

STATES OF JERSEY



DRAFT 2015 BUDGET (S.R.12/2014): INITIAL RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

**Presented to the States on 16th September 2014
by the Minister for Treasury and Resources**

STATES GREFFE

**DRAFT 2015 BUDGET (S.R.12/2014): INITIAL RESPONSE OF THE
MINISTER FOR TREASURY AND RESOURCES**

Initial Ministerial Response to: S.R.12/2014

Review title: Draft Budget 2015

Scrutiny Panel: Corporate Services

The Minister and Assistant Minister for Treasury and Resources thank the Corporate Services Panel for its report.

Whilst the Treasury has not always been able to agree with the views of the Panel, it is recognised that Scrutiny has provided valuable contributions to a number of financial and budget debates. This work has been able to focus minds on the important policy options for States members ultimately to decide upon. The ministerial team sincerely thanks and recognises the time and effort spent on reviewing numerous Treasury propositions and proposals over the last 3 years. Panel members should be recognised for the time and effort they have spent on their work. The Minister would also like particularly to recognise the work of the Scrutiny Officers, who have worked co-operatively and diligently with Treasury officials to support the Panel and ministerial team in researching many background papers and in drafting reports.

The Panel Adviser from CIPFA has also provided some useful insight over the last 3 or 4 years, which has informed and influenced the Treasury's work.

It is pleasing to note that many of the Panel's recommendations have already been identified as opportunities for further improvement. The move to 3 year fixing of spending limits has been widely welcomed. The Minister is immensely proud that Jersey's Public Finances Law is held up as a model for other jurisdictions to follow, and the Panel who encouraged that approach should be recognised for its important support and contribution to this work.

As with all new innovations, there are always a number of improvements to make based on experience. The Minister is as committed as the Panel is to ensure that the experience of this first MTFP is used positively to make the next MTFP even more robust.

As members will have seen from the Long-Term Revenue Plan Review report published today, work on implementing a number of the suggested improvements to MTFP 2, which will fix expenditure levels for the period 2016 to 2019, is already underway.

A detailed response to all the Panel's key findings and recommendations will be circulated by close of business on Friday 19th September, or earlier if possible.

Whilst signalling concurrence with the majority of the Panel's views, there are, however, 2 issues which need addressing immediately:

1. Proposal in Budget 2014 to reduce the marginal taxation rate from 27% to 26%

The Minister wishes respectfully to remind the Panel it was in full possession of all the latest forecasts and supporting papers prior to the debate of the Draft Budget 2014. All but one member of the Panel voted in favour of part (a) of that Budget proposition which authorised the rate reduction.

The Minister signalled very clearly that the aim of this measure was carefully and specifically designed to put money into the pockets of middle- to low-income Islanders. Moreover, this was at a time when both households and the economy needed further support. In addition, as clearly explained, this was an important step in simplifying the marginal rate system of taxation.

The Minister and Assistant Minister strongly maintain their position on this important and landmark decision. They have also signalled their desire to go further to a rate of 25%, with the full support of a majority of Ministers, including strong support from the Chief Minister and Assistant Chief Minister (Senator P.F. Routier).

For that reason, Ministers are disappointed that the Panel has now chosen to be critical of this important measure. Had it felt so strongly that this proposal was wrong, or should be reversed, then an amendment could have been brought to the Draft Budget 2015.

None has been brought, and the Minister for Treasury and Resources is surprised and disappointed by this criticism.

2. The suggestion that an additional Budget may be required

This has now also been the subject of a high-profile media report.

Under the Finance Law, any new Minister for Treasury and Resources could bring alternative proposals upon his or her appointment for an additional Budget, notwithstanding the potential serious negative effects this could have on stability and business confidence.

A supplementary Budget should not be necessary or required. The very raising of the suggestion could unintentionally send out a message of a lack of strength in Jersey's financial position. The opposite is the case. Whilst income projections have been reduced following a continued international recession, Jersey's finances remain incredibly strong. This is in part due to the Panel's own endorsement of Treasury policy of prudent fiscal and Treasury management.

The majority of the Panel's concerns appear to relate to measures designed to ensure that there is a sufficient unallocated balance on the Consolidated Fund to fund expenditure designed to secure an economic recovery.

The majority of these measures do not form part of the Budget 2015 report and proposition. It could be argued that the current legal arrangements for the Consolidated Fund, which often has a balance in excess of £100 million, are overly restrictive. The requirement to have the cash immediately available even before a capital project gets underway, and that it should be held before a project is even tendered, needs review in the context of a medium-term financial planning model.

There should be no compromise on financial prudence. However, the current practices may not reflect best value or best use of taxpayers' cashflow.

In any event the Schedule, which is provided for the States' information, could be altered by a new Council of Ministers.

In addition, it should be remembered that should income levels recover or improve over the cautious estimates, then some of the currently proposed initiatives may not be required. The Minister has continued a policy of prudence and transparency in decision-making, based on independent economic advice.

The Minister respectfully suggests that instead of making somewhat polemical recommendations, the majority view of the Panel should endorse an approach that seeks more efficiency from States departments, puts more money into the pockets of lower- and middle-income earners, and does everything possible to secure a sustainable economic recovery.

For these reasons, whilst accepting the majority of the Panel's recommendations, the majority of Ministers stand by proposals as being not only deliverable, but representing the best Budget possible for Jersey in 2015.

In making his full response, the Minister and Assistant Minister will, as always, after taking advice and consulting the Chief Minister and ministerial colleagues, seek to agree recommendations wherever possible.

The Minister is encouraged by the fact that the Panel had clearly considered the Budget 2015 proposals in detail, and that none of the Panel's key findings or recommendations indicated alternative proposals. Notwithstanding the Panel Chairman's continued criticism, no amendments have been made by her to alter the key proposals in Budget 2015. The Minister has no alternative but to conclude that the Chairman does not have an alternative approach.

In addition, given that now the Corporate Services Scrutiny Panel, the Fiscal Policy Panel (FPP), and States Members, have reviewed the measures contained in Budget 2015, and with the exception of 2 members who have proposed amendments, none have suggested an alternative course of action.

The FPP has endorsed the Minister's approach, and the Minister and Assistant Minister hope that this gives members, and the wider Public, confidence that the proposed way forward is the right one.