STATES OF JERSEY

DRAFT 2014 BUDGET (S.R.13/2013): RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

Presented to the States on 3rd December 2013 by the Minister for Treasury and Resources

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STATES GREFFE

DRAFT 2014 BUDGET (S.R.13/2013): RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

Ministerial Response to: S.R.13/2013

Ministerial Response required by: 7th January 2014

Review title: Draft 2014 Budget

Scrutiny Panel: Corporate Services

FINDINGS

	Findings	Comments
1	The economic situation in Jersey remains fragile.	Draft Budget 2014 makes it clear that local economic conditions mean that there is a need to support the economy in the short term through fiscal stimulus. While international developments have been positive, key risks remain, and Jersey, as an export-orientated economy, will be dependent to some extent on continued improvements in global conditions. However, the FPP have revised upwards their forecast for 2013 on the basis of recent positive developments locally and internationally, and expect a similar performance in 2014.
2	As the FPP has indicated, the Draft Budget lacks information required to understand the overall impact of proposed fiscal policy and the latest position of States finances.	The MTFP set out the States' fiscal policy and finances for the period 2013 to 2015. The 2014 Budget is presented to the States in the context that the financial forecasts remain within the ranges presented in the MTFP and approved by the States. The only exceptions are the proposal for the 3 major capital projects which are extensively explained and included as part of the main proposition. TTS is not part of the main proposition. The proposals for the 3 main projects and their associated funding do not affect the overall MTFP spending levels and have been accommodated within the existing net capital expenditure limits set out in the MTFP. The 2014 Budget includes the financial implications of the budget proposals in some detail. It also provides a recast of States Income and the Consolidated Fund position adjusted for the financial implications of these proposals as required by the Finance Law for the preceding, current and forecast year, i.e. 2012, 2013 and 2014.

	Findings	Comments
		Further forecasts have been produced, including updated figures from the Income Tax Forecasting Group (ITFG), but the intention remains to work within the MTFP framework. The revised forecasts will inform the work to develop a Long-Term Revenue Plan and Long Term Capital Plan in preparation for the next MTFP 2016–2019.
3	No reports on the economic outlook in Jersey have been published by the Economics Unit since December 2012. This must be addressed.	The Economic Adviser has been reviewing the usefulness and timing of publication of the Economic Outlook, and based on positive comments from the CSSP amongst others, has already committed to publishing the Economic Outlook on a 6 monthly basis from next year.
4	Input/Output Tables are no longer produced for Jersey, as the modelling programme which allowed their production has been discontinued. There is reluctance to re-introduce them due to the potential pressures on businesses.	The States Statistical Unit advises that the Input/Output supply and use tables are not produced by a "modelling program", but through detailed business surveys and statistical analysis. I/O tables for Jersey's economy were produced in an exercise undertaken by Strathclyde University in 1998. The production of updated I/O tables has been given careful consideration by the Chief Statistician for several years. In doing so, he has balanced and prioritised such an exercise with other needs for official economic, social and demographic data, particularly considering the resource implications for the Statistics Unit. There is certainly no "reluctance to re-introduce the production of them due to the potential pressures on businesses". Burden on businesses is simply one of several significant technical and resource issues to be considered in undertaking such an exercise. We do not want to make businesses less productive.
5	Notwithstanding questions regarding the presentation of information at a macro level and in respect of certain individual proposals, overall the Draft Budget displays an improved approach to financial management compared to other jurisdictions and to the past.	The Treasury is grateful for the Panel's remarks. The Treasury appreciates the encouragement as we work within the 3 year financial planning period for income and expenditure as set out in the current MTFP. The States is now spending more time looking ahead to the long term with both the Long-Term Revenue Plan and Long-Term Capital Plan that have previously been shared with Scrutiny.

