

STATES OF JERSEY



STATES RESOURCE PLAN 2004 – 2008 (P.118/2003): SECOND AMENDMENTS (P.118/2003 Amd.(2)) – COMMENTS

**Presented to the States on 16th September 2003
by the Finance and Economics Committee**

STATES GREFFE

COMMENTS

The Finance and Economics Committee welcomes the opportunity for States' members to debate an alternative proposal to the medium term financial strategy contained in the Resource Plan.

The Committee would prefer to eliminate the deficits forecast to 2008 without the need to raise additional taxation and, on the face of it, the amendment provides an attractive solution which also achieves allocations to the Strategic Reserve. The Committee, however, considers that the Connétable's proposals contain serious and significant implications that States' members will need to consider very carefully before determining their support or otherwise.

Perhaps the most important consideration is that of achievability. In proposing increases in revenue expenditure of 2.5% in 2004 and 3% for the years 2005 to 2008, the Committee believes it has set targets that are challenging but achievable. These targets have not been set in isolation. The 2004 Fundamental Spending Review process has fully involved major spending Committee Presidents within the decision making process. Similarly, proposals for revenue expenditure growth beyond 2004 have been the subject of wide consultation, with all States' members and Chief Officers having the opportunity to participate actively in the formulation of the medium term strategy.

Throughout the process, the Committee continually revisited the question of affordability against achievability. It considers that the proposals contained in the Resource Plan provide the correct balance.

The Committee believes that the Connétable's amendments should be considered as a 'package' of measures; to do otherwise could result in an illogical outcome that would be impossible to implement. For example, the amendment at item 1 seeks the elimination of forecast deficits through reduced public spending. However, should States' members agree this part of the amendment, but reject the subsequent proposed reductions to revenue or capital allocations, the States would adopt a proposition that approves an allocation of funds which is contrary to the Connétable's initial proposal.

The overall financial implications of Connétable Crowcroft's amendment are:

- the cumulative deficits currently forecast of £36 million through to 2008 will be eliminated through reductions to public expenditure alone;
- the annual increase in the revenue expenditure will be no more than 2% from 2005 onwards;
- £5 million will be allocated to the Strategic Reserve as a first call on revenue expenditure;
- the allocation to capital will be reduced from £48 million to £40 million per annum.

To achieve the revenue savings and transfer to the Strategic Reserve that the Connétable seeks would raise the estimated annual savings in net revenue expenditure required in 2008 to some £55 million. To realize this through efficiencies alone would mean staff cuts of up to 900 people.

Staff cuts at this level would result in significant 'one-off' redundancy costs and would require a major re-skilling exercise to ensure those staff affected could become economically active. Such a reduction in staff numbers will, inevitably, lead the States into facing some difficult industrial relations issues.

Clearly, such savings cannot be achieved by efficiencies alone and will require the cessation of a significant element of public services and/or a reduction in benefits. The Committee strongly believes that the Fundamental Spending Review process for 2005 to 2007, combined with the benchmarking exercise to be undertaken by the Policy and Resources Committee, is the correct way to provide the evidence of the effectiveness of services, which is necessary for States' members to determine their future provision.

The Connétable's proposals to reduce the capital allocation also cause the Committee some concern. The Committee considers that the reduction to £48 million for each of the next five years already represents a significant and continuing reduction, and to move to a lower figure would seriously affect the ability of the States

to maintain adequately the Island's infrastructure. Should States' members support the amendment, the Committee considers that the 'pro-rata' reduction in the capital programme proposed by the Connétable is an inappropriate way to deliver savings and would seek instead to prioritise the projects contained in the proposed programme to achieve a revised programme within the sum available.

In considering the Connétable's amendments, members must be fully aware of the real cuts in services to the public to which they would be agreeing and the industrial relations disputes that would accompany such reductions. If approved, the amendment will entail the delivery of tough and unpopular decisions and members must be prepared to back politically the consequences of such actions.

The Committee, having consulted widely when formulating the Resource Plan proposals, considers that it has achieved an appropriate balance between the need to address the forecast budget deficits and the ability to do so.