STATES OF JERSEY

VOTE OF NO CONFIDENCE: MINISTER FOR TREASURY AND RESOURCES (P.148/2014) – COMMENTS

Presented to the States on 15th September 2014
by the Minister for Treasury and Resources

STATES GREFFE

COMMENTS

There are numerous statements in Deputy G.P. Southern of St. Helier's report that are inaccurate and only serve to underline the weaknesses in his arguments.

Firstly, he implies that Budget 2015 does not propose to balance the Consolidated Fund in line with the Public Finances (Jersey) Law 2005. This is not the case and the report presented alongside the Minister's most recent amendments sets out clearly the measures which will be put in place to ensure the Consolidated Fund does not have a projected deficit at the end of 2014 or 2015.

Secondly, the Deputy states that the Assembly has been misled over the past years and months. This cannot be the case when the Minister has, on numerous occasions, kept the assembly up to date on both economic developments and financial forecasts. As an example, Members were provided with the full Income Tax Forecasting Group paper in December 2013 so they could consider that when debating the Budget 2014. That paper had also been provided to the Fiscal Policy Panel (FPP) in September 2013 and the Corporate Services Scrutiny Panel in October 2013. It was made scrupulously clear that these forecasts had not been used in the Budget 2014 document. Members overwhelmingly approved that Budget. For the 2015 Budget the Minister has gone to great lengths to ensure the most accurate and prudent forecasts are in front of Members.

Ministers and Chief Officers were made aware as early as possible of the Income Tax Forecasting Group's (ITFG) forecasts. It would have been a softer option to rely on the experience of recent years that income tax receipts have tended to outstrip forecasts and include more upbeat figures. The Minister was convinced this year that this would not have been appropriate. Full, less buoyant, forecasts have been included which have necessitated compensating measures to achieve a balanced Consolidated Fund. It is wrong to criticise the Minister for this prudent approach.

Thirdly, he suggests the Budget 2015 proposals renege on previous States decisions. Yet again, this is not the case. To use Deputy Southern's examples –

- Freedom of Information legislation will still be implemented from the 1st January 2015, in advance of the date required by P.41/2011;
- Repayment of the pre-1987 PECRS date is still being accelerated; and
- The Long-Term Care Scheme has been introduced on time, with deserving Islanders receiving valuable benefits whilst achieving a delay in the introduction of the associated charges approved by the States.

If objectives such as these can be achieved whilst using up fewer resources than originally intended then the Minister can surely not be criticised for redirecting unneeded resources to areas of greater need. The achievements of maintaining essential expenditure on States services at the same time as injecting vital capital into the economy during a period of extreme economic turbulence are to be acknowledged and praised, as the FPP do, not criticised.

It is not clear why the Deputy singles out an exchange in the States from September 2012 as being informative. Economic developments in the Eurozone changed

significantly during 2012. The March 2012 income tax forecast that was used in the MTFP was based on analysis conducted largely in February 2012 and in particular drew on the most up to date forecasts by the Fiscal Policy Panel (FPP) for the Jersey economy, by the OBR for the UK economy and by the IMF and other forecasters for the global economy.

In early 2012 while the euro crisis had continued to unfold, the extent and depth of the consequences were not fully apparent. This meant that forecasts at this time did not fully anticipate the fallout from the euro crisis. The FPP were still forecasting weak growth in 2011 and 2012, although risks were to the downside. The independent economic and fiscal authority in the UK – the Office for Budget Responsibility – thought in March 2012 that actions by the ECB seemed "to have eased immediate tensions in the euro area financial markets significantly". The IMF in April 2012 had identified that the "threat of a sharp global slowdown eased with improved activity in the United States and better policies in the euro area". As it turned out, UK economic growth turned out to be lower than forecast by the OBR in 2011 and 2012 and only narrowly avoided entering a double dip recession in 2012. In addition, the impact of the euro crisis on Eurozone growth was more severe and protracted than the IMF forecast.

It is important that we all understand how the income tax forecasts evolved over the subsequent period and can see that there was a practical process to update them. By the time of the March 2013 forecast by the Income Tax Forecasting Group the extent of the worsening of the euro crisis and its impact on the global economy was much more apparent and it was clear that the Jersey economy was not performing as well as expected. This also led to reductions in future economic assumptions as expectations of recovery were pushed back. This delay in economic recovery meant that personal income tax growth was revised down by about £25 million in 2014 and £30 million in 2015 and was the sole reason for the downgrading of forecasts last year (and partially offset by expectations of higher corporate tax from in year forecasting).

When this forecast was updated in March 2014 the economic assumptions were updated and combined with the latest information on personal and corporate tax developments. The end result was that the forecast for 2014 income tax was nearly £20 million lower and for 2015 £25 million lower than the March 2013 forecast.