	Findings	Comments
6	The economic rationale for the proposed reduction in the Marginal Rate is questionable.	The Council of Ministers wishes to reduce the burden of taxation on the local economy at a time of recession. This move in the marginal rate makes sense economically and is consistent with the taxation policy, because it reduces the reliance on direct taxes paid by a smaller group, in favour of indirect taxation which is paid by more people.
7	The proposed reduction in the Marginal Rate is intended by the Minister to be a first step in aligning the Marginal and Standard Rates and thereby a first step towards independent taxation.	At the time the Budget was lodged, the Tax Policy Unit published a report regarding the feasibility of introducing independent taxation in Jersey. Independent taxation means treating each individual as a taxpayer in their own right, subject to income tax based on their own income and with their own entitlement to allowances. The key recommendation from the report is: “Independent taxation should be an integral part of Jersey’s long-term tax policy programme”. However, the report also notes that “… it should not be done in the short term, as the financial implications could be substantial due to the complexity of the current regime and the anomalies it created”; and “taking steps to simplify the current tax regime in the near term would help facilitate the move towards independent taxation by spreading or alleviating the financial implications and minimising the risk of unintended consequences”. Jersey’s two-tier tax system (1. the marginal rate; and 2. the standard rate) adds a significant amount of complexity to the current regime, and the report notes: “one method of simplification would be to remove the marginal tax band … however removing the 27% rate in one step with no changes would cost the States about £70m (annually). This is not a feasible alternative but it may be possible to move towards a single rate over time and with compensating changes to, for example, exemptions and reliefs.”. The 1% cut in the marginal rate proposed in the Budget is a step towards the simplification that the independent taxation report recommends. The future alignment of the marginal and the standard rates may be possible, but the financial impact of the necessary compensating measures on taxpayers would need to be fully understood and communicated. The Tax Policy Unit has therefore been requested to design a detailed step plan on how independent taxation could be introduced and present their recommendations in

	Findings	Comments
		the 2015 Budget. However, aligning the MR & SR is not necessarily required in order to introduce independent taxation
8	The majority of taxpayers will not benefit from the reduction in the Marginal Rate until 2015, at which time they will also see money taken from their pockets through the Long-Term Care Charge.	The reduction in the marginal rate will help local taxpayers. Approximately 75% of taxpayers pay their tax liability on a prior year basis. This means that their tax liability is paid in the year after the year to which the tax relates (e.g. for an individual who pays their tax on a prior year basis, their tax liability for the 2014 year of assessment will be paid in 2015). Therefore it is correct to state that the majority of taxpayers will not see the cash benefit of the marginal rate reduction until 2015, when their ITIS rate is reduced or their tax payment is reduced (for those individuals who do not pay tax by way of ITIS). The Long-Term Care Charge is a social security charge, the revenue from which will be placed into a separate, ring-fenced fund in order to provide the long-term care benefits identified under the scheme. Under the current proposals, the Long-Term Care Charge will be introduced at 0.5% on 1st January 2015. Those taxpayers who pay tax by way of ITIS will have their effective rate notices adjusted accordingly, and non-ITIS taxpayers will have their 2015 tax payments adjusted accordingly in order to collect the charge.
9	As a matter of urgency, further work must be undertaken in considering and identifying taxation measures in respect of productivity that will support the local economy.	The report does not identify the causes of Jersey's productivity issues and it is therefore wrong to make the assumption that changes in taxation are the answer. If the Panel can explain what they think the issues are and why government needs to correct them, then government can look at the policy solutions, which will include, but will not be limited to, changes in taxation. This commitment to look at potential solutions has been evidenced during 2013 where, in response to requests from representative bodies and other interested parties, the Tax Policy Unit has looked at the issues of investment incentive tax measures and enhanced first-year capital allowances. The analysis produced did not support enhanced first-year capital allowances at this time; however the Tax Policy Unit continues, in partnership with interested parties, to

