

# STATES OF JERSEY



## ESTABLISHMENT AND FUNDING OF THE FISCAL STIMULUS FUND

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Lodged au Greffe on 6th October 2020  
by the Minister for Treasury and Resources

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STATES GREFFE

## **PROPOSITION**

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

- (a) to establish a States Fund to be known as the Fiscal Stimulus Fund in accordance with Article 6 of the Public Finances (Jersey) Law 2019 with terms of reference as set out in the Appendix to the Report;
- (b) to agree that the Minister for Treasury and Resources should obtain financing of £50 million to establish the Fiscal Stimulus Fund in accordance with Article 6(3) of the Public Finances (Jersey) Law 2019 using the Revolving Credit Facility entered into by the Minister for Treasury and Resources under Ministerial Decision MD-TR-2020-0051.

**MINISTER FOR TREASURY AND RESOURCES**

## REPORT

### Background – Fiscal Stimulus Fund

The Jersey economy is experiencing a sharp downturn in output, income and employment and the Government is following the advice of the Fiscal Policy Panel (FPP) (March 2020) in implementing a package of fiscal stimulus measures to support the recovery. Direct Payments (£1.3m) and Spend Local Cards (£12.0m) were introduced in July and September 2020 respectively to encourage people to spend money in the local economy on the basis that these measures are *Timely, Targeted and Temporary*.

The latest FPP forecast (August 2020) shows a level of real Gross Value Added (GVA) that is 6% lower than the pre COVID-19 forecast, in the medium term in Jersey. While it is inevitable that there will be a considerable cyclical fall in output, due to the health-related restrictions put in place by Government, it is important to minimise the level of structural damage and economic scarring.

The Minister is proposing to establish a Fiscal Stimulus Fund to provide stimulus into the economy as part of a package of measures to enable the economy to recover more quickly, than would otherwise be the case. Ministers' intent is that stimulus be provided on a timely and temporary basis, targeted towards projects that would support local employment and local business and as a subsidiary aim to further the States Corporate Strategic Priorities. The Fiscal Stimulus Fund will be established with an initial funding level of £50m. This will be available in 2 tranches with the first £25m for projects from November 2020 and the second tranche available for projects from February 2021.

Across government and States Owned Entities, major infrastructure plans will deliver considerable and sustained stimulus to the economy. The Fiscal Stimulus Fund will accordingly not aim to replicate stimulus to the large-scale construction sector, but will be directed at smaller scale, more agile projects of no more than £5m per project in total with a final completion date of no later than December 2021.

The Fund would invite States Bodies, arm's length organisations and not-for-profit organisations, through a sponsoring States Body, to bid for funding for projects designed to stimulate the economy through initiatives such as employment support, business support, skills training, infrastructure and property improvements and maintenance and investment in productivity improvements, for example through technology. If approved, the Fund will provide funding for projects that:

- Primarily reduce the falls in output and employment in the short-term;
- Reduce the damage to the economy in the medium to long-term.

The Fund is designed to facilitate a quick recovery and to avoid reduced levels of employment as the co-funded payroll scheme is phased out. For any final decision to be made where funding should be allocated, a fully developed business case will be required, similar to existing Government Plan requests but with additional information required to be completed including the demonstration of how any projects can satisfy the 3T's:

- *Timely*. Action should start immediately to have an impact as quickly as possible and ideally be completed within 6 to 9 months of the date of approval

of funds. All projects will be required to have realistic and credible plans to deliver and complete by 31 December 2021. Poorly timed fiscal stimulus can exacerbate rather than mitigate the business cycle, if stimulus is enacted too slowly it may fail to prevent output and incomes falling further and may arrive after the economy has returned to full capacity. However, it is far better to have done too much too quickly rather than too little too late. Once a recession takes hold it can be difficult to recover confidence in the economy and it can have effects e.g. bankruptcy, redundancy and scrapping that have a permanent, as compared with a temporary, effect on the economy;

- **Targeted.** Policy should hit the intended target whether it is to support activity and employment in the Island, support those most adversely affected by the downturn or implement projects which have intrinsic benefit. In terms of imports this reflects the fact that they are a payment to other countries for goods and services and so represent a leakage from the domestic economy. Imports are necessary including where they are used in the local production or supply of goods and services, and in an island economy such as Jersey, the substitution of domestic output for imports is more difficult. Stimulus measures that promote output in particular sectors or demand for some goods and services may run the risk of transferring resources through import costs ‘off-island’. Another aspect of targeted relates to the capacity in the economy and the sectors within it to absorb stimulus without higher inflation. In sectors where demand is low fiscal stimulus can promote output and employment with low inflation, in sectors where output is close to full capacity stimulus will have a high deadweight cost and may also prompt higher inflation. Stimulus specific to certain sectors or good and services should, and will, be carefully considered; and
- **Temporary.** There should be no negative long-term implications for the public finances, i.e. no long-term damage to the tax base and no long-term spending commitments. Stimulus measures should, therefore, be designed to stimulate the economy, but without a commitment to an ongoing or recurring cost. This means that measures that are explicitly temporary with a credible commitment for exit e.g. projects should be prioritised over open-ended ongoing commitments.

