STATES OF JERSEY

GOVERNMENT PLAN 2021-2024 (P.130/2020): SIXTEENTH AMENDMENT (P.130/2020 AMD.(16)) - COMMENTS

Presented to the States on 11th December 2020
by the Council of Ministers

STATES GREFFE

COMMENTS

The Council of ministers opposes this proposal and urges States Members to reject the Amendment

Conclusion

The Council of Ministers opposes this proposal for a number of reasons:

- Reducing the limit on funding required from the Revolving Credit Facility by at least one third **-** Ministers do not agree to this suggestion on the basis that by making this change Government could find itself unable to fund essential expenditure included in the Government Plan such as dealing with the costs of the economic recovery and health care needs associated with COVID-19, as the level of receipts from either a Community Bonds programme or the divestment of States owned entities would not be known until late in the year, at best.

- Facilitating a community bonds programme as a means of generating funding – Ministers are of the view that this is not a sufficiently tried and tested solution to reducing the borrowing need and that it will take time and resources to undertake that work and would not be deliverable by February as required in the amendment

- However, Ministers are mindful that this has been highlighted on a number of occasions in past years and therefore commit to developing this option ahead of consideration by the Assembly of the medium to long term strategy, alongside the consideration of the budget and funding of Our Hospital in Spring of 2021

- Divestment of States-owned assets (including shares in companies in which the States has full or partial ownership) to generate additional income – Ministers do not support the sale of such assets at this time, given their importance to supporting the success of the wider economy, and to the provision of essential services to Islanders. Furthermore, a forced sale, in this fashion to such a demanding deadline would run a significant risk that the best value from any such sale would not be realised.

Report

The Council of Ministers has considered the Government Plan Review Panel's amendment and whilst it recognises the Panel's intent, to minimise borrowing, it feels that the methods suggested would not be deliverable in the necessary timeframe to be able to limit the borrowing by at least one third in 2021. This could well mean that insufficient funds are available to meet the costs and approvals included in the Government Plan for that year.

The methods of reducing the available funding through borrowing include a community bonds programme. Whilst the Council of Ministers recognises that anecdotally there seems to be some interest in such a scheme being offered, the quantum of that support has not been tested.

It is true that the EU have successfully issued 17 billion euros of new social-linked bonds at 10- and 20-year maturities, but these bonds are not available to retail investors (the general public) and that programme will deliver negative yields on the 10-year debt and barely positive yields on the 20-year debt. Local investors may be prepared to accept the same terms, but this has not been tested to date. There is little detail publicly details available around the Guernsey bond offer however the Guernsey Press suggests people will "earn themselves a good return."

There are advantages and disadvantages to a Community Bond Issuance, for example, one is that it offers investors a means of contributing to the Island's economic recovery or the building of Our Hospital, however if regarded as a means to deliver a preferential rate of return to holders of those bonds, that above market return would be one ultimately paid by taxpayers.

The Treasury and Resources Minister is happy however to agree to investigate a community bonds programme as part of the medium to longer-term borrowing strategy that is planned to be brought to the Assembly for consideration at the end of the spring 2021.

The current borrowing strategy is to utilise short term facilities ahead of agreeing a longer-term strategy, once the decision in respect of funding Our Hospital has been considered by the Assembly and further certainty is secured in respect of the full impacts of Covid 19. A decision now to lock into a medium to longer term Community Bond issuance will commit the Island to a much longer timeframe without these uncertainties being resolved.

With regards to the third part of the Scrutiny Panel's amendment, the Council does not agree that this is the time to sell, in whole or part, States Owned Companies. These companies are critically important to the success of our economy and to the provision of essential services to Islanders.

Government is not opposed to the ownership of whole or part of these companies by private investors, if regulation is in place to protect Islanders' interests, given the dominant position of many of these companies.

However, Ministers do not believe that as the economy and community enter the recovery phase from the Covid 19 pandemic next year, that recovery nor Islanders best interests would be served by selling controlling interests in those critical assets and on-Island infrastructure.

A strategy for disposal should be a well-considered, thoroughly researched endeavour and it would be unlikely that sale of the shares in these companies would be deliverable by the end of 2021, without taking shortcuts and potentially selling at a below full value. Any such sale would require time for full scrutiny by the relevant Panel, as well as the agreement of the Assembly.

There is already a commitment in the Government Plan to utilise any receipts from property sales to reduce the call on the revolving credit facility however, as it takes time to decide and then execute those sales the receipts have not been reflected in the balance of the Consolidated Fund.

Page 118 of the Government Plan document sets out the intention:

"We will look to use a combination of unused and uncommitted capital allocations, any unspent Covid-19 allocations, and some property disposals in the coming year to reduce our future borrowing requirements, ahead of Government Plan next year and ahead of confirming the medium-term level of borrowing."

The changes made to the Public Finances Law has altered the way in which we allocate funding for capital projects, we now include the forecast cashflows in each year and no longer require the full cost allocation to be made before a project can start so long as it is included in the four-year plan. With regards to Major Projects, the Assembly is asked to approve the full cost as part of the proposition.

These changes mean that unspent amounts in any one year have to be explained and a case made for any slippage or alterations to the timing of spend. This process ensures that unspent sums do not remain with departments by default and helps release any amounts for Government wide reprioritisation.

The words in the lodged Government Plan made a commitment to return those amounts that are no longer needed and are not required to fund a wider Government priority.

This commitment is strengthened by Senator Gorst' amendment, which Council of Ministers supports by including that aim to reduce the borrowing need in the proposition to the Government Plan.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

These comments were submitted to the States Greffe after the noon deadline as set out in Standing Order 37A due to final due diligence and checking taking place.