Response to Recommendations included in the

2012 Fiscal Policy Panel Report

Response from the Treasury and Resources Minister to the Fiscal Policy Panel Annual Report, October 2012

I would like to start by thanking the Fiscal Policy Panel for the considered and well-argued recommendations set out in their annual report for 2012.

The detailed economic analysis set out by the Fiscal Policy Panel will for the fifth year in succession provide a valuable scrutiny against which we can test our plans.

Independent economic scrutiny and challenge from the FPP is an important safeguard for the Island's long-term financial and fiscal health. I now plan to put the FPP onto a full statutory basis enshrined within Jersey's Finance Law.

It has been challenging to strike a balance between tax and spending against the backdrop of the continuing worldwide economic problems. I continue to welcome constructive comments and amendments to the MTFP. I believe the FPP report is broadly supportive of the plans contained in the MTFP.

In the coming weeks we will continue to consider their recommendations in more detail. As I received the report on Friday evening, at the same time as all other States Members this is an interim response. I plan to make a formal response ahead of the Budget presentations on the 16th October.

It is reassuring to note that the issues rightly raised by the Panel are the very same issues that we have identified in the development of the MTFP.

Whilst the report was new to me, the issues were not. The report has helpfully illustrated the difficult balancing act allocating resources to meet clearly identified spending needs in essential areas such as health, social care and job creation, supporting the economy in the short term and protecting the competitive system of taxation upon which our Island's economy depends.

As have already signalled, there will be no significant tax raising measures proposed in the budget. Those measures which are proposed will aim to promote the consolidation and simplification of Jersey's existing tax regime in order to tighten compliance on tax collection and reduce avoidance. This approach accords with the recommendation in the FPP report that 'the States should avoid making decisions in Budget 2012 that permanently reduce revenue or increase expenditure' (p.34).

I turn now to the question of managing increases in expenditure.

The Treasury and Council of Ministers carefully scrutinised and discussed the proposed allocation of growth within the MTFP. We are satisfied that the proposed growth allocations are carefully targeted towards delivering the priorities set out in the Strategic Plan, agreed by the States in the summer.

The Council of Ministers continues to drive out waste and inefficiencies where they exist and modernisation programme will also help deliver that with an extra focus on e.government as part of the Digital Jersey programmes.

We draw attention to the fact that the MTFP, by 2013 we will have delivered £56m of the original CSR savings target of £65m, and by 2015 £62m of ongoing savings will have been delivered. In addition, the MTFP outlines a range of measures, including budget reductions and the use of uncommitted contingencies that gives a balanced position over the MTFP period.

I note the FPP's observation of the fiscal position in 2014 and 2015 as part of the MTFP. I will consider a number of options including targeting revenue expenditure under spends in 2014 and 2015, subject to the Economic Recovery taking hold.

Finally, as general point, the observations said in the report and briefings today on capital spending are very helpful and well made. I will provide some additional analysis of Capital Expenditure ahead of the debate on 6th November.

Taking each of the recommendations in turn, I would like to give my interim response:

1.The Panel's assessment of the economic outlook for the Jersey economy has been downgraded for 2012 and 2013 and there are indications that significant spare capacity will remain in the economy over this period. This leads the Panel to advise that the States should act now to give discretionary fiscal support to the economy in 2012 and 2013 and if practical to a greater extent than set out in the MTFP.

Agreed.

We had signalled for some time that the Economic Growth estimates, which were prepared in March would be downgrade in the light of continuting Economic difficulties in the UK and Eurozone. We have been very mindful of the need to provide discretionary fiscal support to the economy and the steps we have taken to identify and fund an ambitious capital programme over the next 3 years evidence this. This is combined with the measures we have taken to provide additional funding for housing schemes in 2012, both to the Housing Department and the Parish of Trinity. There has also been one-off investment for Jersey Telecom's Gigabit roll out which has not only contributed to infrastructure project funding but also provided a much needed injection into the jobs market. The jobs market has also been helped by the additional funding provided in 2012 for Back to Work schemes in a joint initiative between Economic Development and Social Security.

We will consider with colleagues the options for us to go further in the way that the Panel suggests, including external and internal borrowing and review our current position in light of the comments made by the FPP.

2. While the consideration of additional discretionary stimulus should not be limited purely to capital expenditure it is clear that with such significant capital allocations over the life of the MTFP consideration could be given as to whether, in a timely, temporary and targeted manner:

- **Capital allocations in 2012 and 2013 can be spent in the year of allocation**
- **Capital allocations from 2014 and 2015 can be brought forward to 2012 and 2013**
- **Unspent allocations in 2012 from previous years can be spent as quickly as possible in late 2012 and 2013**

Agreed.

