

STATES OF JERSEY



REVIEW OF THE FISCAL STRATEGY REVIEW (S.R.2/2011): RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

Presented to the States on 15th April 2011
by the Minister for Treasury and Resources

STATES GREFFE

**REVIEW OF THE FISCAL STRATEGY REVIEW (S.R.2/2011):
RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES**

Ministerial Response: S.R.2/2011

Ministerial Response required by: 13th April 2011

Review title: Review of the Fiscal Strategy Review

Scrutiny Panel: Corporate Services

Introduction

The Minister is pleased to have the opportunity to respond to the findings of the Scrutiny Panel and would like to thank them for their Report. He particularly welcomes the Panel's comments on the need to focus on a long-term fiscal strategy and on the need for the States to control spending.

The Fiscal Strategy Review was a necessary response to the global economic downturn. It went through extensive public consultation and was approved by the Assembly last year as part of the 2011 Budget debate. During that debate, Members were called upon to make difficult decisions to secure long-term, sustainable public finances and long-lasting prosperity. The Minister recognises the important contribution Panel members made to the debate.

The Panel will note that the Minister has accepted nearly all the recommendations contained in the Report. The Minister is committed to making sure that work on the Island's fiscal strategy continues and that the agreed savings are delivered.

Findings

	Findings	Comments
1	The precise implication of increasing Social Security contributions will not be apparent until detailed proposals become available.	Noted. Analysis is already underway in the Social Security Department to develop detailed proposals. However, the overall economic and distributional impacts of increasing Social Security contributions were researched and published in the supporting report to the consultation paper in July 2010. A summary of these impacts was included in the consultation paper.
2	The FSR of 2010 was not sufficiently wide-reaching, given that non-domestic rates were not included within the options considered.	Not accepted. All options were considered. Non-domestic rates were discounted before the consultation because they could raise the cost of doing business in the Island and could have a negative impact on competitiveness. This conclusion was reached after consulting with parish constables.

	Findings	Comments
3	If reforms to the tax system are to be fair (and to be seen to be fair), it must be clear that people are not a subsidiary issue and the social impact of any measures on them must be understood and clearly communicated.	<p>Agreed. Over the last year the Minister has engaged with and involved politicians and the public in a wide-ranging consultation process, which led to the subsequent development of policy to deal with the permanent shortfall in States finances as a result of the global economic downturn.</p> <p>The consequences of doing nothing were clearly described. The effects on households' incomes of the Fiscal Strategy Review proposals were published so people could better understand what they might mean for them. The Scrutiny Panel's Advisor indicated that the research represents the most detailed economic analysis ever published in the Island.</p> <p>The questions asked of people during the consultation centred on how the different options might affect them and the Island as a place to live, work and do business. Their responses were fully considered in reaching final decisions.</p>
4	The FSR proposals contained within the 2011 Budget were effectively short-term measures taken to address a short-term problem.	<p>Not agreed and unjustified. There appears to be a disconnect between the finding and the report.</p> <p>Short-term is around one year, medium-term around three and longer-term is beyond that.</p> <p>The Fiscal Strategy Review was intended to deal with the consequences of the global economic downturn and to put spending on a sound medium-term footing. The downturn left a <u>permanent</u> impact on States finances, with an estimated shortfall of c.£110 million each year.</p> <p>Experience in other countries shows the importance of managing public finances in a sustainable way, balancing the short-, medium- and long-term needs.</p> <p>Short-term measures might have included using money from the Strategic Reserve. But such short-term measures were rejected.</p> <p>The 2011 Budget proposals included long-term measures to make savings and increase taxes that will have a <u>permanent</u> impact on States finances, resulting in the shortfall being closed by 2013.</p> <p>The proposals were also developed in line with sensible medium-term objectives that are consistent with medium-term policy of closing the gap in a way that is both fair and avoids damaging the economy.</p>

	Findings	Comments
		<p>The Minister for Treasury and Resources acknowledges that work on the Island's fiscal strategy, in general, needs to continue and that the States is moving towards longer-term financial planning.</p>
5	Jersey does not yet have a true long-term, wide-ranging fiscal strategy.	<p>There is scope for improvement in developing and reviewing the Island's fiscal strategy in the future.</p> <p>The States has debated and approved 2 fiscal strategies since 2004.</p> <p>The first strategy responded to international developments on tax policy and was necessary to maintain the competitiveness of the Island. The result was changes to corporate tax, income tax and GST; as well as making savings through greater efficiency.</p> <p>Last year's fiscal strategy was necessary because the Island had to react to events and economic conditions outside its control.</p> <p>It is true these strategies have been shaped by the need to keep public finances on a sustainable footing, which has typically meant aiming for balanced budgets in the medium term.</p> <p>In future, the Minister for Treasury and Resources plans an approach to fiscal strategy that will complement the Strategic Plan and its objectives.</p>
6	Long-term and wide-ranging tax reform ought to be possible in the Island.	Noted.
7	A true fiscal strategy cannot be developed until the Business Tax Review element has been completed.	<p>Not agreed.</p> <p>Business tax is a wider issue than those aspects of it which were covered in the Business Tax Review. It was considered as part of policy development during the Fiscal Strategy Review as it was important that we remained competitive. Changes to Social Security and to International Services Entities (ISE) fees affect businesses.</p> <p>The Business Tax Review was launched against a backdrop of uncertainty about the '0/10' regime which is now in the process of being resolved. It was designed specifically to look at the tax regime as it applies directly to companies' profits.</p>

