

STATES OF JERSEY



COUNCIL OF MINISTERS' PROPOSED STRATEGIC PRIORITIES 2015–2018 (R.8/2015): COMMENTS

**Presented to the States on 23rd February 2015
by the Corporate Services Scrutiny Panel**

STATES GREFFE

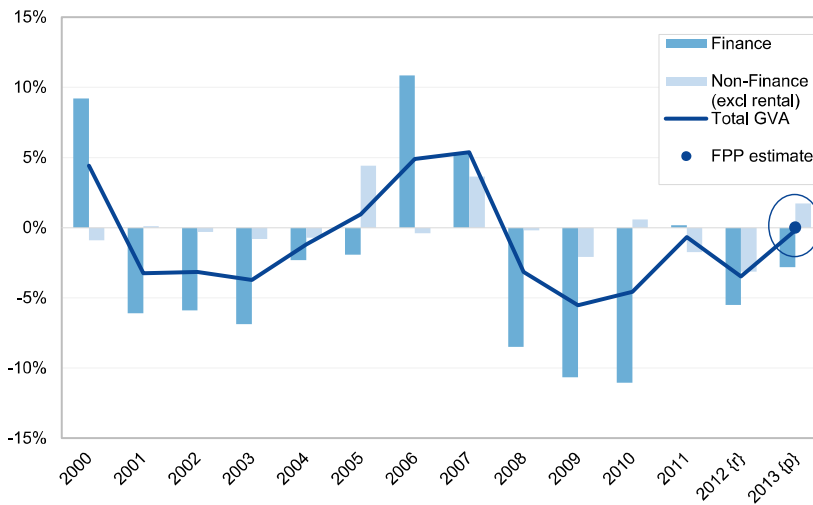
COMMENTS

*“...Prudence must be top of the agenda...”*¹

Over the past 8 years, the Corporate Services Scrutiny Panel (CSSSP) has undertaken a number of investigations into expenditure and income forecasting, the Fiscal Stimulus, the Comprehensive Spending Review, numerous Budgets and the first Medium Term Financial Plan². In these reports, the Panel has repeatedly raised concerns about the quality and reliability of economic forecasts, the ability of the States to make efficiency savings and improve productivity; and, fundamentally, whether the States of Jersey can balance income and expenditure.

In advance of the ‘In Committee’ debate on the Strategic Plan and with the publication of the second Medium Term Financial Plan a few months away, this short comment by the CSSSP suggests that the Island is at a critical juncture. The recent report from the FPP highlights certain areas that are cause for concern and the possible implications for the Island’s finances should not be underestimated. **The Panel is concerned that additional charging mechanisms may be required in order to fund spending which seemingly cannot be funded from existing revenues**³.

Jersey’s economy has long depended on financial services for economic growth. Unfortunately, the Global Financial Crisis of the late 2000s appears to have left an indelible mark on the Island. Since 2008, the GVA of the Island’s finance sector has decreased by 33% in real terms, whilst that of the non-finance sectors (excluding the rental income of private households) has decreased by 5% (Graph 1). Over this period, total GVA has decreased by 16% in real terms (2009–2013: Graph 2).



Graph 1: A breakdown of Gross Value Added growth, 2000–2013 (FPP, 2015, page 10)

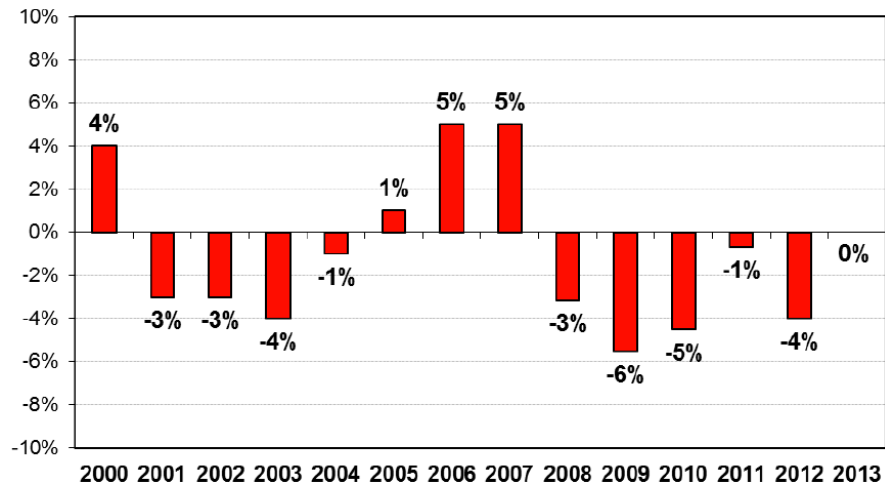
Despite the forecasts of positive economic growth over the next few years⁴, there is some distance to make up after 5 years of negative economic growth.

