SUPPLEMENTAL UPDATE TO THE 22 MARCH 2006-06 SUBMISSION TO THE CORPORATE SERVICES SCRUTINY PANEL ON THE DRAFT STRATEGIC PLAN 2006 – 2011

It has been said that the subject Plan has little substance, being mostly aims and commitments of a social nature, except for the brief two pages Resource Statement and a forecast showing mostly serious budget deficits over the six years to 2011. The really important matters for States Members to consider with utmost care are (1) the root cause of budget deficits at this time and (2) Sections 6.1.1 and 6.1.2 of the Plan which call for final States approval for the introduction of the GST and zero-ten tax measures, new taxes which are expected to result in serious budget deficits in 2010, 2011 and onwards.

On the root cause of budget deficits in recent years, four years ago Oxera warned that the imbalance between rising States income and more rapidly increasing expenditure, of which around 60% was staff costs, was unsustainable. Instead of first bringing expenditure into line with income, as Oxera recommended, the focus was on extra taxation. Deficits from 2002 resulted, as Oxera predicted, and there have been no transfers to the Strategic Fund since 2001 nor are any forecast to 2011, or likely for years after that. The proposed introduction of zero-ten with its £80-£100m black hole resulted in £85m of unsuccessful capital bids being deferred until 2011 or beyond,

Regarding the proposed zero-ten tax regime, the high administration cost and other problems were summarised in the previous submission. The 60 page design proposal now to hand reveals the complex range of tax assessments which would be required and the overall huge cost and undoubted inefficiency in administering this tax. All this instead of the highly efficient present system of corporations and local traders paying tax direct to the Tax Office each year – and no black hole. No extra zero-ten staff and administration cost estimates have been publicised and this needs to be made known.

Regarding GST, what scant information that was available is summarised in the previous submission. From the 80 page draft law now to hand we see that GST will not be as simple in operation as we were led to believe. Here again, the true likely cost in buildings, transport, staff and administration and, very importantly, the additional funding and administration cost of the GST relief part of the income support scheme and how these relief payments will be determined.

Recently the Statistics Dept. gave a high figure of average earnings in Jersey, which must have included the large number of high earners. An earlier Oxera report gave high percentages of full-time jobs in 18 categories of work with earnings thresholds of only (1) £20,000 and (2) £30,000.

As mentioned in the earlier submission, GST would undoubtedly cause hardship to many families, pensioners and many others already being burdened with higher oil-related and other costs of all kinds. For those people, raising the tax exemptions by 2 ½% in 2008 will do nothing to cover the £800 p.a. GST cost estimated by the Crown Agents. There is poverty in the Island now.

JERSEY ECONOMY UPDATE

Jersey's finance industry continues to prosper and expand, with another big rise in bank deposits and funds administered in Jersey in the first quarter of this year as well as 921 new companies registered, double the number incorporated during the same period last year.

There has been a further development since HM Revenue and Customs was given the right to probe offshore accounts via parent UK banks, and that is another legal ruling granting HMRC access to offshore stock exchange dealings by UK residents. Once again, what business is lost is nothing to do with interest rates elsewhere, but continuing UK anti-tax avoidance measures.

The surge in UK house prices has prompted yet another BOE warning on the £1.2 trillion mortgage and consumer debt and the expectation of higher rates soon for those in Jersey with mortgages. Rates have risen worldwide to curb inflation.

The previous submission commented on the huge US trade and federal government debt and the reluctance by some large creditor countries to go on accepting US Treasury bills. With mounting debt servicing costs, the situation continues to deteriorate alarmingly and we can only wait to see what happens to the price of oil and fuel, heating, transport and other oil-related inflation costs here, particularly as 70% of Middle East oil production goes to oil-thirsty markets in China and South East Asia countries. Electricity bills are going up by 9.7% in January and almost 3000 States tenants will pay substantially more for communal heating in future. A winter fuel allowance for OAPs has been proposed.

Bearing in mind that the Middle East will be a tinderbox for years, the conclusion to this section in the previous submission, that this is most certainly not the time for Jersey to embark on risky tax changes, still applies.

OTHER CONSIDERATIONS

Despite reassurance that, with substantial States funding each year, all will be well over a long period of years, the large deficits in the two main pension schemes continue to cause concern. Taking on the large numbers of (senior) staff needed to administer the zero-ten and GST taxes, and extra staff for the GST part of the income support scheme, will not just add to annual payroll costs, but to the long-term pension fund liability in later years.

CONCLUSION

The transcript of the evidence given to the Corporate Services Scrutiny Panel reveals much uncertainty regarding the size of the black hole and how to fill it. There is talk of achieving balanced budgets over periods of time, but no real confidence that there will be substantial surpluses to provide much needed transfers to the Strategic Fund.

We have a strong and successful economy now, let us keep it that way. Far better to write off what has been spent so far than to needlessly create large deficits for years ahead. This is a small Island with an ageing population, it would not be right or fair to them to do so.

CREDENTIALS

Working life in banking, cost and management accounting, factory financial controller, chief accountant loan and savings banks, Jersey, U.K., Canada and Bahamas. Head of Credit Department former Tozer, Kemsley & Millbourn Ltd, Millbank, London, EC2 major exports financing. Head of credit local Canadian Bank reporting to London and Toronto on up to $3.5 billion foreign credits. This work involved overview of national economies, state-owned banks and large industrial enterprises in Europe, Soviet block countries, Arabia and elsewhere. As an alternate director, attended board meetings reporting on the above. Retired 15 years, have continued to monitor (Latin monere to warn) global economies and events.