STATES OF JERSEY

VOTE OF NO CONFIDENCE: MINISTER FOR TREASURY AND RESOURCES

Lodged au Greffe on 10th September 2014
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

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

that they have no confidence in the Minister for Treasury and Resources.

DEPUTY G.P. SOUTHERN OF ST. HELIER

Note: In accordance with Standing Order 22(a), this proposition has been signed by the following additional members –

1. Deputy S.Y. Mézec of St. Helier
2. Senator A. Breckon
3. Deputy M. Tadier of St. Brelade

The reasons for bringing this proposition are set out in the following report.

REPORT

Article 10(8) of the Public Finances (Jersey) Law 2005 requires the Minister for Treasury and Resources to lodge a Budget where the Consolidated Fund is balanced. The forecast of States income in 2014 and 2015 necessitates measures to be proposed to maintain a positive balance on the Consolidated Fund, should actual income tax revenues fall to the levels now forecast. The proposed measures are shown in Figure 11.1.

The Minister claims to have met the requirement to balance the budget in which there is a major shortfall in revenues of some £85 million, by the use of a whole raft of one-off measures which give the impression of panic. These measures need to be examined in depth against a set of criteria as follows –

- **Timing** – when was the Minister aware of the impending shortfall, and when and how was this information shared with stakeholders? In particular, when were the changes to dividend/share arrangements notified to Jersey Post, Jersey Water and Jersey Telecoms?

- In turn, this leads to the question of **transparency**, if such large shortfalls were known about, why did the Minister not alert members to them? Why has he continued his eternal optimism in the face of evidence to the contrary?

- **Deliverability –** Is it possible to deliver a 2% reduction in pay budgets across all departments at a time when school rolls and hospital waiting lists are rising? If a jobs freeze cannot be delivered, what prospects are there for a further wage freeze?

- **Legality –** the Minister has once again raided some supposedly "ring-fenced" funds. He needs to show that there are legitimate areas into which he can divert these funds.

- **Reneging –** the Minister has chosen to postpone or delay action on a number of important areas where decisions have recently been made by the States.

The overall impact of the measures that the Minister proposes, when examined under the criteria above, is one that raises the question of whether the Assembly has effectively been misled over the past years and months.

One also has to bear in mind the possibility that if any one of the Minister's proposed measures fails to get the States' approval or is found to fail one or more of the tests above, then this will produce an unbalanced budget which breaches Article 10(8) above.

The proposed measures are listed on the next page –

Proposed measures that would affect the Financial Forecast		
Contributions from States Strategic investments		
Proposed Jersey Post Extraordinary Dividend	5,000	
Possible Jersey Telecom Payment of deferred Gigabit Dividend	3,000	3,000
Utilising available balances on Funds and Reserves		
Transfer from Court and Case Costs Contingency	3,600	
Transfer from Insurance Fund	2,500	
Utilisation of available Drug Trafficking Confiscation Funds		1,100
Utilisation of available Criminal Offences Confiscation Funds	6,400	
Proposed savings		
Proposed savings from ALL departments 1% pay budgets		3,640
Proposed savings from ALL departments 1% on gross non pay budgets		2,395
Proposed reduction in 2014 carry forwards of ALL departments	5,000	
Reduce Contingency allocation to FoI funding by £1m		1,000
Further savings		
PECRS - delay increased repayment of pre 1987 debt	1,000	2,000
Proposed savings from ALL departments of a further 1% pay budgets		3,640
Proposed savings from ALL departments of a further 1% on gross non pay budgets		2,395
Proposed reduction in 2015 carry forwards of ALL departments		5,000
Other measures if required		
Proposed deferral/reduced contribution to Long Term Care Fund (LTCF)	5,000	5,000
Further rephasing of capital, increased shareholder contributions and savings		3,967
Proposed Measures that would affect the Consolidated Fund balance		
Contributions from States Strategic investments		
Proposed redemption of Jersey Water preference share		6,800
Apply Redemption of Jersey Water preference share		(6,800)
Apply Jersey Post Extraordinary Dividend		(5,000)
Utilising available balances on Funds and Reserves		
Proposed transfer from Housing Development Fund (HDF) to Consolidated Fund	6,120	
Proposed transfer from Dwelling Houses Loans Fund (DHLF) to Consolidated Fund	2,000	
Proposed transfer from Stabilisation Fund to Consolidated Fund	1,058	
Rephasing of Unspent capital approvals - return to Consolidated Fund	7,119	
Consolidated Fund c/fwd		**13,344**
Projected Consolidated Fund balance after Proposed Measures	**13,344**	**-**

