STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2013 – 2015 (P.69/2012): AMENDMENT (P.69/2012 Amd.) – COMMENTS

Presented to the States on 5th November 2012
by the Council of Ministers

STATES GREFFE

COMMENTS

Part (a)

Deputy G.P. Southern of St. Helier proposes that the net revenue expenditure of the Transport and Technical Services Department shall be increased by £350,000, £100,000 and £100,000 in 2013, 2014 and 2015 respectively in order to provide funding for the Sustainable Transport Policy, and the total net revenue expenditure of the Economic Development Department shall be reduced by the same amounts in 2013, 2014 and 2015 by reducing the grant to Jersey Finance Limited.

Part (b)

Deputy Southern proposes that the net revenue expenditure of the Transport and Technical Services Department shall be increased by £600,000 in each of the years 2013, 2014 and 2015 in order to provide funding for the Hoppa Bus Service, and the net revenue expenditure of the Economic Development Department shall be reduced by the same amounts in 2013, 2014 and 2015 by reducing the grant to Jersey Finance Limited.

The Council of Ministers conducted an extensive prioritisation process for the allocation of growth, with no less than 7 iterations of proposals. It was not possible to fund all the growth requests, and the funding was prioritised towards the immediate strategic priorities of Employment, Economic Growth and Reform of Health and Social Services. Consequently, the Transport and Technical Services request for additional Sustainable Transport funding was not successful.

The Council of Ministers endorses its original priorities for growth funding, and the comment from Economic Development emphasizes the importance of the Jersey Finance grant funding in terms of diversification, international competition and market share. Any reduction in funding will affect the programme of work proposed by Jersey Finance Limited in its 2013 – 2015 business plan, which supports the Economic Growth Strategy approved by the States in July 2012.

It is important to note that Jersey Finance Limited (JFL) has a number of funding streams, and the grant from the States of Jersey represents only 40% of total funding for 2011. Furthermore, additional funding comes from the pro bono work done by JFL's technical specialists and industry representatives. It is estimated that this contribution was worth £4 million for 2011. This engagement through working parties and other groups provides technical consultations, which in turn inform the development of financial services.

In respect of sustainable transport, a number of initiatives will be delivered during the Medium Term Financial Plan period, and there are opportunities within the new bus contract to provide more town services.

The Council of Ministers opposes this amendment.

Department Comments

Transport and Technical Services (TTS)

Although the principle of a low or zero fare town ‘Hoppa’ service is an aspiration of the Sustainable Transport Policy (STP), and proposals to improve pedestrian facilities at Midvale Road and at 5 town junctions identified by the Connétable of St. Helier are also consistent with its aims, none of these proposals are considered fundamental to its success.

The provision and improvement of the Island-wide bus service, particularly at peak times, is critical to the success of the STP, and this is mostly funded through the TTS revenue budget (£4.6 million in 2011).

Some improvements to the bus service have been funded through increased fare income; however, the more significant enhancements to the bus services have been funded from the STP funding of £500,000 per annum. Other funding may be received through planning obligations, which require developers to contribute towards sustainable transport. In 2011, approximately £61,000 was received from developments for that purpose. Several improvements to the bus network have been introduced in recent years, increasing peak hour capacity and providing better coverage to rural areas and on Sundays. Nine new bus shelters were installed in 2011 and TTS has worked with the current operator to introduce new improved vehicles, although there will be more noticeable improvements when the new bus contract commences in January 2013.

In addition to improved bus services, the funding has been used to implement several pedestrian and cycle improvements, school part-time speed limits, cycle stands and shelters, road safety schemes, and behavioural change initiatives, including the ongoing school travel plan programme and ‘green travel’ day promotions.

£500,000 has also been transferred by the States from the Car Park Trading Fund to TTS to fund work on the Eastern Cycle Route (£236,000 spent in total by the end of 2011).

The STP aims to achieve a significant shift towards sustainable forms of transport at all times, and in particular sets a target of a 15% reduction in peak hour traffic to and from St. Helier. To achieve this target, peak hour bus use in and out of St. Helier needs to double, and capacity has to be provided to meet that demand.

