STATES OF JERSEY

GOVERNMENT PLAN 2021–2024 (P.130/2020): SIXTEENTH AMENDMENT

Lodged au Greffe on 30th November 2020
by the Government Plan Review Panel

STATES GREFFE

GOVERNMENT PLAN 2021–2024 (P.130/2020): SIXTEENTH AMENDMENT

1 PAGE 2, PARAGRAPH (c) –

In paragraph (c), after the words "to the Report" insert the words –

> ", except that the limit on funding required from the Revolving Credit Facility shall be reduced by at least one third, with the funding to be found through either the facilitation of a community bonds programme or the divestment of States-owned assets (including shares in companies in which the States has full or partial ownership), in accordance with the agreement of this proposition".

2 PAGE 2, PARAGRAPH (c) –

After paragraph (c) insert the following new paragraph and re-designate the subsequent paragraphs accordingly –

> "(d) to request the Government of Jersey to facilitate a community bonds progamme as a means of generating funding to offset the reduction in the proposed funding required from the Revolving Credit Facility under Paragraph (c) of the proposition".

3 PAGE 2, PARAGRAPH (e) –

After paragraph (c) insert the following new paragraph and re-designate the subsequent paragraphs accordingly –

> "(d) to request the Government of Jersey to initiate a programme of divestment of States-owned assets (including shares in companies in which the States has full or partial ownership) in order to generate additional income to fund States expenditure and to offset the reduction in the proposed funding required from the Revolving Credit Facility under Paragraph (c) of the proposition".

4 PAGE 3, PARAGRAPH (j) –

After paragraph (j) insert the following new paragraph –

> "(k) to request the Ministers for Infrastructure and for Treasury and Resources to present strategies to the States by February 2021 in which property and other States-owned assets (such as land) are earmarked for divestment and for the maximisation of the States asset portfolio to its full potential".

GOVERNMENT PLAN REVIEW PANEL

Note: After this amendment, the proposition would read as follows –

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

to receive the Government Plan 2021 – 2024 specified in Article 9(1) of the Public Finances (Jersey) Law 2019 ("the Law") and specifically –

(a) to approve the estimate of total States income to be paid into the Consolidated Fund in 2021 as set out in Appendix 2 – Summary Table 1 to the Report, which is inclusive of the proposed taxation and impôts duties changes outlined in the Government Plan, in line with Article 9(2)(a) of the Law;

(b) to approve the amounts to be transferred from one States fund to another for 2021, in line with Article 9(2)(b) as set out in Appendix 2 – Summary Table 2 to the Report;

(c) to approve the proposed borrowing to be obtained for 2021, in line with Article 9 (2)(c), up to and including the amount set out in Appendix 2 – Summary Table 3 to the Report, except that the limit on funding required from the Revolving Credit Facility shall be reduced by at least one third, with the funding to be found through either the facilitation of a community bonds programme or the divestment of States-owned assets (including shares in companies in which the States has full or partial ownership), in accordance with the agreement of this proposition;

(d) to request the Government of Jersey to facilitate a community bonds progamme as a means of generating funding to offset the reduction in the proposed funding required from the Revolving Credit Facility under Paragraph (c) of the proposition;

(e) to request the Government of Jersey to initiate a programme of divestment of States-owned assets (including shares in companies in which the States has full or partial ownership) in order to generate additional income to fund States expenditure and to offset the reduction in the proposed funding required from the Revolving Credit Facility under Paragraph (c) of the proposition;

(f) to approve each major project that is to be started or continued in 2021 and the total cost of each such project and any amendments to the proposed total cost of a major project under a previously approved government plan, in line with Article 9(2)(d), (e) and (f) of the Law and as set out in Appendix 2 - Summary Table 4 to the Report;

(g) to endorse the efficiencies and other re-balancing measures for 2021 contained in the Government Plan as set out in Appendix 2 Summary Table 6 and reflected within each gross head of expenditure in Appendix 2 – Summary Table 5(i);

(h) to approve the proposed amount to be appropriated from the Consolidated Fund for 2021, for each head of expenditure, being gross expenditure less estimated income (if any), in line with Articles 9(2)(g), 10(1) and 10(2) of the Law and set out in Appendix 2 – Summary Tables 5(i) and (ii) of the Report;

(i) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2021 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 7 to the Report;

(j) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2021 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 8 to the Report; (i) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2021as set out in Appendix 2 – Summary Table 9 to the Report;

(k) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2021as set out in Appendix 2 – Summary Table 9 to the Report;

(l) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2021-2024, as set out at Appendix 3 to the Report;

(m) to request the Ministers for Infrastructure and for Treasury and Resources to present strategies to the States by February 2021 in which property and other States-owned assets (such as land) are earmarked for divestment and for the maximisation of the States asset portfolio to its full potential.