	Findings	Comments
		work on determining whether feasible investment incentive tax measures could be introduced in Jersey. Also, the impact of existing measures should not be underestimated. Firstly, the current Jersey tax regime is business-friendly: there is no capital gains tax, the standard rate of corporate income tax is 0% and, in the vast majority of situations, companies can re-invest their profits into their business to help it grow, without tax being suffered either at the level of the company or its shareholders. Finally, the Innovation Fund has been launched with an initial allocation of £5 million in 2013. The Treasury will continue to work with the Minister for Social Security and other Ministers to get people back to work, improve the Island's skill base and diversify the economy.
10	As the primary reason for increasing Impôts on alcohol and tobacco is health-related, the additional income raised should be put towards supporting the alcohol and tobacco strategies.	In deciding duty increases on alcohol, consultation takes place with the Ministers for Health and Social Services, Economic Development and Home Affairs, as well as other members of the Council of Ministers. In reaching agreement on proposed increases, the following is taken into account, which are not all health related – (i) the economic interests of the Island; (ii) the impact on the Island's hospitality industry; (iii) the impact upon consumers of alcohol within the Island as a whole; and (iv) concerns for public health. Our tax principles do not include the hypothecation of individual components of our general revenues to specific services. It is difficult to estimate the impact of costs of the alcohol and tobacco strategies and the associated healthcare, but as an example – The Medical Officer of Health advises that – "*Alcohol is responsible for massive costs to the taxpayer of Jersey: thinking of healthcare, policing, social security sickness payments, prison, probation … The rise in alcohol duty proposed is low compared with the real costs to this Island that can be attributed to alcohol consumption.*

	Findings	Comments
		Estimates of the costs of alcohol-related harms to society elsewhere range from 1.3% to 2.0% of gross domestic product (GDP). For Jersey, this would represent a cost to the Island of £45m–£70m per year based on analysis by States of Jersey Economics Unit. *Increasing the price of alcohol, as well as reducing its availability are the most effective measures to achieve reductions in alcohol consumption, particularly in the young and those who drink the most heavily"*.
11	Industry representatives have advised that proposed Impôts increases would negatively impact on the industry at a time when the industry continues to face significant challenges.	The duty/GST percentage of the price of excise goods continues to be significantly lower in Jersey compared to the UK. Since the Scrutiny Hearing, the Minister for Treasury and Resources has met with the alcohol trade and listened to their concerns. As a result, it has been agreed that a working group will be set up so that, in future, the industry will work with the States and come up with plans and actions on alcohol-related issues. In addition, the Minister for Treasury and Resources has reduced the duty increase proposals on wines/beer/cider. As requested by the trade, the Minister has also proposed the introduction of a new lower band of duty for low alcohol beers/cider. The rate of duty in the new banding will be 50% of the duty for beers with strength of between 2.8% and 4.9% abv. In effect, this will mean that the duty of a standard pint of beer in the new banding will be 17p. The proposed reduction in the 2.8% to 4.9% abv category means that the duty increase will now be 1p per pint. To use the Assistant Minister's analogy, this will result in a 14p increase for any person drinking 2 pints of beer a night, 7 nights a week. Wine duty will be reduced from 7p per 75cl bottle to 5p. The Treasury notes the progress with the alcohol licensing strategy and the new working party to strengthen dialogue with the licensing trade.
12	There are irreconcilable differences between the Minister and industry regarding prices and price comparisons. This is unhelpful.	The official report published by the Statistics Unit clearly shows the mean retail and pre-tax prices of alcohol and tobacco; see – "Comparison of Consumer Prices – June 2013". Furthermore, it should be emphasized that the retail prices shown in this report for both the UK and

	Findings	Comments
		Jersey relate to June 2013. The UK Office for National Statistics publishes such prices monthly for the UK. The Minister for Treasury and Resources remains of the view that competitive issues remain in these markets in Jersey. The Minister has this month met with representatives of the alcohol and tobacco industries to listen to their views, and has also met separately with the spokesperson for CITIMA, following which there is a continuing exchange of data. A working party has been set up to discuss alcohol and tobacco policy in 2014. A CICRA report is expected that will also inform this debate.
13	Industry figures for how much tobacco consumed in the Island is purchased duty-free cannot be verified or denied by government.	The Customs and Immigration Service has no data which could verify the CITIMA survey. Earlier in the year, CICRA were requested to undertake research into the local tobacco market. Their report is due for release in January 2014. It is possible that this report might provide some detail on the subject. Alternatively consultation could take place with the Statistics Unit/Economic Adviser at the Chief Minister's Department.
14	There will be no growth allocations to debate in the Draft 2015 Budget, as all growth monies for 2015 will, if the Minister's current proposals are adopted, have been allocated in the current Draft Budget.	This is correct. Article 11(3) of the Public Finances (Jersey) Law 2005 provides for the recurring impact of growth approved to be agreed in addition to the Budget year. The 2014 Budget proposals for Central Growth for 2014 amounts to £2.21 million and includes a recurring impact for 2015 of £1.46 million, which requires all the Central Growth Allocation available for 2015.
15	As the FPP has highlighted, and as the 2012 Accounts make clear, capital expenditure in 2012 did not reach the levels which had been promised. There was a failure to deliver the fiscal stimulus which the Executive had set out to achieve, and an opportunity was therefore lost.	Capital projects can be vulnerable to external factors that impede progress; in 2013 the factors affecting capital schemes were – • Planning approval • Environmental surveys • Regulatory compliance • Contractor liquidity • Adverse weather conditions. All of the above make capital projects inherently susceptible to delay, and service Departments and the Treasury have limited control over these factors. Capital monitoring information has increased to include project specific updates on project status,

