

STATES OF JERSEY



GOVERNMENT PLAN 2020–2023 (P.71/2019): TWENTY-SECOND AMENDMENT

Lodged au Greffe on 12th November 2019
by the Council of Ministers

STATES GREFFE

GOVERNMENT PLAN 2020–2023 (P.71/2019): TWENTY-SECOND
AMENDMENT

1 PAGE 2, PARAGRAPH (c) –

After the words “of the Report” insert the words “, except that, in Summary Table 3(i) the Head of Expenditure for Reserve for centrally held items should be decreased by £1,400,000, with other affected lines in Summary Table 3(i) to be amended accordingly”.

2 PAGE 2, PARAGRAPH (g) –

After the words “to the Report” insert the words “, except that, in Summary Table 7 the transfer from Consolidated Fund to Stabilisation Fund should be amended to £28,000,000, with other affected lines in Summary Table 7 to be amended accordingly”.

COUNCIL OF MINISTERS

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 2020–2023 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 2020 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; and
- (b) to approve each major project that is to be started or continued in 2020 and the total cost of each such project, in line with Article 9(2)(d), (e) and (f) of the Law and as set out in Appendix 2 – Summary Table 2 to the Report; and
- (c) to approve the proposed amount to be appropriated from the Consolidated Fund for 2020, 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 3(i) and (ii) of the Report, except that, in Summary Table 3(i) the Head of Expenditure for Reserve for centrally held items should be decreased by £1,400,000, with other affected lines in Summary Table 3(i) to be amended accordingly; and

- (d) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2020 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 4 to the Report; and
- (e) to approve the proposed amount to be appropriated from each States trading operation’s trading fund for 2020 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 5 to the Report; and
- (f) to approve –
 - (i) the establishment of a “Climate Emergency Fund”, in accordance with the provisions of Article 6 of the Law, as set out at Appendix 3 to the Report; and
 - (ii) the estimated income and expenditure proposals for the Climate Emergency Fund for 2020 as set out in Appendix 2 – Summary Table 6 to the Report; and
- (g) to approve the amounts to be transferred from one States fund to another for 2020 in line with Article 9(2)(b) as set out in Appendix 2 – Summary Table 7 to the Report, except that, in Summary Table 7 the transfer from Consolidated Fund to Stabilisation Fund should be amended to £28,000,000, with other affected lines in Summary Table 7 to be amended accordingly; and
- (h) to approve the estimated income and expenditure of the Social Security, Health Insurance and Long-Term Care Funds for 2020 set out in Appendix 2 – Summary Tables 8(i), (ii) and (iii) to the Report, with –
 - (i) the estimated income to be raised from existing social security contributions defined in the Social Security Law and the proposed changes to contribution liability; and
 - (ii) the estimated expenditure to be paid to support the existing benefits and functions defined in the Social Security Law, the Health Insurance Law and the Long-Term Care Funds and new benefits, if any, to be paid from the Funds; and
- (i) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2020–2023, as set out at Appendix 4 to the Report.

REPORT

1. Introduction

The Government Plan was prepared in early 2019, using economic and financial information available at that time. Given the length of time since the lodging, and the recent forecasts of the Fiscal Policy Panel, updated forecasts of income, expenditure and recommended transfers to the Stabilisation Fund have been produced based on the latest financial and economic information available, as set out in detail in the Addendum to the Government Plan 2020–2023, which is presented in tandem with the lodging of this amendment.

The timing of the updated forecast is consistent with previous practice, but due to the timings of the Government Plan process, this has occurred between the lodging of the Plan and its debate. However, it is important to ensure transparency of the planning process by reflecting the impact of these latest forecasts on the Government Plan. The Chief Minister has previously highlighted this potential need for flexibility in the Plan to react to changes in forecasts.¹

Income forecasts for the period of the Government Plan have reduced, but the updated economic information also reduces the amount required for the 2020 pay award, and also the amount to be transferred to the Stabilisation Fund. To reflect these updated estimates, and in order to maintain a broadly balanced plan for 2020, the Council of Ministers considers it prudent to propose amendments to reduce the approvals for these items in 2020.