REPORT

The Panel is of the view that the intended level of borrowing is too high risk and 'one-dimensional' and is seeking to reduce the level by combining borrowing with other strategies. This includes creating the conditions for local investment in a community bonds programme and making appropriate use of the considerable assets of the States of Jersey by realising their value, or at least taking urgent steps to identify assets that can be repurposed to better suit the needs of Islanders, and/or disposing of unnecessary assets. This 'blended approach' should have the effect of reducing the overall risk in raising the funds to achieve the planned expenditure.

Background

A borrowing strategy has been formulated to help finance the cost of Covid-19 which is estimated to exceed £400 million, in addition to infrastructure investment including the building of the future hospital, which is projected to cost over £800 million.

The Government Plan business case 'COVID-19 - Revolving Credit Facility Borrowing Costs' outlines the estimated need to secure £27,415,000 between 2021 and 2024 (£3,746,000 in 2021) to support the Revolving Credit Facility; the £500 million package agreed to help manage the delivery of policy caused by Covid-19 and support capital expenditure, investments, public services, and economic policy during this period (Annex, page 89). This strategy includes for borrowing up to £406 million to 2022 to be administered through a Revolving Credit Facility which will in itself cost approximately £29 million to set up.

£335,953,000 from the Facility is expected to be spent in 2021, with the remaining totals divided over the next three years:

Summary Table 3 – Proposed borrowing for 2021

	2021 (£000)	2022 (£000)	2023 (£000)	2024 (£000)
Funding required from Revolving Credit Facility	335,953	70,864	-5,547	-6,808

As outlined in a Freedom of Information request, the rate of interest for the Facility is not currently known.

The Government's borrowing strategy includes an additional £50 million in 2020 for the Fiscal Stimulus Fund, with short term borrowing to be used for 2021.

The borrowing strategy has been formulated, in part, to help recover the costs of Covid-19, which could exceed £400 million, as well as to invest in several capital projects including the future hospital. The Government Plan sets out the intention for external borrowing and to maintain current level of reserves approximating at some £3 billion. It is proposed that a cumulative external borrowing requirement of some £446 million be established to 2024. We are told that because external borrowing rates are at historic lows, and existing investments will make medium term positive investments, it is better to borrow this considerable amount of money rather than use the Strategic Reserve or liquidate assets to fund emergency Covid-19 spend.

However, we have seen no evidence to substantiate this level of confidence in the performance of market investments and we suggest that they could become volatile especially over the extended period that it will take to repay this level of borrowing. In addition, there is evidence to suggest that economic cycles and financial markets are being significantly distorted during the current Covid-19 global pandemic.

Borrowing and Financing the Debt

The recent CIPFA[1] report commissioned by the Corporate Services Scrutiny Panel expressed caution at accepting the Government's confidence in its economic assumptions:

Whilst the Government Plan 2020-2024 still provides a highly integrated strategic financial model that should allow some high-level agility, we have concerns around the validity or strength of core assumptions that underpin key areas within the financial modelling. These key areas include 'borrowing and strategy reserves'.

In order to finance the levels of external debt repayments, the Government Plan proposes to establish a 'sinking fund' created with the transitional tax debt created within arrangements transitioning tax payers from Prior Year Basis (PYB) to Current Year Basis (CYB) assessment. However, it is difficult to ascertain what level of 'sinking fund' would need to be established and how this would keep pace with the external financing costs in the longer term.

The Government has also committed, in private briefings to States members, the following measures to reduce the debt burden:

- the return of unused and uncommitted capital spend from the end of 2020;
- the return of unspent Covid-19 allocations at the end of 2020.

It has also undertaken to repay the debt by ringfencing (hypothecating) 'property disposals'. In addition, the Government argues that the borrowing requirement has been contained by cancelling the supplementation transfer to the Social Security Fund 2020-2023 and using the Health Insurance Fund to fund the Jersey Care Model and the Digital Care Strategy.

Mindful of the fiscal caution and responsibility that the States of Jersey has always embodied in the past the Panel considers this to be a risky strategy by the Government, coming as it does before a proper and prudent assessment of States income from tax revenue and in the absence of a properly thought out Estate Management Strategy or indeed an agreed plan to monitor borrowing rates and report back to the States on a repayment strategy on a regular basis. The Panel considers that a more appropriate way forward is a blended approach, such as borrowing a reduced amount and either divesting of some of the considerable States' owned property stock and/or shares or committing to an urgent review of States assets to maximise their potential (such as considering divesting of shares/land/property for example).