Although a town ‘Hoppa’ service is socially beneficial, it will not be significant towards meeting the 15% target, and is therefore not a high priority with regard to the current continuing improvement to the bus service. An improved school bus service would contribute more significantly to the STP target, but a bid for increased funding has also been declined. Discussions with the new operator will continue in order to identify potential school bus improvements within existing budgets. Improved cross-town bus routes are also included in the new network and opportunities to develop them further will be explored. It would be sensible to assess these opportunities in conjunction with the new operator with the hindsight of the new network in place. A survey of users of the experimental town ‘Hoppa’ service, run in 1999, identified that 50% would have walked instead of using the service, and only 20% indicated that they chose the ‘Hoppa’ instead of the car. The take-up of the service was modest and had no noticeable impact on traffic. The 1999 ‘Hoppa’ service stayed within the town ring-

road. To reduce car use, the town service needs to cover a wider area than in the 1999 experiment, elements of which are covered within the revised network commencing in January.

The pedestrian improvements at Midvale Road and at 5 sites in the town area are consistent with the STP's intention to give better priority to non-motorised travel, and TTS is supportive of the proposals in principle. Available budget, however, is currently mostly directed towards improvement of the southern cycle route linking New North Quay to Havre des Pas, a cycle route in St. Peter's Valley and in development of an eastern cycle route, all of which are expected to contribute more significantly to a reduction in car trips than the above-mentioned schemes. TTS anticipates allocating £200,000 per annum from 2012 to 2015 from its infrastructure capital allowance for that purpose, in addition to the one-off funding for the eastern cycle route as mentioned above.

The Medium Term Financial Plan allocates £635,000 in 2015 for cycle tracks and pedestrian improvements, and the schemes mentioned in Deputy Southern's amendment would be appropriate candidates for that funding. It also allocates £1.45 million over the next 3 years for village centre treatments which will enable the ethos of the Sustainable Transport Policy to be applied outside of the town area.

The Minister concludes that whilst additional funding would assist in the provision of a successful Sustainable Transport Policy, the measures identified in Deputy Southern's proposition are not a sufficiently high priority for funding to be diverted as proposed.

Economic Development Department (EDD)

Introduction

The Economic Development Department exists to deliver growth, improve competitiveness, diversify the local economy and create employment.

The benefits of creating employment are evident to all. Getting people back to work is, as agreed by the States, a key strategic priority. At a time when Jersey is witnessing the highest unemployment rates the Island has ever encountered, it is more important than ever that the resources are focused on this aim.

On occasion, however, the absolute necessity to deliver growth is not given the same priority. Growth is a precursor for job creation. But even more than that, growth is needed simply to stand still – let alone improve public service provision. With an aging population, the ratio of workers to pensioners is set to halve by 2035 to just under 2 workers to every pensioner. Therefore, it is important that businesses generate more profits and people are able to earn higher salaries so that they provide the funding for health, education, and indeed, transport services, in the years to come.

That is why EDD developed the Economic Growth and Diversification Strategy (EGDS). It set out 4 strategic aims, one of which is to grow and diversify the financial services sector, capacity and profitability. This aim is a critical pillar of this strategy, because in terms of our public finances, on average, every person working in the finance sector contributes more than double the average person working outside of financial services.

The EGDS was approved by the States by 35 votes to 8. Therefore, in developing the bid for the Medium Term Financial Plan, the Department started from a zero base and prioritised our current budget allocation – without any growth – according to the aims set out in the strategy.

From a strictly economic perspective, this would have been the most appropriate option to take, as it would have delivered growth and jobs at the least financial cost. But the costs would have been felt elsewhere – in particular in tourism and the rural economy.

That is because more of EDD's budget is spent on tourism than any other sector, yet it delivers one of the lowest GVA contributions of any sector. Likewise, the rural economy is allocated more money than enterprise, skills, and policy and regulation put together – yet again, the GVA contribution is also low. Furthermore, both sectors employ significant numbers of non-locals – between 2 and 4 times that of the finance sector – which undermines another strategic aim of reducing inward migration.

However, this does not take account of the many additional benefits the tourism and rural sectors bring to Jersey life and the environment we live in. To withdraw significant financial support for these sectors would damage Island life irrevocably. Whilst not directly in EDD's remit, as part of a government looking at broader Island interests, it was not an option that the Department was willing to take.

The consequence of this was that the additional requirements to deliver EGDS were reflected in the growth bid in the Medium Term Financial Plan. It follows, therefore, that the consequences of reducing the growth bid to the extent this amendment proposes, undermines our ability to deliver the strategy for growth and job creation, approved by the States.

