

350 **Deputy Camp:** Because the ISE charge is fairly equivalent to the corporate levy that was suggested under the Tax Review Sub-Committee, the tourism amount is just –

Deputy Parkinson: They may do that as well.'

355 **Deputy Camp:** Is just over double what an extant resolution is to look into a visitor levy. So there are other means to raise those funds from those parts.

Deputy Parkinson: Of course there are other ways of taxing companies but this is one of them. What it does is make – because there would be a system of GST; finance sector companies would pay a fee to be exempt from it. You do not get the ISE without the GST.

360 **Deputy Camp:** No, but you could get a levy without the GST.

Deputy Parkinson: You could.

365 **Deputy Camp:** Of course you could. But the consultation was fairly positive so the risk is low.

Deputy de Sausmarez: But the point – that misses out everything else though, that is the problem.

370 **Deputy Camp:** Misses out what? That is exactly the question, what does it miss out?

Deputy de Sausmarez: I would like to really answer that.

375 **Deputy Niles:** The central premise on this, we are talking about central premises. The central premise is that our tax system at the moment is far too predicated on income. For us to have a sustainable ongoing tax base, we need to be more broadly based in our tax. So you are absolutely right –

Deputy Camp: But your corporate levy would achieve which a visitor levy would achieve –

380 **Deputy Niles:** Part of it would but undoubtedly introducing a Goods and Services Tax, as has been done in 95% of all economies around the world, enables us to move forward. It enables us to move forward in a far more sustainable way than we have at the moment, where we have got a very narrow tax base that risks changes that are brought to us either internally in our economy or externally.

The Chair: I would go along with that if everybody was paying GST but only 15% are paying net more, so that does not hold water. We will come to that in a minute.

That is my contention. For all of those five different reasons, it feels like it is a policy letter, an anything to get GST in.

390 **Deputy de Sausmarez:** No.

The Chair: I will ask Deputy McKenna to ask his questions.

395 **Deputy Burford:** Can I just pick up on your nice little poster? Sadly, I am at an age where I –

The Chair: Sorry, my little poster was from the article from Deputy Parkinson.

400 **Deputy Burford:** Yes, but I am at an age where I cannot actually read it, but what I could do, and possibly other people in the room who will not have been able to read it, but what I can do, I really want to come back on the point that GST does not really raise anything. GST raises £55 million. That is a fact. I will walk you through the figures, £41 million –

405 **The Chair:** No, I get that GST raises it. My point was the net change on individuals in Guernsey was £4 million, and you are saying that is one of its beautiful attributes. We have managed to introduce GST and not impact anybody. Why would you do that unless it was to raise it in the future?

Deputy Niles: That is not what I am saying.

410 **The Chair:** That is what I am saying.

415 **Deputy Parkinson:** And it is not true either because the net £4 million from – there is another £4 million from motoring taxes, which are a third. But the net £4 million on individuals is skewed so that actually the top quartile of individuals will be paying more tax and the bottom half, bottom quarters on the income scale will be paying less tax.

The Chair: That £4 million is just going on those individuals; 15%.

Deputy de Sausmarez: Can we just let Yvonne finish maybe?

420 **Deputy Burford:** So the £41 million on households of GST, but those households are – and this comes to your point, they are getting £36 million back. But the point I want to make, £28 million of that is Income Tax. So what this is doing is diversifying the tax base, which I think is an argument you have made in the past of the importance of doing it.

425 **The Chair:** If I was to diversify the tax base, I would truly diversify the tax base. This is not really truly diversifying tax.

Deputy Burford: It brings it down –

430 **The Chair:** If only 15% of people pay in.

Deputy Niles: You are absolutely right. This is an iterative process.

435 **The Chair:** It is an iterative process.

Deputy Niles: Tax reform always –

The Chair: It will be more in the future, yes?

Deputy Niles: Tax reform always –

The Chair: Five per cent, 10% –

Deputy Niles: We absolutely do not know. But what we do know –

The Chair: Well, you must know –

Deputy Niles: Let me finish. Let me finish. What we do know is trying to achieve the art of the perfect has failed us for many years. I have been a bystander to this watching countless States' Assemblies try to achieve the art of the perfect and they have not been able to. They have either been ruled out or they have not been able to make their case. By broadening our tax base and by coming in at a potentially iterative process, it enables us to achieve that because, as Lindsay quite rightly said, we do not know exactly what Pillar Two revenue is going to look like. It is far more favourable it seems now by the accruals that we are seeing than we predicted three years ago, but we do not know how sticky it is going to be. For us to try and achieve something that is absolutely perfect, nailed on, going to be there for 40 years, is absolutely the wrong thing to do.

Deputy de Sausmarez: And also it is not just about GST, is it?

The Chair: I am going to ask Liam to ask a question because I have hogged the limelight for too long.

Deputy Falla: Deputy Sloan, could I just come in? Your contention that our starting point was to bring in GST. If you look at the people around the P&R table and our track record as far as GST goes, I think that shows that that was not our predisposition by any means. We were hoping that the Corporate Tax Review Sub-Committee would bring us some good news. The outcome of that was disappointing. We had to then look at how else we would address an issue so that we would not blindly reduce the general revenue reserve without any effort. The easiest thing of all would be just to turn our back on the issues that are coming down the road. That is not what we should be doing, as the senior Committee charged with resolving the sustainability issue.

Our starting point was certainly not GST. We have then looked at how, given that GST is likely to be a feature going forward for all the reasons that we have already discussed so far this morning, about how we could best compensate those less well-off for the additional cost of living and to minimise inflation. That is how we have ended up with the package that you have before you.

The Chair: Again, you are talking about issues about why five went to three, not why GST was introduced. To answer your question, Deputy Falla, Liam has three questions that he would like to ask.

Deputy McKenna: Good morning. I will probably only make it one or two just to move things on a little bit. The theory of what £40 million will bring but the reality is the pain that it will cause the community. Deputy Parkson, we have said this in there, we have had two videos that went viral. We did a night at St Pierre Park where we were saying what we thought GST would bring to the community, as well as a rally where Mr Vaudin, Mr Dyke, many others were here on the rally. It was over 5,000 through St Peter Port. I remember standing at the Albert Pier and looking back to the North Beach and it was 8,000, 9,000 people. There are so many members of our community are leaving and one of our favourite lines, Deputy Parkinson, 'You cannot tax a generation that is no

longer here'. In your projection of what it is going to bring in, you are forgetting the amount of people that are leaving because they cannot afford to live.

Deputy Burford: I would quite like to respond to that actually.

Deputy McKenna: Obviously I will give you a chance. It is just more a preamble, Yvonne, of why I would be against the GST and where I have said, again, we should reform our Corporate Tax system and I would oppose the introduction or increases to taxes. I would like to ensure that companies doing business on Guernsey pay their fair share – that is why I was opposed to GST – and that Guernsey's financial position is stronger than many would believe. We have a balance sheet with significant assets and a minimal amount of borrowing, but more importantly, our revenue account is in better shape than most people think. Actually, that was not my manifesto; my apologies. That was yours, Deputy Parkinson.

So, if you could explain to me why, when we spent five years talking about no GST, that you actually said to me that if P&R lose their flagship policy they should resign. And here you are today putting your flagship policy letter. If GST does not go through, one of the questions I ask is why have you done the U-turn? Will you resign or will it call for a vote of no confidence in the Committee through not resigning?

Deputy Parkinson: My intention, as expressed in my manifesto, was that we would try and reform the Corporate Tax system before we brought in any new taxes on the resident population. I had the privilege of chairing a sub-committee of P&R that looked into Corporate Tax reform, and that is what we did for six months. There were three very distinguished experts on the panel, alongside Deputy St Pier and myself. Regrettably, from my point of view, the experts were firmly of the view that it would be unwise to reform the Corporate Tax system beyond certain measures which are in the package, which raised £6 million, without going with Jersey and the Isle of Man. That was their opinion. So I found myself as a bit of a minority on my own sub-committee. If you employ experts to give you advice then you have to – the report we produced basically reflected their advice.

Of course I do not want to put any more taxes on the local population until the corporate sector are paying their fair share. But I think that this package does precisely that because almost all of the money in fact is coming from companies, employers and tourists. As Deputy Sloan has said, there is only a net £4 million coming from the local population. This is not what I wanted. This is, for me, second best. We did not get the fundamental Corporate Tax reform that I wanted. But if I cannot get money off the corporate sector the way I wanted to get it then I will get the money off the corporate sector this way.

Deputy Camp: Deputy Parkinson, if I can ask a question. Sorry, Deputy Niles, he said he stood as an outsider to this debacle or this debate, whatever he wants to call it, for the last 20 years and nothing had been done. Quite similarly, as an outsider, there have clearly been repeat taxation review processes. The latest was Ernst & Young, and that clearly came up with very similar findings to this Tax Review Sub-Committee. So why was it that this Tax Review Sub-Committee was suddenly going to find the golden bullet to Corporate Tax, where it was not there before?

Deputy Parkinson: I thought the 2022 Ernst & Young report was very defective because it did not, for example, place any weight on the issue of creditability of taxes. In other words, that Corporate Taxes in Guernsey are often creditable in the hands of the shareholders of the Guernsey company. That is true for every company that is owned by Guernsey residents.

