STATES' EXPENDITURE FORECASTS

FURTHER EVIDENCE SUBMITTED
BY THE COMPTROLLER & AUDITOR GENERAL
TO THE FINANCE SUB-PANEL
OF THE CORPORATE SERVICES SCRUTINY PANEL

FEBRUARY 2010

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Introduction

1. In December 2009, I published updated evidence that I had submitted at the request of the Finance Sub-Panel of the Corporate Services Scrutiny Panel concerning expenditure forecasts published by the States of Jersey. That evidence updated evidence that I had published in April 2009.

2. Since December 2009, the Panel has asked me to consider three further questions which relate to the 2010 Budget of the States. These questions are:

   (1) How would the spending forecasts contained in the 2010 Budget be exceeded if past increases in spending were to continue during the period covered by forecast included in the Budget Report?

   (2) What would be the expected budget deficits if spending continued to increase at the rate experienced in recent years?

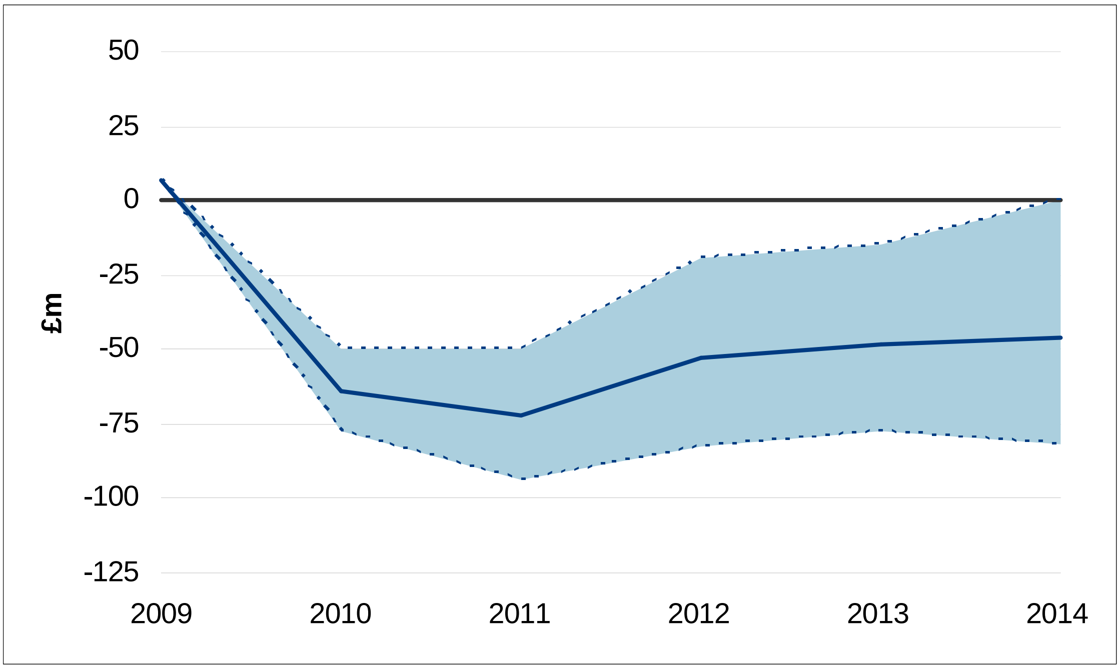
   (3) What rate of GST would be required to eliminate such deficits?

3. This paper sets out my responses to these three questions.

4. The figures set out in this paper are illustrative only. In response to the questions put to me, they do no more than show what might happen if certain events occur.

2010 Budget

5. The forecasts set out in the 2010 Budget were summarised in the following graph[1]:



6. The graph shows that by 2014, on a pessimistic view, the States deficit would be of the order of £80 million. The detailed data underlying this graph are set out as Table One at the end of this paper.

7. However, even this pessimistic scenario assumes a reduction in spending growth from the rate experienced in recent years.