Impact on Jersey Finance Ltd. (JFL) of reduction in funding

The amendment calls for a significant cut to the proposed grant for JFL, amounting to a reduction of £2.3 million in funding over 3 years. Such a reduction will necessarily have a significant impact on the programme of work proposed by JFL in its 2013 – 2015 business plan, which in turn was submitted to EDD in support of the EDGS.

The programmes of work that would be directly affected are:

(i) *Inward investment activity*: Since 2011, JFL has assisted 9 new businesses to establish operations in Jersey across diverse areas, including hedge funds, banking, private equity and investment management. These created approximately 20–25 high-value jobs that we are aware of. In addition, JFL are in discussions with a further 5 hedge funds and several banks. This has come about because of a significant work programme, including over 60 meetings and events. The continued work in this area is crucial and continues to provide Jersey with a differentiating factor over other offshore jurisdictions.

(ii) *Developing new markets:* The balance of global wealth is rapidly shifting from traditional western economies to newer emerging markets. The centre of growth for ultra-high-net-worth individuals has also shifted eastwards. Emerging and developing economies are expected to rise from just over one-

fifth of the global economy (21.6%) in 2004 to make up over two-fifths (41.4%) of global economic output by 2016.

Business flows from Jersey's traditional markets of the UK and mature Europe are declining faster than business flows from the emerging economies are coming through. This results in a revenue gap. With the financial services sector contributing in excess of 40% of Jersey's GVA, it is vital to the Island's continued success that we get an early foot in the door of new and emerging markets which is key to excelling internationally.

Much progress has been made in repositioning Jersey, with market entry affected into China, India and the wider Gulf Corporation Council (GCC) and in-market representation established in Hong Kong, Abu Dhabi, Mumbai and Delhi. For example, Jersey's targeted investment in the Gulf region, including the opening of a representative office in Abu Dhabi, directly tracks growth in business volumes from the region, including the doubling of bank deposits from the Gulf, which grew from £11.4 billion in 2007 to £19.4 billion in 2012. In addition, 4 banks from the Middle East and China are expected to apply for licences to open branches in Jersey in the months ahead, which is as a result of the marketing efforts and opening of representative offices for JFL in Hong Kong and Abu Dhabi. Banking remains an enormous part of the industry and was hugely important in contributing tax to the Jersey economy.

The JFL business plan for 2013 – 2015 includes specific strategic business development in China, the GCC, India, Russia and Latin America, including the establishment of satellite offices in Shanghai and Brazil. If this amendment is adopted, much of the development of activity in the growth markets identified will be stopped or severely reduced.

iii) UK and Europe: The volume of business from the traditional core markets of the UK and mature Europe are being challenged by a combination of very low economic growth in those regions and increased competition from rival centres. Even maintaining the current level of investment will not be sufficient to defend Jersey's market share against increased activity from onshore and offshore rivals and the JFL strategy calls for increased investment over the next three years to defend the island's position.

Comparison against other jurisdictions

It is vital to remember that Jersey does not exist in isolation; the Island is part of a highly competitive global marketplace. The amendment appears to miss this point, suggesting that: "… more of the burden (should be) taken up by the broad shoulders of the financial giants who wish to continue doing business from Jersey.".

This argument suggests a dangerously insular view of the world and fails to recognise the competitive pressures from rival jurisdictions. European competitors in particular are attempting to convince market players that Jersey will be marginalised by EU regulation and to entice business flows and actual companies from Jersey.

In the face of declining revenues, competitor jurisdictions have increased investment in promotional marketing, and sharpened pricing, with Asian centres in particular taking market share from European centres, including Jersey.

For example:

- Luxembourg is outspending Jersey in terms of the volume of events, conferences and seminars sponsored and attended, by a considerable margin.

- Dublin has responded to the problems of the Irish banking crisis by re-doubling its efforts on inwards investment and promotion, and has re-launched the Dublin International Financial Services Strategy.

- The Isle of Man has recently launched a public-private partnership to promote its financial industry with increased Government funding, its core focus being to create sales opportunities for the finance sector both on the island and abroad, including a programme of international visits in the Middle East, China and the UK.

- Malta and Gibraltar are also renewing their efforts to capitalise on their perceived EU advantage in connection with the Alternative Investment Fund Management Directive.

