

STATES OF JERSEY



ECONOMIC STIMULUS PLAN 2 (P.55/2009) (S.R.2/2010): RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

**Presented to the States on 18th March 2010
by the Minister for Treasury and Resources**

STATES GREFFE

**ECONOMIC STIMULUS PLAN 2 (P.55/2009) (S.R.2/2010):
RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES**

Introduction

The Minister welcomes this second report on the Economic Stimulus Plan and broadly agrees with the key findings of the Corporate Services Scrutiny Panel.

Since the initial review, all bidding departments, the Treasury and the Fiscal Stimulus Steering Group have worked hard to deliver benefit to Jersey's economy whilst maintaining the appropriate level of oversight and control over spending of this allocation of £44 million from the Stabilisation Fund.

It is an inherent characteristic of any forecast that actual events and results will be different to those anticipated in advance. The Jersey economy has proved no different and the outlook reported by the Fiscal Policy Panel (the "FPP") in November 2009 (in its update to the 2009 Annual Report) contained some important differences to its outlook reported in the May 2009 Annual Report. Although the central expectations for 2009 and 2010 were unchanged in November 2009's update, the risks around them were re-evaluated and the FPP believes there is less downside risk, in both 2009 and 2010, than there was at the time of 2009's Annual Report. The FPP also confirmed its earlier recommendation that the fiscal stimulus should continue to be implemented. The Minister has no doubt that the initiative has ensured that more people are staying in work and that Jersey is weathering the downturn well. Economic conditions will be kept under review, but the latest available evidence points to a clear downturn in the economy.

A number of projects of major importance for Jersey have been successfully funded through the programme by virtue of their characteristics of timely, targeted and temporary, including long awaited works in respect of Jersey's infrastructure, such as schemes to improve the road network. In addition, a number of important skills projects have been designed and implemented, in particular the Advance to Work scheme and the States Apprenticeships Scheme. These projects have been invaluable in helping to support young people during this difficult economic environment.

The Minister is appreciative of the Panel's allocation of time within its significant work programme to revisit the economic stimulus package, and welcomes its continued support in delivering an effective stimulus to the Island economy.

Findings

	Findings	Comments
1	In October 2009, the Island was suffering from a less intense recession than some other jurisdictions.	<ul style="list-style-type: none"> • The Minister agrees with this finding. • There are many other jurisdictions that have been more severely hit by the global economic downturn and have seen a significant rise in unemployment. The rise in unemployment in Jersey has been less severe and Jersey's position of financial strength as a jurisdiction with no debt (and considerable savings) has left the Island comparatively well positioned.
2	There appears to be a slowing down in the pace of the recession in Jersey although the possibility of a stabilisation seems a little over optimistic.	<ul style="list-style-type: none"> • The Minister has made use of advice from various sources, including the States Statistics Unit and the FPP, and it is now believed that there is less downside risk in the outlook for 2010 and beyond. • However, there does not appear to be conclusive evidence in the Panel's report that there is a slowing down in the pace of recession. • In fact, evidence (such as that included in the Business Tendency Survey) suggests that businesses were more pessimistic in December 2009 than they were in September 2009, suggesting a worsening rather than improving situation. • The FPP also confirmed in November 2009 its earlier recommendation that the fiscal stimulus should continue to be implemented. Economic conditions should be kept under review, but the available evidence points to a clear downturn in the economy.
3	Evidence within the Island is extremely patchy.	<ul style="list-style-type: none"> • The Minister recognises that the information available about the economy on a timely basis has, in the past, been limited, but emphasises that every effort is being made to capture data on a more systematic and regular basis to provide indicators that will facilitate decision making, particularly in relation to the Economic Stimulus Plan. The development of the Business Tendency Survey is an example of a new initiative, which will provide timely information on the performance of the economy and on a quarterly basis.