	Findings	Comments
		<p>The objectives of the Business Tax Review were clear, i.e. –</p> <ul style="list-style-type: none"> • To understand the nature and focus of the international pressure then being applied to amend Jersey’s corporate tax system; • To protect existing corporate tax revenues; • To determine whether an alternative regime could result in an increase in tax revenues, while addressing international concerns and protecting the finance industry.
8	Notwithstanding that the FSR was intended to focus on personal taxation, it included elements that were essentially business taxation.	<p>The FSR included options for changes to Social Security, including employer contributions. All options that could meet the objectives of being fair and minimising the impact on the economy were considered.</p> <p>It was important to the Minister for Treasury and Resources that the Fiscal Strategy Review consultation was comprehensive and included all Islanders, including those with a business interest.</p>
9	The Island’s ‘fiscal strategy’ should be a comprehensive, long-term plan covering all aspects of taxation in order to avoid creating a skewed and therefore potentially unsustainable distribution of the financial burden.	<p>Agreed and in progress.</p> <p>The Minister would like to clarify that fiscal strategy must also incorporate policy for spending and the balance between tax and spending.</p>
10	At the time of the FSR, the Island did not have a current Economic Growth Plan.	<p>Noted. However, the publication of a new Economic Growth Plan was delayed because of the unexpected economic downturn and the focus on dealing with it, including the delivery of the fiscal stimulus measures.</p> <p>While the Island did not have an explicit Economic Growth Plan for last year, the key policies remained in place from the previous plan in terms of skills, enterprise, competition and the fiscal framework (which sets out the use of the Stabilisation Fund, etc.).</p> <p>The Minister for Economic Development will bring forward a Green Paper on a new Economic Growth Strategy in the first half of this year.</p>

	Findings	Comments
11	Contrary to the clear message that spending should be controlled before taxes are increased, this has not occurred.	<p>The Minister responded to the impact on the States of the global economic downturn by proposing a strategy in the 2011 Budget that covered changes to both taxes and spending. The States approved the timescale of the changes to spending – a faster reduction would have had unacceptable consequences to public services and economic recovery.</p> <p>The fiscal strategy to deal with the downturn in the 2011 Budget was accepted by the States. Figure 4.2 of the 2011 Budget (page 23) sets out the planned changes to tax and savings (control of spending) for 2011, 2012 and 2013. The plan is to deliver savings of £65 million in 3 years and increase taxes by £46 million in 2 years. The States will need to continue to deliver best value for money and manage spending more effectively in the future.</p>

Recommendations

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
1.	The Minister for Treasury and Resources should reconstitute the Fiscal Strategy Review to address medium- and long-term issues.	T&R	Accept	<p>The Minister for Treasury and Resources wants to make it clear that States departments are already working together to address medium and long term issues.</p> <p>Reviewing taxation and spending policy is done on an ongoing basis. The review of medium- and long-term taxation issues will be improved with the recently formed Tax Policy team.</p> <p>For the remaining term of the current Council of Ministers, the Minister for Treasury and Resources will work with the political steering groups to complete the Business Tax Review, changes to Social Security and work on medium-term planning.</p> <p>The Minister for Treasury and Resources will recommend that the new Council of Ministers reconstitute a group to look at longer-term fiscal strategy.</p>	
2.	The Minister for Treasury and Resources should consult the Fiscal Policy Panel for guidance on the creation of a medium-term fiscal strategy and on how long-term fiscal objectives may be accomplished.	T&R	Accept	<p>The Fiscal Policy Panel already advises the Minister for Treasury and Resources on fiscal policy matters when appropriate. All advice has been published in their interim and annual reports.</p> <p>The strategy set out in the 2011 Budget across spending and taxes to fix the structural deficit by 2013 constitutes the medium-term fiscal strategy that the Fiscal Policy Panel advised the States to put in place.</p> <p>The Minister will continue to seek the advice of the FPP on all future fiscal policy development.</p>	

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
3.	Before the end of the current States, the Minister for Treasury and Resources should provide the States Assembly with a report on his work on long-term and wide-ranging fiscal reform and strategy.	T&R	–	<p>Progress updates on a medium- and long-term fiscal strategy will be presented as part of the 2012 Business Plan and Budget. Such work should be in place to inform the next Strategic Plan and it may be more appropriate for the next Council of Ministers to incorporate this recommendation into the next Strategic Plan.</p> <p>The Minister will do as much as possible to provide the new Council of Ministers with information to enable them to work on long-term financial planning and fiscal strategy beyond 2012. He will also focus on achieving the savings needed this year and beyond.</p>	
4.	The Minister for Treasury and Resources should present an Annual Fiscal Strategy Report.		Accept	An annual report on fiscal strategy is part of the Budget each year. In addition, the FPP publish their annual report giving an independent view on such matters.	
5.	The Minister for Treasury and Resources should not propose any further increases in the rates of Income Tax, GST or Social Security unless the savings identified in CSR Part 2 have been delivered.		Accept	<p>Given the uncertain economic outlook it would be unwise to commit to anything beyond the direction set out in the 2011 Budget, spanning the period from 2011 to 2013.</p> <p>The Minister for Treasury and Resources is determined to deliver the CSR savings already approved by the Assembly and hopes that the Assembly will continue to be supportive in him doing so.</p>	

Conclusion

The Minister for Treasury and Resources thanks the Corporate Services Scrutiny Panel for their continued work.