Other considerations will be the social and environmental benefits that arise from the projects. It will be essential that the projects demonstrate that any employment that arises is resourced in a responsible way which is likely to mean at living wage level. The projects will need to demonstrate that they are aligned to the pledges made by the

### **Government and States Assembly in the Common**

Our Strategic Priorities are that:

- we will put children first;
- we will improve Islanders’ wellbeing and mental and physical health;
- we will create a sustainable, vibrant economy and skilled local workforce for the future;
- we will reduce income inequality and improve the standard of living; and
- we will protect and value our environment.

It is important that the Fund is operated in a way to ensure the stimulus is appropriately aimed at sectors with spare capacity. The criteria for the assessment of the projects will take account of the risk of misalignment to the broader objectives of Government, as well as ensuring that the normal operation of the economy is not undermined through this initiative.

The funding through this initiative is not intended to replace funding already approved in Government Plan 2020-2023.

### **Governance – Fiscal Stimulus Fund**

A Fiscal Stimulus Oversight Group (FSOG) will be set up to oversee the programme. FSOG will comprise the Treasurer of the States, the Chief Economic Advisor, the Group Director for External Relations and 1 independent member appointed by the Minister for Treasury & Resources and will be supported by a programme manager and programme administrator. The FSOG will work within the guidelines established by the Operational Terms of Reference agreed and published by the Minister for Treasury and Resources. The assessment process will be assisted by external advice, where appropriate, and there will be internal audit resource available for any required post investment evaluation. The high-level process for each tranche of £25m will be managed in a 3-month timeframe and will adopt the following staged approach:

#### **Stage One – Expression of Interest**

The proposed process starts with a high-level document that is presented with enough information for the group to advise whether a full business case should be developed or not, i.e. the proposal has enough support to progress.

States Bodies will be required to supply a full list of applications, including those that they have chosen not to support. Those not chosen for support will be brought to the attention of the Minister for a decision on any further action.

The FSOG will evaluate the Expression of Interest documentation against the agreed criteria. For all cases that don't meet the requirements for investment at this preliminary stage, the relevant sponsoring Minister and States Body and the Minister for Treasury & Resources will be informed with the reasoning for the decision, providing the opportunity for over-ride of the FSOG conclusion by the Minister for Treasury & Resources to proceed to Stage Two.

The criteria for assessment of proposals, and this report and subsequent stages, will be those approved by the Minister for Treasury & Resources and will be published. Templates and guidance for the development of documentation required at this, and subsequent, stages will be issued by the Treasury & Exchequer.

#### **Stage Two – Full Business Case**

If the Expression of Interest passes Stage One, then this will be communicated to the relevant Director General and Finance Business Partner. The step to full business case will need to be managed in a timely fashion and it is anticipated that this stage should take no more than a month to complete. Proposals will be required to provide detail as to how successful implementation and impacts will be measured.

### **Stage Three – Consideration of all Business Cases**

There are likely to be considerable demands for additional Fiscal Stimulus monies so it is appropriate that FSOG can consider the business cases at the same time. The Investment Appraisal Team (Treasury & Exchequer) will perform an assessment of each business case and prepare a summary report. The FSOG will review the documentation for the business case and will make a draft recommendation for the prioritisation of the funding projects in the form of a report supported by all the documentation for each business case.

### **Stage Four – Oversight of Draft Recommendations**

The draft recommendation for prioritisation of fiscal stimulus projects, including those projects not recommended (including those rejected or withdrawn at the initial stage) will be considered and reviewed by the Economic Recovery Political Oversight Group (ERPOG) and the Corporate Services Scrutiny Panel (CSSP). Both bodies will comment on the outcome for consideration by the Minister for Treasury & Resources.

The ERPOG political members are:

- the Chief Minister;
- the Minister for Treasury & Resources;
- the Minister of Economic Development, Tourism, Sport & Culture;
- the Minister for External Relations; and
- the Minister for Education.

