STATES OF JERSEY

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STABILISATION FUND: RESCINDMENT

Lodged au Greffe on 21st November 2006
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

to refer to their Act dated 20th April 2005 in which they approved the Economic Growth Plan and agreed, *inter alia*, that proposals for a counter-cyclical Stabilisation Fund should be brought forward, and to their Act dated 27th June 2006 in which they approved, in principle, the States Strategic Plan and agreed, *inter alia*, the establishment of a Stabilisation Fund and the need for a new policy for the Strategic Reserve; and

(a) to rescind their decisions that a Stabilisation Fund should be established; and

(b) to agree that the Strategic Reserve Fund, established in accordance with the provisions of Article 4 of the Public Finances (Jersey) Law 2005, should be a permanent reserve, where the capital value is only to be used in exceptional circumstances to insulate the Island's economy from severe structural decline such as the sudden collapse of a major Island industry or from major natural disaster and with the interest to be available, on the recommendation of the Minister for Treasury and Resources, both for strategic spending and to make fiscal policy more countercyclical and create in the Island a more stable economic environment with low inflation.

DEPUTY G.P. SOUTHERN OF ST. HELIER

Note. In accordance with Standing Order 23(a) this proposition, in respect of the rescindment in paragraph (a), has been signed by the following members.

1. Deputy J.A. Martin of St. Helier
2. Deputy A. Breckon of St. Saviour
3. Deputy G.C.L. Baudains of St. Clement

The reasons for the rescindment are set out in the report below.

REPORT

I must make it clear to members that I have no in-principle objection to the establishment of a Stabilisation Fund. It appears on the surface to be rather Keynesian in approach. However, I object most strongly both to the timing of the proposals set out in P.133/2006 and to the methods set out for its funding.

The proposition now contained in P.133 had its outline in the Economic Growth Plan under the title “A new fiscal framework for Jersey”, as follows –

Introduction

The States Economic Growth Plan (EGP) sets out the importance that macroeconomic stability has in creating the conditions for economic growth and low inflation.

A critical part of the Economic Growth Plan is to provide a new macroeconomic framework for Jersey that represents a clear break with the past. If sustainable economic growth is to be achieved with low inflation then the States of Jersey must ensure that fiscal policy – the one macroeconomic tool available – is focused on delivering the stability required. A transparent and credible framework is required to support stability and control inflation.

This is of course the very broadest of outlines. There is no detail here at all.

This was followed of course by the Strategic Plan, which contained the following amendment from the Corporate Services Scrutiny Panel under 1.3 “Low inflation is sustained.”

“, except that in Commitment One, Outcome 1.2 –

(a) for Actions 1.2.2 and 1.2.3 substitute the following Actions –

1.2.2. Retain any budget surpluses that occur before the introduction of the 0/10 tax changes (due in 2010) in the Consolidated Fund until the extent of any structural deficit as a result of the new fiscal strategy becomes clear with these surplus funds being be used to maintain revenue and capital spending in the short term whilst any structural deficit is addressed (T&R).

1.2.3. Improve overall fiscal framework by the immediate establishment of a Stabilisation Fund, into which the following funds will be transferred –

i. The balance of excess funds over liabilities held currently in the Dwelling Houses Loans Fund as they become available (T&R).

ii. The capital receipts from property sales identified in Action 6.2.3 of this Plan, estimated to reach at least £4 million per year by 2009 (being the capital element of the savings arising from the Change Programme) (T&R).

iii. The non-capital element of the Change Programme Efficiency Savings identified in 6.2 of the Strategic Plan (estimated to reach £6.64 million per year by 2009) (T&R).

1.2.4 forward for approval by the States detailed proposals for the control of inflation to update the current inflation strategy, with the proposals to include details of the future use of the balance in the Stabilisation Fund created under 1.2.3 above and the operation and long term use of the Fund which will be broadly as described in the Economic Growth Plan (P.38/2005) as adopted by the States. The proposals will also cover the role of fiscal measures, particularly GST rates, in this context (T&R) (ED).

