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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 7th February 2019  
by the Minister for Treasury and Resources

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STATES GREFFE

## REPORT

### Introduction

The Fiscal Policy Panel issued its Annual Report for 2018<sup>1</sup> on 23rd October 2018, and presented its findings and recommendations to all States Members.

The Minister for Treasury and Resources welcomes the report of the Fiscal Policy Panel (“FPP”), in which the Panel has made a number of recommendations. The Minister has considered the recommendations and this response indicates the progress already made, the work in progress and, where possible, the work that will be carried out in the future.

The FPP believes that it is appropriate for the States to run a small surplus in 2019, at a time when the economy may be running above capacity, but has urged flexibility in case circumstances change. More broadly, the FPP believes that the MTFP has been implemented in a way which meets its guiding principles, and the Budget largely meets their previous recommendations – though there are a number of recommendations which are more long-term in nature.

The FPP provides independent advice on the state of the economy in Jersey and the States’ finances. The FPP has a statutory requirement to provide advice on 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 the States of Jersey finances.

### Summary of Response

The Minister for Treasury and Resources accepts all the recommendations from the FPP.

The FPP has advised that the expenditure and revenue measures which were planned for the Medium Term Financial Plan (MTFP) 2016–2019 period should be analysed to identify which measures have not been delivered and the reasons for the non-delivery. These measures were pivotal to achieving balanced budgets over the 4 year period of the MTFP and, although some of the measures have not been delivered, the States of Jersey is forecast to end 2019 with a small surplus. However, work is in progress to understand the full reasons for non-delivery of the measures, and to implement alternatives to ensure sustainable public finances as we move into the next financial planning period.

The FPP also advises flexibility in the States’ finances to be able to respond to economic conditions. The FPP has consistently advised the replenishment of the Stabilisation Fund, and the 2019 Budget transfers £50 million from the Consolidated Fund into the Stabilisation Fund. As part of Finance Transformation, the new Government Plan, alongside the changes to the [Public Finances \(Jersey\) Law 2005](#), intends to provide increased flexibility to react to annual financial surplus or deficit positions, being cognisant of the longer-term fiscal situation.

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<sup>1</sup> *see*

<https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Jersey%27s%20Fiscal%20Policy%20Panel%20Annual%20Report%20October%202018%200181023%20GB.pdf>

The Minister for Treasury and Resources also welcomes the analysis which the FPP will undertake to consider the appropriate size of the Stabilisation Fund and the Strategic Reserve, and will consider any recommendations made as a result of that analysis.

The FPP recommends that detailed, realistic and time-bound targets accompany the additional £30 million of efficiency savings announced to be delivered by the end of 2019, which are then built into the next Government Plan. The work necessary to put detail behind the 2019 efficiencies has already started, and will continue over the coming months, dovetailing into the preparation of the Government Plan 2020–23.

Central contingency allocations will be reviewed as part of the formulation of the Government Plan, with a move away from the use of central contingencies, in favour of a corporate approach to the management of finances and reprioritisation of funding between departments. The establishment of the new Investment Appraisal Board was an important step towards adopting a whole-of-government approach to the prioritisation of resources, and a revised policy on Contingency Allocations was presented to the States Assembly on August 2018 and has been adopted by the States of Jersey Finance function.

The FPP recommends the careful management of large capital projects in future years, such as the Future Hospital, to avoid overheating the economy. The Minister for Treasury and Resources is aware of work already underway on capital projects which is predicated upon that overheating of the local construction industry.

Finally, the FPP has advised the States of Jersey that the new Government Plan must develop a whole-of-government approach to the challenge of an ageing population. The establishment of the Long-Term Care Fund in 2014 was a critical step in preparing the Island for the demographic changes that will take place over the coming decades. In addition, the States of Jersey's [Common Strategic Policy 2018–22](#) contains, as one of its 6 common themes, the intention to prepare for more Islanders living longer, with this incorporated as a theme within 4 of the 5 strategic priorities.

	<b>Advice and Recommendations</b>	<b>Accept/Reject</b>	<b>Comments</b>
1	Further revenue or expenditure measures may be needed if the improved fiscal position proves more temporary than presently believed or if the economy hits capacity constraints. However, flexibility may also be needed in the opposite direction if economic conditions deteriorate.	Accept	<p>The 2019 Budget makes a transfer of £50 million from the Consolidated Fund to replenish the Stabilisation Fund. This funding is then be available for future economic stimulus, should economic conditions deteriorate.</p> <p>As part of Finance Transformation, the States is working towards a new 4 year rolling Government Plan in 2020 which, alongside the changes to the <a href="#">Public Finances (Jersey) Law 2005</a>, will provide increased flexibility, and allow quicker reactions to annual financial surplus or deficit positions.</p>
2	Work should be undertaken as soon as possible to identify which of the expenditure and revenue measures have not been delivered and whether this relates to delays in realising the savings/revenue, or whether some of the measures will prove impossible to implement so that alternatives will need to be sought.	Accept	<p>Discussions with departments around delays and unachievable savings are underway. It is acknowledged that there has been an inability to deliver some of the revenue-raising measures, such as the deferral of the waste charge. Short-term solutions were found in 2018, but require a more robust strategy for 2019 onwards.</p> <p>This will be assisted by the announcement of the £30 million programme of savings to be delivered by the end of 2019.</p>
3	The Panel is encouraged that the public sector modernisation programme launched this year is expected to lead to a more efficient public sector with Phase 1 anticipated to lead to £30 million of savings identified in 2019. Detailed, realistic and time-bound targets should be developed as soon as possible for the delivery of the savings, and these should be built into the 4 year Government Plan.	Accept	<p>The work necessary to flesh out the detail behind the £30 million efficiencies for 2019 announced by the Chief Minister has started, and will continue over the coming months, in conjunction with a review of the MTFP 2016–19 savings programme as mentioned in recommendation 2, and in parallel with the development of the Government Plan 2020–23.</p> <p>The Minister for Treasury and Resources agrees that as well as developing detailed planning and achievable and timely targets for future savings programmes, robust monitoring is also essential to ensure that the savings are achieved in a sustainable manner, and that delays and barriers to achievement are identified at the earliest possible stage.</p>

