

---

# STATES OF JERSEY



## **FISCAL POLICY PANEL PRE-MTFP REPORT: JANUARY 2015 – RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES**

---

**Presented to the States on 10th March 2015  
by the Minister for Treasury and Resources**

---

**STATES GREFFE**

## REPORT

The Minister for Treasury and Resources welcomed all the recommendations in the Fiscal Policy Panel's (FPP) first Pre-Medium Term Financial Plan Report in his initial response in January. The report has clearly set out the challenges for the next MTFP. The thorough economic analysis contained in the report is very helpful and will be vital in informing the development of a plan to provide the resources to support the Council of Ministers' Strategic Priorities for its term of office.

It is also helpful that the Panel has made encouraging comments about the Island economy's return to growth in 2014 and the expectation that this would continue over the next few years. Economic recovery will be supported by improving conditions in the global economy, confidence in the Island, its strong financial position and continued investment in our infrastructure.

This Ministerial Response considers in more detail the Panel's recommendations and shows how each of them in turn are accepted and how they will be acted upon. There is now a challenging timetable of work ahead of lodging the draft MTFP proposals at the end of June.

The first stage is to take the new economic assumptions and prepare revised forecasts of States revenues and expenditure which will provide the basis of the next MTFP. In parallel, a programme of work will be carried out to review all the opportunities for efficiencies and savings, together with an assessment of the proposals for revenue expenditure and capital investment. The target is to provide an initial presentation to Ministers in March.

Ministers will then consider all the various expenditure and income options in order to present final proposals for a sustainable financial position, including addressing any structural deficit, in the draft MTFP for 2016–2019 – in line with FPP advice – by the end of June.

The FPP will provide a further report in July, as part of the statutory obligations, commenting on the Council of Ministers' draft MTFP proposals and making further recommendations in advance of the States debate scheduled for September 2015.

**SUMMARY OF RECOMMENDATIONS AND THE RESPONSE**

	<b>Advice and Recommendations</b>	<b>Accept/Reject</b>	<b>Comments</b>	<b>Target date of action/ completion</b>
1	Based on the current structure of taxation and expenditure, it appears that there is a significant risk of a structural deficit. The size of any structural deficit will depend on the decisions made for the MTFP.	Accept	The preparatory work on the Long-Term Revenue Planning Review (R.136/2014) identified the risk of a recurring deficit based on reduced income forecasts and depending on the expenditure plans of the new Council of Ministers. The FPP advice will now allow the Ministers to develop the draft MTFP proposals ahead of lodging in June 2015, with particular emphasis on addressing any underlying structural imbalance over the period of the plan.	Target date for Draft MTFP to be lodged 30th June.
2	The economic assumptions set out in this report should be used to update the revenue and expenditure forecasts, and the expected position of the States' finances in 2018/2019. This will illustrate the expected underlying structural position.	Accept	The input of the FPP to the economic assumptions is welcomed and will provide a level of independence and verification to the forecasting process. The revenue and expenditure projections will now be updated using the provisional outturn for 2014 and the revised economic assumptions. This process will also be more robust with the establishment of the Income Forecasting Group to advise on the forecasts of all States tax and duty income. The draft forecasts are due to be presented to the Council of Ministers in March. This will be an important part of assessing the position of States finances in 2018/2019.	Draft forecasts revised no later than March for the Council of Ministers.  Target date for Draft MTFP to be lodged 30th June.
3	The States should develop a plan that will address any structural deficit by 2018 and 2019. Care should be taken to ensure that the range and timing of the measures minimises the risk to the economic recovery, which, in the early stages, may involve using the States' reserves.	Accept	The draft forecasts of revenue and expenditure will form the basis of the assessment of any structural deficit in States finances. Alongside the draft forecasts, the Council of Ministers will be considering the savings, growth and capital expenditure proposals over the next MTFP 2016–2019. The Council will consider a range of measures to manage the financial position, but will ensure that the States is in a sustainable position from 2018/2019.  The Council will use the advice of the FPP and its own Economic Adviser to ensure the measures proposed take into account any impact on the economic recovery. The Council will also consider any appropriate use of Reserves as part of the range of measures to be proposed.	Target date for Draft MTFP to be lodged 30th June.

	<b>Advice and Recommendations</b>	<b>Accept/Reject</b>	<b>Comments</b>	<b>Target date of action/ completion</b>
4	The States should always be looking for ways to improve its efficiency and that of the wider economy, irrespective of the stage in the economic cycle. Particularly in the public sector, such changes may be more readily achieved now, especially if the alternatives are to cut expenditure on public services or to increase taxes.	Accept	<p>The Council of Ministers has asked all departments to identify efficiencies and savings that could be proposed to manage the projected deficit. The review will include advice and proposals from independent advisers working with departments. Ministers will consider these proposals and will look to prioritise efficiency proposals in order to reduce the impact on public services or the need for other measures.</p> <p>Economic growth policies will be reviewed and enhanced to ensure that the Island as a whole, including the private sector, concentrates on improving efficiency and productivity to increase competitiveness and stimulate economic growth.</p>	<p>Initial review of efficiencies and savings to Council of Ministers in March.</p> <p>Target date for Draft MTFP to be lodged 30th June.</p>
5	It is important that the MTFP should include the flexibility (or contingency plans) to address the structural deficit more, or less, quickly, according to the economy's performance. There is a role for the Panel in subsequent reports to help in informing and refining the adjustment process.	Accept	<p>The income forecasts for the period of the MTFP will be presented within a range.</p> <p>Any growth over the course of the MTFP is likely to be dependent on the income forecasts and the delivery of savings programmes.</p> <p>Other measures will be identified to provide flexibility in the funding available.</p> <p>The provisions of the existing Public Finances Law will also be reviewed, taking account of the lessons learned from the first MTFP and also the advice of Scrutiny, FPP and the C&amp;AG as appropriate.</p> <p>It will be important to maintain control of expenditure and, if income forecasts improve, this could enable transfers to the Stabilisation Fund or Reserves.</p> <p>The statutory reporting of the FPP following the lodging of the MTFP, and in advance of each year's Budget, will provide a welcome and regular opportunity for advice on appropriate fiscal policy as the trends in the economy develop over the course of the MTFP.</p>	<p>Target date for Draft MTFP to be lodged 30th June.</p>