1 This appeared as Figure 3.1 in the 2010 Budget Report.

Actual spending growth

8. Although the rate of growth in spending[2] has varied over the past ten years, in recent years, it has exceeded 6% per annum.

Year of account	*Actual*		*Annual increase %*
2001	417		
2002	410		-1.68
2003	443		8.05
2004	460		3.84
2005	484		5.22
2006	504		4.13
2007	522		3.57
2008	562	**	7.66
2009	598	*	6.41

** Estimated*
*** Excludes £103 million Energy from Waste plant*

2 In this paper, figures for spending reflect 'Total Spending' by the States which includes both Net Revenue Expenditure (i.e. current expenditure) and the Capital Expenditure Allocation (i.e. capital expenditure). This is the figure that was forecast by the States in the 2010 Budget Report.

Implications for future spending growth

9. Table One shows that the pessimistic scenario for future deficits shown in the 2010 Budget report assumed that expenditure would grow at a lower rate than has been experienced in recent years. Further it did not take into account the need for additional spending to make up for backlogs in infrastructure maintenance (e.g. roads, sewers and sea defences). This would suggest that expenditure might rise more quickly unless restrained.

10. If expenditure were to grow at 6% annually (i.e. at less than the rate of recent years) it would grow as follows[3]:

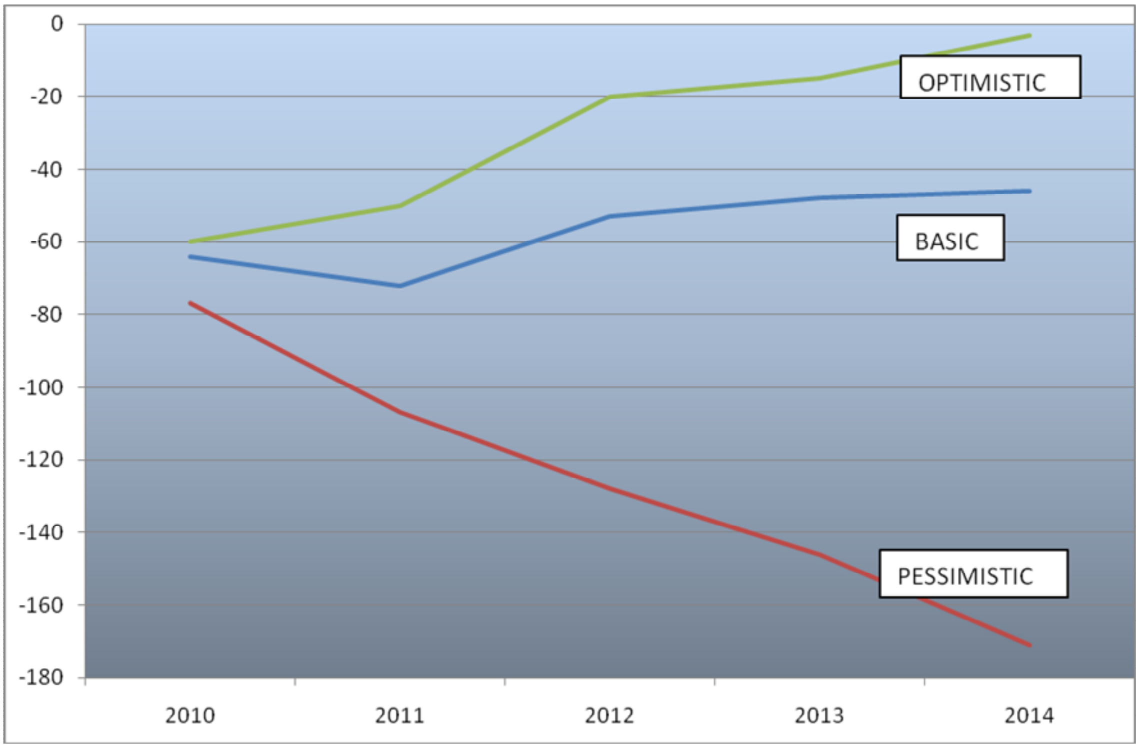
	Probable	*Increased by 6% p.a.*
	£ million	*£ million*
2009	580*	
2010		615
2011		652
2012		691
2013		732
2014		776

** Excludes supplementary approvals*

3 The start point for the calculation in 2009 (£580 million) excludes supplementary spending approvals as a recognition that there were some factors affecting 2009 spending that may not recur.