Deputy Camp: Yet the fundamental findings of the report are similar, are they not?

540 **Deputy Parkinson:** They may have come to a similar conclusion but I did not think the argument was very strong because they ignored the fundamental issue of creditability of taxes. I believed, and I still believe actually, that a fundamental reform of our Corporate Tax system is going to become necessary. But if you are in a situation that I was in, that your own sub-committee with lots of distinguished experts on it is saying you cannot go further than this without Jersey and the Isle of Man and all the signs are that Jersey and the Isle of Man do not want to play, then you have got to think of another solution. The reality is I was between a rock and a hard place.

545 **Deputy Camp:** It seems to me it is more a case of expecting different results from the same process. The question is they fundamentally come up with the same conclusions about the same taxation system against the same global backdrop, so what was going to be different?

555 **Deputy Parkinson:** My opinion is not the same as the opinion of the majority of the sub-committee. The majority of the sub-committee reached similar conclusions to Ernst & Young, but they did take into account the issue of creditability of tax, which is something I was arguing very strongly about.

560 **Deputy Burford:** I think there is also a political angle to this, Deputy Camp, because at the election just a year ago you will remember that Deputy Parkinson, and indeed Deputy McKenna and quite a few others who were subsequently elected, were standing on this platform of looking through the whole corporate thing to actually see what could be done. Because there are a lot of people who understandably feel that when we changed things back in 2008-ish that a burden was shifted. Not just a feeling, it was a fact that a burden was shifted from the corporate sector on to the population of this Island.

565 What gets lost a little bit is that in the intervening years there have been numerous iterative changes which have pulled back nearly all of that but not all of it, but this package actually goes to helping to rebalance that where the balance has now gone back, that £100 million at the time, whatever it is inflated to today, has actually shifted back together with the iterative changes.

570 But the points I really would like to respond to are in Deputy McKenna's preamble, thank you. He is absolutely right. People on this Island on low and middle incomes are really suffering and we, as a Committee, are very keen, and you will see it in a lot of the other policies that we have put forward, to assist young people in particular in staying on this Island. I hope that will be possible for one day my son will come back, and I know for lots and lots of families on this Island that is also their wish that young people will stay.

575 So therefore you are kind of arguing at odds a little bit to Deputy Sloan because he was making the point that of the £55 million GST only a net £4 million, and I stress the word 'net' – I have it as £5 million but we are not going to argue over that now. But between £4 million and £5 million is actually going to be drawn from households. That is coming from the higher earning households. But we are also giving back £28 million in Income Tax cuts. So the new basic rate of Income Tax is going to be 15%. We are giving back £8 million in social security changes.

580 So that comes from a new personal allowance which has never existed before. So your first £11,122 you will no longer have to pay social insurance contributions on. That is going to make a huge difference, and proportionately that is going to make a huge difference to help lower and middle income households. As it goes up the scale that that new allowance will be clawed back from £85,000, so it is not even as if we are giving that to people who are high earners. This is really a way of diversifying the tax base without harming the people that we all care about.

590 **Deputy de Sausmarez:** Just to that point, because I think what Deputy McKenna said would hold more water if what we were proposing was simply GST, but what has really fascinated me about his comments and the comments of some of the discussion – some of the people online, for example, is that there seems to be no awareness of the fact that this package delivers a really quite significant tax break effectively in the way that Deputy Burford has just described, to the people

who, Deputy McKenna is quite right, are absolutely struggling with a very high cost of living in this Bailiwick, and they are the people that we are so determined to help.

595 If we were just talking about GST, then those comments are fair enough, but the whole point is we are not. It is a much wider package than that and it does exactly – it addresses the exact problems that Deputy McKenna has been right to raise.

It is just extraordinary. One of my big concerns is the younger generations, and we know that the status quo is putting a greater and greater and a more and more unfair burden actually on the younger generations, and they are the ones that will be perfectly capable of walking. If they think 600 that tax burden becomes unbearable, and Deputy McKenna is nodding his head quite rightly, they will go and that is the exact problem that we are trying to address with this package. I feel so strongly and I so agree with him.

If we were just proposing a GST, then his arguments would hold water. But we are not. It has to be looked at in the round, and we have to remember that, actually for someone who is on, for 605 example, a wage of £30,000, then they will be taxed £1,375 less than they are today. So that makes a difference; something along the lines of their take-home pay is something like £24,790 or something. That will jump up to £26,000 – I cannot remember the exact the exact sums, but it makes a big difference; actually £26,100-and-something. That means they will have more disposable income and that will help them deal with the cost of living. That is even net of any increase in prices 610 as a result of the GST. That is why – sorry.

The Chair: Even net of any of the pricing?

615 **Deputy de Sausmarez:** Yes, exactly.

The Chair: I do not think the modelling has been done on –

Deputy de Sausmarez: No, it has been. It has.

620 **The Chair:** No, it has not.

Deputy de Sausmarez: It has. I can walk you through it.

625 **The Chair:** Let me ask you a different question.

Deputy de Sausmarez: No, well, actually –

The Chair: Actually what we are doing, we are into sort of like soliloquies at the moment, so can I ask you a question: was there ever in the last 11 months of turning over every stone a time when 630 the GST was not on the table? Did you model a package that did not have GST?

Deputy de Sausmarez: Yes.

635 **Deputy Parkinson:** The Tax Review Sub-Committee did not have a mandate to look at GST. It is simply –

The Chair: Well, no, but obviously the Corporate Tax – I am talking about the central package. Was there any time over the last seven months where the central package did not include GST?

640 **Deputy Burford:** Yes, absolutely.

The Chair: What changed?

645 **Deputy Parkinson:** What changed basically was the Tax Review Sub-Committee. It did not recommend a fundamental reform of the Corporate Tax.

The Chair: So the only time that GST was not on the table was if the Corporate Tax review provided –

650 **Deputy de Sausmarez:** No, there were a whole range of options.

The Chair: Let us put the tax review to one side, Deputy Parkinson. The central package, was there ever a time when GST was not on the table?

655 **Deputy Burford:** Yes, because it was an evolutionary process because this Committee – because we still have the resolution from 2024, which we are discharging by bringing a policy letter. I think that is quite important to clarify, that having taken advice on that, were this policy letter just simply to be voted down and no amendments to go through it does not mean that we are left with the 2024 package. If that is the package that a member of the States wants they need to bring an amendment to that effect.
660

The Chair: Your States' resolution is to bring a package of GST at 5%, is it not, I see?

665 **Deputy Burford:** Yes, but it is to go through it all and come back with proposals, which is what we are doing.

The Chair: When was it in the last 11 months that GST was not part of the central package?

670 **Deputy Parkinson:** It always was because it was in the 24th November States' resolution.

The Chair: So it is always in the package.

Deputy Parkinson: It has been there since –

675 **Deputy Burford:** No, not in our package.

Deputy de Sausmarez: It was not necessarily –

680 **The Chair:** You could have brought a resolution and said, 'Actually, I am going to bring a resolution to say we are going to do a different tax package and rescind that'.

Deputy Burford: We could, but that would have taken a whole load of extra time. Part of the problem has been –

685 **The Chair:** You said you had extra time on the Facebook the other week. In your Facebook live, you said you have got extra time because of the States' accounts in 2025. That is verbatim. You said you had some extra time because of last year's accounts.

690 **Deputy Burford:** Oh, I thought you meant extra time to bring – well, you do mean extra. No, because I think it is really important that – one of the reasons that tax packages have failed in the past, 2015, I am not sure in the middle term, but also in the last term, is because the people charged with bringing them have finally got round to bringing them after dragging their feet for three years and bringing them in the last year or so of the term. There is a history of States' Members not wishing to approve tax packages and tax reform, which is what this essentially is. That is why it is entitled 'tax reform' in the last year of a States' term.
695

But we also did not want to be dragging our heels about things because the capital portfolio is dependent to a degree on this package. These things need to be done swiftly but properly, and that is what we believe we have done.

But I think it is really important to explain that the sub-committee work was what we were waiting for the outcome of before we actually started finalising what the package was. In the meantime, we had a whole load of workstreams. We had workstream one, workstream two was that one; there were various workstreams and it was only once we had the results of the workstream two that we started pulling the different threads.

We looked at all sorts of different iterative things that could be done.

The Chair: GST was never off the table?

Deputy de Sausmarez: What do you mean by 'off the table'?

Deputy Burford: Nothing was off the table.

Deputy Niles: I am slightly confused in that the last Assembly successfully requested or –

The Chair: But no States can bind a future States' Assembly –

Deputy Niles: No, but there was an outstanding resolution to bring back the implementation of GST.

The Chair: GST was always part of the package.

Deputy Burford: No.

The Chair: And you have designed a package that gets it over the line.

Deputy de Sausmarez: As a Committee we spent many months looking into different options. There were a number of different workstreams, as Deputy Burford has described, and so we did not have a working set of proposals until later on in that process because we were in the exploratory stage. To go back to the question that you asked about how do the sums add up, and this really addresses one of the central points that Deputy McKenna's soliloquy touched on, was actually one of the reasons this is so much fairer as a package is because wealthy residents, especially those, and we have some in the Island who are very wealthy but who have arranged their tax affairs in such a way that they do not contribute much, if any, Income Tax, will find –

The Chair: Those are the individuals our economic model is dependent upon.