	<b>Advice and Recommendations</b>	<b>Accept/Reject</b>	<b>Comments</b>	<b>Target date of action/ completion</b>
6	Once Jersey is on a sound path to structural fiscal balance, the States should aim to balance its tax revenues and current expenditure over the economic cycle, including an appropriate allowance for depreciation.	Accept	<p>Work will be done as part of the current forecasting, to produce an assessment of any structural deficit including an appropriate allowance for depreciation.</p> <p>The Council of Ministers will review its resource principles and its intention will be to follow the FPP guidance and aim to balance tax revenues and current expenditure (including depreciation) over the economic cycle.</p>	<p>Draft forecasts revised no later than March for Council of Ministers.</p> <p>Target date for Draft MTFP to be lodged 30th June.</p>
7	New public sector capital expenditure should be treated separately based on its economic costs and benefits, and its impact on the States' net asset position. The funding of such investment is a secondary consideration that will depend on the cost of alternative sources of finance (e.g. borrowing from reserves or the market).	Accept	<p>The work underway on MTFP II includes an allocation to capital which represents a 25 year average requirement from departments.</p> <p>All capital submissions require a business case to be completed in order for it to be considered by the Capital Sub-Group for inclusion within the Capital Programme.</p> <p>Schemes deemed to be a priority based on a number of considerations, including economic benefit, are included in the programme on their merits.</p> <p>Should the quantum of agreed schemes exceed the allocation of funding, alternative sources of funding will be considered, particularly if schemes that have significant economic benefits could be at risk of delay.</p>	<p>Initial work on revenue expenditure and capital investment proposals to Council of Ministers in March.</p> <p>Target date for Draft MTFP to be lodged 30th June.</p>
8	Given the strength of Jersey's public sector net asset position, financing issues should not be a reason to delay or postpone important investments, particularly those which support productivity improvements and competitiveness.	Accept	Funding mechanisms will be considered for capital schemes, particularly where revenue will be generated which will repay the debt and/or where schemes support productivity and competitiveness. This has already been demonstrated, when the States issued a £250 million bond in order to provide more and better quality affordable housing.	Target date for Draft MTFP to be lodged 30th June.

	<b>Advice and Recommendations</b>	<b>Accept/Reject</b>	<b>Comments</b>	<b>Target date of action/ completion</b>
9	The States should develop a strategy for managing the fiscal consequences of an ageing population. All other things being equal, the ageing population will mean that the public finances will move out of balance over the next 20 years, as spending in areas such as health and the state pension increases faster than revenues.	Accept	<p>In parallel with the proposals for MTFP II, a range of options to ensure the sustainability of the Social Security old-age pension will be discussed by the Council of Ministers, leading to the detailed planning/implementation of agreed actions over the period of the MTFP II. Options will include both increasing income and reducing expenditure.</p> <p>The new long-term-care contribution rate payable from January 2015 has introduced a dedicated source of funding for long-term care costs. As these costs increase in coming decades, it is proposed that the long-term care contribution percentage rate will rise, with the tax-funded contribution to these costs remaining constant in real terms.</p> <p>The States has also committed to consider a sustainable funding mechanism for health care costs. Officers are working on proposals as part of MTFP II.</p>	<p>Target date for Draft MTFP to be lodged 30th June.</p> <p>Work to manage the consequences of an ageing population will be ongoing.</p>
10	The States should act now and develop a clear strategy for raising productivity (in both the public and private sectors) and competitiveness in the Jersey economy. Ongoing improvements in these areas will help to manage the fiscal consequences of an ageing society and make it more likely that Jersey's economy will grow in the future.	Accept	<p>The proposed priorities for the Strategic Plan already set out that Ministers continue to focus on creating the right conditions to foster economic growth and support increased productivity in all parts of the economy. This will be achieved by –</p> <ul style="list-style-type: none"> <li>• Continuing to grow and diversify financial services in line with the McKinsey Review</li> <li>• New opportunities in the digital sector created by the work of Digital Jersey</li> <li>• Updating the Enterprise Action Plan with refreshed targets for high-value inward investment and high-growth companies</li> <li>• A new Skills Strategy that raises education standards and addresses future skills challenges</li> <li>• A full review of the competition framework including the competition law, authority and role of government</li> </ul>	<p>Target date for Draft MTFP to be lodged 30th June.</p> <p>Work to raise productivity and competitiveness and to manage the consequences of an ageing population will be ongoing.</p>

	<b>Advice and Recommendations</b>	<b>Accept/Reject</b>	<b>Comments</b>	<b>Target date of action/ completion</b>
			<ul style="list-style-type: none"> <li>• A new and holistic innovation strategy that leads to greater innovation and higher productivity in Jersey</li> <li>• The MTFP will continue to plan for and support significant investment in infrastructure, particularly that which raises competitiveness and economic growth.</li> </ul>	