The Chief Minister accepted this amendment and it was built into policy.

At that time did members realise that what was being proposed was finding ways to take out up to £75 millior from the economy to create the Stabilisation Fund, whilst at the same time building up the Strategic Reserve by a further £120 million? Almost £200 million is to be found from the economy at a time when the zero/ten black hole is looming. This is surely not possible.

The examples of successful stabilisation funds discussed in P.133 come from countries who took the decision to adopt such policies in times of plenty. Norway, we are told used its windfall oil revenues wisely, as did Kiribati with revenues from phosphate mining. Where are our windfalls today? Are we about to see large-scale revenue increases in the short to medium future? I believe we are not. Those windfall revenues occurred decades back in the 70s and 80s. We have already blown them.

Examine for a moment the projected "bottom line" on Projected Budget surplus (deficit) –

2007	2008	2009	2010	2011	2012
(£3m)	£39m	£41m	(£24m)	(£23m)	(£??m)

The trend is clear. We are running into negative budgets, and the Minister for Treasury and Resources refuses to predict what will happen in the years beyond 2011. The time for the creation of a Stabilisation Fund is clearly not now.

So where is the funding to come from, if not from the windfall revenues enjoyed by Norway and Kiribati?

When asked about this on 7th November, the Minister for Treasury and Resources replied –

"The *guideline in the new fiscal framework is to build the Stabilisation Fund up to 15-20% of annual expenditure in the medium term. This can be achieved in a number of different ways.*

Firstly, there may be a possibility to transfer money from the Consolidated Fund. The financial forecasts show that the Consolidated Fund will rise to £112m by 2009 and there may be scope to transfer some of that money into the Stabilisation Fund depending on how the forecasts for 2010 onwards look nearer the time and advice from the new Fiscal Policy Panel.

Secondly, there is also the possibility that if the States sells certain investments in coming years that some of the proceeds could be transferred to the Stabilisation Fund.

Thirdly, where States revenue comes in higher than expected, for example as a result of a better than expected economic performance or one-off exceptional receipts as in 2006, then there will be the possibility of transferring those additional tax receipts into the Stabilisation Fund.

Finally, the new Fiscal Framework proposes that when the economy is performing strongly it will be necessary to adjust States revenue and expenditure so that the States runs a surplus and is able to transfer the funds into the Stabilisation Fund. This is something that the Fiscal Policy Panel will advise on in due course.

The current financial forecasts only project significant deficits for the years 2010 and 2011 and there is a high degree of uncertainty surrounding these figures. However, should it be clear nearer the time that such deficits are likely to arise and the economy is still performing strongly then the sensible economic approach will be to adjust States income and expenditure accordingly so that payments can be made into the Stabilisation Fund".

Here we come to the core of my objections to the methods of funding.

The first tranche of £32 million (not mentioned by the Minister) is to come from the Dwelling Homes Loan Func (DHLF). The first-time buyer scheme we have now abandoned. Members should surely take time to consider whether they should be abandoning the promotion of house ownership so lightly. This Assembly voted to invest in home ownership. It has not, as far as I know, rescinded, or even debated, that principle. The Minister for Planning and Environment has publicly pledged himself to introduce a "Shared Equity scheme" to enable first-time buyers to purchase. Could this £32 million be better used there? I believe this Assembly should consider this option carefully before it locks the money away in a Stabilisation Fund.

I have highlighted one of the sources of funding to be allocated to the £200 million required for both funds as proposed. It basically focuses on the “sale of certain investments”. For investments, I would urge members to substitute the word assets; and for assets, to insert the word utilities. This is code for the wholesale divestment of our public utilities. The Minister for Treasury and Resources has stated that “we shall probably have to sell off all our utilities, sooner or later”.

I believe that the need to top up the Strategic Reserve and to create the Stabilisation Fund will provide the reason and the motivation for the sale of our utilities. It will be sooner rather than later if we accept P.133 at this point. It should not be debated or agreed until the methods for funding and its prioritisation against other essential actions have been clearly identified.

There are no direct manpower or financial implications for this rescindment.