	<b>Advice and Recommendations</b>	<b>Accept/Reject</b>	<b>Comments</b>
4	Where measures are not implemented, the States should endeavour to find alternative measures of a similar size, rather than fund the shortfall through carry-forwards and unspent contingencies, which may not be sustainable.	Accept	The Minister for Treasury and Resources will be reminding the States Assembly that if the States wants to maintain the level of public services currently provided, measures such as charges must be revisited in the Government Plan 2020–23.
5	To the extent there is still a contingency allocation in the 2019 Government Plan <sup>1</sup> , there should be a clear explanation for how the size of contingencies has been determined.  <sup>1</sup> Refers to Government Plan 2020–23	Accept	The States of Jersey is moving away from the use of contingencies as part of the move to a One Government approach. In future, a corporate approach to management of finances will be adopted, with reprioritisation occurring between departments as a matter of course, allowing most pressures to be managed within limits, rather than through piecemeal requests for additional funding from contingency.  The establishment of the new Investment Appraisal Board was an important step towards adopting a whole-of-government approach to the prioritisation of resources; and a revised policy on Contingency Allocations ( <a href="#">R.112/2018</a> ) was presented to the States Assembly in August 2018.  However, there will always be elements of spend which are not foreseen, and a policy will be developed to inform the appropriate level of unallocated reserves in the Government Plan.
6	The new process for allocating contingency spend should continue to give due priority to those projects which have the potential to raise productivity, given disappointing recent trends in productivity. Going forward, it is important that productivity is a key focus of the new Government Plan.	Accept	The Common Strategic Policy undertakes to improve productivity by delivering an economic framework aimed at supporting, growing, innovating and diversifying Jersey’s economy, and therefore this theme will run through and underpin the development of the Government Plan 2020–23.  The process for considering business cases for additional funding is now rigorous, and uses the UK Treasury ‘Green Book’ methodology. This will ensure that contribution to delivery of the strategic priorities is considered.

	<b>Advice and Recommendations</b>	<b>Accept/Reject</b>	<b>Comments</b>
7	There are a number of large capital projects coming in future years (including the Hospital) which will need to be carefully managed to ensure that they do not put too much pressure on local resources during a period in which the economy may be running above capacity.	Accept	<p>Large-scale projects delivered in Jersey are always likely to require significant resources beyond those available locally. It is important that, in such circumstances, a partnership arrangement is utilised to bring resources in as and when required, while also providing value to the local market.</p> <p>In addition, the States of Jersey Common Strategic Policy emphasizes, as one of its Strategic Priorities, the creation of a skilled local workforce for the future, which could include the development of apprenticeships and skills training in partnership with the local employment markets involved in delivering the States of Jersey capital projects.</p>
8	The improved position on the Consolidated Fund should not at this stage lead to any changes in the proposed measures to balance the budget – either on the revenue or expenditure side. Surplus funds should, in the first instance, be used to replenish the Stabilisation Fund. In the longer term, the States should set out a plan to bring the value of both funds to the optimal level to meet their objectives. The Panel will undertake analysis to establish the appropriate size of each fund early in 2019.	Accept	<p>The Minister for Treasury and Resources welcomes the analysis which the FPP will undertake to consider the appropriate size of the Stabilisation Fund and the Strategic Reserve, and will endeavour to act on any recommendations made as a result of the analysis.</p> <p>The 2019 Budget includes the transfer of £50 million from the Consolidated Fund into the Stabilisation Fund.</p>

	<b>Advice and Recommendations</b>	<b>Accept/Reject</b>	<b>Comments</b>
9	Further work will be required over the next Government Plan period to develop a whole-of-government strategy to meet the challenge of an ageing population.	Accept	<p>The States of Jersey recognises the challenge of an ageing population, and the Long-Term Care Fund helps to demonstrate our commitment to finding solutions to address this pressure.</p> <p>The States of Jersey’s <a href="#">Common Strategic Policy 2018–22</a> contains, as one of its 6 common themes, the intention to prepare for more Islanders living longer by –</p> <ul style="list-style-type: none"> <li>• creating a sustainable, vibrant economy and skilled local workforce for the future</li> <li>• reducing income inequality and improving the standard of living</li> <li>• protecting and valuing our environment.</li> </ul> <p>The theme is also then included in 4 of the 5 strategic priorities as set out in the more detailed tables published as <a href="#">R.130/2018</a> – ‘Common Strategic Policy 2018–22: Draft Indicative Programme for Government Plan 2020–23’.</p> <p>The new Target Operating Model for the States Treasury and Exchequer gives greater emphasis to the strategic finances of the Island, with a focus on the organisation’s longer-term goals.</p>