- In the Middle East, the Qatar Financial Centre is investing heavily, the Dubai International Finance Centre is growing again following the pattern of recovery in the region, and Abu Dhabi is working to launch its own International Finance Centre, the Abu Dhabi Finance Centre in Sowwah Square.

- In Asia, Hong Kong is growing fast off the back of its newfound offshore renminbi (RMB) status, and Singapore is the fastest-growing private banking centre globally as a result of significant investment and a defence of legitimate clients' right to privacy. Singapore alone generated 21,900 new financial services industry jobs in Q3 2011, and expects to generate 65,000 more in 2012.

- Traditional centres such as the British Virgin Islands and Cayman still present a significant competitive challenge in developing markets due to aggressive pricing of services, and centres such as Switzerland appear to be emerging from their challenges in connection with the USA with a renewed determination to protect their market share.

It is clear therefore, that a reduction in proposed funding for JFL, which in turn reduces the scope of the programme in UK, Europe and targeted international markets, in a context of increasing investment in promotion by our competition will have a significant impact on Jersey's current and future market share.

Industry view of JFL's effectiveness

According to the Jersey Finance 2011 Member Survey –

- 85% rated their experience of working with JFL as 'excellent' or 'good'. There were no ratings in 2011 of 'poor' or 'very poor'.

- Over three-quarters of those surveyed thought that JFL provided 'excellent' or 'good' value for money.

Impact on Jersey of a reduction in JFL funding and any subsequent decline in the financial services industry

The finance sector remains the largest single contributor to the economy in Jersey, generating over 40% of GVA[1] and nearly £300 million per year in taxes[2] (more than the entire budget needed for education, health and social services combined).

The industry directly employs over 12,500 Islanders[3], some 22% of the working population, and the vast majority are local. Only approximately 6% (750) of those employed in Financial and Legal Services are non-qualified, compared to 45% (2,350) in tourism. Furthermore, it supports virtually every other local industry (travel, hospitality, professional services, ICT, etc.) through its activities. Finance firms spend more than £400 million per year in the local economy[4]. This far outweighs the financial contribution of any other sector of the economy.

JFL's own analysis indicates that the total tax take associated with each £1 billion of blended assets held in Jersey (e.g. banking deposits, funds under management and administration, private wealth deposits) is approximately £240,000, including income tax from financial services employees. It is clear therefore, that a reduction in proposed funding for JFL, which in turn reduces the scope of the programme in UK, Europe and targeted international markets, will likely impact on Jersey's current and future market share of these markets, which in turn will directly impact on employment levels in the Island and overall tax income for the States.

Existing industry pro bono financial contribution to JFL programme i.e. the true balance of States vs. industry contribution

The amendment argues that JFL funding requirements should be met by increased contributions from finance industry firms and raises the idea of 'pound for pound' matched funding as a principle.

This approach is misleading as it fails to take into account both the additional cash funding supplied by industry to support specific projects and the substantial pro bono contribution made by industry professionals who engage with JFL's technical consultation programme.

For example:

Alternative Investment Fund Managers Directive (AIFMD) Project – in 2009 and 2010, industry contributed a total of £337,400 to create a fighting fund to enable Jersey to successfully navigate the AIFMD, thus helping to protect and grow the Island's funds industry.

Independent Commission on Banking (ICB) Vickers Project – in 2012, industry contributed £50,000 to fund research into Jersey's banking industry following the publication of the Vickers report from the ICB.

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[1] *Source: Gross Value Added (GVA) Report 2011, States of Jersey Statistics Unit*
[2] *Source: Estimate provided by the States of Jersey Economics Unit*
[3] *Source: Labour Market Report June 2012, States of Jersey Statistics Unit*
[4] *Source: Survey of Financial Institutions 2011, States of Jersey Statistics Unit*

Annual pro bono contributions – industry professionals engage extensively with JFL through working parties and other groups that provide technical consultations, which in turn inform the development of financial services. In the absence of such contribution, government would struggle to fund the required professional technical input to ensure that Jersey remains competitive.

The table below shows all contributions to JFL, including pro bono work, and it is clear from this analysis that JFL member firms contribute well in excess of 50% of the total resource consumed by JFL in delivering its programme.

