

STATES OF JERSEY



ESTABLISHMENT AND FUNDING OF THE FISCAL STIMULUS FUND (P.128/2020): COMMENTS

Presented to the States on 13th November 2020
by the Corporate Services Scrutiny Panel

STATES GREFFE

COMMENTS

Background

1. [The Establishment and Funding of the Fiscal Stimulus Fund](#) (hereafter “the Proposition”), was lodged by the Minister for Treasury and Resources (hereafter “the Minister”) on 6th October 2020 for debate by the States on 17th November 2020. If passed the Proposition will enable the establishment of a States Fund in accordance with Article 6 of the [Public Finances \(Jersey\) Law 2019](#), and will be funded (£50 million) through the Revolving Credit Facility entered into by the Minister in [MD-TR-2020-0051](#).
2. The Proposition has been brought forward by the Minister at a time when the Island is still facing the economic impact of the COVID-19 pandemic. The Fund is envisaged to be used as part of a varied package of fiscal stimulus measures to support the Island’s recovery.
3. The Government has stated that any fiscal stimulus should be timely, targeted and temporary, as such the Corporate Services Scrutiny Panel (the Panel) is pleased to see that bids for grants from the Fund will only be awarded to projects that will be completed no later than December 2021. The allocation of the Fund will take place in two tranches of £25 million, which will be available from November 2020 and February 2021.
4. After considering a draft of the Proposition and forwarding concerns and suggestions to the Minister on 23rd September 2020, the Panel received a briefing from the Minister and Government Officers on 28th September 2020. This was conducted jointly with the Economic and International Affairs Panel. Once updated and lodged, the Panel reviewed the Proposition and formed this Comments Paper.
5. The Panel is broadly supportive of the Proposition as an economic fiscal stimulus measure. However, the Panel would like to highlight the following areas for further consideration by the Minister.

Framework

6. The terms of reference for the Fund establish that funding will be capped to a maximum level of £5 million per project, the intention being for it not to replicate stimulus to the large-scale construction sector, but instead support smaller scale, more agile projects. However, it can be inferred that this will not disallow them from applying and will require adequate definition. The Panel would like to highlight to the Minister that major infrastructure projects should be excluded as they would, by nature, not be timely as they would take time to pass through planning and would expect that this will be specifically detailed within criteria for assessment of projects when they are formed by the Minister.
7. It is stated in the Proposition’s report that this money is not intended to replace funding already approved in the Government Plan 2020-23. The Panel is clear that care must be taken to ensure that the allocation of funds is not simply used

to finance existing projects, including those outlined in the Government plan 2021-24, in order for a department to spend existing allocation in other areas.

8. The Panel is somewhat surprised that only States' Bodies, arm's-length organisations and not for profit organisations could apply for the Fund, with the latter only being possible through a sponsoring States Body. It appears to the Panel that this may limit the potential economic benefit as it will be focussed upon the public service or third sector, with little direct monetary investment in sectors that may have been hard hit by the pandemic. For example, Agriculture and Hospitality have seen steep decreases in employment.¹ As the Proposition's report specifically states that the Fund will support projects that primarily reduce falls in output and employment in the short-term, the Panel believes that this requires further consideration by the Minister.

Costs and financing

9. The Panel is concerned that the administration costs of the Fund seem excessive at £250,000, considering the short-term nature of projects and requirement of just 2 full time equivalent members of staff, although it is noted that this amount will also include any specialist advice required.
10. As the Fund will be established using a drawdown amount from the Revolving Credit Facility a cost will be incurred, and this has been estimated to be £395,000 per annum. As a full borrowing and repayment strategy has not yet been finalised by the Minister, this cost could continue over a number of years, meaning a total charge for the Fund cannot yet be identified.
11. On initial review of the strategy for allocation of the Fund, the Panel was surprised that the Fund will only distribute grants to States' Bodies to invest in the projects, as opposed to allowing the option of loans or requiring repayment where feasible. The Panel believes that, at a time where the Government is accruing considerable amounts of debt, a mixture of loans and grants should be considered further, to assist in balancing of public finances even in the long-term.
12. Although primarily funded through the Revolving Credit Facility, the terms of reference outline that the Fund may receive funding to support its defined initiatives from the Consolidated Fund or other Fund as necessary, a grant from any approved Head of Expenditure, further borrowing and income or charges agreed in a Government Plan. However, detailed plans for further funding are not identified within the accompanying report, and the Minister should outline if further allocation to the Fund is planned. It is identified that the Fund will remain in place until no later than 31 December 2022 and any unspent Fund will be moved into the Consolidated Fund. The Panel also highlights that in the Government Plan 2021-24 the Fund is budgeted to have a balance of zero by the end of 2021, the Minister needs to clarify if the fund will only remain in existence as long as projects from the two tranches are active, or if further tranches are envisaged.