The combined impact of the March 2013 and March 2014 forecasts was to reduce the forecast for 2014 and 2015 by £30 million and £50 million respectively, relative to the original MTFP forecast. By far the largest contributor to these changes has been revisions to the economic assumptions, the vast majority of which took place last and was included in the forecasts shared with State members last year. Given the seismic changes that took place in the Eurozone and global economies over this period and the fact that other forecasting bodies had revised own their forecasts it should not be a surprise that Jersey forecasts changed and significantly so.

Prudent Treasury Ministers will update their plans based on new information and independent advice. As we made very clear in the MTFP debate in October 2012 – we knew that that our income would be affected by the troubles in the Eurozone, but the right decision was to stick to our new policy of medium and long-term planning. Short-termism is at the heart of many of our past problems and the problems that other countries now face.

The critical issue is that even if we all had perfect foresight (rather than the benefit of hindsight) and realised the extent of the weaknesses in the global economy in 2012, its implications for the Jersey economy and states finances in subsequent years – what would we have done differently? The answer should be nothing. We should have continued to plan to support the economy and undertake the critical investment in our infrastructure set out in the MTFP. It should have given us more urgency to implement our plans not been an excuse to delay or change tact.

The MTFP provided significant investment of £20 million to support the economy and get people into work in line with States strategic priorities. This included projects with Digital Jersey, Jersey Business, Highlands College, Jersey Finance as well as Trackers and Apprenticeship schemes. A further £19 million was provided for Back to Work and employment Initiatives. The FPP advised us to invest in the economy during the downturn to take up spare capacity and stressed that this should not be limited to the Consolidated Fund alone. We have funded £222 million of capital projects over the MTFP period, which is almost £80 million more than over the previous 3 years. This infrastructure creates jobs and provides facilities to improve Islanders' lives.

The remarkable fact is that our income for 2011, 2012 and 2013 held up and demonstrated that we were right to maintain the forecasts in the MTFP. Knee-jerk reactions in 2012 could have led to us needlessly shelving expenditure or raising revenue, and at the time when the resulting impacts on the economy would have been most damaging.

Draft Budget 2015 proposes ways to manage the forecast drop in income in coming years in a way that does not knock the economy off course. To do this we are not borrowing, we are not increasing taxes and we are not reducing our capital spending plans. We are also maintaining our revenue spending plans, but we are asking departments to deliver further savings through efficiencies next year.

The Deputy's alternative approach is to use the "rainy day fund". If this means using the Strategic Reserve then the Deputy falls foul of his own criticism – using ring fenced funds for purposes which they are not intended. The Strategic Reserve is not to be used for a 'prolonged downturn in the economy' which is markedly different from agreed States policy that it is "to be used in exceptional circumstances to insulate the Island's economy from severe structural decline such as the sudden collapse of a major industry or from major natural disaster".

The FPP's advice is clear and consistent – that we should continue to support the economy during the recovery and follow the course set out in Draft Budget 2015. And for the avoidance of doubt – that means putting money into the economy, benefitting local businesses and supporting employment. We are spending capital, keeping firms busy and putting money into people's pockets with the cut in the marginal rate of tax. The FPP recommended in their 2014 Annual report:

> "The focus in 2014 and 2015 should be on supporting the economy (by running deficits) while there is still spare capacity." And
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> "This focus should not be deflected in light of lower tax receipts (outturns or forecasts) especially where this is a result of weaker than expected economic performance".

The FPP did mention in their report that there “is a risk of an underlying structural shortfall between States’ income and expenditure” but also stated that they intend to undertake additional analysis ahead of their next report (published in preparation for the next MTFP) to better understand the underlying structural position of States finances. In the meantime they have recommended that –

> “If there is a structural deficit in the public finances, the States should plan to address it once the economy has recovered. Structural changes in taxation, or expenditure programmes are easier to introduce once the economic recovery is fully established. This will be an important consideration for the next MTFP.”

The proposals set out in Draft Budget 2015 are clearly in line with FPP advice, not least because the Minister puts great stall in the Panel’s recommendation and has paid close attention to them. Listening to independent expert advice and following that advice should be reason to have confidence in a Minister, not seen as detraction.

The Minister stands by the entirety of his records and achievements during the period when he has had the privilege to hold the Treasury and Resources office. This has been an extraordinary period in economic history and Jersey’s finances have been steered through those times, possibly battered and bruised, but sufficiently uninjured to be able to take advantage of the recovery when it is in full swing. The Minister stands by all of his decisions and actions. Without them the climb back to full economic health would be much steeper and longer. The Budget 2015 is the right Budget for Jersey at this time. Experts agree this is the case. States Members should welcome it.