	Findings	Comments
		reasons for any delays, tender status, projected cashflow, and is reported back to the Corporate Management Board and Council of Ministers quarterly. Shown in the separate table below are examples of projects delayed in 2012 with a significant impact on the total spend and the reasons –

Department	Project	Remaining Unspent Budget £'000	Issues
Housing	Housing Rolling Vote	36,981	P.40 Tendering of £27 million. Inherent timelag between allocation of budget and breaking ground > detailed feasibility > planning > tender > contract > start work > staged payments based on % completion
TTS	Sludge Thickener Project	4,606	Contractor went into administration
JPH / Home Affairs	Police Relocation	18,473	Waiting for Planning Permission
		60,060	
Various	Other Projects	38,857	
Total Unspent in 2012		**98,917**	

	Findings	Comments
15 *ctd.*		Two of the most significant projects last year for stimulating the economy did not feature in the States' capital programme but were funded indirectly by the States of Jersey – JT Gigabit Jersey (£40 million+) Loan to Parish of Trinity (£6 million) There is significant revenue expenditure in departments that also provides fiscal stimulus. Jersey Property Holdings and Housing both have large maintenance budgets that also provide stimulus to the construction industry. For further comment, please see the response to the Fiscal Policy Panel report (**R.149/2013**).

	Findings	Comments
16	The Minister accepted a recommendation from the Scrutiny Review of the MTFP that the Draft Budget provide revenue implications for the 2014 Capital Programme. However, the Draft Budget does not indicate such implications for each of the projects on the Programme.	The revenue implications of capital projects have been considered by Departments in preparing their outline business cases for the 2014 Capital Programme. Departments are made clearly aware that no additional revenue funding outside of that approved in the MTFP will be made available as a result of approval of capital projects.
17	Although there are some questions regarding the details of the proposals, the Draft Budget displays some welcome long-term thinking in respect of the funding of Major Capital Projects.	The Minister for Treasury and Resources welcomes the CIPFA findings that *"in respect of all three projects we are satisfied that Treasury and Resources have properly explored all alternative funding options – indeed we would commend the work that has been undertaken in this regard"* and that *"… innovative funding options had been considered and noted that one of the attributes of the Draft Budget was that the three major projects could have a significant economic impact."* **Housing Project** The doubt cast over the statement *"that there is no additionality in terms of funding required by the taxpayer for this proposal"* is not founded. This statement refers to the funding arrangements, and it is clear from the proposal that the costs of external borrowing will be covered by the Housing rental income stream. In fact there is a virtuous circle whereby the more capacity that is created the more rental income is generated. It is therefore accurate to state that there will be no additional cost to the taxpayer as a result of this proposal. The commentary around the Income Support implications relates to the 434 net additional social housing tenancies created by this project, and not the funding itself which is being proposed in the Budget. The impact of the revised rent policy and forecast for calls by social housing tenants on Income Support has always been a part of the Housing Transformation Project. A provision was included in the Social Security budget in the MTFP to reflect this: at £750,000 for 2014, and £1 million for 2015 (MTFP page 296). Given that only 1 in 5 tenants in the private sector claim Income Support, it is difficult to see the correlation between new homes being developed and new low-income households being formed. Whilst