### **Stage Five – Minister for Treasury & Resources**

The Minister will consider the recommendations of FSOG together with the comments from the ERPOG and CSSP. The Minister will decide on the outcome of the prioritisation and Treasury & Exchequer will make arrangements for those funds to be accounted for, in accordance with the [Public Finance \(Jersey\) Law 2019](#).

The Minister will notify Council of Ministers of her final decision on projects.

The final assessment will result in a list of approved projects that will then be allocated funds in the form of a grant from Treasury and Exchequer to States Bodies based on the business case financial requirements. The FSOG will meet monthly to review the progress of projects and, where appropriate, conduct a post-investment evaluation on the amounts awarded. Updates will be presented to the Executive Leadership Team on a monthly basis and to the Council of Ministers and Corporate Services Scrutiny Panel on a quarterly basis.

### **Risks**

The Minister, with other Ministers involved in developing the package of fiscal stimulus, has been briefed regarding the risks of various options and those attached to the package proposed.

Those Ministers have been briefed that the risks of deadweight loss/leakage are inherent with most options and are difficult to quantify. The Minister acknowledges these risks and the partial mitigation, which can be put in place; however, along with fellow

Ministers, believes that the potential benefits, and the imperative for policy intervention, are sufficient for those risks to be accepted, consistent with advice.

Assessment of projects will include the likelihood of the risks associated with the Fiscal Stimulus Fund.

### **Financial and manpower implications**

The Fiscal Stimulus Fund will be established by the borrowing of £50 million using the Revolving Credit Facility entered into by the Minister for Treasury and Resources under MD-TR-2020-0051. All expenditure will be made directly from the Fund.

The costs of administering the programme and any specialist advice required, will be borne by the Fund and are estimated at a maximum of £250,000 of the £50m, over the period of the programme, and will require up to 2 full time equivalent members of staff.

Costs of investment appraisal will be funded from within existing resources in the Treasury & Exchequer Department.

Ongoing costs associated with Revolving Credit Facility will be met from resources of the Treasury & Resources Department in 2020 and ongoing costs, and either repayment or refinancing of debt, will be addressed in the Government Plan.

The estimated borrowing costs associated with the £50m to be drawdown for the Fund are estimated to be £395,000 per annum.

### **Minister for Treasury and Resources**

**States Fund**

**Fiscal Stimulus Fund**

The Fiscal Stimulus Fund is established as a “States Fund” in accordance with Article 6 of the Public Finances (Jersey) Law 2019 (“the Law”) which enables the States, on a proposition lodged by, or with the concurrence of the Minister for Treasury and Resources, to establish a States Fund for specific purposes.

**1. The purpose of the Fiscal Stimulus Fund**

1.1 The purpose of the Fiscal Stimulus Fund (“the Fund”) is:

(a) to provide stimulus to the Jersey economy to enable the economy to recover more quickly, following the impacts of the COVID-19 pandemic through grant aided support.

(b) the fund is designed to be time limited to provide support to the economy through projects that are expected to be delivered by 31 December 2021, with no ongoing funding requirement beyond then and targeted at local business and local employment on a timely, temporary and targeted basis.

(c) this stimulus will be delivered by inviting States Bodies, arm’s-length organisations and not for profit organisations through a sponsoring States Body, to apply for projects designed to stimulate the economy for, inter alia, employment support, business support, skills training, infrastructure and property improvements and maintenance and investment in productivity improvements; and the maximum award for any single project will be £5million: and

(d) to receive the following funding sources to support initiatives defined in (a) above –

- (i) transfers from the Consolidated Fund, and other Funds as necessary;
- (ii) a grant from a head of expenditure approved in a Government Plan;
- (iii) borrowing; and
- (iii) income or charges as agreed in a Government Plan.

**2. The powers and limitations of the Fund**

2.1 As a States Fund, the purpose of the Fund can only be varied by the States on a proposition lodged by, or with the consent of, the Minister for Treasury & Resources.

2.2 Money held in the Fund will not form part of the annual income of the States nor the Consolidated Fund balance.

2.3 Only those costs associated with the purpose of the Fund can be met out of the Fund.

2.4 The Fiscal Stimulus Fund will be maintained until such a time as:

(a) the Minister for Treasury & Resources makes a Ministerial Decision to wind up the Fund no later than 31 December 2022.

(b) Any residual funds remaining in the Fiscal Stimulus Fund will be paid to the Consolidated Fund.

2.5 The operation of the Fund must be in line with the Public Finances (Jersey) Law 2019 and the requirements of the Public Finances Manual.

