STATES OF JERSEY

PROPOSED GOVERNMENT PLAN 2022-2025 (P.90/2021): TWENTY-FIFTH AMENDMENT

REVISED BORROWING AND DEBT REPAYMENT

Lodged au Greffe on 30th November 2021
by Senator I.J. Gorst

STATES GREFFE

PROPOSED GOVERNMENT PLAN 2022-2025 (P.90/2021): TWENTY-FIFTH AMENDMENT

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1 PAGE 2, PARAGRAPH (b) –

After the words "of up to those revised approvals" insert the words –

", except that, in Summary Table 3, the figure for 'Refinancing of past-service liabilities' will be amended in each column to £135 million, so that the borrowing in this Government Plan only covers the liability in respect of the Jersey Teachers Superannuation Fund"

2 PAGE 2, PARAGRAPH (g) –

For the words "up to £480 million" substitute "up to £135 million"

For the words "Past Service Pension Liabilities" substitute "Jersey Teachers Superannuation Fund Past Service Pension Liability"

3 PAGE 3, PARAGRAPH (l) –

Designate the existing paragraph as paragraph (m) and insert the following paragraph as paragraph (l) –

l) "…"."to agree that borrowing relating to COVID-19 and Fiscal Stimulus Fund requirements should be of a short-term nature only, for no more than 5 years (and, for example, funded from the revolving credit facility) and, accordingly, that:

i. the Council of Ministers be requested to bring forward proposals in future Government Plans to reduce this borrowing to zero by 31st December 2026; and

ii. that the Minister for Treasury and Resources be requested to prioritise the application of any unspent funds at the end of 2021 and 2022, be these in respect of spending related to COVID-19, departmental revenue expenditure or capital expenditure, to be returned to the Consolidated Fund and that these funds, along with receipts relating to the move of all taxpayers to current year basis, be used to minimise the borrowing requirements for COVID-19 and the Fiscal Stimulus Fund and support the repayment of debt."

Note: After this amendment, the proposition would read as follows –

THE STATES are asked to decide whether they are of opinion –

to receive the Government Plan 2022 – 2025 specified in Article 9(1) of the Public Finances (Jersey) Law 2019 ("the Law") and specifically –

a) to approve the estimate of total States income to be paid into the Consolidated Fund in 2022 as set out in Appendix 2 – Summary Table 1 to the Report, which is inclusive of the proposed taxation and impôts duties changes outlined in the Government Plan, in line with Article 9(2)(a) of the Law;

b) to approve the Changes to Approval for financing/borrowing for 2022, as shown in Appendix 2 – Summary Table 3 to the Report, which may be obtained by the Minister for Treasury and Resources, as and when required, in line with Article 9 (2)(c) of the Law, of up to those revised approvals, except that, in Summary Table 3, the figure for 'Refinancing of past-service liabilities' will be amended in each column to £135 million, so that the borrowing in this Government Plan only covers the liability in respect of the Jersey Teachers Superannuation Fund;

c) to approve the transfers from one States fund to another for 2022 of up to and including the amounts set in Appendix 2 – Summary table 2 to the Report, noting that the transfer from the Consolidated Fund to the Technology Fund is subject to the Assembly's approval of a proposition to create such a Fund in 2022, in line with Article 9(2)(b) of the Law;

d) to approve each major project that is to be started or continued in 2022 and the total cost of each such project and any amendments to the proposed total cost of a major project under a previously approved Government Plan, in line with Article 9(2)(d), (e) and (f) of the Law and as set out in Appendix 2 - Summary Table 4 to the Report;

e) to endorse the efficiencies and other re-balancing measures for 2022 contained in the Government Plan as set out in Appendix 2 Summary Table 6 and reflected within each gross head of expenditure in Appendix 2 – Summary Table 5(i);

f) to approve the proposed amount to be appropriated from the Consolidated Fund for 2022, for each head of expenditure, being gross expenditure less estimated income (if any), in line with Articles 9(2)(g), 10(1) and 10(2) of the Law and set out in Appendix 2 – Summary Tables 5(i) and (ii) of the Report;

g) to approve up to £135 million to be appropriated from the Consolidated Fund for the Jersey Teachers Superannuation Fund Past Service Pension Liability Refinancing head of expenditure, subject to the availability of funding, which may include, in full or in part, use of the borrowing/financing referred in paragraph (b);

h) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in

2022 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 7 to the Report;

i) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2022 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 8 to the Report;

j) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2022 as set out in Appendix 2 – Summary Table 9 to the Report;

k) to approve an amendment to the policy of the Strategic Reserve Fund to enable that Fund to be used as a holding Fund for any or all monies related to the repayment of debt raised through external financing, with the monies used to offset the repayment of debt, as and when required; and

l) to agree that borrowing relating to COVID-19 and Fiscal Stimulus Fund requirements should be of a short-term nature only, for no more than 5 years (and, for example, funded from the revolving credit facility) and, accordingly, that:

   i. the Council of Ministers be requested to bring forward proposals in future Government Plans to reduce this borrowing to zero by 31st December 2026; and

   ii. that the Minister for Treasury and Resources be requested to prioritise the application of any unspent funds at the end of 2021 and 2022, be these in respect of spending related to COVID-19, departmental revenue expenditure or capital expenditure, to be returned to the Consolidated Fund and that these funds, along with receipts relating to the move of all taxpayers to current year basis, be used to minimise the borrowing requirements for COVID-19 and the Fiscal Stimulus Fund and support the repayment of debt.

m) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2022-2025, as set out at Appendix 3 to the Report.

REPORT

Introduction

I stated in my amendment to the last Government Plan, for which I was very grateful to receive the support of Members, that Jersey's economic success has been built on low taxes, controlled and balanced public spending and no, or low, levels of public debt. I further expressed the view that our ongoing and future long-term success must be based on these same foundations. My opinion has not changed, and it is for these reasons that I propose this amendment to the Government Plan 2022-25.

As Members will be aware, my immediate concern relates to the level of borrowing that it is currently proposed be undertaken by the Government. Accordingly, this Amendment aims to both reduce the borrowing in the Government Plan and ensure that elements of it are paid back in quicker time than is presently intended.

There is nothing in this amendment which will impact on the Government's ability to deliver the core services and key infrastructure projects that are provided for in the Government Plan. The amendment simply aims to re-instate a greater degree of fiscal discipline and ensure that we provide some ongoing flexibility for our successors to take action, if necessary (which might need to include short-term borrowing), in order to deal with the (in many cases unknown) challenges of the future.

Whilst I fear that the current proposals in the Government Plan for borrowing, and the repayment of debt, have the potential to create difficulties for future Governments, I believe that these can be avoided. I cannot envisage a policy for the Island to willingly borrow beyond the levels currently proposed, for that would be to abandon completely the principle of maintaining low levels of debt. It is therefore, in my view, crucial to reduce the current proposals for borrowing so that we keep to one of the key pillars of our past success and maintain some breathing space for accommodating economic shocks, or other unforeseeable circumstances, in future years.

Proposed borrowing

This Government Plan proposes that Jersey's national debt reaches £1.74 billion by 2025, up from the £250 million this Government inherited in 2018. I consider this to be too high, and not necessary.

I accept that, in view of our strong balance sheet and the upcoming challenges we face, a level of borrowing is required, and indeed is sensible in certain circumstances. It is for that reason that I supported the proposal in P.80/2021 for the borrowing of up to £756 million to finance the building of the new hospital. This is a critical infrastructure project and a public asset that needs to be delivered without delay.

The borrowing for the hospital is supported by the income stream generated by the strategic reserve, although utilising the reserve in this manner does mean that, to meet that required income stream, the reserve does now need to be maintained broadly at its current level or higher for some years to come. Should the Government again find itself in a position where it needs to provide short-term life-support for the economy, the strategic reserve could be used for that purpose, but the Government would then need to find an alternative plan to service the debt for the hospital project. We also need to hope, of course, that further borrowing to that already agreed is not required as the project progresses. It would, however, be a dereliction and naïve not to at least have that possibility as a consideration in our plans.

Combined with the housing bond (which again has a clear associated income stream), the hospital borrowing takes Jersey's national debt to over £1 billion.

£259 million is then added to our debt due to borrowing from the revolving credit facility for the Covid-19 pandemic (including the Fiscal Stimulus Fund) and it is proposed that a further £480 million be borrowed to service past pension liabilities. Thus we arrive at the overall figure of £1.7 billion.