Questions were raised about the optimistic treatment of revenue projections as early as 2012:

3.6 Deputy S. Power of St. Brelade of the Minister for Treasury and Resources regarding economic growth assumptions contained within the Medium Term Financial Plan:

Could the Minister clarify how the assumptions on economic growth as outlined in the Medium-Term Financial Plan were calculated? I am referring specifically to page 42 of the plan which sets the States income will grow from £613 million in 2012 to £681 million by 2014, which is over 10 per cent.

Senator P.F.C. Ozouf (The Minister for Treasury and Resources):

I am grateful for the Deputy and indeed Deputy Southern with his later question to clarify some aspects of the inaccurate reporting that, unfortunately, perhaps inadvertently, happened over the summer on the economic projections. The economic growth assumptions were finalised by the States' Economic Adviser in March of this year, which fed into the overall income tax forecasting and process that the Treasury has. The original forecast for 2012 was drawn from the previously-published F.P.P. (Fiscal Policy Panel) forecast. As far as 2013 and 2014 is concerned, the approach is exactly the same as that of the U.K. Office for Budget Responsibility and other forecasting agencies. That is that the economy will return in Jersey, as in the U.K., to average performance in that period, reflecting the long-term trends and recent experience. ***I personally reviewed all of the assumptions when I returned from my own summer break and I was pleased that that, after having looked at them, I maintained the conclusion that the assumptions are absolutely robust.*** Indeed the most recent monitoring information that has been provided to me by Treasury shows that in the second quarter of this year tax receipts in 2012 are projected to exceed the forecast previously envisaged by £7 million. That is entirely consistent with the forward levels of income set out in the M.T.F.P. (Medium Term Financial Plan). So I am pleased with the progress and I stand by the assumptions, but they will be reviewed by the F.P.P.

3.6.1 Deputy S. Power:

I would like to ask a supplementary. Most economies in the west, including the U.K. and the U.S. (United States of America), are forecasting growth rates of less than or equal to 1 per cent in the next 12 months and not much more than that after that. Would the Minister agree that Jersey seems to be out of sync and would he not agree that projecting growth that may not be achievable factors in increased States spending at the same rate? My question to the Minister really is, based on those 2 questions, is this prudent?

Senator P.F.C. Ozouf:

I am more than happy to discuss with the Deputy or indeed any other Member on the intensive discussions that we are going to have on the M.T.F.P., to go through the detail of what is built in these figures. It is absolutely important that Members have the same level of confidence that I do about the methodology that goes behind it. I would say that these are done independently by the States' Economic Adviser and they are going to be reviewed by the F.P.P., but I completely understand why they should rightly be concerned about whether we have got our figures correct. I would just point out to the Deputy that I think there is a difference between the downgrading of the economic assumptions in various different eurozone and other economies compared to Jersey both this year and what we expect to happen in the subsequent years. The M.T.F.P. is, of course, looking ahead to what the economic situation will be in 2014 and 2015 and indeed real economic growth this year was previously expected to be 1.4 per cent in Jersey and it is 0.8 per cent now in the U.K. We would expect that our economy would perform better than the U.K. We do not have the legacy of debt. We have been actively involved in fiscal stimulus in a number of areas.

So surely we should be at least 0.5 per cent above perhaps that of the very difficult situation of the U.K. Going forward into 2013, we are at the same level of real economic growth and for 2014 and 2015 we are virtually the same and, again, I would expect us to do better than that.

3.6.2 Deputy G.P. Southern:

Is it not the case that the Office of Budget Responsibility has been downgrading the U.K. forecasts so that now in 2012 it has confirmed it is in double-dip recession and that, despite the Minister's optimism, our own figures should equally be downgraded as well?