Deputy de Sausmarez: Will be, yes, exactly. But they are not making as much of a contribution as they might. So actually this captures revenue that would not otherwise be captured. It really comes down to an issue of proportionality because if you are spending an awful lot of money in the Island then actually the contribution that you are making through a 3% GST is going to be substantively more than people's contribution if they are spending relatively much less than that.

It is that asymmetry that actually helps us fund effectively the tax breaks for people on average and lower incomes. That is how the sums add up. This is actually because people who have got more spending power are spending more, we can actually generate more contributions which then help a greater proportion of people, a greater number of people.

Deputy Camp: Deputy de Sausmarez, can I ask therefore, you are talking about fairness and all these sort of things, so why is it that the people of Guernsey do not believe what you are saying?

Deputy de Sausmarez: Because it is a really difficult message to get across and actually quite often when people email me –

Deputy Camp: But it should not be –

Deputy de Sausmarez: If you can just let me answer.

Deputy Camp: But it should not be difficult. If people are going to be better off, why do they not believe that?

Deputy de Sausmarez: When people email me or message me or whatever, I often say, 'Look, just give me a call', and I have not yet had a phone call where by the end of that conversation – people understand it, and their one message to me is to say – sometimes they say, 'Well, you know, I still cannot get that excited about it, but I certainly understand why you are doing it now'. And I get this so many times when I have this conversation, 'My one request, is please go and communicate that better because now I understand it, I am much more supportive of it than I was before'.

Deputy Camp: And yet there are clearly people –

Deputy de Sausmarez: Hold on –

Deputy Camp: – who do not wish to ask you the question, so why is that?

Deputy de Sausmarez: Sorry?

Deputy Camp: Why can you not bring the public along if this is as simple as you will be better off?

Deputy de Sausmarez: This is part of the thing, like we have – I think there is a baseline misconception, which was actually quite well-articulated by Deputy McKenna, that all we are doing is introducing GST and those other bits do not really stack up. To Deputy Sloan's question –

The Chair: This time around I think is the point. The reason why people do not believe it is, because this time around it is 3% now over the line. It is 5% in 2030. It is 10% by 2035.

Deputy de Sausmarez: No.

The Chair: That is what the numbers say.

Deputy de Sausmarez: No.

Deputy Parkinson: That is not at all what the numbers say.

Deputy de Sausmarez: No, it is really not.

The Chair: Your own central proposition, you do not solve the funding shortfall by your definition by 2030, and by your definition by 2035 the gap is as big as it was today.

Deputy Niles: We are not trying to solve all things to all people today because –

800 **The Chair:** So you have had 20 years which you said 20 years –

Deputy Niles: I certainly have not had 20 years. But what this fundamentally does, this is the biggest shift in tax reform that we have had in possibly 80 years. Let me finish. For the first time we have addressed the real core issue and the core issue is all of our tax is being concentrated in the working man and working woman of Guernsey, and that is not sustainable. That should not be right. We need to shift that so that people who can afford it more pay more. So for the first time we have dropped the standard rate of Income Tax from 20% to 15%. Fifteen per cent is a big difference and that has not happened since the 1940s. That enables us to ensure that the people at the bottom end of the– you smile, Deputy Camp. It is not a smiling matter because you ask a question about why we have not been able to take people with us. Well, there is a huge megaphone on social media that blasts this and does not get into the granularity of what this package actually does. This package in terms of progressing our tax to enable people to do better is the first time that we really address.

815 **The Chair:** Deputy Camp, wait a second.

Deputy Camp: I smiled because you refer to 1940s and yet the taxation background has changed a heck of a lot. There are property taxes, there are fuel taxes, there are all sorts of taxes since then. So it is not just a case of we have gone from a base 20%, but now we are making changes.

820 **Deputy Niles:** Let me address that.

Deputy Camp: That is why I smile.

825 **Deputy Niles:** To address that, 77% of all of our taxation is driven by Income Tax at the standard rate of 20%. It is that 77% of people who work hard every day out there that we want to try and address. To Deputy McKenna's case, it is absolutely them that we are thinking of. That is why we have designed it that way.

830 **Deputy Camp:** To your point, Deputy Niles, you yourself called it an iterative process.

Deputy Niles: Yes.

Deputy Camp: So would you agree that perhaps that that is where a lot of the unrest is coming from because this does risk looking like GST by stealth?

Deputy Niles: I do not know if that is the case. Life is iterative. Tax reform certainly is. But introducing it at 3% now ensures that we can introduce it at an assumed inflation rate of about 1.9%, which is significantly better than introducing at 5% where we saw a 3.2% change in inflation. The shock that we are bringing to our own jurisdiction is lessened by doing it this way. So we thought –

Deputy Camp: But there will need to be a further shock, to Deputy Sloan's earlier question.

845 **Deputy Niles:** We honestly do not know. Can I just finish? We do not know. We do not know the extent of political revenue and the stickiness of it. What I did refer to earlier is that the accruals that we are seeing from businesses are really favourable, but we do not know exactly what it is. The Tax Review Committee said that we should not bank everything on those dollars. So this enables us to look at it, we think, at sensible levels. But when I came into P&R a little over a month ago, I really looked at it and it had changed. The proposition had changed and I sat down with our Chief

Economist and I sat down with our Revenue Service, and I thought this was a fair package to introduce it.

I did say to them that I thought that there were not going to be people out there who would want to buy t-shirts saying bring back 5%, but I think 3% is reasonable.

The Chair: Yes, 3% is the art of the possible, which is what Deputy St Pier said in his main article. Let me finish to answer Deputy Niles's point, which is I think you have – I think P&R have got a Nobel Prize in the offing because I have never known consumption taxes being sold as a redistributive measure.

Deputy Niles: It is not.

The Chair: It is impressive stuff.

Deputy Niles: Dropping the tax rate is.

The Chair: All of these changes at 3%, and I have heard you say, Deputy St Pier, well, we did 3% for now, it might be 5% by 2030. Can I ask you what the mitigating measures will cost next time around?

Deputy de Sausmarez: But why are you assuming that it is that rate that would go up? There are so many other ones.

The Chair: Because you said that –

Deputy de Sausmarez: No.

The Chair: You did do, I am afraid.

Deputy de Sausmarez: There are so – no, the whole point, we did not –

The Chair: You did do.

Deputy de Sausmarez: We have been really –

The Chair: Deputy Niles mentioned it as iterative earlier.

Deputy de Sausmarez: We have been – yes, but when he says 'iterative', we have been –

The Chair: So why would you go through all of this just to introduce it at 3%?

Deputy de Sausmarez: Can you please just let me finish a sentence? We have been really clear that we are not going to pre-empt the 2030 review. At that point they will be able to take into account a range of different considerations. We will have more clarity on some of the issues I mentioned earlier but it is not like there is only one option at that point.

First of all, the core assumptions, that black line on the chart that concerns you, that actually I think it is reasonable that that baseline will have shifted upwards because we have got – hold on. We have got policy decisions in the offing that I think are likely –

The Chair: No, you cannot have that.

Deputy de Sausmarez: Hold on.

905 **The Chair:** You cannot say it is going to move, it is your policy letter. That is where it is in the policy letter.

Deputy de Sausmarez: This is how –

910 **The Chair:** You cannot say, 'I prefer it to somewhere else'.

Deputy de Sausmarez: This is how modelling works, and you put in a range of assumptions and yes, there is a core assumption, and the core assumption at the moment is based on no policy changes. Now there will be policy changes but we cannot pre-empt those. It would not be sensible to model those as core assumptions. However, when it comes to the 2030 review, first of all, they
915 will be able to take into account all the greater clarity on issues like Pillar Two, and economic growth and offshore wind and AI, and all of that. But also, it is not like they will only have one option available to them. They will have the full suite of options available to them.

Again, it is not our job to pre-empt that report or pre-empt a future decision, but they might change social security rates, and they might change the Income Tax rate. They might look at
920 property taxes in a different way. There are a whole range of options available to them. So it is not as though we are going to get to 2030, and even if the assessments at that point show that the funding gap has not quite been closed, it is not like they have only got one option.

But also to your point of protections, that is something that we have been really clear about, that the relative value of those should not be eroded. What we do not want is to introduce
925 protections for the people that Deputy McKenna and myself are concerned about, the people who are struggling with the cost of living. We do not want those to be eroded over time, whether that is through inflation or any rate changes or anything else.

Just to quickly explain a point about how –

930 **Deputy Camp:** But Deputy de Sausmarez, you cannot guarantee that those protections will not be eroded.

Deputy de Sausmarez: No. We can guarantee –

935 **Deputy Camp:** You can try.

Deputy de Sausmarez: We can guarantee that we will put them in legislation because actually that is what the States has already agreed to do.

940 **Deputy Camp:** And are they all legislative because my understanding is one or two of them –

Deputy de Sausmarez: Yes, we can legislate for them.

