

## **SUMMARY OF MTFP ADDITION 2016-2019 DISTRIBUTIONAL IMPACT ASSESSMENT**

In developing the approach set out in the MTFP 2016-19, the Council of Ministers has tried to balance twin economic objectives. Firstly, returning finances to structural balance, so that they remain on a sound and sustainable medium-term footing. Secondly, doing so in a manner that allows the economy to recover over the life of the MTFP. In doing this the advice of the independent Fiscal Policy Panel (FPP) has been critical and Council of Ministers has focused on following the Panel's recommendations set out in their reports in 2015. In particular, the FPP stated in their Pre-MTFP report that:

*"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."*

After seeing the proposals for MTFP 2016-19 the FPP stated in their September 2015 Annual Report that:

*"In general, the Council of Ministers has followed the Panel's recommendations in its proposed approach in the draft MTFP."*

*"In line with the Panel's previous recommendations, the draft MTFP proposes to gradually withdraw fiscal stimulus from the economy as it recovers, and to use the States' reserves to pay for this whilst the measures planned to bring the States' finances back into balance are phased in."*

The FPP's advice in future reports will be critical in determining the overall approach in the MTFP and making sure that the economic impact is such that it allows the economy to recover and addresses any underlying structural imbalance in States finances at the right time. However, the fiscal measures – either changes in expenditure or revenue – will impact differently on different groups in the island community, as is the case with any fiscal adjustment.

The distributional analysis that will be undertaken on the measures set out in MTFP Addition 2016-19 will help the States to understand how the impacts may vary across households at different points in the income distribution. This will be informative for the States in understanding where the burden of the adjustment may lie and whether it is deemed to be fair. The measures that will be analysed and the type of analysis that will be undertaken is explained below:

### **1. Revenue Expenditure changes**

There are measures in the MTFP that see increased investment in key public services such as health and education and reduction in spending in other services through savings. It is generally much harder to determine the distributional impact of increases or investment in government expenditure than changes in taxation or cash benefits. However, the analysis will consider what evidence and research from elsewhere suggests about the distributional impact of changes in public expenditure (i.e. how it impacts on people at different points in

the income distribution) in the service areas affected by changes in the MTFP and whether there are reasons to think the analysis is relevant for Jersey. In addition, it will look at what information is available about the nature of the changes in expenditure that are proposed as part the MTFP and whether there is any reason that the impact of the increases will be different to the overall distributional impact of general public spending in the service area.

## **2. Benefit Changes**

Considerable written information has already been provided during the MTFP process on the proposed benefit changes in respect of the legal changes that were required. Every individual change was subsequently challenged as part of MTFP debate and additional information was provided as part of the response. This analysis will therefore collate all information included in the public reports to show:

- Number of claimants affected by one or more changes
- Demographic info on these claimants
- Approximate weekly impact of changes in 2016 (i.e. at current prices)

The economic assumptions used for the MTFP Addition will be used to show the impact on typical benefit claimant households over 2017 – 2019. Consideration will also be given to any implications for changes in behaviour.

## **3. Capital Expenditure**

It may be even harder to determine the distributional impact of changes in public capital expenditure than current expenditure. However, the analysis will consider what evidence and research from elsewhere suggests about the distributional impact of public capital expenditure and whether it is relevant for Jersey. In addition, it will look at what information is available about the nature of the changes in capital expenditure that are proposed as part of the MTFP and whether there is any reason that the impact of the changes will be different to the overall distributional impact of public capital spending.

## **4. Revenue raising measures**

### **i. General revenue raising measures**

For each proposed revenue raising measure which applies to the population of the island generally, the analysis will indicate the distributional impact of the measure on a range of different households. Wherever appropriate the analysis will be produced in graphical form to aid understanding and to highlight the resulting change in effective tax rates at differing income levels.

### **ii. Charges/User Pays**

The analysis will consider what evidence and research from elsewhere suggests about the distributional impact of user pays charges, including those in health for the different services or departments (i.e. how they impact on people at different points in the income distribution) and whether there is reason to think the analysis is applicable to the proposals for such charges in Jersey.

## **Timescales**

Some of the analysis of measures that have already been decided will be undertaken in March/April e.g. revenue expenditure investment in health/education and benefit changes. However, some of the analysis will not be able to start until there is a clearer direction in terms of the actual policy e.g. revenue raising measures/ revenue expenditure savings, although it is intended that this work will be done in April/May. This will enable the inclusion of the impact analysis in the MTFP Addition when it is lodged at the end of June 2016.