STATES OF JERSEY

PROPOSED GOVERNMENT PLAN 2022-2025 (P.90/2021): TWENTY-FIFTH AMENDMENT (P.90/2021 AMD.(25)) – COMMENTS

REVISED BORROWING AND DEBT REPAYMENT

Presented to the States on 9th December 2021
by the Council of Ministers

STATES GREFFE

COMMENTS

The twenty-fifth amendment is an amendment of three parts, affecting two very different debts.

Refinancing of Pension Liabilities (parts 1 & 2)

The amendment proposes limiting the approval of refinancing of past-service pension liabilities to cover only the Jersey Teachers Superannuation Fund (JTSF), removing the refinancing of the Public Employees Contributory Retirement Scheme (PECRS), for the time being.

As set out in the Government Plan, we have the opportunity to save substantial amounts of taxpayers' money by refinancing these pre-existing liabilities and substantially reducing the interest cost. The equivalent rate of interest currently charged is 5% and through open market borrowing it is estimated that this could be reduced to 2.5% or lower (based on current market conditions). Whilst the majority of the savings relate to JTSF, the refinancing of the PECRS debt is forecast to save £260 million by 2053 (£150 million in real terms). This is a substantial amount of money – for example covering nearly all of the projected net impact of COVID.

The refinancing of pension liabilities is long overdue, and whilst the majority of the savings would be realised in future Government Plan periods, there is no compelling reason to put off the decision to future governments, in future government plans, when there is the opportunity to take action to deliver more sustainable finances for Islanders now.

The Council of Ministers therefore cannot support parts 1 and 2 of the amendment.

Covid-19 (part 3)

The third part of the amendment proposes additional wording to commit to the faster repayment of debt relating to the impact of Covid-19. This is broadly in line with the Council of Ministers proposal in the Government plan to seek to minimise this debt.

The proposal reduces the flexibility of government in the way in which it can borrow to meet these costs, restricting borrowing to be of short-term nature, and requiring a plan to reduce the debt to zero by 2026. This plan will form part of the next Government Plan. The current cost of borrowing via the Revolving Credit Facility is broadly comparable to expected annual costs of a longer-term bond.

The plan as proposed would allow for this approach, but would also allow Government to refinance on a longer term basis, matched to the profile of PYB tax receipts - which will be used to repay the debt. By removing this option, the amendment removes this ability to gain certainty over the costs of the debt, and would mean government is more exposed to the risk of future interest rate rises.

If the costs of Covid were to increase, or other factors resulted in a reduced ability to eliminate or minimise the debt, the Island could be left with an ongoing debt financed through short-term means, with no certainty over the rate of interest and the potential exposure to increased costs.

The Council of Ministers will accept the proposed third part of the amendment as it is in line with the general philosophy of minimisation of the Covid-19 debt, but also acknowledges the increased risks it presents.

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 time constraints from the States Meeting being moved forward to Monday 13th December, which in turn affected the final deadline for Comments, and the requirement to undertake final due diligence and review processes.