States departments have been asked to make rapid progress on tendering the capital schemes that have been funded in 2012 and 2013 so as to inject this spending into the local economy at a time when the construction industry is struggling. A number of projects are also subject to Planning permission. These projects will help the local economy and deliver better value for money as prices are keen. We will also be reviewing other aspects of expenditure, such as repairs and maintenance for social housing to ensure that these projects are being completed in as timely a manner as possible.

Bringing forward capital allocations from 2014 and 2015 may not be possible without borrowing or using reserves in order to finance projects early. The Treasury review of funding, as previously announced, was designed to assist in decision making over the next few months.

The overall capital programme allocations were derived from departmental returns that focussed on critical projects for service delivery and careful consideration was given to the prioritisation of projects during the MTFP period. All of the projects during the MTFP period would stand up to the 'timely, temporary and targeted' test.

3. The extent of stimulus should not be limited by the balances on the Consolidated or Stabilisation Funds. The States should give consideration as to the best way to fund needed stimulus if it is constrained by the availability of funding from these sources, not least because any constraint would be one of cash flow and funds could be repaid from future revenue.

Agreed.

See the comment under (2) above.

4. It is too early to judge whether the stimulus that will be provided to the economy in 2014 and 2015 by capital expenditure financed by one-off receipts will be warranted but contingency plans should be made as to what measures could be implemented to reduce the extent of the stimulus if economic conditions merit such an approach.

Agreed.

Treasury will undertake further work to consider 2014 and 2015 of the capital programme if it were necessary to reduce the extent of the economic stimulus in the event that the economy had improved substantially. It should be noted that the funding of these programmes in 2014 and 2015 is largely met by a repayment from the Housing department for schemes that were brought forward to 2012 and 2013. This could be diverted to other measures if it appears that this funding was not required due to a change in economic conditions. However, the projects set out in the capital programme, whilst they have the added advantage of providing fiscal stimulus, are necessary projects that the States must carry out to meet service delivery needs for local people. The Budget for each of these years provides the final mechanism for the approval of projects and there is the opportunity to vary the schemes at this stage.

I will consider alternative ways which could reduce spending in 2014 and 2015 if Economic suggest that is desirable.

5. No transfers into the Stabilisation Fund are recommended in 2012 or 2013. However, further consideration needs to be given as to how the Stabilisation Fund will be rebuilt through countercyclical fiscal policy once the economy begins to recover. The Panel does not recommend a transfer into or out of the Strategic Reserve at this stage.

Agreed.

One way in which the Stabilisation Fund could be rebuilt during the period 2013 to 2015 is that any general revenue income that is achieved above our current target could be allocated to the Stabilisation Fund. This is in line with previous recommendations from the FPP and is an option discussed within the MTFP.

6. The Panel cannot rule out that there is an underlying structural imbalance between expenditure and revenue. The Panel's view is that further analysis is required by the Treasury and Resources Department to consider the nature of proposed capital expenditure, the way it is funded and what it implies for the underlying position of States' finances. If this analysis suggests that there is a structural deficit then consideration should be given to its extent and nature, including a more detailed plan of action to rectify it.

Agreed. The Treasury will undertake further analysis as suggested by the FPP. It is accepted that the Council of Minsters has agreed an ambitious programme of capital expenditure amounting to £222m for the period 2013 to 2015. Treasury has identified a range of sources of funding to meet the costs of this programme including the repayment of the Preference Share from Jersey Telecom, which will yield £20m, of which £15m has been applied to the programme.

The Council of Minsters has taken this bold step in light of the pressing service delivery needs and in light of the comments made from local industry about the impact of economic downturn. The Council of Ministers believes that in current circumstances, whilst some correction in markets is inevitable, public money is better spent on keeping people in productive employment, allocating resources to Economic Development including funding for Digital Jersey and Jersey Finance, and keeping local businesses going rather than increasing the Social Security bill with more unemployment. This will help local businesses continue in operation and be there to take advantage of the upturn in the economy which will follow. The capital programme is seen as a direct fiscal stimulus within the MTFP period. These projects will focus on local contractors and provide an indirect stimulus to the economy through support to the construction industry from building projects.

We are also looking at new ways of financing major capital works, which will allow us to manage significant projects such as the Hospital and further investment in housing and infrastructure.

See comments on target additional savings in 2014 and 2015.

7. The Panel have had to make significant adjustments to the financial forecasts presented in the MTFP to try to assess the underlying economic impact of the proposals. In future the presentation of States' finances would be more informative, leading to a better informed policy debate, if these types of adjustments were already included in the analysis accompanying any proposals in the MTFP or Budget.

Agreed.

This would be helpful for the independent analysis, which is accepted. The Treasury will include further analysis.