Repayment of the Covid debt

The generation of the £259 million debt to take the Island through the Covid-19 pandemic was largely unavoidable. The repayment of this debt is, however, within our control. At present, it is intended that the Covid debt will finally be paid off in approximately 20 years (likely by 2043) – in line with the final repayment of the majority of PYB liabilities. I believe that the Government should be more ambitious to clear this liability, for what was a short-term economic shock, from its books. As I have already inferred, we don't know when the next shock might come, and we should aim to ensure our finances are in as robust a position as possible when it does – and not still carrying the impact of previous downturns.

This amendment therefore proposes that the Council of Ministers be requested to bring forward proposals to repay the Covid debt by the end of 2026. This would be supported by the prioritisation both of any unspent funds (at the end of 2021 and 2022) relating to Covid, departmental or capital expenditure, and of PYB receipts, to be used to minimise the borrowing requirement for Covid and the ultimate level of debt (and interest) that needs to be paid back. This prioritisation is similar to the amendment I proposed in the last Government Plan which was agreed by the Assembly.

My colleagues might view this as an ambitious proposal, but I again stress that having debt hanging on our balance sheet for longer than is necessary carries its own risks. It not only means we ultimately spend more on paying it back, but it leaves the Government with less room to manoeuvre when we next face a crisis or the usual shocks and bumps that come with being heavily intertwined with the global economy. I believe the Government should at least attempt to bring forward proposals to repay the debt by 2026, and certainly much earlier than 2043.

Pension liabilities

I do not believe that now is the right time to be taking out a further £480 million of debt to cover all of our long-term pension liabilities. This might be more understandable if our debt hadn't already tipped above £1 billion due to essential infrastructure projects, plus the largely unavoidable Covid debt which takes it to over £1.2 billion.

This particular aspect of the Government Plan indicates to me that borrowing and debt are coming to be seen by some as the first recourse. If my view is correct that this Council of Ministers could not envisage borrowing of its own free will beyond the £1.7 billion of debt proposed in this Government Plan, then this is an area of borrowing that should be reduced in order to give flexibility for the future.

The amendment therefore proposes that, for the time being, borrowing should only be undertaken to meet our liabilities in respect of the Jersey Teachers Superannuation Fund (JTSF), which stand at £135 million. There is no need to borrow another £345 million at this moment in time to re-finance our liabilities for the Public Employees

Contributory Retirement Scheme (PECRS). To do so would be unnecessarily loading ourselves up with debt.

Borrowing for the JTSF will save more than for PECRS, and if the approach in the current Plan is to be pursued then it is right that this liability is addressed first.

This is not to say that the proposed borrowing for the PECRS liability couldn't take place in a future Government Plan, but it should only do so when some of the other borrowing proposed has itself been paid off.

Revised position on borrowing

If adopted, this amendment would reduce the borrowing in this Government Plan to £1.4 billion. By 2026 (and certainly earlier than 2043), Jersey's debt would be reduced again to £1.14 billion. Our debt would be heading in the right direction, instead of continuing to spiral upwards. That said, and circumstances depending, this might then be the time to consider re-financing the PECRS liability. We will have a greater sense of how the hospital project is progressing, and how we have recovered from Covid, which will be important context.

It might be that the Island needs to borrow for another purpose, perhaps more critical to Islanders' interests than the re-financing of a pension fund. The option and flexibility should at least be there, and so it is established by the proposal in this amendment.

Conclusion

I have adopted a consistent position on how Jersey should approach borrowing and the repayment of debt. I have been clear for some time, and on the public record, that I do not support the approach being taken in this Government Plan. For years Jersey has been a no debt jurisdiction. We are now a low-debt jurisdiction, but the current plan sets us on the path to permanent indebtedness.

I do not wish to see generations of Jersey people saddled with a legacy of debt, especially when more sensible and balanced options are available. I hope Members will agree that these proposals for reducing our debt and repaying it in quicker time reflect the prudent approach that for centuries characterised the Government of our Island.

Financial and manpower implications

This amendment will reduce the borrowing in this Government Plan by £345 million. It will pay back £259 million of debt within a shorter timeframe. It also ensures that unspent funds and PYB receipts in 2021 and 2022 minimise the borrowing requirements for COVID-19 and the Fiscal Stimulus Fund, and support the repayment of debt.