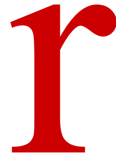
STATES OF JERSEY



STATES RESOURCE PLAN 2004 – 2008 (P.118/2003): SECOND AMENDMENTS

Lodged au Greffe on 2nd September 2003
by the Connétable of St. Helier

STATES GREFFE

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(1) *At the end of paragraph (a), after the words* "those years" *insert the words* "and that this should be aided by an explicit plan, based upon reduced public spending, to eliminate the forecast cumulative deficit of £36 million by 2008, with the plan to be presented to the States by the Finance and Economics Committee as part of the 2004 Budget".

(2) *In sub-paragraph (b)(ii), for the words* "3% per annum" *substitute the words* "2% per annum".

(3) *After sub-paragraph (b)(ii) insert the following sub-paragraph –*

"(b)(iii) to agree that transfers to the Strategic Reserve of at least £5,000,000 per annum should be made in each year 2005 to 2008 as a first charge on total States net revenue expenditure;".

(4) *After new sub-paragraph (b)(iii) above insert the following sub-paragraph –*

"(b)(iv) to agree that Committee cash limits for 2004, as indicated in Table 5.1, where they exceed £80,000,000, should be broken down and comprehensive departmental service analyses presented to the States by the Committees concerned before consideration of the 2004 Budget, and as part of the Resource Plan in subsequent years;".

(5) (a) *in sub-paragraph (c)(i), for the words* "£48,000,000 each year for the years 2004 to 2008" *substitute the words* "no more than £40,000,000 each year for the years 2004 to 2008, in place of the sum of £48,000,000 each year"*; and*

(b) *in paragraph (c)(ii) after the words* "Table 8.1" *insert the words* "with the exception of Belle Vue Residential Home (Phase 1) and A&E/Radiology Extension (Phase 1), and with the propose allocations for all other projects under 'Allocation to Rolling Votes and Funds' and 'Building and Civil Engineering Works' being reduced *pro rata* in order to reduce the total sum allocated in 2004 from £48,000,000 to £40,000,000"*; and*

(c) *in paragraph c(ii) for the words* "and to approve in principle the proposed programme for 2005 to 2008 as set out in Tables 8.2 to 8.5, respectively" *substitute the words* "and to request the Policy and Resources Committee, in consultation with any other Committee concerned, to review the proposed programme for the years 2005 to 2008, as set out in Tables 8.2 to 8.5 respectively, and present to the States a revised programme for those years within an overall total allocation of no more than £40,000,000 each year".

(6) *in paragraph (d) after the words* "2005 to 2007" *insert the words* "and to agree that the proposed process and all other issues relating to proposed public spending proposals for this period should be discussed in a Committee of the Whole House in accordance with the provisions of Standing Order 38A and 38B before consideration of the 2004 Budget".

CONNÉTABLE OF ST. HELIER

Note: The Finance and Economics Committee's comments are to follow.

REPORT

Reading the Report accompanying the Resource Plan (P.118/2003) as a taxpayer rather than as a States' Member, against a media background of warnings of imminent rises in tax, new taxes, and the like, I feel compelled, as I was following the outcome of the Fundamental Spending Review process, to attempt to persuade the States to rein in its spending in a meaningful way. My previous effort, States' expenditure: reduction in cost of public sector workforce (P.90/2003), is yet to be debated, or even reported on by the Finance and Economics and Policy and Resources Committees, but I note without much surprise that its objectives are not referred to in the Resource Plan. So the recruitment goes on unabated – at the time of drafting this Amendment I visited one of the 'untouchable' 3 big-spending departments to collect a form; and while the form was being hunted down I had plenty of opportunity to scan the notice boards, one of which was advertising, at Grade 14 (c.£60,000) the grandiose post of 'Head of Capital', a five-year contract for someone to manage the capital projects of that department.

And it is the extraordinary ability of States' Departments to continue to commission multi-million pound capital projects in the present economic climate, which must rankle with any taxpayer. But capital programme, with its revenue implications, is a part of the Resource Plan to which I will return in due course.