Senator P.F.C. Ozouf:

They may, in this year, be downgraded in terms of economic growth somewhat, but it does not change the income tax forecasts that the Deputy quite rightly said was the most important thing ... ... but the most encouraging thing that I can say to Members is that the income tax forecasts – at the end of the day, perhaps the most important thing is whether or not we have got the resources to spend – are up.

In short, according to the Minister, whilst economic growth forecasts may be downgraded, the income tax forecasts should not be, despite the obvious link between economic activity and the tax revenues that are the product of that activity.

If we turn to the Budget 2014 presentation, we find the following –

> "**Worldwide Economic Recovery**
>
> *There have been some positive economic developments at the global level in recent months. The Organisation for Economic Cooperation and Development (OECD) has stated that:*
>
> > *"the pace of recovery in the major advanced economies improved in the second quarter"*
>
> and that, *activity is expanding at encouraging rates in North America, Japan and the United Kingdom, while the euro area as a whole is no longer in recession."*
>
> *However, they also note that growth has slowed in several emerging economies and conclude that while recent improvements are welcome:*
>
> > ***"a sustainable recovery is not yet firmly established and important risks remain".***
>
> *Overall, the OECD expects that the improvements in growth seen in the first half of 2013 will be maintained for the rest of the year. They also emphasize though, that there is still risk, while the Euro area remains vulnerable to renewed financial, banking and sovereign debt tensions, and the potential remains for withdrawal of quantitative easing in the U.S.*".

And further on in the Minister's introduction –

> "*In 2012, economic activity in Jersey fell by 4 per cent in real terms, representing the fifth consecutive annual fall.*
>
> *The overall fall was a result of declines of -5% for the financial services sector and -4% for the non-finance sectors.*".

And from the Fiscal Policy Panel –

> "*The Fiscal Policy Panel (FPP), in their 2012 annual report (published in October 2012), forecast further declines in GVA in both 2012 and 2013 – of between 1 per cent and 3 per cent – with risks remaining to the downside.*".

So here we see a whole raft of warnings of reductions in GVA over a sustained period with risks that this would continue. Can we believe the Minister when he asserted in October 2013 that the forecasts of tax revenues were to remain "absolutely robust"?

In October 2013, the Minister remained absolutely optimistic –

> *"The latest survey information for the second quarter of 2013 shows that business activity is improving in the finance sector."*
>
> *"While the news remains negative for the non-finance sector, it is the least negative since September 2010. The headline business activity indicator has improved since September 2011. Five of the ten indicators for the finance sector improved and 7 of the 10 indicators for the non-finance sector improved in the second quarter."*
>
> *"Recent labour market data for Jersey has also been more positive. In particular, real earnings have increased for the first time in four years"*.

This optimistic picture was still being painted by the Minister for Treasury and Resources when the signs that tax revenues were likely to be down, and significantly down, over the years 2012 to 2015. Forecasts in March 2013 were down on forecasts in March 2012 which were used in the MTFP. This was clearly signalled in the Supplementary Note on Income Tax forecast of September 2013, and was based on new modelling which took into account the following –

- World economic forecasts downgraded
- FPP forecasts significantly below previous forecasts
- Weak results in business Tendency Surveys, lower GVA out-turns, along with lower employment, average earnings and company profits data
- Because of the above, the assumption was that the economy will take 2–3 years to return to average performance.

The forecasts for 2013 compared to 2012 were as follows –

Budget year	**2013**	**2014**	**2015**	
2013 forecast	£446 million	£462 million	£479 million	
2012 forecast	£455 million	£475 million	£505 million	
Change	- £9 million	- £13 million	- £26 million	**Total** - £48 million

This is not quite the current shortfall of at least £75 million, but the trend was clearly there. And yet the Minister, in the face of a significant shortfall in revenue, chose to reduce the marginal rate from 27% to 26%, relinquishing tax revenue of £7.8 million.