### **3. Those empowered to carry out actions on behalf of the Fund**

3.1 The Minister for Treasury & Resources has overall policy responsibility within the executive, on behalf of the Council of Ministers, for the Fund; this will include being answerable to the States Assembly and responding to questions relating to the assessment of economic conditions, appropriate strategy and responses, and delivery of associated policies and initiatives through the Fund.

3.2 The Minister for Treasury and Resources has ministerial responsibility for setting an appropriate investment strategy for the Fiscal Stimulus Fund, as required.

3.3 The Principal Accountable Officer has responsibility under the Public Finances Law (Jersey) 2019 for the appointment of the Accountable Officer(s) for the Fund.

3.4 An Accountable Officer is accountable for the proper financial management of the Fund, which includes ensuring that payments from the Fund are progressed in line with the purpose of the Fund and that the Fund is administered in a prudent and economical manner; responsibility for ensuring that proper control and assurance frameworks exist; and responsibility for ensuring that systems are in place to manage risks related to the Fund.

3.5 An Accountable Officer for the Fund is answerable to the States' Public Accounts Committee for the performance of their functions.

3.6 An Accountable Officer can delegate functions to others but will remain accountable. In order to ensure that good governance and control is achieved, any delegation must be documented in a Scheme of Delegation.

3.7 The Comptroller and Auditor General has a duty under Article 11 of the Comptroller and Auditor General (Jersey) Law 2014 to provide the States with independent assurance that the public finances of Jersey are being regulated, controlled, supervised and accounted for in accordance with the Law. This duty extends to the Fund.

### **4. Control of Expenditure from the Fiscal Stimulus Fund**

4.1 The Accountable Officer has responsibility for the Budget and expenditure relating to the Fund.

4.2 A Fiscal Stimulus Oversight Group (FSOG) will be set up to oversee the programme. FSOG will comprise the Treasurer of the States, the Chief Economic Advisor, the Group Director – External Relations and one independent member appointed by the Treasury & Resources Minister and be supported by a programme manager and programme administrator. The FSOG will work within the guidelines established by the Operational Terms of Reference agreed and published by the Minister for Treasury & Resources. The assessment process will be assisted by external advice

where appropriate and there will be internal audit resource available for any required post investment appraisal.

4.3 The FSOG will consider Expressions of Interest before selecting schemes to proceed to full level business cases. For all cases that don't achieve the criteria for investment at this preliminary stage the relevant sponsoring Minister and States Body and the Minister for Treasury & Resources will be informed with the reasoning for the decision, providing the opportunity for over-ride of the FSOG conclusion by the Minister for Treasury & Resources to proceed to Stage Two.

The criteria for assessment of proposals at this and subsequent stages will be those approved by the Minister for Treasury & Resources and will be published.

The full business cases will be reviewed and prioritised and the FSOG will then present draft recommendations to the Economic Recovery Political Oversight Group and Corporate Services Scrutiny Panel for review and comment, including recommendations to reject schemes, before the Minister for Treasury and Resources make the final decision by public Ministerial Decision.

4.4 Templates and guidance for the development of documentation required at this and subsequent stages will be issued by the Treasury & Exchequer

4.5 The costs associated with the assessment of business cases for Fiscal Stimulus will be met within the Government Plan expenditure limits.

4.6 The costs of administering the programme and any specialist advice required will be borne by the Fund.

4.7 Costs associated with the borrowing will be funded from within heads of expenditure in the Consolidated Fund

4.8 Treasury and Exchequer will make arrangements for the allocation of funds to be accounted for in accordance with the Public Finances (Jersey) Law 2019 and the requirements of the Public Finances Manual.

4.9 Once funds have been awarded from the Fund to a States Body for a specific project, the Accountable Officer of that States Body will become the Accountable Officer responsible for that project and will be required to report on progress as required by the FSOG or Treasury in respect of benefit realisation.

4.10 The Principal Accountable Officer will ensure that the Fund is regularly reviewed by the relevant Accountable Officer.

## **5. Reporting arrangements**

5.1 Quarterly update reports will be presented, firstly to the Council of Ministers and then to the States, within two months of the relevant six month period end, on the progress of the Fund allocations, until all funds have been allocated or a decision is made that the Fund is no longer required.

5.2 The Minutes of the FSOG will be made available on a three-monthly basis to CSSP.

5.3 Any issues that arise in relation to the operation of the Fund, including but not limited to changes to Operational Terms of Reference for the FSOG or other frameworks and guidelines and criteria will be notified to the States Assembly by the Minister for Treasury and Resources at the earliest, practicable opportunity.