Deputy Camp: – are policy decisions that would rest with –

945 **Deputy de Sausmarez:** No, but we can legislate for them

The Chair: It is true that the policy letter says they can be done but you have not done them yet.

950 **Deputy Camp:** It was not included in the policy letter that detail.

Deputy de Sausmarez: Okay, well really happy to discuss that, but there are ways that you can legislate for that and actually I think part of the debate comes up next week.

955 **The Chair:** No, because legislation – you just said all options will be available to people in the future so the change in the legislation is available to them.

Deputy de Sausmarez: Yes, they could, of course.

960 **Deputy Camp:** Yes, and I think that was the point about the supermajority that had been recommended first off, was that actually the supermajority was recommended against because, one, you start to distort the potential opportunities of tax but also it is defeatable fairly easily.

965 **Deputy Burford:** Can I make a really key point here? That is that everybody is worried about the rate of GST going up but Income Tax can go up, social security can go up, TRP – the Government can put any tax up at any time. So to try and say well we should not have GST because it could go up means we better get rid of Income Tax and everything else that can go up.

970 But I think also in terms of your question about why have you not been able to sell this to the public? The first answer is I do not think that premise is entirely true. Outside of Facebook I tend to see and speak to an awful lot of people who are saying, 'No, we completely understand this and we have looked at it and we are very happy, you have done the calculator, etc.' So I think that it is not true to say it is not cutting into the whole community.

975 But also my final point you are saying 3%, 5%, 10%, but you talked at the beginning about the long-term projections that we were putting in the policy letter. There is no projection that this Committee has done that goes anywhere near the requirement for a 10% rate of GST. It just is not the case. I mean that would raise a substantial amount but it is not the case.

I can understand why people on social media are saying –

980 **The Chair:** You only model out to 2035 in the policy letter and you are £50 million short then. So that is, I do not know, 10% by my predictions.

Deputy de Sausmarez: There are a range of assumptions –

985 **Deputy Burford:** Well 3% raises £55 million, does it not?

The Chair: So 6% then by 2035 but you have only modelled to 2035 and yet you – anyhow.

Deputy de Sausmarez: But what that does not take into account of any other changes.

990 **The Chair:** Let us talk about modelling because you did mention modelling, and my watch has just told me it is time to stand up.

Deputy McKenna: Just one more question.

995 **The Chair:** We will stop now, please. We will stop now.

1000 **Deputy McKenna:** There are 20,000 of our community waiting on their taxes and then we have also got a situation where the community is looking at the tens of millions that we have lost on MyGov, the £130 million we have lost on Agilysys, the trouble we are having with the electronic patient record system. John Fernandez said there is something else.

1005 What I am saying is where is the confidence for the community to say this is the time to raise taxes? So the 20,000 of the community that are waiting on their taxes, do I owe them? Do they owe me? Do you not think we should sort that out first? Do you not think we should also – do you not think we should give that confidence –

Deputy Burford: I think it is a very long answer and perhaps we can do it after everyone has had the break that Deputy Sloan was proposing because it is going to take us well into the next half, and having sat in his seat before.

1010

The Chair: We will come back and we will calm it down a little bit. Maybe I was a bit tired. Watching the football probably not such a good idea, and we will talk about the modelling, and we will talk about the sensitivity. We will talk some drier topics so actually get into some of the – try and kick the tyres of some of this stuff.

1015

So we will have a 10-minute break and reconvene in seven or eight minutes something like that. Thank you.

*The Committee adjourned at 11.00 a.m.
and resumed at 11.10 a.m.*

1020

Deputy Sloan: Welcome back to the second half. Only 50 minutes to go and it is a beautiful summer's morning. England won last night, so all is good with the world. I am just going to take a breather and ask Haley to ask a few questions.

Deputy Camp: Thank you.

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So I see in *The Press* today that there is obviously a request to talk about this package factually, and I think that is a completely appropriate request. Almost every headline figure in the report is presented as a point estimate. What confidence intervals exist around the principal assumptions?

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Deputy de Sausmarez: One thing that I think is quite a strong validation of the modelling is that when it comes to estimating the actual revenues from Income Tax and social security it is accurate to within about 1%. So actually I think that is quite a strong validation of the modelling but economic modelling you have to take assumptions, that is just how modelling is done. It is all about – it is not trying to account for every single hypothetical scenario, it is about reasonable cases. As I mentioned before, there is an adverse case and a favourable case and that shapes the parameter, if you like. But I think the fact that the modelling has proved itself accurate to within 1% in terms of actual revenues is quite –

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Deputy Sloan: Sorry, could you explain that to me, please?

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Deputy de Sausmarez: Yes. So the modelling has to take into account – the modelling takes into account various assumptions but then it has produced – so how it works –

Deputy Sloan: How do you know it is accurate to 1%?

1045

Deputy de Sausmarez: Because when you apply it to revenues that we actually have solid numbers on in terms of revenues that have already been generated. It is not just about the data, there are a whole range of datasets and there is a bit of an odd misconception that the data is 10 years old. That is just not the case.

So we provided some Rule 14 answers which clarify that. I do not know –

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Deputy Camp: But is that the revenue? Sorry, because I think you started saying it was social security revenue. So you are not talking 1% accuracy on everything you have modelled?

Deputy de Sausmarez: No, on the actual revenues. So parts of it –

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Deputy Camp: Including Income Tax.

Deputy de Sausmarez: Yes.

Deputy Camp: So where clearly we have seen in year vast differences –

Deputy de Sausmarez: Right, you use certain datasets. This is how the assumptions are based. Obviously all the modelling requires some assumptions and it is not just about the raw datasets that go into that. There are a range of different datasets that have been used, and we have set those out in the answers to some Rule 14 questions recently. I do not know if you have had a chance to look at them, I would really encourage you to do that.

Deputy Camp: Yes, I have.

Deputy de Sausmarez: It explains which datasets have informed the modelling and then it is not just about that either, there is some validation that happens. What I have been talking about is a validation. So the modelling has been used hypothetically to assess what the Income Tax and social security revenues would have been, it is a factual thing, so we can tell that they –

Deputy Camp: How has that been adjusted? So where your income revenues are coming from 2022 but household expenditure is coming from a period that is earlier and predates quite a lot of global shocks in terms of inflation and cost price, how do you then model that into the assumption? Is it straight line or have you modelled it in a different way?

Deputy de Sausmarez: It has all been validated for 2026 terms. It is quite a complex thing. We did not get any pre-warning of this question where we could have come prepared with some really specific answers had we got any pre-warning of this question.

Deputy Camp: But this is the kind of – because these are your assumptions and your modelling and we do not have access to this in the policy letter.

Deputy de Sausmarez: Yes. Well, no, you have because we have set out the assumptions.

Deputy Camp: You have given us the results of your assumptions, you have not given us how you have arrived at them.

Deputy de Sausmarez: No, we have set out all the assumptions in an appendix to the policy letter.

Deputy Camp: No, I do not believe that is the case.

Deputy de Sausmarez: No, we have. It is appendix 9, I think.

Deputy Camp: Okay. Agree to disagree, I think.

Deputy de Sausmarez: So we have set out the assumptions, we wanted to show all our workings. Actually we have included an appendix which sets out in some detail the assumptions that we have used. Those are the assumptions that we have discussed in Committee. We have challenged some of them, etc. We were very clear that we wanted to show our workings, we wanted those workings to be really transparent, and that is why we did actually set out those assumptions in an appendix to the policy letter itself.

Deputy Camp: Of those assumptions, which would you say have the greatest influence on the projected funding gap?

1110 **Deputy de Sausmarez:** What do you mean? Like, it is a big range. I will get the policy letter up.

Deputy Camp: Yes, I suppose what we are asking is, when you have modelled this, what moves the dial the greatest in terms of the funding gap?

1115 **Deputy de Sausmarez:** It is about a blend of different measures, is it not? So I think it would be a bit of a false binary to try and pick one single element out, because it is actually about quite a wide range of different elements that come together to help raise revenue, for example. I think it would be a false binary to pick out a single element that we thought was more important than any others. To the points that we were speaking to earlier in response to Deputy McKenna, it really has
1120 been constructed as a holistic package not as a single measure, it really is about how it has been constructed.

Deputy Camp: When you have ranked those assumptions – I suppose the question first is have you ranked those assumptions in terms of those which have a high risk of not proving as you have
1125 modelled them? Have you done a risk assessment of your own modelling assumptions to understand which seem sound and which seem less sound?

Deputy de Sausmarez: Yes. So when you are working with assumptions, as I said earlier, there is a whole range of potential hypothetical scenarios that you could model but it quickly becomes
1130 very impractical to try to include in your analysis every single hypothetical example. You could, for example, model on a deep recession or massive economic growth. Those two things will create quite different outcomes. You could model for really high inflation or really flat inflation and, again, those will produce different ranges.

So what you do, it is about sensitivity analysis, you take a reasonable range of assumptions and that is how it works. It is not about including every possible scenario. It is really about finding a
1135 range of reasonable assumptions.

I know there has been a lot of talk about assumptions. I have not yet found anyone that has come forward with an assumption they think is unreasonable.