¹ Minister for Treasury and Resources to CSSSP, 4th February 2015

² S.R.2/2010, S.R.9/2010 and S.R.14/2011, Comments P.102/2012, S.R.13/2013, S.R.12/2014

³ Minister for Treasury and Resources to CSSSP, 4th February 2015 (page 5)

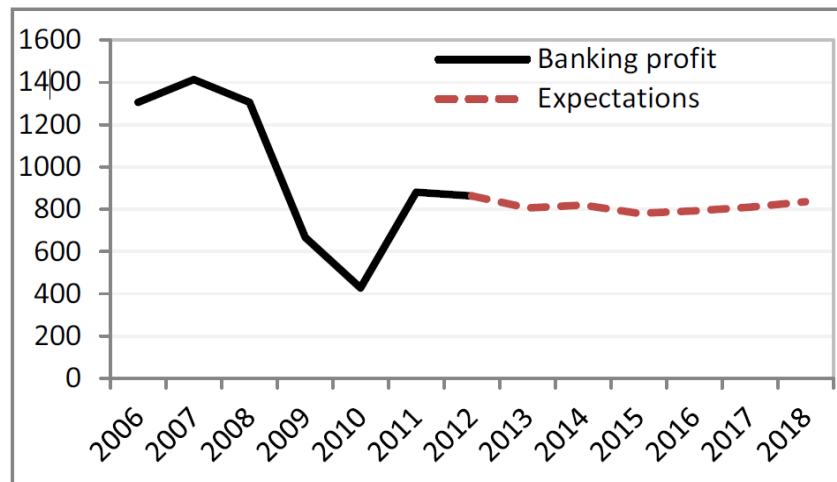
⁴ FPP – page 4, + various paragraphs within pre-MTFP report



Graph 2: Annual percentage change of GVA (basic) in real terms (Statistics Department)

Over the past few years, the perceived assumptions have been that the finance industry would return to profitability levels which it enjoyed in the middle of the 2000s⁵. The Panel is concerned (based on advice from its adviser – MJO Consulting) that this might not necessarily be the case, even if the forecasted assumptions about employment in the finance sector do come to pass⁶.

Jersey’s most profitable sub-sector is banking. After the collapse in banking profits between 2008 and 2010, profits have become more stable and are now at levels which are similar to the early 2000s⁷. However, there are significant risks to the future of the banking sub-sector, particularly with further restructuring and increased international regulation.



Graph 3: Banking sector taxable profit expectations

⁵ E.G.: JFL September 2013: <http://www.jerseyfinance.je/news/jersey-finance-comments-on-states-of-jersey-economic-performance-figures-for-2012#.VN1H1o10ycx>

⁶ ‘Finance jobs are expected’, 29th January 2015: <http://www.jerseyfinance.je/ceo-blog/finance-job-increases-are-expected#.VNfAjMZRC-9>

⁷ Jersey Economic Trends 2014 (page 9) – States of Jersey Statistics Unit

The Panel has concerns about the outcome and application of economic forecasts in Jersey. The Panel has noted that since the publication of Budget 2015, many of the economic assumptions have been revised down further, with implications for the levels of profitability of the finance industry and tax revenue arising therefrom. **The Panel is therefore concerned that the size of the possible structural deficit facing the Island could be much larger than envisaged.** Looking slightly further ahead to 2018 and beyond, the FPP has suggested that: “...*there is a real risk that the trend rate of [economic] growth in Jersey could be broadly flat in future...*”⁸.

The Panel is concerned that even with the predicted increases in economic growth in the years before 2018, it is unlikely that there will be spare capacity to restore our strategic reserves to the previous levels.

The Panel considers it important that States Members and the Public at large understand that there are very few additional sources of funds available other than the Strategic Reserve.

Because of the economic situation the Island now finds itself in, the Panel is of the opinion that difficult and hard decisions will need to be made now in order to ensure our current and future prosperity. The Panel sincerely hopes that economic growth does filter through into increased profitability and higher tax receipts; however, it would respectfully request States Members to recognise the seriousness of the position facing the Island when considering the proposed Strategic Plan.

*“... in a challenging economic environment it is even more important to be prudent or conservative ... because you tend to underperform economies in a recession ...”*⁹

“The less prudence with which others conduct their affairs, the greater the prudence with which we should conduct our own affairs.” [Warren Buffet]

⁸ FPP 2015, page 43

⁹ Minister for Treasury and Resources – Public Hearing 4th February 2015