Year	States Grant	Fiscal Stimulus/ Project-specific funding	JFL Members' Cash	JFL Members' Pro Bono Contribution	% JFL Members
2010	£1,800,000	£418,350	£613,931	£2,842,150	61%
2011	£2,200,000	£426,150	£589,011*	£3,992,385	64%
2012	£2,290,000	£385,000	Est. £620,000**		

*Drop from 2010 to 2011 due to fall in number of members from 181 to 169, which in turn was traced to M&A-led consolidation within the industry

**Estimate for 2012 based on member subscriptions and marketing income to date, Q4 activities remaining

Implications to EGDS and States Strategic Plan

Reducing the funding to JFL to this extent completely undermines the Department's strategy for growth. The Department would be supporting low-value sectors ahead of high-value sectors, with the knowledge that the economy would suffer, growth prospects would be reduced and jobs would be lost. This is against the States' decision, made in July, when it approved the EDGS; and it would be against the priorities of the States Strategic Plan – to get people into work.

It also has implications across other departments and the wider States Strategic Plan. The finance sector effectively pays for all of the Island's health and social services provision and all of the Island's education provision. Yet the sector is under significant threat. If we do not take action to deal with this threat, as outlined above, we risk significantly reduced profitability, and as such significantly reducing tax take, at a time when we need to see increased revenues to pay for an ageing population.

Therefore, Members are urged to reject this well-meaning but unrealistic amendment.

Council of Ministers' Key Themes

<u>Key Theme – Growth</u>

The States approved initial growth allocations in the 2012 Business Plan of £6 million in 2013 and £16 million in 2014. As part of the initial work on the Medium Term Financial Plan and the resource statement in the States Strategic Plan, a level of £26 million was proposed for growth in 2015 as part of the total States spending limits for the Medium Term Financial Plan.

Against these original growth allocations, the Council of Ministers received growth requests from departments amounting to almost £35 million. The growth requests also proposed that a higher level of growth was required in 2013 to address the immediate priorities of Getting People Back to Work, Economic Growth and Reform of Health and Social Services. In addition to the main growth bids, initiatives for Back to Work and Employment projects (which may not be permanent and recurring) of £7 million by 2015 were also proposed.

The Council of Ministers and Corporate Management Board conducted a significant prioritisation process with departments which attempted to reduce the requests to the level of growth funding available. Treasury worked with departments to identify if there were other ways that the growth requests could be funded within existing spending limits. Departments were encouraged to reprioritise existing services and identify efficiency savings wherever possible.

The Council of Ministers then went through a process of 7 iterations. A fully funded package of proposals was agreed which will prioritise the growth bids, taking into account changes to resources that the Treasury could identify, to help deliver the Strategic Priorities.

The prioritisation process dovetailed with the work being carried out by a number of Ministerial Oversight Groups, for example on Health and Social Services and Housing Transformation. White Papers were due to be published, and the MTFP has been prepared to be consistent with what will be proposed, without in any way pre-empting the support of the States for the funding proposals in the MTFP.

The Council of Ministers considered that there remained a priority to find additional funding for Reforming Health Services, Getting People Back to Work and Stimulating Economic Growth, and proposed to allocate all available growth in the Medium Term Financial Plan. This was not the original plan, which would have left some growth available to allocate in future years, but the immediate funding of these initiatives in 2013 was felt to be vital to provide a stimulus to employment, the economy and also to begin the essential reform of Health and Social Services.

The Council of Ministers was conscious of the need to provide some future flexibility, especially for 2014 and 2015, and this has been achieved, for example, through the provision of contingencies and the agreement of the £222 million capital programme on an annual basis.

The Council ultimately considered 3 final options –

- All prioritised growth bids to be included in MTFP,
- Removing selected growth bids to get closer to a fully funded position,
- Removing all 2013 growth except Health and Social Services.

One of the Council of Ministers' key resource principles is to maintain a balanced budget position and deliver affordable and sustainable public services, and this determined the final option which required a final prioritisation process to select growth bids to be removed and not funded as part of the Medium Term Financial Plan proposals. These removed or deferred growth bids amounted to £11.6 million in 2013, £7.4 million in 2014 and £5.1 million in 2015.

Financial implications

The financial implications of the proposed amendment are neutral.

However, reducing the funding to JFL to this extent completely undermines the Department's strategy for growth. The Department would be supporting low-value sectors ahead of high-value sectors, with the knowledge that the economy would suffer, growth prospects would be reduced and jobs would be lost. This is against the States' decision, made in July, when it approved the EDGS; and it would be against the priorities of the States Strategic Plan – to get people into work.