	Findings	Comments
		<ul style="list-style-type: none"> • As is typical of a small community there is also a great deal of anecdotal evidence being heard. However, it is important to combine anecdotal information with reliable economic data. The economic data cannot be described as patchy and it all points in the same direction: <ul style="list-style-type: none"> – The Financial Institutions Survey shows that firms expected a significant fall in profitability in 2009. – The Business Tendency Survey points to falling activity across the economy – in the finance and non-finance sectors. – Labour market indicators are weak with unemployment up, employment down and vacancies at lowest levels for 10 years. – Retail sales are also falling. • Evidence is also being reviewed on a real time basis through the tender process for projects within the construction sector and allied trades as well as the civil works sector. This is providing evidence of keen pricing, being indicators at the “micro” level that support the evidence from the economic data. • As at the time of the Panel’s review, in October 2009, only the results of the first Business Tendency Survey were available. The results of the second survey, as at 31st December 2009, were published prior to the Panel’s presentation of its report to the States of Jersey on 5th February 2010, and demonstrate declining activity and expectations of businesses across all sectors.
4	Sustainable real growth rates should be observed.	<ul style="list-style-type: none"> • The Minister agrees with this key finding, provided that it means growth rates should be observed across the whole economic cycle and not at certain points in it. The average growth rate across the cycle will by definition be exceeded in the upward phase of the cycle and fall short during the downward phase of the cycle. It is not feasible or desirable to try and achieve a constant rate of economic growth each year.

	Findings	Comments
		<ul style="list-style-type: none"> The Minister also points out that the “testing” process implemented to release funds to departments or third parties which have bid successfully for fiscal stimulus funding is designed to be a further cross-check that stimulus funds do not lead to overheating at the sectoral level.
5	The Panel recognised a problem with the communication of the process outside States’ Departments in the business world. The Panel noted the Minister for Treasury and Resources acknowledged room for improvement and agreed to take this on board.	<ul style="list-style-type: none"> As noted in the Panel’s report, the Minister recognised the need to improve communications outside the States prior to the Panel’s second review of the Economic Stimulus Plan. The importance of making improvements was emphasised by the Panel’s observations and questions. This is of particular importance in respect of projects going out to the construction industry and allied trades, and the Construction and Maintenance Project Group is now in close contact with the Jersey Construction Council and is delivering improvements to the communication and tender process.
6	The Panel agrees that the continued application of the Economic Stimulus Plan is commensurate with the shape and status of the recession.	<ul style="list-style-type: none"> The Minister is pleased that the Panel has endorsed his view, based on the available evidence and advice that the Economic Stimulus Plan should continue.
7	The process needs to filter through to the economic community immediately for maximum effect.	<ul style="list-style-type: none"> To be timely the economic stimulus needs to impact on the economy in late 2009 and 2010 to have maximum effect and this will be the case for the majority of fiscal stimulus projects. However, this process cannot, particularly in the case of construction, maintenance and civil infrastructure works, be advanced more quickly as a result of the critical path of the projects which form those programmes. The letting of tenders and contracts are both important steps in this process in terms of market confidence and providing businesses with further information about the new business pipeline.
8	The slower entry into the recession than expected has permitted a thorough planning process in the preparation of the bids.	<ul style="list-style-type: none"> A thorough planning and assessment process has been implemented throughout. It is unacceptable to reduce standards of oversight and governance in respect of the spending of public money as part of a programme with such specific objectives as the Economic Stimulus Plan.

	Findings	Comments
9	The extra places at Highlands and the Advance to Work scheme are both unlikely to meet the “temporary” criteria.	<ul style="list-style-type: none"> • It was included in the original proposition (P.55/2009) that skills and education initiatives would be undertaken to gain benefit over and above the pure stimulus benefit, being part of measures to lay the foundations for economic recovery and growth by investing in the skills base. • If, as a result of undertaking the schemes as part of the fiscal stimulus programme, the Department for Education, Sport and Culture (“ESC”) determine that there is significant value in pursuing any of the schemes after economic stimulus funding has ceased, a reprioritisation of existing budgets will be required. • All skills projects have been implementing in a way that allows ESC to terminate the arrangements. For example, there is no long term commitment to additional staff. Fiscal stimulus funding will not continue beyond 2011 for skills initiatives.
10	The 3 ‘T’s are being adhered to within the selection process at the time.	<ul style="list-style-type: none"> • The Minister welcomes the Panel’s endorsement of the evaluation and assessment process, which continues to be rigorously enforced as projects given an “amber light” come forward for consideration for “green lights” with a commitment to funding.
11	The lessons learned from this recession must be recorded for future reference.	<ul style="list-style-type: none"> • This finding is endorsed by the Minister and how the information is intended to be captured is set out below alongside the relevant recommendation.

