STATES OF JERSEY

EXPENDITURE PROPOSALS FOR 2012 AND 2013 AND DRAFT BUDGET STATEMENT 2011 (P.157/2010) – NINTH AMENDMENT (P.157/2010 Amd.(9)) – COMMENTS

Presented to the States on 6th December 2010
by the Council of Ministers

STATES GREFFE

COMMENTS

The Council of Ministers strongly opposes this amendment.

The Deputy of St. Mary proposes that total States net expenditure is increased by £16.5 million in 2012, which will increase the deficit from £55 million to £71.5 million. The Deputy is also proposing that total States net expenditure is increased by £16.5 million in 2013, which will increase the deficit from £18 million to £34.5 million.

Comment

The thrust of the Deputy of St. Mary's argument appears to be that the Island can afford to spend more, that the level of savings is far too high, and that either States finances do not need to be balanced or that the Island has both the capacity and the appetite for increased taxes to fund the higher spending levels.

The Council of Ministers' proposals are based on the feedback from the Fiscal Strategy Review (FSR) consultation this summer, and further representations by Islanders since, that the States should save first and address spending and increase taxes second.

The Council of Ministers' proposals for £50 million savings as Part 1 of the CSR in the draft 2011 Business Plan in September were supported by a majority in the States Assembly. Further, the Chief Minister asked the States to defer the debate on 2012 and 2013 spending limits, following a majority view in the Assembly that more savings should be targeted in future years.

The Council of Ministers' strategy to respond to this gap between our spending and income is a considered and clear 3 part plan.

1. **Cutting spending through the CSR**: to maximise spending savings, without inflicting unintended damage on front-line services, in order to minimise the need for tax rises.

2. **Economic Growth**: to boost the economy in order to maximise jobs for Islanders and tax revenues.

3. **Raising taxes through the Fiscal Strategy Review (FSR)**: to increase taxes only as much as is necessary to fund important investment and in a way which is fair and supportive of economic growth.

The Council believes that this 3 part plan, approved as part of the 2011 Business Plan, addresses the views of the majority of States members and who represent our Island.

The savings proposed are necessary

To address the Deputy of St. Mary's detailed comments we must first face up to the real prospect of a £100 million+ deficit in States finances. On page 4 of the amendment, the Deputy suggests that £20 million of efficiencies in 2012 and 2013 plus £12 million of savings in 2011 is sufficient. If that is the case, then currently there would be forecast to be an £80 million annual deficit by 2013 that would need to be addressed.

By implication, the Deputy then suggests that this could be funded from increased taxes which would not lead to an exodus from the Island. The Deputy suggests that there is nowhere with equivalent services or levels of tax to flee to, and that no tax comparisons have been done.

However, take the example of our nearest competitor in Guernsey. If personal taxes are significantly above those in Guernsey, then there will be a clear incentive for businesses and individuals to relocate there, taking jobs with them. This may not happen overnight, but if we are not competitive in terms of personal tax – something that has been at the core of our post-war economic success – then over time, we will lose out in terms of economic activity, employment and tax revenue. There are many businesses in Jersey that have offices in Guernsey and other offshore centres, and if we create the incentive for them to move activity and jobs to those jurisdictions, then it will happen over time. This was a clear message in the responses we received from industry to the FSR Green Paper.

The savings are not damaging to the economy

A recurring theme in the Deputy's report is that spending cuts are damaging to the economy but tax increases are not. However, the CSR will achieve the £65 million savings over 3 years through greater efficiency and re-organisation of functions, and without significant cuts to front-line services. In addition, this will take place while we continue to support the economy by running deficits of £55 million next year and £18 million in 2012. Under such circumstances, there is little risk to the economy and the risks would be much greater if we failed to address the structural deficits we face. Also, given the constraints a small island economy like ours faces in terms of limited resources, ensuring that we have a more efficient and better organised public sector should help facilitate growth and recovery.

The savings have been worked up over the course of the year

The Deputy suggests on page 5 of the amendment that the increase in proposed savings were identified overnight, following the 2011 Business Plan debate. The Council proposed an initial profile of proposed savings amounting to £50 million in June 2010 following Part 1 of the CSR process. At that stage, the Council did not have the information from Part 2 of the CSR process (which was focussed on 2012 and 2013) to commit to more than its initial target savings.

The Deputy suggests that the CSR Part 2 process overnight identified an additional £15 million of savings. In fact, the CSR Part 2 process, which is well documented in the 2011 Business Plan (sections 6 and 7), was a detailed process of reviews of each department, with major reviews in the larger departments, including cross-cutting reviews of terms and conditions and procurement. This process ran over a period of months and is still ongoing, with the further reviews of Health and Social Security continuing into 2011.