	Findings	Comments
		other factors, such as potential population growth, a reduction in the average number of people per household and other demographic and economic changes, may well impact on the number of claimants, this is not due to an increase in homes in the social sector. Indeed, if this was the case, this would equally apply to the development of homes in the private sector. **Hospital Project** The Minister for Treasury and Resources welcomes the comments from the Institute of Directors that the *"use of the Strategic Reserve looks like an imaginative way of dealing with a problem"* and "*a risk worth taking"*. Likewise, the comments from CIPFA describing the proposal as *"an innovative solution"* are welcome. Again, the doubt cast over the proposal being 'cost-free' from the public's perspective is refuted. This proposal uses existing States funds, and there is no external cost or recurring revenue cost associated with the use of these funds. The recurring revenue implications of the new hospital developments have been considered as part of the ongoing work on the Long-Term Revenue Plan. These costs will be refined as the proposal is developed.
18	The Panel supports the FPP's findings and recommendations in respect of the Strategic Reserve that matters should be resolved before any transfers from the Reserve are agreed and highlights the risk that a precedent could be set with its use for the Hospital Project.	The Minister is publishing a full response to the FPP Report alongside publishing this response to Scrutiny, and this matter is covered in detail in that response (see **R.149/2013**). £297 million is the maximum amount that the Minister for Treasury and Resources is willing to take out of the Strategic Reserve for the Hospital.
19	The spending envelope of £297 million for the Hospital Project may not represent the final figure.	The Minister for Treasury and Resources welcomes the CIPFA findings that "*the W.S. Atkins work associated with the (Future Hospital) appears to be industry standard and will be robust relative to the specification provided*" *[Report from CIPFA 1.27]* and that *"... the methodology used to construct the spending envelope substantially matches the HM Treasury Green Book;" [CSSP Report 10:34]* The Future Hospital refined concept has developed a Strategic Outline Case, following a standardised

	Findings	Comments
		good practice approach employed within the United Kingdom for development of all public hospitals. Much further work will be needed during the proposed Feasibility Study to develop outline and then full business cases, both in refining the specification and developing the costing, including a more detailed revenue cost for the operation of the Future Hospital. The capital budget for the Hospital has been set as one that is considered affordable for the States of Jersey, and therefore the intention of the Feasibility Study stage of the Project is to ensure that the capital cost meets or improves upon this budget estimate.
20	The Panel welcomes the Minister's intention to provide break points during the Hospital Contract. All withdrawals from the Strategic Reserve require States approval.	The investment in the Future Hospital Project would be the most significant undertaken by the States of Jersey, and in the complex international economic climate in which Jersey operates it appears sensible to the Minister for Treasury and Resources that a precautionary approach to staged funding of the Future Hospital Project is followed. The proposed two-site Refined Concept offers natural break points within the design which give opportunities for staged approval of the funding for the Future Hospital. This approach, however, requires recognition that only the development of the full Refined Concept proposal will offer the Minister for Health and Social Services the security of purpose needed for sustainable hospital service delivery.
21	The current investment strategy for the Currency Fund indicates that 60% of it can be invested in the Alternative Investments Class. As of 31st December 2012, the Currency Fund stood at £67 million, of which 60% is £40.2 million. The investments in the Liquid Waste Project and the JIFC car park will amount to £42 million, and the margin for error therefore appears tight.	There appears to be a misunderstanding. The Currency Fund stands at £96,317,000 as set out in the 2012 Accounts. £90.5 million of this represents currency in circulation, and £4.8 million represents returns on investment. This means the investable balance is 60% of £90.5 million. £10 million of infrastructure investment has been given to Gigabit Jersey, and during 2013, part of the £6 million loan has been paid by the Parish of Trinity. The Parish of Trinity monies (a loan of up to £6 million) will be repaid in full by 2016. Even taking into account future plans for issuing further infrastructure investments for the Liquid Waste Project (£29 million) and JIFC Car Park (£13 million), the peak issuance at any one year