¹ [Jersey Labour Market. Statistics Jersey, 5th November 2020, page 9](#)

Accountability and Scrutiny

13. The Minister for Treasury and Resources holds ministerial responsibility for the Fund.
14. The Chief Executive Officer as Principal Accountable Officer has responsibility under the [Public Finances Law \(Jersey\) 2019](#) for the appointment of the Accountable Officer(s) for the Fund who will then be accountable for the financial management of the fund, this will include ensuring allocations match the purpose of the fund.
15. The Proposition's report states the criteria for the assessment of the projects will take account of the risk of misalignment to the broader objectives of Government. As such the Panel questioned how the impact of the allocations would be measured against the Common Strategic Policies such as reducing income inequality, which are highlighted in the Proposition's report. However, the Panel believes that this would be difficult to measure, and as such expects the Minister to remedy this, albeit the reporting required through the Amendment will help to disseminate this information. The Panel will closely monitor the Governments efforts in this regard.
16. The Panel was pleased to see that a Fiscal Stimulus Oversight Group (FSOG) would be established to oversee the Fund. This would be made up of 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.
17. The process for allocation of the Fund will be as follows:
 - a) **Stage One – Expression of interest.** A high-level document will be presented to the FSOG for evaluation via the sponsoring States Body. Criteria for assessment of proposals, reports and subsequent stages are yet to be agreed by the Minister, these will be published, however the Minister should outline what this will include. If the Amendment is successful, this document will require the additional information outlined. The Proposition report states that States Bodies will be required to supply a full list of applications, to include those projects they have chosen not to support, allowing the Minister to decide upon any further action. The Panel is pleased to see that this list will be forwarded to it within stage four, however believes that earlier inclusion in the process may aid in correct allocation of the Fund.
 - b) **Stage Two – Full Business Case.** Following success at stage one the Expression of Interest will be communicated to the relevant Director General and Finance Business Partner and a full business case produced.
 - c) **Stage Three – Consideration of all Business Cases.** The Investment Appraisal Team (Treasury & Exchequer) will perform an assessment of each business case and prepare a summary report, the FSOG will then review documentation for all projects and make draft recommendation for funding prioritisation.

- d) **Stage Four – Oversight of Draft Recommendations.** The recommendations will then be forwarded to the Panel and the Economic Recovery Political Oversight Group (ERPOG) for review. It is hoped that all relevant documentation will also be freely forwarded to the Panel to allow for accurate evaluation of recommendations and fair comments to be returned to the Minister for consideration.
 - e) **Stage Five – Minister for Treasury and Resources.** The Minister will then consider the recommendations of FSOG together with the comments of the ERPOG and the Panel. Following this the Minister will decide on the outcome of the prioritisation and notify the Council of Ministers
18. The Proposition’s report outlines that the FSOG will meet monthly and where appropriate conduct post-investment evaluation. The Panel suggests that this post-investment evaluation should be the norm to ensure success of the Fund, and that details of these evaluations be distributed to both the Council of Ministers and the Panel within the quarterly updates provided by the FSOG.
19. It is noted that following review by the FSOG, draft recommendations will be forwarded to the Panel. It will require this to be done in a timely manner so that the inclusion of Scrutiny is more than “good will” and that the Panel can add value to the allocation of the Fund.
20. The Panel is pleased that minutes of the FSOG will be provided to it, however, believes that doing so on a quarterly basis is too long a time period when the high-level process for each tranche of £25m will be managed in a 3-month timeframe. The Panel suggests that sharing of minutes at the earliest opportunity will allow for concurrent, not retrospective, scrutiny.
21. Similarly, the Panel has raised concerns that although the Fund will be regularly reviewed, quarterly update reports will only be provided to the States Assembly every 6 months. As the projects should be short-term and timely it is suggested that these update reports be forwarded to the Assembly once completed.
22. The Panel notes that 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 at the earliest, practicable opportunity.

The Amendment

23. The Panel is also mindful of Deputy Kirsten Morel’s lodged Amendment to the proposition, [P.128/2020\(Amd\) \(the Amendment\)](#). If accepted, the Amendment requires those expressing interest for a grant to provide a summary of detailed economic benefits including clarification of which business sectors and demographics will derive the most value from the project. The Amendment would also require a detailed economic benefits summary to be published once the Minister had agreed prioritisation of projects.
24. The Panel is supportive of the Amendment as it leads to clarification of sectors and demographics most likely to benefit from each project, allowing for more

effective scrutiny by the Economic and International Affairs and Corporate Services Scrutiny Panels, which will in turn ensure greater transparency for Islanders.

Summary

25. To summarise, the concerns raised in this comments paper that the Minister should address are:
- i. How major infrastructure projects will be excluded;
 - ii. How monitoring procedures will ensure that accepted projects will not allow for existing departmental spend to be used elsewhere within a department;
 - iii. What consideration will be given as to how to include sectors such as Agriculture and Hospitality in benefiting from the Fund;
 - iv. What consideration will be given to the use of loans instead of grants from the Fund;
 - v. Clarify if further tranches of allocations are envisaged;
 - vi. How the impact of the allocations will be measured against the Common Strategic Policies;
 - vii. Clarify criteria for assessment of proposals;
 - viii. Confirm if the full list of applications will be provided to the Panel at an earlier time than stage four;
 - ix. Confirm that all relevant documentation will be forwarded to the Panel with FSOG recommendations;
 - x. Confirm that post-investment evaluation will be the norm;
 - xi. Consider sharing minutes of the FSOG with the Panel once they produced; and,
 - xii. Provide quarterly update reports to the States Assembly when produced.

Conclusion

26. In conclusion the Panel is broadly supportive of the Proposition to establish the Fund. It is hoped that it will effectively provide an economic stimulus to the Island. The inclusion of Scrutiny is welcomed, and it is hoped that all actions outlined in the Proposition and this Comments Paper are conducted in a timely manner to help ensure that monies are allocated correctly and successfully. The Panel would expect the Minister to address the actions proposed by the Panel within this Comments Paper during the Proposition's debate, and it will be following up after the debate to monitor progress made.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

These comments were submitted to the States Greffe after the deadline set out in Standing Order 37A due to Panel availability following the extraordinary sitting of the States Assembly.