The outcomes from the Part 2 process were not known in June when the draft 2011 Business Plan was lodged, nor were they complete or analysed at the time of the Business Plan debate. However, at subsequent workshops in late September and October with Ministers, and also shared with those interested States members, the outcomes were considered in detail. Those outcomes, informed by external expert consultants and independent on-Island reviewers, were reviewed by Ministers, and proposals amounting to just over £65 million of savings were prepared and issued as part of the expenditure proposals for 2012 and 2013.

The Deputy's comments will do little but damage the commitment and determination of the majority of States departments and their staff who have worked hard to identify ways of delivering savings, while seeking to protect the quality of our essential services. Ministers are proud of the approach of their staff, and many have contributed in suggestion schemes which have informed departments' proposals to-date and which will help identify further savings opportunities in future years.

The FSR proposals followed a period of public consultation

A public consultation about personal taxation was published on 21st June 2010 and ended on 30th August 2010.

It asked the public (individuals, businesses and interest groups) what the impacts would be of different tax options on them and the Island as a place to live, work and do business. Around 1,000 people took part and responded to the States via letters, e-mails, online survey, and public meetings. A number of the representations received were from interest groups that represent a great many more people and businesses.

The findings were published on 15th September by 'Involve', an independent charity organisation with engagement and consultation expertise. The findings showed that people and businesses had different views and concerns across the different options put forward for discussion and that there is no "easy" answer. The only real agreement across respondents was for the States to demonstrate sufficient savings before looking to increase taxes.

CSR and Economic Growth

The Deputy is right that certain elements of public expenditure are important for economic growth. However, he fails to recognise that is why the CSR has set out to achieve the savings in the manner that it has. The CSR will achieve the savings through efficiencies and re-organising the public sector, while maintaining investment in front-line services that are supportive of economic growth. We will continue to support skills development and education, develop enterprise policy, and maintain critical infrastructure such as roads and external transport links.

Past increases in spending

The implication is that past increases in spending have been appropriate and are affordable. This has not been the view of the Comptroller and Auditor General, the Public Accounts Committee or the Corporate Services Scrutiny Panel. The Deputy uses the Fiscal Policy Panel (FPP) analysis of spending increases, but avoids the key point the FPP makes, which is that budgets should be balanced and therefore spending increases either have to be prioritised within affordable limits or funded through additional tax measures. Indeed the FPP rightly suggests that, as soon as Jersey emerges from the recession we should be replenishing the Stabilisation Fund, not withdrawing further from reserves as the Deputy implies in his summary on page 8.

The Deputy also suggests that the States is not aware of, nor addressing, future spending pressures. The Resources Framework of the States Strategic Plan identifies the major spending pressures which need to be addressed, including – the ageing population, long-term care, liquid and solid waste infrastructure and the maintenance of States property assets. All these areas have been progressed, but they are significant pressures which require a considered and detailed approach. Updates have been provided in each of the last 2 Annual Business Plans and the proposals for long-term care have been recently released by the Minister for Social Security. Much more work is needed and will be done, but the focus of the Council of Ministers is to get States finances back on a sound footing from which to address these future pressures.

Delivering savings without impacting essential services

The Deputy identifies, on page 7, selective savings proposals which he believes are damaging. However, the emphasis throughout the CSR process has been to focus on those savings that can be made without significant affecting the quality of essential services. These make up the majority of the proposals and have been achieved by departments looking at different methods of delivery, combining service delivery, efficiencies and alternative service provision. There are inevitably some areas where a prioritisation of resources have had to be considered and difficult choices have been made which will not all States members will agree with. The States will have the opportunity to debate these proposals in the detail of the 2012 Business plan next year.

The Deputy concludes with a further list of priorities which he suggests should be funded and progressed. Each States member will have his or her own priorities, but we must work as a corporate body with a collective responsibility to do what is best for the Island. The Deputy is proposing to reduce the savings proposals by significant sums without any off-setting measures or funding, and also proposes that additional priorities need to be funded. The approach is not sustainable.

Summary

The Council's approach is clearly laid out in the draft proposals before the States. The strategy is clear, it requires a 3 part plan which addresses levels of spending first, encourages economic growth and finally proposes tax measures to fill the remaining deficit. The Council believes the States must return to balanced budgets to provide a sound basis from which to develop our economy and address future spending pressures. This will not be achieved if we significantly reduce the savings proposals and don't address the current deficits.

The Council urge States members to reject this amendment.

Financial implications

The amendment proposes that the proposed savings are reduced by £16.5 million in 2012 and 2013 with the effect of increasing States Total Net Expenditure. The financial deficit would be increased from £55 million to £71.5 million in 2012 and from £18 million to £34.5 million in 2013.

The impact of the amendment is that the Consolidated Fund would be forecast to be overcommitted by £23 million in 2012 and by £31 million in 2013. These over-committed balances would have to be addressed in advance of the respective Budgets to comply with the Public Finances (Jersey) Law 2005. The Deputy has put forward no off-setting proposals.