[1] Covid-19 Recovery Planning – Government Plan – CSSP November 2020

- **Bonds**

During the COVID-19 pandemic and accompanying recession, the issuance and investment of bonds has been used by some governments and private businesses to quickly raise money to pay off debts accrued as a result of policies to combat the spread of the virus, including the following examples:

The Guernsey Together Bond

In October 2020, it was announced that the States of Guernsey would issue a new community bond, overseen by the investment firm Ravenscroft Ltd, in January 2021. Known as the 'Guernsey Together Bond', the proceeds generated will be used to help fund the Island's 'Revive and Thrive' recovery plan, and is expected to raise up to £50 million through an offer "designed to and constructed to be attractive to individual local investors", following the approval of action to raise money through local investment by the Island's Policy & Resources Committee in May 2020.

EU SURE Bonds

To aid member states in confronting the COVID-19 Pandemic, the European Commission has established the SURE Programme ("Support to mitigate Unemployment Risks in an Emergency"), forming part of the €1.074 trillion multiannual financial framework. This includes of the issuance of the world's largest social bonds and largest ever syndicated Euro deal - up to €100 billion of social bonds that are directed at the following social impact areas (UN Sustainable Development Goals):

- Target employment generation and programs designed to prevent and/or alleviate unemployment

- Good health and wellbeing through increasing access towards universal health coverage, including financial risk protection, and affordable essential medicines

These follow a set social bond framework, which will assure investors in these bonds that they can be confident that the funds delivered will serve the intended social objectives. The concerns raised about debt levels in the EU are currently mixed, although analysts seem relaxed about the short-to medium-term prospects for debt "within the next three to four years".

When the bonds first launched in mid-October, they received the "largest ever order book" in global bond markets, with investors placing bids of more than €233 billion, far exceeding the €17 billion on offer. This was due to the high yields of the bonds, which included 10-year and 20-year maturities and offered more income for investors than safe eurozone debt, as well as the EU's strong credit rating and relative stability during the pandemic.

Jersey's Revolving Credit Facility and Bond Exploration

During the Panel's public hearing with the Minister for Treasury & Resources on 19 October 2020, the Panel raised the option of a community bond. The Treasurer of the States noted that the Minister had previously looked at bonds in relation to the Future Hospital, and that the Treasury had not selected it as an option because it would not raise the necessary level of borrowing, and would therefore not be a recommended debt instrument. The Treasurer further observed that there has been no "necessarily local assessment" of community appraisal for bonds.

Should negative interest rates become a reality, the Treasurer agreed that the use of a community bond would become more attractive, albeit with the question remaining of how to set the rate of the bond and fix its interest. The Assistant Treasury Minister suggested that, if the interest rate was set at 2%, the Island could "probably get a huge appetite for a community bond", but that it would not be "great business for us in Government".

States Assets including shares

In March 2019, the former Comptroller and Auditor General published her States as Shareholder (Follow-up Report). She noted that the States control seven companies. These have a substantial financial impact for the States and economic impact for the Island. Four of these companies are Strategic Investments (Jersey Electricity plc, Jersey New Waterworks Company Limited, Jersey Telecom Group Limited and Jersey Post International Limited) with a total valuation of £374 million at 31 December 2017. The remaining three companies (States of Jersey Development Company, Andium Homes Limited and Ports of Jersey Limited) are consolidated in the States' accounts with net assets of £1,270 million at 31 December 2017. Each company has its own management with responsibility for effective stewardship but the States have a vital role as owner to ensure that their interests are being protected and advanced. She recommended a formal post-implementation review of the effectiveness of the new arrangements for oversight of controlled companies under the Target Operating Model, be undertaken by the end of 2019, which would include the shareholder and client-side functions. She also recommended, and the Panel agrees that there should be recognised standards for stewardship as an investor, reflecting the non-financial ownership objectives of the States.

The formal response from the Treasurer in May 2019, assured the States Assembly that a formal post-implementation review of the effectiveness of the new arrangements for oversight of controlled companies under the Target Operating Model, including the shareholder and client-side functions, would be undertaken, not by the end of 2019 as recommended, but rather by the end of December 2020. We urge the Government to produce this key piece of work to demonstrate how we can best maximise the potential of States owned assets.

Property and Land

The States own a vast array of buildings and other significant land assets, worth over £1 billion. Some are currently utilised; some are lying empty with agreed plans for future use and some could potentially be repurposed or sold.[2] A joined-up approach and written strategy which incorporates acquisition/disposal/utilisation/maintenance of the States property portfolio has been delayed for at least two and half years despite repeated requests by the Public Accounts Committee (PAC) and other Scrutiny Panels.

The PAC heard assurances from the GHE Director General and Property Department at the beginning of the year[3] that the Corporate Asset Management Board (CAMB) would

[2] The Executive Response to the PAC's Report was published in April 2019
[3] PAC public hearing with Acting Director General GHE and Acting Director of Estates, 3rd February 2020

undertake a strategic overview of the acquisition, disposal, maintenance and use of all States-owned properties, and that, amongst other things, the Estate Management Strategy would be made public by the end of February 2020. By the end of February 2020, and prior to the Covid-19 pandemic taking hold, the PAC had published its Comments paper[4], urging the Director General of GHE[5] to produce the Strategy. At its Quarterly Hearing on 27th July 2020[6], the PAC was advised that in its present form it was too technical for public readership and that the 'construction of a plain English version' was imminent, probably by the Autumn.