Proposed measures to balance the Consolidated Fund

Proposed Redemption of Jersey Water Preference Share

The States has been asked to consider the redemption of the preference shares held by the States in Jersey New Waterworks Company Limited at a fair market value. This will be subject to the States' and then Shareholder's approval. The proposal is for this income to be used to fund capital expenditure in 2015 and reduce the required allocation from the Consolidated Fund.

Proposed Jersey Post Extraordinary Dividend

There is an opportunity for an extraordinary dividend from Jersey Post in 2014. The proposal is for this income to then be used to fund capital expenditure in 2015 and reduce the allocation required from the Consolidated Fund.

Proposed payment from Jersey Telecom of deferred dividends

As part of the support to Jersey Telecom in financing their Gigabit Jersey project, an agreement to reduce 3 years of dividends by £3 million in each year was made. The Shareholder is able to ask Jersey Telecom to make these payments now that the project is well underway and financing is arranged.

In addition to the timing question of when these companies were informed of the proposals, one has to ask whether proper negotiations have taken place, and whether they have been formally agreed. Will the returns projected (£17 million) be realised? Finally, in any Memorandum of Understanding between the States and these companies, do these proposals breach any "no surprises" agreements that may be in place?

Special Funds

The funds that have been confiscated and are held in the Criminal Offences Confiscation Fund (COCF) and Drug Trafficking Confiscation Fund (DTCF) could be allocated to capital schemes that fit the rules set on the use of these balances, allowing the allocated Consolidated Fund element to be released.

Returning unused contingency balances

Court and Case costs are an extremely difficult cost to predict, and historically the Law Officers' and other affected Departments have felt exposed ensuring they have sufficient budgets to carry out the work whilst also not wanting to request excessive base budgets. This resulted in an agreed reserve being held where significant successful income claims could be held centrally and made available when needed. The balance in this reserve could be returned to the Consolidated Fund so long as sufficient balance remains available in the COCF for contingency purposes.

Here we have to ask not only what schemes could be deemed to "fit the rules" to legally allow these funds to be raided, but we must also question whether the use of "ring-fenced" funds to be redirected to cover shortfalls in general taxation revenues (as we have seen already in the use of the Health Insurance Fund and the COCF to fund the Plémont purchase) will erode public faith that ring-fencing means anything at all. Is it appropriate to use these funds to generate over £11 million to balance the Budget?

Departmental contributions towards the forecasted reduced income levels
In 2015, departments could also be asked to make savings on both staff and non-staff budgets. These savings could be met by means of recruitment freezes and purchasing contract negotiations whilst RPI levels remain relatively low.

The proposed reduction of 2% on pay budgets would result in a below-inflation pay award. This would be the fourth below-inflation pay award for public sector workers in 7 years. Whether this can be delivered is open to speculation, but if not, then this would mean a recruitment freeze to apply to all departments. In these times of rising school rolls and hospital waiting lists, such a freeze cannot be delivered. Failure to deliver these savings would render this Budget illegal.

Reneging on previous States decisions

- Reduce the amount allocated to Freedom of Information
- Delay the accelerated payment of the PECRS Pre-1987 debt
- Proposed deferral of contribution to Long-Term Care Fund in 2014.

These are major decisions taken in the past year, often after serious and extended debate. A volte-face of such dimensions would bring the Assembly into disrepute. I believe these decisions should not be lightly discarded in the face of fiscal difficulties for the sake of £15 million.

What is the alternative?

The evidence presented here would suggest that the Minister for Treasury and Resources was aware of an impending shortfall of significant proportions between forecast tax revenues and the spending plans contained in the MTFP as early as 2013.

The Minister's proposals to meet what has turned out to be a shortfall of the order of £75 million have been shown to be likely to result in an illegal Budget, since some of the disparate measures involved are unlikely to deliver the savings required.

The shortfall in tax revenues has been the result of a prolonged downturn in the economy. Instead of maintaining the view that there was not a problem, the Minister for Treasury and Resources could, and should, have addressed the deficit, and admitted that, in the vernacular, "it is raining" and therefore time to use the "rainy day fund" to tide us over this downturn.

Financial and manpower implications

There are no financial or manpower implications for the States arising from this proposition.