	Findings	Comments
		(between 2013 and 2017) is not expected to exceed £52 million. Therefore this will be £2.3 million lower than the amount of monies we believe are available for investment in the Alternative Investments asset class, giving us a safe buffer.
22	The detailed funding mechanism for the Liquid Waste Project cannot be agreed until the Assembly has had an opportunity to debate a liquid waste strategy, until which time the spending envelope of £75 million cannot be taken as certain.	The Ministerial Oversight Group for the Liquid Waste Strategy/Sewage Treatment Works replacement project has recommended that the Minister for Transport and Technical Services take a strategy document to the States for approval during 2014 to confirm the technological and practical solution to the requirement to replace the current STW. The document is being prepared during Q4 2013/Q1 2014, and will recommend a solution that can be delivered within the funding proposed. However, should the States require an alternative solution to that proposed, then the Department would have to reconsider the funding requirement and method of delivery of the project.
23	More analysis is required of how £1.7 million per annum in savings would be delivered by the Department for Transport and Technical Services.	At this time, it is expected that approximately £1 million of savings could be delivered by the replacement of the current STW, which is inefficient and increasingly expensive to maintain and operate. However, until detailed design work has been completed to the extent necessary to assess running costs, it is not possible at this early stage to set out in detail the full expected operational and long-term maintenance and running costs of a new plant. The additional savings required will be evaluated based on the levels of savings achieved as a result of the new STW plant, and the final repayment figures required to fund the borrowing from the currency fund. The balance of the savings/funding required will have to be evaluated once the out-turn project cost is known with more certainty; and should no further savings be identified, then a reduction in the annual allocation to the TTS Infrastructure rolling vote may have to be considered should alternative funding sources not be available. To some extent, this will also depend on the savings expected to be delivered in future budget programmes.

	Findings	Comments
24	There is a risk that the injection of large amounts of capital funding over the next 10 years could overheat the local economy. It is not only the public sector which will seek to undertake capital projects in coming years. Forecasting the impact of such expenditure on the economy is difficult, given the current challenges in measuring capacity within the construction industry.	Work is already underway between the Treasury and the Construction Council to try and establish whether there are any potential capacity issues within the industry to deliver the Capital Plan. This work is still being developed, but in broad terms the Construction Council has estimated an overall capacity of upwards of £175 million for 2014 in the order of £60 million would be consumed by private sector projects. This would leave a capacity of over £100 million on average to be taken up by States' capital programme and major capital projects. The States currently allocate the total amount upfront to complete each capital project; however, this does not mean that money can and will all be spent in that year. Funding for the large projects in 2014 is likely to be spent in 2015 and subsequent years. This work will be further developed, and will be important in informing the profile and phasing of the States' capital programme and also decisions on how to source large capital projects. **Construction Council Industry Capacity Analysis** The States has a certain amount of flexibility in its annual capital programme. The primary objective for the capital programme is to meet service delivery needs, rather than principally as a source of fiscal stimulus or a tool for managing the economy. Some steps are nonetheless possible – • Consideration could be given to actively managing the tendering conditions on capital projects to encourage an appropriate balance between on-Island and off-Island contractors so as to help manage capacity in the local economy if appropriate. • Capital expenditure proposals in the next MTFP for 2016–2019 can also take account of both the prevailing capacity assessment and prevailing economic conditions. The States are currently required to allocate all funds up front for a capital project. The States currently allocate the total amount upfront to complete each capital project; however, this does not mean that money can and will all be spent in that year. Funding for the large projects in 2014 is likely to be spent in 2015 and subsequent years.

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		We are supporting the Minister for Social Security and other Ministers in providing employment opportunities for those actively seeking work.
25	There are other spending pressures that are still to be addressed and which sit outside the Draft Budget.	The main spending pressures referred to in the Scrutiny Report relate to the Health and Social Services Department in respect of – • an implied 2% growth policy; • growth associated with P.82/2012 (Health and Social Services: A New Way Forward) "New configuration of services"; and • the running costs of a new General Hospital. The Minister for Treasury and Resources is able to report that all of this new Health growth is included in the requests from individual departments as part of the development of the Long-Term Revenue Plan (LTRP). This work, alongside the Long-Term Capital Plan (LTCP), will inform the financial framework for the next MTFP 2016–2019. The Scrutiny Report also refers to the level of department carry-forwards and questions whether this is appropriate. The Minister for Treasury and Resources would wish to repeat previous comments to say that, whilst £20 to £30 million carry-forwards are a substantial sum, when considered alongside total department spending are a relatively small percentage. Department carry-forwards provide the necessary flexibility for each department to manage its affairs over a 3 year period, and importantly to remain within the 3 year spending limits. The retention of carry-forwards ensure that departments spend on priorities and do not spend on the budgets prior to the year end.

