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# STATES OF JERSEY



## FISCAL POLICY PANEL ANNUAL REPORT: RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

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**Presented to the States on 30th September 2015  
by the Minister for Treasury and Resources**

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**STATES GREFFE**

## REPORT

The Minister for Treasury and Resources welcomed the Fiscal Policy Panel's (FPP) 2015 Annual Report and the Panel's improved estimates for Jersey's recent economic performance in his initial response.

The FPP report also indicates the Panel's support of the approach taken in the Medium-Term Financial Plan (MTFP) to gradually withdraw fiscal stimulus from the economy as it recovers, and to use the States' reserves in the meantime while the measures planned to bring the States' finances back into balance are phased in.

The Council of Ministers and States Departments have had to make extremely difficult decisions in developing the MTFP, decisions that will have to be fully implemented, and it is encouraging that the Panel is supportive of the proposals for reforming the public sector, economic growth and productivity.

The Council of Ministers has considered the Panel's report and this Ministerial Response shows how each of the recommendations are accepted and identifies how they will be acted upon.

The recommendations include maintaining flexibility in the MTFP, ensuring proposals are sustainable, providing the details for future savings and efficiencies and managing how capital projects are delivered if there is a significant risk of a build-up in inflationary pressure.

The first step is to use the revised economic assumptions from the FPP to provide an update of the financial forecasts for the 2016 Budget to be lodged in October 2015. Work will also continue with departments to produce the detailed expenditure proposals for 2017–2019 in line with the Panel's recommendations.

The Fiscal Policy Panel (FPP) provides advice to the Minister for Treasury and Resources and the States of Jersey on its fiscal policy, making reference to the strength of Jersey's economy, the global and local economic outlook, Jersey's economic cycle and the sustainability of States of Jersey finances.

The Panel will provide revised economic assumptions in March 2016 to enable a full update of the States' financial forecasts, which will inform the production of the draft MTFP Addition in June 2016. The Panel will then produce its annual report in July 2016, which will also comment on the draft MTFP Addition proposals ahead of the debate in September 2016.

**SUMMARY OF RECOMMENDATIONS AND THE RESPONSES**

	<b>Advice and Recommendations</b>	<b>Accept/Reject</b>	<b>Comments</b>	<b>Target date for action/ completion</b>
1	The analysis of the States' overall fiscal position (including all funds) needs to continue to develop and the 2016 MTFP Addition will be a good opportunity to expand this analysis further.	Accept	<p>The Statutory Financial Accounts already produce a consolidated position for States of Jersey Group including trading funds, special funds and wholly owned subsidiaries.</p> <p>The FPP is encouraged that the fiscal framework commits as part of its proposed 'fiscal guidelines' to monitor the net assets position on an ongoing basis.</p> <p>The MTFP includes an expanded fiscal position which allows an indicative overall economic assessment and this analysis will continue to be developed.</p> <p>Consideration will also be given to the consolidation of information from other funds to improve the assessment of the overall States position in the MTFP addition.</p>	MTFP Addition – June 2016
2	The States should plan how it will deliver capital projects to reduce the risk of a build-up of inflationary pressure in Jersey's economy. To avoid the need to change the timing of important projects or make adjustments to other spending or income, the States should consider whether resources could be imported cost-effectively from outside the island to reduce any bottlenecks within the economy.	Accept	<p>The States has developed a Long-Term Capital Plan which includes the MTFP II period 2016 – 2019. This plan ensures that the right capital investment decisions are made bringing schemes into the Capital Programme at the right time through a prioritisation process. This process assesses potential pressures on the local economy and looks to spread the expenditure over the longer term where appropriate. The Corporate Management Board Capital Sub-Group is responsible for ensuring projects included demonstrate economic benefits and necessary improvements. How these schemes are funded is a secondary decision.</p> <p>Whilst the indicative Capital Programme suggests that between £27 million and £65 million is planned to be spent in each of the years over the period, the Public Financial Law requires approval for the whole amount required for Capital schemes to be requested in the first year; the expenditure profile and therefore economic impact is over a longer period and this allows considered planning. Work will look at the capital and labour</p>	Ongoing

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			<p>components of different projects and consider the impact on different parts of the construction sector.</p> <p>The nature of the project may predicate whether the work can be carried out by local suppliers, i.e. the replacement sewerage works, or the scale of the works may all dictate the requirements. It is not likely that external construction companies would bid for a smaller one off projects but larger schemes may well be attractive.</p> <p>To further inform capital planning, representatives of the Jersey Construction Council are consulted regularly and given an opportunity to provide feedback on the impact of the current and proposed States capital programme on industry capacity and the wider economic environment relevant to their industry. This provides an important forum to consider the combined impact of private and public sector workflows, including Andium Homes and the States of Jersey Development Company, and what that means for the balance of supply and demand in the local market.</p> <p>The feedback from the Corporate Management Board Capital Sub Group and Jersey Construction Council also feeds in to the newly formed Economic Policy Group, comprising both executive and political members, which will coordinate policy across departments. This will identify areas where consideration of policy and regulation could assist with any issues identified. For example, a sustained skills shortage and consistent projected demand will encourage industry to invest in training and inform where public sector skills training is best placed for example through programmes like Back to Work and Trackers. It is also a helpful tool in managing appropriate employment and immigration regulations to balance on and off-Island supply releasing any build-up of inflationary pressure. The Population Office will also be involved so that if there is a need to provide temporary licenses for</p>	