First, we must address the yawning gulf which is opening up between our income and expenditure. The draft Resource Plan as presented by the Policy and Resources Committee is full of good intentions but ducks the big issues that confront us as the economic situation becomes more difficult and the tax base, at the level we have enjoyed it over the last 20 years or so, ever more uncertain. It is not good enough for that Committee and the Committee Presidents, to say that 3% spending rises in the 4 years after 2004 are the 'minimum deliverable' and in the same breath say that they are the 'maximum sustainable'. If we do not have the certainty of sufficient tax revenues they are nothing of the kind but just the highest common factor to have emerged from the closed door 'consensus' of so-called spending review meetings. Taxpayers deserve better than this.

In particular –

There are no proposals at all in the Resource Plan to address the multi-million pound deficit indicated in Table 4.1; indeed, there is conspicuous silence on this point, and especially on the fact that the bottom line figures in that table are cumulative. The Executive Summary (p.iv) warns that the deficit for 2008 could be £22 million 'if no action were to be taken' – what we are not being told is that Table 4.2 shows a cumulative deficit of £36 million by the end of 2008, and that is after an additional £7 million per year of additional revenues 'to be proposed in the 2004 Budget' has been extracted from taxpayers. The Committee is surely being rather economical with the truth here.

Nor is there any sensitivity analysis in respect of lower than forecast tax receipts and what that implies for the gap between revenue and spending.

There is a complete mismatch on page 4 of the Resource Plan between the stated objective of building up the Strategic Reserve and the admission that this cannot be done because spending increases cannot be brought below 3%. Why is 3% the minimum deliverable? Whose judgement is this? Is it that of taxpayers and ratepayers? What does it mean for inflation over the medium term? Is it just the result of a failure, or at best unwillingness to look fully at the sacred cows of health and education, both of whose budgets it is impossible to believe are 'essential' in their entireties? We have no breakdown and so we do not know. The Policy and Resources Committee states, 'It is regrettable that in the current circumstances no transfers are being proposed to the Strategic Reserve for the foreseeable future.' But it is clearly essential to keep building the Strategic Reserve, not only because that will bear down on inflation but also because we must have reserves in hand for the huge transition in prospect as the new corporate tax regime emerges in response to the E.U. Tax Package.

The revenue demands of Health are, of course, insatiable. But where is the evidence of efficiency savings from the Health and Social Services Committee? The answer is, we do not know, as this Committee was spared the 'rigours' of the Fundamental Spending Review process. And both Education, Sport and Culture and Health and Social Services Committees are criticised in the Annual Report of the Audit Commission in terms which should set alarm bells ringing in taxpayers' minds: of Health, 'the lack of a high level strategy for dealing with the co-ordinated services required to deal with an ageing population; States departments operated independently of, and without communicating with, each other in providing services for the elderly; internally, services operating independently of each other leading to duplication;' of Education, no co-

ordinated Island-wide strategy for early years education and child care; States' provision was often not a suitable option for working parents.'

Taxpayers are bound to object to paying increased taxes unless such big-spending Committees have tightened their belts first, by eliminating duplication, reducing administrative costs, overtime, wastage, and other frugal measures which are second nature to the person in the street.

There is no examination at all of the ability of the 'Trading Areas' to contribute more to the exchequer, or of the potential savings that could be achieved were the Policy and Resources and Finance Committees to meet the challenge of dramatically downsizing some States' departments.

Finally, there is a complete absence of realism in the capital programme, despite the 'reductions' from previous 'plans'. In present circumstances we simply cannot afford all that is presented, with nothing for essential roads infrastructure until 2006, and nothing for the airport (without which any strategy to retain the finance industry is doomed to failure) until 2009 at the earliest. There is not even a mention of the need for massive investment in waste incineration in the next few years.

And it is surprising, to say the least, that specific recommendations made by the Audit Commission in respect of capital projects would appear to have been ignored by the Policy and Resources Committee. None of the Committees proposing major capital projects has presented the taxpayer alternative options and their costings. We all know that investment is needed in such things as residential care for the elderly, but we need a strategic context, not piecemeal proposals for this building or that, proposals that moreover look very expensive in certain instances for the outcomes to be achieved. That context must include an analysis of public versus private provision.

There is no strategic context to these capital projects, and no business cases to support individual proposals such as the Health and Social Services Committee's project, Belle Vue Residential Home. The 2 phases of this project add up to a colossal £6.6 million to provide just 28 beds plus a day-care centre, which is almost a quarter of a million pounds per bed space. It is in view of the absence of a proper business case for the 2 Health and Social Services Committee's proposed projects, totalling over £5 million for their first phases alone, and in view of the findings of the Audit Committee, that I am proposing to delete these 2 projects from the 2004 programme.