Implications for the States' deficits

11. This calculation implies that, if this rate of spending growth were to continue and no change were to be made to the assumptions about future States' income, the States' deficits would exceed by a considerable margin the pessimistic scenario set out in the 2010 Budget Report. The outcome is shown in the following graph.



12. The data underlying this graph are set out in Table Two at the end of this paper.

13. These figures should be treated with some caution. In past years, the rate of growth of States' spending has varied. Constant growth of 6% per annum may thus be regarded as unlikely. But experience of recent years has also shown that the States have not been able to hold spending growth within forecast levels.

Rates of GST

14. As requested, I have calculated the rate of GST which would be required in each year to clear the forecast deficit[4]. The result is as follows:

	2010	*2011*	*2012*	*2013*	*2014*
Expected GST receipts per forecasts (assuming rate of 3%)	51	52	54	55	56
Deficits (pessimistic scenario)	-77	-107	-128	-146	-171
Rate of GST required to clear deficits	8%	9%	10 %	11%	12 %

15. Whilst these increases in rates may appear substantial, the deficits as shown in the pessimistic scenario are indeed substantial. If deficits at this level were allowed to occur, they would eliminate a substantial proportion of the States' Strategic Reserve within the period of the forecast.

[4] This is based on the States' own forecast of GST revenues implicit in the forecast set out in the 2010 Budget Report (for the detailed forecast see Table One at the end of this paper) and assumes that the act of increasing GST does not affect the level of economic activity in the Island and thus the level of expected GST revenue. If the level of GST revenue were to fall because of a decline in economic activity, then the rate of GST required to clear the forecast deficit would be proportionately higher. The calculations also assume that the whole of each year's deficit is cleared by a change in the rate of GST: i.e. no other possible changes in tax rates are taken into account.

Table One: Data underlying Figure 3.1 in the 2010 Budget Report

	2009 Prob'le	*2010 Fcast*	*2011 F'cast*	*2012 F'cast*	*2013 F'cast*	*2014 F'cast*
BASE CASE						
States Income	653	554	560	586	606	629
States Expenditure						
Net Revenue Expenditure	560	586	611	620	636	656
Capital Expenditure Allocation	38	32	21	19	18	19
	598	618	632	639	654	675
Forecast surplus/(deficit)		-64	-72	-53	-48	-46
PESSIMISTIC SCENARIO						
States Income		545	545	563	586	605
States Expenditure		622	639	646	664	685
		-77	-94	-83	-78	-80
OPTIMISTIC SCENARIO						
States Income		563	575	610	628	659
States Expenditure		623	625	630	643	662
		-60	-50	-20	-15	-3

Table Two: Future States' deficits: scenarios adjusted to take account of spending trends

	2009 Probable	*2010 Fcast*	*2011 F'cast*	*2012 F'cast*	*2013 F'cast*	*2014 F'cast*
BASE CASE						
States Income	653	554	560	586	606	629
States Expenditure						
Net Revenue Expenditure	560	586	611	620	636	656
Capital Expenditure Allocation	38	32	21	19	18	19
	598	618	632	639	654	675
Forecast surplus/(deficit)		-64	-72	-53	-48	-46
PESSIMISTIC SCENARIO						
States Income		545	545	563	586	605
States Expenditure - adjusted		**615**	**652**	**691**	**732**	**776**
		-77	-107	-128	-146	-171
OPTIMISTIC SCENARIO						
States Income		563	575	610	628	659
States Expenditure		623	625	630	643	662
		-60	-50	-20	-15	-3