1140 **Deputy Camp:** I suppose there has been challenge and your opinion is that that there has not been any reasonable challenge to the assumptions. I suppose that comes back to the first point, can an Assembly have a debate on the facts when actually this package is based upon assumptions forecast. There are facts. This is your request.

1145 **Deputy Niles:** There are always going to be assumptions.

Deputy Camp: Yes, thank you.

Deputy de Sausmarez: Yes, and every single modelling exercise is underpinned by assumptions, every single budget is underpinned by assumptions. So the question is not are there assumptions
1150 – of course there are assumptions – the question is, are those assumptions reasonable? We have not yet been challenged by anyone who has come forward to say, 'I think this assumption is unreasonable.'

1155 **Deputy Camp:** When you have done the work looking at historic budgets and accounts, have you have been satisfied that those have been accurate over the medium and long term in order to support your future-looking assessments?

Deputy de Sausmarez: I think you are talking about a slightly different thing, are you not?
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Deputy Camp: I suppose it is how you have used the history of past performance in order to determine whether your forecasts and predictions and assumptions will hold weight.

1165 **Deputy de Sausmarez:** Yes. So to give you an example, inflation has been very variable in recent history for understandable reasons but when you look at it over a longer term, there does seem to be a more reasonable average. So that has helped to inform some of the assumptions. That is exactly the kind of thing that you would look at again and really test in the 2030 review, because actually if inflation has been significantly higher or significantly lower than the assumptions that we can reasonably make at this point in time, then that is exactly the kind of thing that would inform any modelling, any projections and inform any decisions going forward as to what measures would be needed in order to adjust for that.

1175 **Deputy Sloan:** Deputy de Sausmarez, I think we might be slightly at cross purposes here. I think what you have done is stats and static analysis.

Deputy de Sausmarez: We have done sensitivity analysis.

1180 **Deputy Sloan:** Well if there was some sensitivity analysis there would be some sensitivity in the central projection around that. You have got two different scenarios, you have got three lines, central, scenario A and scenario B. You have not got any sensitivity analysis of the central projection. Please do not tell me that you have, because you have not.

Deputy de Sausmarez: No, but –

1185 **Deputy Sloan:** My question would be: in terms of when we are talking about modelling what impacts of behavioural change have you factored in in terms of people's decision-making? Because it is not in the appendix, and please do not tell me it is.

1190 **Deputy de Sausmarez:** Yes, I can do that. Okay, so the whole point of introducing a low rate of GST –

Deputy Sloan: No, I do not want to hear about –

1195 **Deputy de Sausmarez:** No, it is –

Deputy Sloan: If you are going to tell me about inflation I get it. A 3% GST will be a 1.9% – I get that bit.

1200 **Deputy de Sausmarez:** No, that is not what I am saying. The whole point of having a low rate is to minimise the impact on consumer behaviour. We understand that when you make policy decisions around taxes, whether they are direct taxes or consumption taxes or what, they are going to in all likelihood affect consumer behaviour.

1205 Now you will get a very big difference in consumer behaviour if you introduce a consumption tax at 15% or 20% compared with the change in consumer behaviour at 3%. Again, it is important to go back to that fact that this is designed as a package. It is not just about consumption tax, we are actually giving people more disposable income in those lower and average income –

Deputy Sloan: Can we just come back to the modelling?

1210 **Deputy de Sausmarez:** Hold on, I am just trying to explain –

Deputy Sloan: Just stick to the point.

1215 **Deputy de Sausmarez:** Yes. So the point is that we have assumed, and it is a pretty conservative assumption, that the effects of – we have got two opposing forces in terms of potential consumer behaviour. On the one hand, a consumption tax, even a low one, might be expected to reduce consumption. So that is one modelling assumption that you could reasonably take. The fact that it is 3% and it does not apply to some big ticket items like rents and healthcare, etc., is another factor. However, by reducing Income Tax and social security and therefore giving people – especially

1220 disproportionately towards the lower and average parts of the income spectrum – more spending power, and that is what we are doing, there is a reasonable assumption to say that actually consumption could go up.

Now, I have got some stats –

1225 **Deputy Sloan:** Where is the modelling? Where is the sensitivity analysis? Where is it?

Deputy de Sausmarez: So the assumption is that those two forces cancel each other out. However, if we were actually to look at this in more detail, I think actually we can see that that is quite a conservative assumption. So if we take the example of someone who earns about £30,000 –

1230 **Deputy Sloan:** No, I want to hear about the modelling.

Deputy de Sausmarez: Exactly. This speaks to the modelling.

1235 **Deputy Sloan:** It does not.

Deputy de Sausmarez: It does. So if we take someone who earns about £30,000, they will have £1,375 more in their take-home pay than they do now. Now, £1,375 is the equivalent, if you are looking at that in terms of what is that equivalent in GST at 3%, of spending of £46,000, which is

1240 obviously more than their gross earnings. Let us not forget that GST would not be applied to rent, to mortgage repayments, to healthcare, to childcare. So actually that is why people will have – this is why most households are actually better off and this is why people will actually have more spending power. It will over outweigh the effect of a 3% GST. Actually, logic dictates that we should be modelling for an increase in consumption especially on low-value goods, especially on the

1245 everyday things, and these people are more likely to spend in the domestic economy rather than swanning off –

Deputy Sloan: Deputy de Sausmarez, that is a very interesting point and actually as an economist I might be minded to agree with you on some of those points, but it is not in the policy paper. You are just saying it out loud.

1250 **Deputy de Sausmarez:** Well, you have asked question so of course I am saying it out loud.

Deputy Camp: I think we all struggle with these assumptions you have made because they are anecdotal stories, and the story is that a person with £42,000 can be £1,250 better off. I think that is one of the ones that is out there. It is actually very difficult to work out how that is worked out, and we are putting a lot of different variables into the calculator, it is very hard to get to that result.

1260 **Deputy de Sausmarez:** No, that one is really easy.

Deputy Camp: I suppose the question we are asking is why is this modelling not available because why questions have been asked is it comes back to – the spending power question I think is an interesting one because there is no modelling that actually demonstrates your point that there is greater spending power. There might be nominal more money in someone's pocket –

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Deputy de Sausmarez: In real terms, yes.

Deputy Camp: – but this is the challenge, is it not, where is the real terms modelling because we all we seem to be talking about nominal amounts all the time?

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Deputy Niles: I think that we possibly can share some underlying sensitivity testing and some of the modelling that was done because, of course, we are working, as we said –

Deputy Sloan: Possibly share it or will you just share it?

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Deputy Niles: I am not sure that I can commit on behalf of the Committee now but I will absolutely look at that, just purely because we are working to an extant resolution that was agreed last term. That was based upon very detailed sensitivity modelling that was commissioned – we commissioned it – by Deloitte that looked at the sensitivity and the change in behaviour with the introduction of GST. So there has been very extensive work which –

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Deputy Sloan: I think there is an abstract report that talked about that; whether it was modelled on the actual numbers I dispute.

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Deputy Niles: Okay.

Deputy Sloan: And in terms of sensitivity analysis, when it is sensitivity you got a Monte Carlo analysis, you get lots of different outcomes. I am struggling to understand that we have a 1% accurate forecast when our forecasts year in year out of a budget are out by the best part of 5% to 6%.

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Deputy de Sausmarez: Okay. So that is – sorry.

Deputy Parkinson: Income Tax is very volatile – very volatile – but the taxes and social security contributions paid by individuals are really quite predictable.

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Deputy Niles: Yes, so to come to your point, you did talk about the volatility –

Deputy Sloan: Assuming no change, Deputy Parkinson.

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Deputy Parkinson: Well, the assumption is that 3% GST would produce very little change and it would be counteracted by the fact people have more money in their pocket.

Deputy de Sausmarez: You are using the word ‘modelling’ but when it comes to the amount that people will be taxed less and the contributions that the States will take from them essentially, that is not about modelling, that is just fact that it is what it says in the policy.

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So we know that the personal rate of Income Tax will go up to £15,800, so there is no Income Tax liability on that amount. We know that it will be a 15% Income Tax rate between that limit and £28,000. We know that beyond that it will be 20% Income Tax and we also know on the social security side that we are introducing the equivalent of the personal allowance up to a level of £11,122, so there are no social security contributions liable on that. We also know what the rate will be above that. So you can pick any income point on that spectrum and you can work out how much better off people will be, and that is what we have done.

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Deputy Sloan: Deputy de Sausmarez, we are not disputing that. We are talking about the modelling of the package at the macro level of the impact on the economy and the revenues and

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the second round and the third round effects. I will give you an example. It has been publicised, not by me but I have seen people comment, about the lack of accepting of a second round impact on the public sector wage bill, right? Absolutely it is just a pure multiplier through and you have got to net it off.

Deputy de Sausmarez: No, it does not work like that.

Deputy Sloan: Please tell me that your assumption is that that will not be recouped by the public sector.

Deputy de Sausmarez: Okay, so that is really – in our answers to the Rule 14 questions, which I thoroughly recommend everyone read them.

Deputy Sloan: I have read them, please do not insult.