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			construction projects this can be achieved in a timely manner. This informed process enables a greater provision of local resource where appropriate and highlights a need for off-Island provision when it is economically appropriate and will help to limit the impact on local construction costs.	
3	The States should also maintain other flexibilities, such as the timing of tax changes or other States expenditure, which could be used to ensure fiscal policy remains counter-cyclical.	Accept	<p>The considerations for capital expenditure and overall impact of the capital programme will be addressed as identified in the response to Recommendation 2 and this will minimise the need for other flexibilities to ensure fiscal policy is counter cyclical.</p> <p>The Council of Ministers will hope to generate additional flexibility through the initiatives and additional funding set aside for economic growth.</p> <p>Although it may be difficult to accelerate the introduction of taxes/charges the profile of the health and waste charges could be altered.</p> <p>Similarly, the annual budgets provide for tax proposals to contribute to additional revenues not forecast in the MTFP. Relatively minor annual changes could compound to deliver more significant revenues by 2018/2019 and could assist in adjusting the balance of fiscal policy if the FPP advise that it is necessary.</p> <p>The annual budgets will also provide an opportunity to respond to changing circumstances and progress on individual measures within the MTFP.</p>	Ongoing
4	The draft MTFP and 2016 MTFP Addition should be clearer about how much of the £90 million savings will be due to improving efficiency.	Accept	The reason for the MTFP being produced in 2 parts was to provide more time for the detail of the individual measures to be produced and to ensure that the measures are sustainable rather than short-term. The detailed work will be driven by the Public Sector Reform programme. The cross organisational streams for LEAN, eGovernment, Workforce Modernisation and Office Consolidation are the enablers to achieve the required service redesign	MTFP Addition – June 2016

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			<p>from which the required efficiencies and savings will be identified.</p> <p>It will be important that the detail of the proposed measures is completed in time to provide an analysis of the extent of efficiencies and savings and also the distribution impacts referred to in Recommendation 5.</p>	
5	<p>As details of the proposed package of measures for the 2016 MTFP Addition are developed attention should be given to ensure that they are sustainable, including their potential distributional impacts.</p>	Accept	<p>Once the details of the measures proposed in the MTFP are finalised, further consideration will be given to their distributional impact and this information will be made available when the 2016 MTFP Addition is published. It will be important to have time to consider the distributional impacts of all the package of measures for growth, savings, benefits, taxes and charges.</p> <p>The Council of Ministers is particularly aware of the need for the measures to deliver a sustainable balanced position.</p>	MTFP Addition – June 2016
6	<p>Given the risks to delivering the scale of savings required, the planning around flexibility to address the overall structural position must continue. The States should ensure these measures can be implemented in practice if necessary, and also take care that any short-term flexibility measures carried out do not compromise long-term sustainability or efficiency.</p>	Accept	<p>The MTFP Addition will provide greater detail on the make-up of the required savings 2017–2019. Consideration will be given to the risks around the various savings measures.</p> <p>The Council of Ministers has identified contingency plans within the draft MTFP. These will continue to be developed to ensure flexibility is maintained and regularly assessed against the higher risk areas within the plan.</p> <p>The annual budgets will also provide an opportunity to respond to changing circumstances and progress on individual measures within the MTFP.</p> <p>The Council of Ministers is determined that the MTFP will deliver a sustainable position and will ensure that short-term measures do not compromise the sustainability of the long-term plan.</p> <p>In this respect, the FPP’s regular advice, assessment and economic forecasts will be valuable in this respect over the period of the MTFP.</p>	MTFP Addition and then ongoing review through annual budget process

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7	A strategy for managing the fiscal consequences of an ageing population should be progressed and take a whole-of-government view, considering the long term sustainability of all States' income, expenditure and their supporting Funds together.	Accept	<p>Work is already underway on developing a Long-Term Plan which will consider the implications of future trends – including the ageing society – for all areas of government activity. It will provide a coherent framework to assess the impact across government's economic, environmental and social goals and support the development of a coordinated response.</p> <p>The Council of Ministers acknowledges the significant consequences of an ageing population and the importance of taking a whole of government view.</p> <p>The Long-Term Plan will be informed by a number of separate work streams. There will be analysis of the long-term fiscal implications of the ageing society and how this will be impacted by changes in our economic performance and demographic trends.</p> <p>In addition, work already completed includes the introduction of a new ring fenced funding stream to provide financial support for the growing number of older individuals with long-term care needs and changes to the State Pension Age, which will start to rise from 2020.</p> <p>Certain of the benefit changes included in the current MTFP proposals also recognise the adjustments needed to reflect the demands of an ageing population.</p> <p>The next phase of discrimination legislation relates to age discrimination and work on this will begin during 2015.</p> <p>The Minister for Social Security will be commencing a major review of the Social Security Fund in 2016, driven by the growing cost of pension payments. As explained in the MTFP, the review will consider all aspects of the current scheme, including the level of contributions collected and the eligibility for, and the value of, pensions and benefits payable.</p>	<p>Completed in 2014</p> <p>Implementation 2016</p> <p>2016</p> <p>2016 – 2017</p>

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			<p>Work is already underway to identify a sustainable funding mechanism for the future costs of health and social care, driven mainly by the impact of the ageing population.</p> <p>Treasury and Resources and Social Security will also be working together during the MTFP period to promote financial independence in old age, and will review tax and benefit rules to help to achieve this goal.</p>	<p>2016</p> <p>2016–2019</p>
8	The Panel welcomes the additional funding for the economic and productivity growth provision but stresses that strong governance measures should be put in place to control how the £20 million is allocated.	Accept	<p>The Council of Ministers is very clear that strong governance will apply to this provision.</p> <p>Procedures will draw from previous fiscal stimulus process and existing contingency procedures.</p> <p>Officers are drafting procedures which will be published before the MTFP debate.</p> <p>Before any allocations are considered the department will have to justify that existing resources have been effectively employed and are being used in line with existing economic objectives.</p>	Draft procedures for information ahead of the MTFP debate and then finalised before the start of 2016 when the funds become available for approval – if agreed in the MTFP