Recommendations

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
1	Sustainable real growth rates must be established and observed.		Accept	The Minister accepts this recommendation provided that it means growth rates should be observed across the whole economic cycle and not at certain points in it. The average growth rate across the cycle will by definition be exceeded in the upward phase of the cycle and fall short during the downward phase of the cycle. It is not feasible or desirable to try and achieve a constant rate of economic growth each year.	
2	The process needs to filter through to the economic community immediately for maximum effect.		Accept	The Minister accepts that for the Jersey economy to feel the full effect of the economic stimulus the benefit needs to filter through to the community. However, the nature of the programme means that the cash benefit will be felt in the economy over a period of time, but that confidence improves at the inception of a project or when it first goes to market. The importance of this should not be underestimated and as such measures of spend may underestimate the level of benefit that this States' intervention has delivered into the economy.	
3	Communication outside the States' departments must be improved immediately.		Accept	At the time of the Panel's review, work was already under way to improve communications with business, particularly those in the construction sector and allied trades which are looking for the opportunity to tender for fiscal stimulus works.	
4	The lessons learned from this recession must be recorded for future reference.		Accept	Comprehensive records are maintained to support the bids, the evaluation and assessment process. Thereafter project progress and performance records are maintained both at a project, department and programme level. On completion of projects the records will be retained.	

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
5	A comprehensive, defined communication strategy should be immediately put in place by the Minister for Treasury and Resources.		Reject	A communications strategy has been in place throughout. The methods adopted at the outset to inform potential suppliers about forthcoming work were considered by the Minister, the Fiscal Stimulus Steering Group and the departments to be appropriate, although the Panel's comments were taken on board. These comments, together with other experiences as the projects progressed, prompted improvements.	
6	The Minister for Treasury and Resources should publish, in an open and transparent manner, all money passed to departments and spent by departments at the end of the year having regard for commercial sensitivities.		Reject	The details of the funds passed to departments, and details of the purpose for which those transfers are made, are already published in an open and transparent manner by virtue of the fact that allocations of the £44 million economic stimulus fund can only be made by public ministerial decision of the Minister for Treasury and Resources. All decisions are recorded, approved and made public in the usual way. It is not considered necessary for separate reports to be prepared and published relating to spend other than in aggregate at the end of the programme when any remaining unspent funds will be returned to the Stabilisation Fund.	
7	Departments should publish a report to identify performance of bids on an annual basis.		Reject	Departments are already recording progress and performance, and reporting to the Fiscal Stimulus Steering Group on a monthly basis. It is not considered appropriate for this information, which is necessarily reporting a high level of detail, to be made public.	
8	The extra places at Highlands and the Advance to Work scheme must meet the "temporary" criteria by the end of the recession.		Reject	The extra places at Highlands and the Advance to Work scheme already meet the temporary criteria by virtue of the fact that there are no commitments to provide any additional funding to these schemes beyond the finite period for which they are being operated. Any decisions to continue the schemes must be based on available funding reprioritised from existing resources from within the Department for Education, Sport and Culture.	

Conclusion

The key findings and recommendations of the Panel have, even where the Minister does not wholly endorse the Panel's view or accept their recommendation because an issue has already been addressed, been very helpful in making refinements and improvements to the process as the fiscal stimulus programme develops. This is particularly evident in respect of communications outside the States, where the Panel's comments were accepted and acted on to make improvements as soon as practicable.

The Minister has no doubt that the initiative has ensured that more people are staying in work and that Jersey is weathering the downturn well.