

Terms of reference for the Fiscal Strategy Review

1. Need for the review

Possibility of a structural deficit in public finances

The global financial crisis and the subsequent turmoil has adversely affected economies all around the world. Consequently, the world economy is expected to contract in 2009 for the first time in over 60 years¹.

Jersey is also feeling the effects of the turmoil. The Fiscal Policy Panel forecast that economic activity as measured by Gross Value Added (GVA) will “*shrink by 4 to 6% in 2009 and shrink by a further 1 to 3% in 2010*”² and are due to update this assessment in November. The States has prepared a targeted, timely and temporary stimulus to the economy funded from the Stabilisation Fund.

Despite this, States’ financial forecasts show that there will be a risk of a structural deficit in the region of £60m per year from 2012 onwards, assuming the economy returns to a trend rate of growth after 2010. This forecast is subject to a degree of uncertainty in both directions, but there is enough evidence to suggest that a structural deficit of some level will remain once the Island’s economy recovers.

Spending pressures

The States Strategic Plan 2009 – 2014 has identified a number of spending pressures that will require funding streams in the future. These include:

- the implications of an ageing population;
- the rising cost of health care;
- investment in sewage and solid waste infrastructure; and
- increasing the maintenance spend on States buildings (including schools and hospitals).

Any fiscal strategy needs to ensure that it takes account of these additional funding streams in order to ensure that the strain on the economy is sustainable.

Stabilisation Fund

Beyond 2010 the Stabilisation Fund is likely to have been fully deployed on economic stimulus during the downturn. During the next upturn, another challenge will be to run surpluses to allow for the Stabilisation Fund to be replenished.

International changes

As a result of global financial crisis, international standards and norms for taxation are changing rapidly and there is likely to be pressure on Jersey’s business tax regime in the coming years. Jersey will need to continue to ensure compliance with international standards to differentiate itself from the competition and ensure the continued success of the Island’s economy.

2. Purpose of the review

The review will develop, consult on and then bring to the States a fiscal strategy in time for the 2011 budget that will:

- ensure sustainable public finances and support economic objectives;

¹ National Institute Economic Review No. 208 April 2009, p2.

² Jersey’s Fiscal Policy Panel Annual Report 2009, p14.

- plan for potential future changes in global fiscal norms and the possible impact on Jersey;
- address the potential structural deficit once the economy has recovered;
- fund essential public services;
- take account of funding sources for the future spending pressures.

3. Work planned and the process

The review will consider all options, for meeting the future costs of public services including fiscal changes and income generation (through more revenue from tax or charges and/or through economic/productivity growth sustained above trend levels).

A significant element of the work will be an extensive review of tax regimes across Europe and our competitors.

It will also take account of the options for constraining or reducing expenditure (through prioritising and reducing public services and/or achieving additional efficiency improvements), although the detailed work in this respect will flow from the introduction of a Comprehensive Spending Review process (CSR).

These options will be analysed on the basis of how much they could contribute, the distributional consequences (who pays), efficiency considerations, administrative simplicity and impact on competitiveness.

The options and the questions around them that arise will be discussed with a Steering Group to focus resources and efforts and to help develop the proposals further for public consultation.

4. Governance and accountability

The Ministerial Steering Group for the Fiscal Strategy Review will be supported by an officer group.

The Ministerial Group will ensure that the Corporate Affairs Scrutiny panel is kept fully informed of the work as it progresses, in order to allow them to scrutinise any matters at the earliest date. The composition of the Steering Group may be extended in discussion with the scrutiny panel.

A specific stream of consultation will ensure that States Members are provided with papers on all of the options that have been considered.

5. Structure and timing

Research, assessment of the options and discussions with the Steering Group for the Fiscal Strategy Review started in September 2009 and is expected to continue until May 2010.

There will be a States Members and Public consultation process which will take place from June 2010 to August 2010.

After consultation, proposals will be taken to the Council of Ministers then the States for approval.