RECOMMENDATIONS

	Recommendations	To		Comments	Target date of action/ completion
R1	The Minister for Treasury and Resources should request that, from 2014, the Economics Unit recommence the publication of reports on Jersey's economic outlook.	T&R	Accepted	The Economic Adviser has already committed to publishing the Economic Outlook on a 6 monthly basis from next year.	
R2	The Minister for Treasury and Resources should consult the Chief Statistician regarding whether any improvements could be made to the collection and presentation of statistics regarding Jersey's economy, including the re-introduction of Input/ Output Tables, without undue pressure being placed on businesses.	T&R	Accepted	The Minister for Treasury and Resources will consult with the Chief Statistician regarding the latter's current and future plans to extend the range and depth of economic and business statistics produced by the independent Statistics Unit, including, but not limited to, the feasibility of producing I/O tables for Jersey and measures of private sector productivity.	
R3	As a priority, the Minister for Treasury and Resources should identify further taxation measures in respect of productivity to support the local economy.	T&R	Not accepted	The report does not identify the causes of Jersey's productivity issues, and it is therefore wrong to make the assumption that changes in taxation are the answer. If the Panel can explain what they think the issues are and why government needs to correct them, then government can look at the policy solutions, which will include, but will not be limited to, changes in taxation. This commitment to look at potential solutions has been evidenced during 2013 where, in response to requests from representative bodies and other interested parties, the Tax Policy Unit has looked at the issues of investment	

	Recommendations	To		Comments	Target date of action/ completion
				incentive tax measures and enhanced first-year capital allowances. The analysis produced did not support the introduction of enhanced first-year capital allowances at this time; however, the Tax Policy Unit continues, in partnership with interested parties, to work on determining whether feasible investment incentive tax measures could be introduced in Jersey. Also, the impact of existing tax measures should not be underestimated. Firstly, the current Jersey tax regime is business-friendly: there is no capital gains tax, the standard rate of corporate income tax is 0% and, in the vast majority of situations, companies can re-invest their profits into their business to help it grow without tax being suffered, either at the level of the company or its shareholders. Secondly, the Economic Growth Strategy has been published and has already received funding.	
R4	The Minister for Treasury and Resources should confirm that additional income raised from increased Impôts on alcohol and tobacco shall be put towards funding the alcohol and tobacco strategies.	T&R	Not accepted	Our tax principles do not include the hypothecation of individual components of our general revenues to specific services. In deciding duty increases on alcohol, consultation takes place with the Ministers for Health and Social Services, Economic Development and Home Affairs, as well as other members of the Council of Ministers.	

	Recommendations	To		Comments	Target date of action/ completion
				In reaching agreement on proposed increases, the following is taken into account, which are not all health-related – (i) the economic interests of the Island; (ii) the impact on the Island's hospitality industry; (iii) the impact upon consumers of alcohol within the Island as a whole; and (iv) concerns for public health. The Minister will not be proposing any changes to the funding of States expenditure relating to the alcohol and tobacco strategies.	
R5	The Minister for Treasury and Resources should resolve differences with the industry in respect of price margins and comparisons for alcohol and tobacco and should update the Assembly by July 2014 on results of his work.	T&R	Accepted	The Minister will continue to listen to industry representatives regarding the comparisons of price margins for alcohol and tobacco between Jersey and other jurisdictions.	July 2014
R6	The Minister for Treasury and Resources should consult the Chief Statistician and Economic Advisor about whether any work by the Statistics Unit could help to address the question of how much duty-free tobacco and alcohol is consumed in the Island.	T&R	Accepted	The Minister for Treasury and Resources will consult with the Chief Statistician regarding the feasibility of quantifying the purchase and consumption of duty-free alcohol and tobacco by Island residents through the upcoming Household Spending and Income Survey (2014–2015), and through other potential sources for such information.	