Deputy de Sausmarez: So at the end there are a range of different tables which go through each pay group for States' employees, and you will notice it goes back – I think the data goes back about 10 years or so, or actually possibly even longer, and you will notice there are many occasions within that where the pay awards that have been negotiated have been less than the rate of inflation. So it is not just about inflation.

When pay is negotiated, there are a whole range of considerations that are taken into account. Yes, the rate of inflation is one of them because obviously that is what affects the cost of living. But it is by no means the only factor that is taken into account in those pay negotiations, as evidenced by the fact that historically on many occasions, as our Rule 14 answers show, pay awards have actually tracked under inflation.

In this case, one of the considerations that will certainly be taken into account is the fact that there are compensatory measures or more than compensatory measures in terms of people's disposable income. For many pay groups that will mean that actually they are getting more in their take-home pay than they will be expected to expend on a 3% GST. Again, even those elements are not the full range of considerations that would be taken into account for pay negotiations, but they are very salient facts. So I think that helps explain why it is not simply a case of finding the RPIX figure and applying it to public sector pay. It just does not work like that. The historical data asserts exactly that.

Deputy Sloan: Since 2020 pay has kept a breast with inflation.

Deputy Camp: Yes, the latest trend does not match the historical trend, does it?

Deputy de Sausmarez: No, it is quite a varied piece actually.

Deputy Burford: Can I pick up on a point that Deputy Camp made about the tax calculator because you said you could not get it to match when you had a look and put in various scenarios. I think what you were missing in your analysis, but please do correct me if I am wrong, is that if we take this hypothetical person on the £42,600 of the median earnings, just working in a wage job for that, it is a fact that they will pay less Income Tax and social insurance by a figure of £1,249?

Of that £42,600 that they are earning, we take £1,249 less in those two taxes, but they will spend a proportion of their income on non-GST-able stuff, which is rent, which will take up a chunk obviously, or mortgage, possibly healthcare, some travel possibly. I would include savings in that, except I fully understand that somebody on that earnings is not going to be in a position to save very much, if anything at all. But those are all things which do not attract GST.

So what they have got left, and let us say it is £20,000, for example, is spent in the local economy on things that can attract GST, that will cost them £600 in GST at 3% of £20,000. So you have got

the £1,249, you have to take away the £600, which is what the calculator does, and that will leave you with £649. So the net figure you are looking for –

Deputy Camp: Do you think the public understand that when you are putting out headline figures, pointing them to your calculator, and they do not get the same kind of result, do they?

Deputy Burford: They do because all of that is taken into account in the calculator.

Deputy Camp: Because you do not explain, you use it as a headline of this is what you are doing.

Deputy Burford: No.

Deputy de Sausmarez: There is a detailed breakdown as well.

Deputy Burford: If you go through the calculator, all – that is why it asks about what –

Deputy Camp: But members of the public probably cannot look at detailed breakdowns, they are looking –

Deputy de Sausmarez: No, they are looking at their personal –

Deputy Camp: They are looking at your headline slides that you put out into the public.

Deputy Burford: Then if you go on the calculator, you are asked to put in all these different factors. We have kept it as simple as we can.

Deputy Camp: Yes. What I am asking – yes, I appreciate that. But when you put out a slide that says X and actually that can never come out of a calculator –

Deputy Burford: Where is the slide that says X?

Deputy Camp: I think it is in one of your Facebook things you put out in the days following the – I took a picture of it and captured it entirely. All it says is if you earn £42,000, you will be £1,250 better off.

Deputy Burford: No, I think what it may say –

Deputy Camp: I think the problem is, is that the – and this is what I am trying to say, is how can the people make the causal link between what you are stating and what the calculator states when I could not. I found that very difficult myself.

Deputy Burford: I think what that slide – first of all, I do not recall the slide but if it is as you say, and I have no reason to dispute that, what I think it is likely to say is this is how much less tax and social insurance you will pay. Clearly there will be an amount of GST you will pay because it is GST that we are proposing.

Deputy de Sausmarez: Well, of course. Okay, so –

Deputy Sloan: I am very sorry, I did not bother to go on, I just assumed it would factor in the GST.

Deputy Burford: It does.

Deputy de Sausmarez: Well, it does. It does. It asks you how much you spend on rent. It asks you how much your savings are. This is how it works. Basically it assumes, because it is a broad-based tax, that anything you are not spending on rent, mortgage repayments, healthcare, childcare, travel, savings, everything else is likely to be GST liable.

Deputy Burford: Is assumed to be GST –

Deputy Niles: It is a really simple model.

Deputy Sloan: I am sure it is.

Deputy Niles: It is. So it just assumes that people will put into the model whatever they spend on their monthly and whatever is left that they will spend on consumption and that consumption will be at 3%.

Deputy de Sausmarez: If anything is over –

Deputy Sloan: So let us move on. Modelling we have done it to death, I think. Should we move on to savings?

Deputy de Sausmarez: Can I just correct, Deputy Camp said that the recent trends have public sector pay on track to inflation? I have the Rule 14 questions up right here in front of me and there are many in the last handful of years where they have been below.

Deputy Sloan: Well, I have got the public sector pay since 2020 has kept abreast with inflation.

Deputy de Sausmarez: Sorry?

Deputy Sloan: I have got since 2020 public sector pay has kept abreast with inflation. That is the last six years. That will do for me.

Deputy de Sausmarez: Yes, when you look at the individual pay groups, there are many examples of pay groups where their pay awards have been under inflation, including in the last few years. I really would recommend that people go and look at those answers.

Deputy Sloan: I did the analysis I have got for 2020.

Deputy Burford: Yes, I think if you grouped all the pay groups together, but as you know there was a standout thing of where nurses pay was – the change of predominantly nurses was different. But if you look at the individual pay groups, there are many examples of individual pay groups, which is how the States negotiates with the different unions where they were under –

Deputy Sloan: Well, good luck negotiating with the unions on that one, that 2% pay rise because of the inflation. See how that works out.

Anyway, Haley, should we move on to spending and savings now?

Deputy Camp: Yes, happy to. So the report concludes efficiencies alone cannot solve the problem. So what larger spending reductions were considered and rejected?

Deputy Niles: In terms of the efficiencies, again we are working from a States' resolution to incorporate a 1% efficiency savings across the board.

Deputy Camp: Yes, but that is obviously external to this policy proposal, is it not?

1475 What did P&R, in considering this package – considering 1% is 1%, but what other efficiencies, what spending reductions were considered and rejected?

Deputy de Sausmarez: What do you mean about rejected? I do not think we have rejected –

1480 **Deputy Camp:** Well, that is a question to you. Did you consider any, because if you considered none you rejected none? If you considered some and did not do them, you rejected them.

Deputy de Sausmarez: There are all kinds of things. I think basically the point is that you need to consider these things very carefully. I will give you a hypothetical example, and I do stress it is hypothetical. There is a lot of formula-led expenditure, which is formula-led so it is what it is, but actually the formula itself could reasonably – when those rates are updated there is a policy decision underpinning what that actual formula is. I know that when we had a discussion with members of ESS we discussed the potential for changing some of the formulas underpinning quite a significant chunk of States' expenditure. But it would not be right to make any decisions without fully understanding the consequences of that, which is why we have not pre-empted the more detailed work that needs to be done, because we did not think it was right to make an arbitrary decision in lieu of the more nuanced work that would actually make sure that that work was done in a way that did not create unintended consequences.

1490 So it is not a case of rejecting them. It is just a case that the work is still at a point – much of the work that will potentially deliver the most meaningful savings is not yet at a point where those sponsoring Committees can have confidence in those recommendations. We think it is reasonable to let that work take place in a way that the full suite of considerations can be taken into proper account.

1500 **Deputy Camp:** In looking for efficiencies, why was priority-based budgeting preferred over zero-based budgeting?

Deputy de Sausmarez: Because in the public sector, we are statutorily obliged to provide certain services. You just cannot start at zero. It is a fact. In a business, you can reasonably say, 'Well, we will start at the presumption that we are not providing this product' or whatever. In the public sector, we cannot do that. We have got a legal obligation to provide, for example –

Deputy Camp: But zero-based budgeting does not assume statutory duties disappear. It just requires every activity, cost and staffing level to be justified from first principles within those legal obligations.

Deputy de Sausmarez: In that case, we are dancing on head of a pin because that is what our priority-based budgeting is doing. So I think you should be quite reassured by that.

1515 **Deputy Niles:** But if you look at individual utility companies, for example, so I sit as the Vice-President of the STSB and we have incorporated now as their objectives to introduce a 1% efficiency budgeting across the utilities. I sit as the Vice Chair of Guernsey Water and last week we had a board meeting that looked extensively at where they were introducing cuts and anything from the chemicals that we put in our water to ensure that it meets satisfactory levels to how we how we collect and empty cesspits.

1520 At every one of those board meetings now a central objective is how do we incorporate the efficiencies that we as politicians have –

1525 **Deputy Sloan:** Well, that point does not seem to be necessarily relevant to general Government though, does it? It is not because they are paid –

Deputy Niles: I think if people do not understand that at all of our utility levels we are not looking at those efficiencies, then I think we need to incorporate that logic and that thinking across the piece.

