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States of Jersey

Private and Confidential

12th April 2012

Mr Joly Dixon, CMG
70 rue Notre Dame
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Belgium

Dear Joly

Advice on use of Stabilisation Fund

I am writing to seek the advice of the Fiscal Policy Panel on a proposal I wish to take to the States shortly which changes the proposal in the 2012 Budget document not to withdraw the full amount from the Stabilisation Fund and makes temporary use of those funds to support housing capital projects.

In your October 2011 update you made it clear that:

> *"should the economic situation deteriorate, the States should be ready to support economic activity without weakening States' finances. For example:*
> - *bringing forward already funded capital projects in the capital programme, or redistributing past capital project allocations to projects that are able to take place sooner.*
> - *speeding up the planning process for private sector projects already in the pipeline."*

Since that report we have seen a number of developments which represent a further weakening of the local economy:

- The confirmation that from 1 April 2012 Low Value Consignment Relief into the UK will no longer be available from the Channel Islands, significantly impacting on our Fulfilment Industry which employees 700 people directly and many more indirectly.
- Unemployment is the highest on record. The recent Census results show that in March 2011 unemployment had risen to 4.7% and that the numbers actively seeking work have risen by nearly 30% since then.
- The December 2011 results of the Business Tendency Survey showed that business activity and optimism across the Island had fallen further.
- Retail sales volumes fell significantly in the second half of last year and there have been few signs since of conditions improving.
- Anecdotal evidence (consistent with the picture in the Business Tendency Survey) is that construction order books are not being replenished and that this could be putting further jobs at risk.

In response to this new economic data I have given full consideration to your advice above and what can be done to bring forward capital projects. Following discussions with the Housing Minister it has been identified that there are a number of projects that are being progressed by the Department that will be ready to tender during 2012. These projects together will provide a total of £27.1m of work for the construction industry, boost wider economic activity and provide 121 new homes that are very much needed (please see the details in the attached papers).

I am in a position to be able to secure funding for these vital social housing projects because the unaudited States Accounts for 2011 identify a balance in the Consolidated Fund which is £27 million higher than expected, primarily as a result of improved taxation revenues and carrying out the full approved transfer from the Stabilisation Fund. Approval of the States is sought to increase the expenditure approval in 2012 for the Social Housing Programme expenditure from £10.8m to £37.9m.

The funding of £27.1 million will be repayable by Housing upon incorporation on 1st January 2014 when an investment will be made by the Currency Fund in the new organisation. Of this repayment £10 million will be reimbursed to the Stabilisation Fund.

At the time of your October update forecasts showed that the balance on the Stabilisation Fund would be £10m in 2011 through to 2014. If the States agrees to the above the balance would effectively be 0 in 2011 through 2013 but return to £10m as forecast when the £27.1m investment will be made by the Currency Fund, allowing the £10m to be repaid to the Stabilisation Fund on 1 January 2014.

I think that in this case the Stabilisation Fund would be used to facilitate short-term increases in capital expenditure at a time of continued economic weakness, without any impact in the medium-term on the balance in the Stabilisation Fund. My commitment would remain to rebuild the Stabilisation Fund in due course as economic conditions and States finances allow.

I still believe that our economic prospects remain favourable in the medium-term – especially as we have taken the key decisions to keep our finances on a sound footing – but I am also acutely aware that we should be doing what we can to support local employment and businesses until conditions improve. If the States agree to this proposal I think we will be bringing forward capital projects, supporting the economy and without weakening States finances.

Given the implications of this decision for both the projected balances on the Consolidated and Stabilisation Funds I thought it important that the States was aware of your advice on this matter before being asked to take the decision. I would therefore be grateful if you could respond in time for members to be aware of your views in advance of the States debate on this proposition.

Yours sincerely

Philip.

Senator Philip Ozouf
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