The public sector's capital programme clearly needs rethinking in the light of the Island's changing economic circumstances, especially in view of the serious impact on our finances in 2008. Are we to accept the Policy and Resources Committee's proposition to approve in principle the programme for 2005 to 2008, as set out in tables 8.2 to 8.5? I do not believe that we should. Not only should we accept a tighter squeeze on the capital programme from £48 million to £40 million, but we need to ask the Policy and Resources Committee to come up with a revised programme. That Committee must challenge schemes which fail to present sound business cases, such as the Education, Sport and Culture Committee's plans to spend, in 2005, £2.4 million on remodelling and extending Les Chênes School, which provides facilities for 'twenty or so pupils'. To blandly state that the only alternative to spending £2.4 million on the remodelling and extension is, 'young offenders will be referred to the prison' is not a good enough argument for the taxpayer who is being asked to pay for the work. What are the real alternatives? Again, the unit cost of what is being proposed seems unacceptably high.

Cutting the States' capital programme as proposed in Amendment (5) will require political courage, and the determination by States' members that we must cut our suit to fit our cloth. Some of these sums will relate to projects at a fairly advanced stage of planning and reductions will be difficult to achieve. But we can and must achieve them.

The Policy and Resources Committee usefully highlights the revenue implications of the proposed capital programme for the years 2004 – 2008 (Table 8.9) although the cumulative figure of £4.3 million is not shown. The Resource Plan includes the revenue implications, it states, 'so that appropriate action can be taken' – but it is silent on what that action should be.

Finally, the Resource Plan has no concrete proposals on headcount. What we do have, rather, are the headcount implications of the recommended capital spending programme and they make pretty frightening reading: 48 full-time posts, most of these in Health and Social Services. Where are the alternative proposals to providing some of the services currently provided? If there is no alternative but increasing Health's

headcount, where are the 'compensatory staff savings' in other Departments?

Members will no doubt have similar, or other, concerns along these broad lines. I certainly do not claim any great expertise on these matters but I know that we cannot go on as we are, as if to pretend that everything is really all right and just a few minor adjustments are needed. We are leading the Island into living seriously beyond its means, by encouraging the build-up of a substantial short-term fiscal deficit without being honest about admitting it, and moreover in the context of OXERA's analysis of a substantial structural deficit on top of this, due to the ageing of the population and the falling size of the working age sector in the population, in the context of greater than ever uncertainty than ever before about the viability of the existing tax base, and the huge changes and risks implied by the E.U. Tax Package-induced changes to the corporate tax regime. In such circumstances we must be very prudent. We certainly must not say that a given level of spending increase, one moreover concentrated almost entirely on 2 departments, is the'minimum deliverable'.

So, if we are going to live within our means, the States needs to show leadership now and grip the biggest strategic issue it has faced in modern times. It is not as if the problem is newly-revealed. One of the first things that OXERA said 2 years ago or more was that on a preliminary analysis and taking relevant risl factors into account, the Island's public finances were looking unsustainable.

These amendments are reasoned ones designed to reassure the taxpayers of Jersey that we are prepared to tighten the spending framework a notch or two more than the Policy and Resources Committee wants to do, while we concentrate on tackling the strategic context. They are about shutting the stable door before the horse bolts not after.

Explanatory notes:

Amendment (1) is designed to ensure that we arrive at the end of the plan period with no deficit, instead o with the deficit of £36 million anticipated, and that we achieve this through expenditure-cutting measures rather than increased taxation over and above the £7 million extra tax revenue per annum proposed in th Resource Plan.

Amendments (2) and (5) are self-explanatory.

Amendment (3) is designed to ensure and prioritise the continued growth of the Strategic Reserve.

Amendment (4) is designed to provide a breakdown of how the 3'social' Committees are spending taxpayers' money.

Amendment (6) is designed to provide the States as a whole rather than just Committee presidents with th opportunity to debate fully the financial situation of the Island, and a more rigorous method of challenging expenditure items in Departmental budgets than will be provided in the 2004 Budget debate.

There are no negative financial or manpower implications for the States arising from these amendments.