The Effect of Covid-19 on Property Management

This Panel accepts that the Covid-19 pandemic has had a significant impact on progress in some areas of property and asset management, however, even in the absence of a cohesive Estate strategy, it notes that some 'one off' sales of property and acquisition of leases has been continuing regardless, in the name of 'efficiencies'. Accepting that a lot of the groundwork must have been undertaken in identifying certain assets which are no longer needed by the States of Jersey, this Panel is of the view that sales of non-necessary buildings/land and significant assets in line with the Common Strategic Policy and the stated intentions of last year's Government Plan is of vital importance, perhaps even more so than before the outbreak, to make sure we are making the most of our sizeable portfolio of assets for the benefit of the public. The Panel is firmly of the view that leaving property empty and allowing it to fall into disrepair when there is a high level of public need for housing and other amenities does not demonstrate value for money.

Even before the outbreak of Covid-19, the Director General of GHE (now IHE) had advised that the delay of producing a strategy for the property portfolio was, in part, due to both a capability and a capacity issue.[7] He blamed a lack of capacity for the difficulties in managing the very large estate, and whilst stating that there were capable people within the department, said that there were not enough of them.

This Panel is concerned that taxpayers' money is not being targeted appropriately and that it is even more important to divest of unwanted properties and by so doing, perhaps reduce the number of staff and costs required to manage and maintain them.

Some members may have concerns about selling off properties in the short-term before properly assessing whether they could be re-purposed or of use to the community in the future. The Panel urges members to consider that property is being sold off piecemeal in any event, in the absence of a joined up approach. The Chief Minister advised this Panel recently[8] that approximately £28 million of assets had already been provisionally earmarked for disposal. The Panel considers that therefore, to achieve a further sum of £22 million in asset disposals as part of a long-awaited Estate Management Strategy, would not be too onerous and would deliver public benefit. Combining this with the issuance of a community bond, plus the identification of potential selling of shares, would reduce the risk of external borrowing for the remainder of the sum.

[4] PAC Comments 27 February 2020
[5] Transcript of public hearing PAC and GHE Director General and others, 3 February 2020
[6] PAC Quarterly Public Hearing with Chief Executive, 27th July 2020
[7] PAC Public Hearing with Acting Director General, Growth, Housing and Environment and Acting Director of Estates, 29th June 2020
[8] Government Plan Review Panel Public Hearing with the Chief Minister, 20 November 2020

Conclusion

This amendment does not seek to make any difference to the overall amount of income or expenditure by Head of Expenditure being approved by the Assembly in the Government Plan. Other Scrutiny Panels will be bringing forward amendments aimed at reducing some spending plans. This Panel is aware of the Government's ambitious plans to drive efficiencies of around £20 million each year to at least 2024. Subsequently, departments will be directed to spend less (and/or recover more) and to reconcile this at the end of each year. Several projects have been halted, deferred or reduced in the effort to make savings to offset the cost of Covid-19 recovery. Yet the Government still seeks to spend large sums on capital projects whilst potentially facing a decrease in revenue. Whilst the revenue estimates used in the Government Plan 2021-2024 have been described as optimistic by the Chartered Institute for Public Finance Accountants, With uncertainties around longer term borrowing rates, combined with the surety that the Island will need to borrow to pay for several capital projects in the future, such as the Hospital and public sector offices, this Panel is firmly of the view that the Assembly consider reducing the amount of borrowing that is undertaken now to fund the projects outlined in the Government Plan. The risk can be offset by realising the value of underutilised assets held by the States of Jersey and running a community bond programme, which would ensure the 'buy in' and local investment focus that this Island needs. The Panel believes that such action would spread the risk of borrowing by diversifying into community bonds and divesting of assets.

Financial and manpower implications

This amendment will have an initial impact on the tables and figures presented as part of the Government Plan but will balance back to the current figures once the required amendment is lodged by the Council of Ministers. Manpower is required to undertake a revision of the borrowing amounts and further enquiry into divesting assets and developing then administer a suitable bond – The financial implications of preparing and implementing a strategy for divestment of assets and facilitating a community bonds programme are not known at this time but we are advised by the Treasury department, "likely to run into hundreds of thousands of pounds" and that, "the Minister for Treasury and Resources is likely to need to fund these costs from the General Reserve." However, the Review Panel considers that a substantial part of this work should be within the normal scope of work for departments and the Council of Ministers.

Re-issue Note

The effect of Part 4 of the amendment was not shown in the consolidated version of the main proposition when the amendment was first published.