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Deputy Sloan: That logic, it is very good for STSB to do that, but it does not actually impact our revenue – our tax debate, does it?

1535 **Deputy de Sausmarez:** Well, it is about public expenditure, is it not, and the degree to which there might have to be any support from general revenue?

1540 **Deputy Burford:** But fundamentally the policy letter, as it is titled, is a tax reform policy letter. I think that is important. But we have also highlighted the fact that of the Humphreys' amendment and the 1% per annum, so in total of 3% reduction, that Committees really need to start looking at because a lot of this under our system of Government – just like Andrew has just said – sits with the Committees and it is for the Committees to do that, but it is also for us as Policy & Resources to be forensically examining this as part of the budget process. That is where it properly sits. But I would say that this is a tax reform policy letter. It is about broadening the tax base. It is about addressing future spending on health, on capital infrastructure, and that is the fundamental purpose of the policy letter.

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Deputy Camp: So on that basis, why is P&R relying upon an extant resolution as part of its headline figures –

1550 **Deputy de Sausmarez:** We are not, no.

Deputy Camp: Well, it does. The ladder diagram, which adds up to £62 million, includes savings. A third of the headline amount that is being the policy letter is savings –

1555 **Deputy Burford:** The policy letter is quite clear, it raises £39.5 million. If you look at that ladder diagram –

Deputy Camp: So why add 20 in.

1560 **Deputy Burford:** No, it is not.

Deputy Camp: To your point, if it is a tax reform, why are we adding it in?

1565 **Deputy Burford:** We are not adding it in.

Deputy Camp: Well, you are.

1570 **Deputy Niles:** Because if it was absent our population would say, 'Why have you not highlighted that you should be making efficiencies in your underlying business?' That is all that we have done.

Deputy Camp: if you look at it, the bottom line will be the total improvement, not the total tax rate, the total improvement, which does incorporate –

Deputy Burford: It is acknowledged that is an extant resolution. We have no control over that insofar as the States have already decided it. Our package is £39.5 million. We make that quite clear.

1575 It adds up to £42 million, but there is £2.5 million of expenses. So it is a net of £39.5 million but it will improve –

Deputy Camp: I could accept the point had – because the presentation you gave to States' Deputies made exactly that point. It included the £20 million but not as part of a net £42 million.

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Deputy Niles: Yes.

Deputy Camp: The policy letter has, headline, added that back in.

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Deputy de Sausmarez: No.

Deputy Camp: Headlines are what people look at, right?

1590 **Deputy Burford:** If you look at the phrasing on each of them, those two diagrams which are similar, it is different. If you read the whole context of it when you compare those two diagrams it is different because it shows that in one it is the amount, which if that previous resolution is met, that finances will improve by but on the other one it shows quite clearly that the amount that comes from tax reform is £39.5 million.

1595 **Deputy Sloan:** As an aside, I hear what you are saying about the £20 million, is it included, is it not included? My concern is more the thinking, the thought process, that is implied within this. I think what Deputy Camp is saying it is like it is 1% efficiency savings but no more and if you –

Deputy de Sausmarez: No.

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Deputy Sloan: No, I think that is what her question is implying and if you go to page 29 of the policy letter, and you have already said this, it talks about future workstreams of saving money, that it is wrong to be prejudging that already because that would be unturning every stone, would it not? So you are saying these workstreams cannot contribute to addressing the States' funding gap at the current time. So all these things are too terribly difficult for us to do at this present time.

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Then you say in summary, in 5.23:

It is important that the work is carefully considered so as to avoid unintended negative consequences.

Then it says:

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All grants and subsidies have been challenged but there is little scope for cuts without creating a false economy.

Deputy Burford: I think there is on grants and subsidies –

Deputy Sloan: That sort of thinking implies that it is all too difficult.

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Deputy Burford: No, I think that is true on grants subsidies because one of the recurring themes that we get, and I think it might even have formed part of Deputy Camp's amendment, although I have not got to reading them all in detail yet, is the idea about outsourcing where it can be a saving to do the same work but more efficiently better by perhaps third sector organisations. This is what happens an awful lot on the grants and subsidies, is work that over the years has been determined that it can be better delivered by the third sector, and those things are consistently reviewed to see that they are still delivering that value for money. The view is that on the grants and subsidies there is a limit to what is available in terms of savings.

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1625 **Deputy Sloan:** Okay. Well, in that case I will leave it for another time because I do not think we are going to be able to have the answer for this today. But what I am going to suggest is if you can find out how much spending on grants and subsidies went up between 2019 and 2023 when public expenditure increased by a third in real terms, we will see if that was a false economy.

1630 **Deputy de Sausmarez:** Yes, it may well be –

Deputy Burford: It is not like ones will have come in, ones will have left.

1635 **Deputy Camp:** But to come back to the headline savings because I think, like it or not, people are seeing a £62 million figure, and we can talk about semantics of reading the small print but the large print is quite clear. It is £62 million, a third of which is savings. How much of that £20 million of savings has been identified at this point?

1640 **Deputy Niles:** As I think I said to you, every committee certainly that I sit on is going through a granular analysis.

Deputy Camp: So at this point, none.

1645 **Deputy de Sausmarez:** No.

Deputy Camp: Well, we have not got to a budget process yet where 1% –

Deputy de Sausmarez: Quite. We are mandated to include that. That is the target for the 2027 Budget, the 2028 Budget, and the 2029 Budget.

1650 **Deputy Camp:** So you are banking a target.

Deputy de Sausmarez: We are not banking –

1655 **Deputy Camp:** Well, everything I see, every single ladder diagram you have put out points to the £20 million.

Deputy Burford: We have not put out savings.

1660 **Deputy Camp:** I think one of the slides says, 'We will have £20 million of savings'. So that is banking.

Deputy Niles: I think that is what we are all trying to achieve.

1665 **Deputy de Sausmarez:** That is what we are directed to do by the States.

Deputy Camp: Direction and aspiration are different.

1670 **Deputy Niles:** Until you actually sit on Committees and you do drive that change it will not happen, of course.

But I will look at the 2023 Fiscal Policy Panel who did make the case, and we are going to address this and we are going to try to achieve what they said was going to be difficult, was when we tax and when we spend at the level that we do as a function of GDP in our economy, because the amounts are relatively small to other economies, efficiencies are difficult.

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Deputy Sloan: Actually that is one of those misnomers numerator denominator issues which actually, yes, I know the chart you are talking about. I will use Deputy Parkinson's argument that I was on the minority on that panel. If you look at shares in GDP, you have got to appreciate that our profits, our operating surplus is around 44% of GDP and typically for a large economy such as the UK it would 15% to 17% of GDP. So if you equalised or make a comparable effect of taxable GDP that our actual spending is around 35% to 38% of GDP, of taxable GDP, it is artificially skewed low because of the large share of corporate profits. So I really do not like that comparison.

Let us move on because –

Deputy Niles: That is a fact that we are dealing with facts.

Deputy de Sausmarez: Yes.

Deputy Sloan: But the fact is that we spend more in cash terms per capita than the south-east of England. I am ever so sorry, please do not tell me that we are a low spending area country because we are not.

Deputy Camp: Can I just conclude on savings? Just from your own post that you put out:

... 1% per annum inefficiencies in public sector expenditure for the next three years, which will reduce expenditure by £20 million per year by 2029.

That is no room for doubt in that.

Deputy Niles: No, it is a fact. That is what it will be.

Deputy Camp: So what happens when those savings are not achieved?

Deputy de Sausmarez: Well, it is our collective job as an Assembly to deliver them. We are under resolution to do that. I voted for that amendment with the full intent on delivering on it. I do not know what other Members did.

Deputy Camp: Resolutions are frequently not met or delivered, are they?

Deputy de Sausmarez: This is in the hands of the Assembly.

Deputy Camp: If we look at the hundreds of extant documents –

Deputy de Sausmarez: And none of them were amended.

Deputy Niles: It is incumbent upon every Deputy in our Assembly to be able to deliver those. We all have an input in this.

Deputy Camp: Yes, quite right, but P&R have chosen the word 'will'.

Deputy Niles: No, can I –

Deputy de Sausmarez: No.

Deputy Camp: The P&R Committee chose that word.

Deputy Niles: Can I please –

Deputy Sloan: I agree

Deputy Niles: Can I address that? It says that if we do achieve 1% it will have a £20 million –

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Deputy Camp: Yes. That is not what you put to the public.

Deputy Niles: That is what it says. Can you read it back out again?

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Deputy Camp: It says:

... 1% per annum inefficiencies in public sector expenditure for the next three years which will reduce expenditure by £20 million.

Deputy Niles: Which will, that is right; that is exactly right. That is exactly right.

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Deputy Camp: It is not an 'if we do it we will'.

Deputy Niles: No, it is if you achieve 1% –

Deputy Camp: That is a categorical statement of fact.

1745

Deputy Niles: – it will.

Deputy Camp: It does not say 'if'.