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R7	The 2014 Capital Programme should be examined to determine which elements are new and which relate to refurbishment or renewal of existing assets in order to clarify whether there is a structural deficit within the States' finances.	T&R	Not accepted in full	In 2009, the States of Jersey adopted Generally Accepted Accounting Principles, and in 2012 the organisation moved to International Financial Reporting Standards. This means that the Capital Programme contains funding for expenditure that is almost entirely classified as Capital in accordance with accounting standards; that such expenditure enhances the economic benefits of the asset in excess of its previously assessed performance. Any renewals or maintenance of existing infrastructure would therefore be classified as revenue if it did not meet the required criteria. The only allocations in the current Capital programme that would be classified as renewals would be the amount set aside for Jersey Fleet Management, who are responsible for the States of Jersey fleet of vehicles. This point has been discussed with the Fiscal Policy Panel. It is clear that the FPP's concern is that there may not be sufficient funding within the revenue budget to adequately cover the costs of maintaining fixed assets. If this were the case then the Island's infrastructure would be diminished over time, and there is a potential that this could contribute to the States running a structural deficit. Treasury will do further work in 2014 to review the	

	Recommendations	To		Comments	Target date of action/ completion
				adequacy of the relevant repairs and maintenance budgets. This analysis will be used to inform development of the next MTFP.	
R8	The Minister for Treasury and Resources should ensure that the purpose and optimal size of the Strategic Reserve and the conditions for its use are clearly defined before seeking approval for a transfer from the Strategic Reserve for use towards the Hospital Project.	T&R		Please refer to the full response made to the Fiscal Policy Panel report by Treasury and Resources (see **R.149/2013**).	
R9	The Minister for Treasury and Resources should provide the Assembly with scenarios regarding the Hospital Project which assume a higher spending envelope than £297 million.	T&R	Not accepted. Please see FPP response	The Minister for Treasury and Resources has proposed an affordable level of capital investment for the Future Hospital through the Strategic Reserve. The CIPFA report is complimentary regarding the funding solutions, "*... we are satisfied that Treasury and Resources have properly explored all alternative funding options – indeed we would commend the work that has been undertaken in this regard." [CIPFA report 1.23]*. Options for development of a whole new Future Hospital were extensively considered and are set out within the W.S. Atkins Strategic Outline Case (May 2013). The costs of such whole hospital solutions at between £389 – £431 million were assessed as unaffordable. A phased development of the existing General Hospital site therefore had to be considered	

	Recommendations	To		Comments	Target date of action/ completion
				and a budget identified that gave the right balance between what was affordable from the Strategic Reserve, and one that met the priorities identified by the Minister for Health and Social Services for hospital development and future service need. Having reviewed the necessary investment priorities with clinicians, the Refined Concept developed with the support of the Department for Health and Social Services was able to meet these priorities within an affordability envelope of £297 million. The Feasibility Study phase will investigate in detail the service requirements at department level. This will include cost benefit analysis of options to determine the most appropriate level of capital spend within the affordability envelope identified for the project whilst seeking opportunities to improve value. Therefore the recommendation to develop scenarios with higher spending envelopes is not accepted as an optimal capital spend will be proposed to the States Assembly in response to the requirements placed upon the Council of Ministers within P.82/2012 within the funding envelope provided.	

	Recommendations	To		Comments	Target date of action/ completion
R10	The Minister for Treasury and Resources should clarify for the States Assembly how £1.7 million in savings each year would be delivered by the Department of Transport and Technical Services.	T&R	Accepted	An outline identification of the levels of savings expected has been prepared based on best estimates at this time. Once detailed designs have been developed, including specification of equipment and maintenance schedules, together with details of how the plant will operate and with how many staff, a more detailed analysis can be undertaken. A schedule of savings will be agreed between TTS and Treasury and Resources.	
R11	The Minister for Treasury and Resources should seek to improve the information available on capacity within the construction industry.	T&R	Accepted	There are limitations to the level of accuracy that can be achieved when assessing industry capacity and the capacity itself is, and should be, fluid and responsive. However, the Treasury has developed a positive and open dialogue with the Construction Council and meets quarterly to discuss prevailing issues. The Construction Council has provided their own analysis of the industry capacity (see Finding 24 answer), and further work is being done within the Treasury to update that with the latest long-term capital programme information. This will be shared with the Construction Council. Work in this area will continue to be developed in 2014.	2014/ ongoing

CONCLUSION

Treasury and Resources thank the Scrutiny Panel and their independent financial adviser and independent economic adviser for the thorough review that has been undertaken of the 2014 Budget. We welcome the many positive and constructive comments which challenge us to continue improving our financial management, as well as the many positive comments made within the report about our new, longer-term approach to financial planning.