These are –

- (a) a reduction in the provision for 2020 pay awards following the confirmation of the September RPI on which those awards are based; and
- (b) a reduction in the transfer to the Stabilisation Fund consistent with the latest FPP advice.

These adjustments are technical in nature, and do not change the foundations of the Plan.

No amendments are proposed in respect of future years of the Plan, as decisions on these years will be made as part of the development of future Government Plans, including further forecasts of the FPP.

2. Revised Income Forecasts for Autumn 2019

Following the release of updated economic assumptions by the Fiscal Policy Panel (“FPP”), a revised forecast of general tax revenues for the years 2019–23 has been prepared by the Income Forecasting Group (“IFG”). The revised forecast reflects –

- the FPP’s economic assumptions of September 2019² and other related economic data for Jersey;

¹ Government Plan Review Panel (10th October 2019)

² See: FPP Updated Economic Assumptions – September 2019

- the latest accounting treatment regarding the recognition of personal income tax; and
- intelligence from the IFG affecting future forecasts.

The latest forecast shows a decrease of approximately £8 million in States' Income from Taxation and Duty in 2020, driven by decreases in Personal Tax, Impôts (particularly tobacco) and Stamp Duty.

Other income outside of the remit of the IFG (for example, investment income of the Consolidated Fund) has also been reforecast. Based on the updated assumptions and the latest information available, these forecasts have also reduced, by £2 million per year.

3. Inflation provisions

The pay awards agreed and proposed for 2020 are based upon the September inflation rate. That rate is now confirmed at 2.7%, less than the 3.1% assumed in the Government Plan when estimating the financial cost of those awards.

The difference in RPI means that the estimated cost of the pay award is £1.4 million lower than anticipated, and so the amount provided in the Reserve for centrally held items can be reduced by this amount.

4. Transfers to the Stabilisation Fund

The advice from the FPP to address reductions in income is that expenditure plans should not be cut, but rather the scale of surplus and transfers to the Stabilisation Fund be allowed to adjust –

“The updated economic forecasts should not result in any significant deviation from the draft Government Plan, though the automatic stabilisers should be allowed to work. This would be preferable to cutting expenditure to account for a cyclical reduction in income forecasts – which could lead to government reducing its positive impact on demand at a greater rate than is appropriate to the economic conditions. It would be pro-cyclical and weaken growth further to cut spending when the economic outlook is slightly weaker.”³

The in-year transfer to the Stabilisation Fund of £16 million currently proposed in the Government Plan was set on the basis of FPP advice of the capacity in the economy for 2020 at that time. It is also proposed that an additional £20 million is transferred from accumulated balances into the Consolidated Fund.

Having restated their updated economic assumptions in their Annual Report in October, the FPP advised –

“Should these fiscal forecasts be weaker than those underpinning the draft Government Plan, it may be appropriate to run slightly smaller surpluses to respond to the weaker economic conditions and make a smaller contribution to the Stabilisation Fund.”⁴

³ Fiscal Policy Panel annual report October 2019

⁴ Fiscal Policy Panel annual report October 2019

In the report, the FPP provided an updated estimate of the cyclical position of the economy and the appropriate level of transfers to the Stabilisation Fund. Reducing the 2020 transfer from £36 million to £28 million is consistent with the FPP's analysis and advice.

5. Financial and manpower implications

The Government Plan as lodged presented a balanced budget, with a surplus of £16 million being transferred to the Stabilisation Fund in line with FPP advice.

The new economic information available has reduced income estimates, but also the requirement for funding of the 2020 pay award, leading to a smaller surplus. However, the economic information also makes it possible to reduce the in-year transfer to the Stabilisation Fund. Whilst the surplus is slightly less than the recommended transfer, the overall position after this amendment is still broadly balanced.

| | 2020 (£000) |
|--|------------------------|
| Forecast operating surplus – Lodged Government Plan | 16,020 |
| Changes to IFG Forecast | (8,038) |
| Changes to Other Income Forecast | (2,000) |
| Update to Inflation Provision | 1,400 |
| Revised Forecast Surplus | 7,382 |
| In-year transfer to Stabilisation Fund | (8,000) |
| Forecast (Shortfall)/Excess after transfers | (618) |