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Deputy Sloan: Okay, I am going to wish us all the best of success in that because if we are as successful as when we determined to freeze revenue expenditure from 2009 to 2014, which we did, then – so that would be my preference, to freeze revenue expenditure for a period of three to four years to get us back into balance and that would effectively not –

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Deputy de Sausmarez: So we can do that but that will impact –

Deputy Sloan: When there is real impact we did it very well, did we not? So we have got 10 minutes left of questions. I want to talk about the mitigating measures and some of the other impacts. In terms of families, I noticed that families or people with children tend to be the highest impacted and I made that point in 2021 or 2022, whenever it was, and it was mentioned earlier this year and nothing – it is still the same. So was there no possibility of – why is it that families, people with children are hit the hardest?

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Deputy de Sausmarez: This speaks to the intergenerational fairness thing, and it is a point I feel very strongly about as well. We have seen, if you look at the historic trends, an increasing, and in my view increasingly unfair, burden falling on younger cohorts compared with older cohorts.

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Deputy Sloan: Right, straight answers to a straight question. Why do families and people with children get hit hardest?

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Deputy de Sausmarez: Well, do they? Because the sums –

Deputy Sloan: If you look at the distribution analysis back in the appendix, it is there on the right-hand side. People with children are hit harder than people without children.

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Deputy de Sausmarez: The equivalised household income accounts for the fact that if you have children, you will need more. I do not know the exact numbers off the top of my head because we have not been warned about any specific questions –

1780 **Deputy Sloan:** It is in the policy letter.

1785 **Deputy de Sausmarez:** Exactly. So I am explaining that when we do the modelling we do not use household income we use equivalised household income, and what that means is it adjusts for the fact that if you are a household with children you are going to need more income in order to achieve the same quality of life as a household without income. So that is actually already factored in to the household equivalised income. That is how the modelling is done; it already takes account of that.

1790 **Deputy Sloan:** Okay, page 91, if you look at one adult 16 to 40 with children, yes, it is equivalised, and you look at the percentages, it is the heat map, they are red. The heat map, one adult with children is red compared to the one adult on their own. Two adults with children, they are also more than the two adults. So the heat map shows you that people with children are impacted more.

1795 **Deputy de Sausmarez:** Yes, and I encourage you to –

Deputy Sloan: You have just said that – you denied it.

Deputy de Sausmarez: No, I did not –

1800 **Deputy Sloan:** There it is in the heat map.

Deputy de Sausmarez: – I said that the household equivalised income takes this variance into account.

1805 **Deputy Sloan:** No, it does not.

Deputy de Sausmarez: It does. Household equivalence does. It does. It really does. So I am telling you as a mother of four children, yes it is blooming expensive raising a family in this Island –

1810 **Deputy Sloan:** But, Deputy de Sausmarez, you cannot argue that black is white.

Deputy de Sausmarez: I am not.

1815 **Deputy Sloan:** Your chart shows you there in a heat map that people with children are impacted more.

Deputy de Sausmarez: I am telling you as a mother of four children, this is an issue that –

1820 **Deputy Sloan:** I am a father of two children. Let us not argue about how many children we have got.

Deputy de Sausmarez: Yes, I am saying that it is a really expensive place to bring up children. Absolutely, and that is why it is important –

1825 **Deputy Sloan:** It is, and you are making it worse.

Deputy de Sausmarez: That is why it is important that we can give some relief to families, especially those –

1830 **Deputy Sloan:** But you are not giving relief to families, you are hitting them harder than people without children.

Deputy de Sausmarez: We are giving relief to households with –

1835 **Deputy Sloan:** Please do not argue black is white.

Deputy de Sausmarez: So what are you suggesting, that a family allowance should go up disproportionately? I would be interested in exploring that.

1840 **Deputy Sloan:** But can you accept that the package as is presented in the policy paper hits people with children harder?

Deputy de Sausmarez: It is about –

1845 **Deputy Sloan:** Can you just accept that it is factual?

Deputy de Sausmarez: The cost of living –

Deputy Sloan: It is factual, can you just answer a factual question, yes or no?

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Deputy de Sausmarez: It does not – no, because I think it is the wrong premise.

Deputy Sloan: No, you cannot not accept the premise of the question. I am asking the question.

1855 **Deputy de Sausmarez:** And I am challenging the premise of the question.

Deputy Sloan: No, you cannot.

Deputy de Sausmarez: I can –

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Deputy Sloan: Answer the question.

Deputy de Sausmarez: I can challenge the premise of the question because I believe it is flawed.

1865 **Deputy Sloan:** Unbelievable.

Deputy de Sausmarez: No, you have made an assertion and I do not think that assertion is accurate because you are suggesting in the phrasing of that question that families now, so people with children, would be worse off effectively under the proposals than they are now. That is not the case. They might be slightly less better off than their equivalent with –

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Deputy Sloan: No, not true. Look at the table on pages 91 and 92.

Deputy Niles: So –

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Deputy Sloan: I am going to stop there, I am not arguing in this fantasy land. You have got to look at your own policy letter. You have to look at the chart.

1880 **Deputy Niles:** Deputy Sloan, the heat map absolutely does say what you are saying –

Deputy Sloan: Thank you.

Deputy Niles: – for those households who are earning at the top quartile of earnings.

1885 **Deputy Sloan:** Oh, I see.

Deputy Niles: So absolutely we have said all the way along that the package tries to protect those people who are earning less. For the people who are earning £100,000 then their household absolutely will be adversely affected.

1890 **Deputy Sloan:** Yes, okay, except that, Deputy Niles, if you are in the income percentile from 40 to 44, if you do not have any children, you will be better off by 1.5% or one point and if you have children you will be worse off by 0.1% and that is a 1.6 percentage point difference.

I am ever so sorry but somebody in the 40 to 44th percentile is not in the upper income distribution.

1895 **Deputy de Sausmarez:** So 60 to –

1900 **Deputy Sloan:** So let us move on. Can I ask one more question ,because we are literally out of time? Can I ask the question of the extension of the welfare state by introducing a new tax and the rationale behind that? Why is that a jolly good idea?

1905 **Deputy de Sausmarez:** I do not think we are extending the welfare. There are swings and roundabouts here because actually the increase in people's take-home pay will lift some people out of the bracket of income support.

Deputy Sloan: But you are creating a new benefit for those people that are not on income support.

1910 **Deputy de Sausmarez:** No.

Deputy Sloan: All right.

1915 **Deputy de Sausmarez:** Yes, but they would – many of them would be eligible for income support anyway.

Deputy Sloan: So, why are you creating a new payment?

1920 **Deputy de Sausmarez:** Because they are not in receipt of it.

Deputy Sloan: So you are extending the welfare state.

Deputy de Sausmarez: If they choose to –

1925 **Deputy Camp:** Your argument only holds true for as long as those mitigations remain.

Deputy de Sausmarez: Which we are putting in legislation.

1930 **Deputy Camp:** As we discussed before, but that is actually incredibly difficult to safeguard for future so it is –

Deputy de Sausmarez: No, well –

Deputy Camp: So they do last only as long as those mitigations come through.

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Deputy de Sausmarez: Well, of course. Legislation is a pretty reasonable mitigation, there are all sorts of things that we could change. We could decide to abolish legislation against murder or whatever, but I think we are unlikely to. The fact that something is –

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Deputy Camp: I think you will find that internationally a lot harder than changing our taxation, frankly.

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Deputy de Sausmarez: And that was not a serious suggestion. But the whole point is that you are absolutely right that we cannot – but this is true of absolutely everything. That is the point I was really trying to make, is it is true to say of absolutely everything that the States does that we today cannot bind a future States but we can make things more likely. We can add in attrition to changing them. So actually by committing to putting certain aspects into legislation that is making it much harder, I think, even just in terms of that social contract with the community, for a future States to run roughshod over them. That is really what we are doing. It is basically underscoring that social contract that we were also concerned – this was one of the big issues that united the Committee when we were first talking about this, is we were really concerned that the mitigations might be eroded in terms of their relative value over time. That is why we had a think about what we could do to protect the relative value of those mitigations.

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One of the things that we certainly can do is to put them into legislation, and it is not completely bulletproof but I think it does go a long way and it certainly underscores the social contract between Government and the community, because there is then no doubt that that is the original intention of those protections and that the relative value should be maintained.

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Deputy Sloan: I was going to end it there but if you are still going, go ahead.

Deputy de Sausmarez: We did have – it is quite complicated. It is a finer point on children and I think it is something I really would like to pick up with you afterwards. I think it is a bit too complicated to get into now.

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Deputy Sloan: Okay. Well, thank you all very much. I look forward to the debate next week, if there is a debate, but we shall see. I am looking forward to it.

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But, again, I must admit after all of this time – and I have had the advantage or disadvantage of being a bystander and/or participant in parts of this over the last 18 years – I am in favour of consumption taxes because, as an economist, consumption taxes are efficient. Some people have wealth, most of us have income but everyone consumes, which is broadening the tax base and is the purpose of a consumption tax. Not having less people pay more tax, which is a perverse answer to the question of we needed to raise more revenue.

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But on that one we shall come back to that debate next week. Thank you all very much. Thank you very much, Deputy Parkinson, Deputy Niles, Deputy de Sausmarez, Deputy Burford and Deputy Falla, and my colleagues Deputy Camp and Deputy McKenna. Thank you.

The Committee adjourned at 12.00 p.m.