The Jersey Chamber of Commerce
Initial Comment on the Medium Term Financial Plan – August 2012

Chamber review of the States of Jersey Medium Term Financial Plan 2013-2015

The Jersey Chamber of Commerce welcome the fact that such a plan has been initiated. It enables a discussion to take place on the Islands future from a financial perspective. It also highlights the financial implications of delivering the Chief Minister's political objectives.

The objective of Chamber's response to the information provided is to test the robustness of the plan, highlighting where appropriate the risks to our economy should certain revenues and / or expenditure forecasts not be met.

Chamber does support the objectives of the plan in so far as the need to continually improve the infrastructure of this Island is vital not only for its long term economic success but also for the wellbeing of the people of Jersey.

Where are we now?

- The world is currently experiencing one of if not the worst recessions in history with little sign of recovery.
- The banking sector is still recovering from 2008; however further issues around LIBOR and the historical miss-selling of financial products still mean that future profitability remains uncertain.
- Locally we have record un-employment levels as a result of the economic downturn
- 6 months of Government Business tendency surveys and Chambers own survey paint a picture of businesses trying hard to maintain existing revenues with only a small minority expecting growth.
- The significant changes to the way in which we are taxed as a result of 0/10 combined with wage freezes has meant that individuals have less disposable income than they did only 5 years ago.
- On a positive note we have a Government that has no borrowing which is almost unique in the western world.
- The balance of our economy is changing. In 2002 the Financial Services sector made up 50% of total GVA, in 2010 that had fallen to 40%. This has had a significant effect on GVA in real terms. In 1998, total GVA was £3,061,000, by 2010 this had fallen to £2,893,000, a decline of (5%). Over a similar period public administration has risen from 7% of GVA to 9% of GVA by 2010.

Clearly prudence is the watchword of the moment.

Initial observations of the MTFP

The immediate reaction to the figures being presented has to be the level of almost extraordinary optimism! It is predicted that GVA in real terms will increase faster than the early part of the last decade. Company profits will grow significantly, average earnings will outstrip inflation and house prices will return to significant positive territory, all within 3 years. If all this happens it's truly an exciting prospect given where we are now. However it does highlight that there is a growing chasm between the private and public sector outlook for our economy. The question is who's right?

The predicted levels of Capital Expenditure for the next 20 years are also quite remarkable in their scale and ambition given how small any predicted surplus will be. At £1.6 billion, that works out at just over £82 million every year for the next twenty years. Great plans, but can we really afford them?

The Elephant in the room

Whilst historically estimates of States revenue have proven to be fairly accurate, the same cannot be said of expenditure. Chamber members were horrified when actual spending overshot budgeted spending by circa £100 million in the mid-2000's. Senator Ozouf has already identified this as a problem and instigated a Comprehensive Spending Review in an attempt to curtail spending. He has made some good progress in his endeavours to save £65 million but is still £7/8 million short. It just shows how difficult it is to rein in spending when the expectations placed upon Government are so high.

And therein lies the biggest challenge which is at the heart of the MTFP, the budgeted growth in public sector spending. If the predicted revenue stream between 2012 and 2015 doesn't grow by nearly 14% we can forget about freezing taxation levels.

To put the increase in States spending into some kind of perspective let's go back to the year 2000. Then net revenue expenditure was £325 million. 12 years later that has risen to £618 million despite Senator Ozouf's valiant attempts to find savings. That's a whopping 90% increase in just over a decade. On a more human scale in 2000 the State used to cost each one of us circa £3,600 per annum (based on a population of 90,000), today that has increased to circa £6,300. By the year 2015 that's set to rise to circa £7,100 per head of population (assuming 97,000 people live on the Island by then). Are we really in control of States spending?

What if?

We already know how painful it is to make savings. Businesses have been taking the knife to their overheads for at least 3 years now in order to survive the economic downturn and remain competitive. It's not pleasant and some very tough decisions have to be made particularly in terms of jobs. Given what has happened businesses are loath to increase overhead without first seeing some evidence of an upswing in revenue. The Government doesn't appear to have any such doubt, but the question has to be asked. What if the predicted revenue rather than growing simply remains unchanged? Most businesses given the current uncertainty would probably consider such a scenario as being highly realistic.

The maths looks something like this:

2012 – States income = £624 million Net revenue expenditure = £618 million
2013 – States income = £624 million Net revenue expenditure = £633 million
2014 – States income = £624 million Net revenue expenditure = £669 million
2015 – States income = £624 million Net revenue expenditure = £691 million

By 2015 the shortfall could be £67 million (we hope not), however given that scenario how might the shortfall be funded? The obvious answer is GST. In 2012 the revenue generated from this tax is set to be £77 million already short of budget. If it is necessary to raise a further £67 million this would mean that GST would have to increase to nearly 10%. Could our economy take that?

Conclusion

In the end the numbers may all stack up, however given where we are now that's a highly optimistic view. One thing's for sure if the predicted revenue figures for 2015 don't materialise it'll all end in tears, interestingly a year after the 2014 elections!

The biggest concern with this whole plan is that it appears to have been done in reverse to the way it should have been. Rather than considering a more conservative revenue stream in light of the current economic uncertainty and then cutting the cloth accordingly, it appears that the size of the cloth has been determined first and then the level of revenue needed to pay for it has then been calculated. Maybe that's why the numbers look so ambitious.

Yes we want investment in infrastructure; yes we want our economy to be successful but we also have to be realistic about what we can afford. Keeping a tight rein on States revenue expenditure has to be kept as a top priority. Our future prosperity depends upon it.