STATES OF JERSEY

FISCAL POLICY PANEL ANNUAL REPORT: RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

Presented to the States on 28th November 2017
by the Minister for Treasury and Resources

STATES GREFFE

REPORT

Introduction

The Fiscal Policy Panel issued its Annual Report for 2017[1], including the Draft Budget 2018, on 13th October 2017, and presented its findings and recommendations to all States Members.

The Council of Ministers and the Minister for Treasury and Resources welcome the annual report of the Fiscal Policy Panel ("FPP"), in which the Panel has made a number of recommendations. The Council of Ministers has considered the recommendations and this response indicates the progress already made, the work in progress and, where possible, the work that will be carried out in the future, indicating timescales as appropriate.

The FPP provides independent advice on the state of the economy in Jersey and the States' finances. The report must include advice on fiscal policy, making reference to the strength of Jersey's economy, the global and local economic outlook, Jersey's economic cycle and the sustainability of the States of Jersey finances.

Summary of Response

The Council of Ministers accepts all the recommendations from the FPP.

It is reassuring that the FPP considers that the profile and scale of the measures proposed in the MTFP Addition and Draft Budget 2018 remain broadly appropriate. The Council of Ministers accepts the recommendation that the remaining measures, or equivalent ones, must be implemented in 2018 and 2019.

The Draft Budget 2018 recognises the deferral of liquid waste charges and proposes prioritising central growth funding for 2018 to compensate the shortfall. The Council has also signalled to States Members that prioritisation of central growth in 2019 should be dependent upon the full implementation of waste charges for 2019. Furthermore, the Council is proposing revenue-raising measures in this Budget towards replacing the £15 million lost from the rejection by the States of the proposed health charge.

On the basis of the FPP advice, the Council of Ministers proposes that no change is made at this stage to the Budget 2018 proposals, and remains committed to achieving balanced budgets by 2019. The Budget 2018 proposals deliver continued support to the economy in 2017 and 2018, but also recognise that with the strength of the Consolidated Fund, there is no longer a need to draw the proposed £16 million from the Strategic Reserve in 2018.

The Council of Ministers notes the economic uncertainties forecast by the Panel for 2018 and beyond, and is proposing that flexibility is maintained in the Consolidated Fund in the short term, so that the fiscal outlook can be reviewed ahead of the Budget 2019. The Council of Ministers will also take on board the recommendations for future use of surpluses on the Consolidated Fund, and has no intention for the current balances to affect fiscal discipline or further delay proposed expenditure or revenue-raising

[1] *see* https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Fiscal%20Policy%20Panel%20annual%20report%20October%202017.pdf

measures. The Council of Ministers has committed to review the appropriate balance on the Consolidated Fund in 2018 and make proposals, based on further advice, to consider transfers to the Stabilisation Fund or Strategic Reserve if appropriate in the Budget 2019.

In respect of the Panel's recommendations on capital, the current process of prioritisation includes a number of considerations, but does not consciously consider the balance of productivity growth versus environment and community benefit. This approach can be included from the next MTFP, particularly now that appropriate allocations are being made in the plan, and historical lower levels of investment are rectified.

Government continues to monitor the local construction market to assess capacity issues and the risks to construction costs. We are looking at innovative construction and procurement techniques, such as modular builds, where pre-fabricated materials can be imported, reducing the on-Island effort and therefore costs. If necessary, we will look to off-Island providers, in order to ensure value for money for the taxpayer.

Proposed changes to the Public Finances (Jersey) Law 2005, and how capital allocations are to be managed, will help with lowering the levels of unspent capital and ensuring that spend is more in line with allocations.

The Panel has helpfully made recommendations in respect of preparing for the next MTFP and beyond, the structural pressures and the economic challenges of an ageing population. The Government is developing a long-term approach to jobs, growth, infrastructure and services, which will address these challenges. In addition, the Economics Unit plans further analysis in the first half of 2018 on the interaction of economic performance, demographics and government revenue/expenditure in the long term, which will help inform policy trade-offs and choices.

The States already has a good basis in its fiscal framework. This requires a rolling 4 year financial outlook, and this work is already in progress. The Long-Term Capital Plan is being updated, focusing on the next 2 MTFPs, and in conjunction work is underway with departments to identify revenue expenditure pressures for the next MTFP (2020 – 2023). The timetable for this work will initially be to inform the new States Assembly and the new Council of Ministers, of the options available to maintain investment in priority services, but also delivering balanced budgets. This will lead to the development of a resources framework for the next Strategic Plan, later in 2018, and will inform the next MTFP in 2019.

The Panel's report provides an update on the economic outlook, and the Council of Ministers welcomes the assessment that Jersey's economy has performed well in the last 12 months with a buoyant labour market and growth in 2016 higher than the FPP expected. Growth of around 1% is expected for 2017, and if achieved would be the first time we have seen 4 consecutive years of economic growth since at least 2000. The Council of Ministers notes, however, that the Panel expects slower growth of around 0.5% in 2018, and considerable uncertainty remains around these forecasts.

	Advice and Recommendations	Accept/ Reject	Comments	Target date for action/ completion
1	The FPP continues to believe that the profile and scale of the measures set out in the MTFP Addition and Draft Budget 2018 is broadly appropriate and advise that the remaining measures (or ones of equal value) for 2018 and 2019 need to be implemented on time.	Accept	The Draft Budget provides an update of the progress on expenditure and revenue-raising measures. The Council of Ministers and the Minister for Treasury and Resources welcome this recommendation, and consider that they have followed the Panel's previous advice, that the overall package and value of measures is appropriate and should be implemented. The prioritisation of the central growth allocation has included recognition of the deferral of the proposed liquid waste charges. The Council has also signalled that the review of 2019 central growth should be dependent on the outcome of the implementation of waste charges for 2019. Similarly, the proposed Budget measures for 2018 are a first step to replace the £15 million revenue lost from the States' rejection of the proposed health charge in September 2016. The position would be reviewed ahead of the Budget 2019.	Maintain proposals for Budget 2018 Review draft proposals for Budget 2019 in June/July 2018 Draft Budget 2019 to be lodged September /October 2018 for debate November /December 2018
2	The Council of Ministers is urged to ensure that a permanent programme for securing additional efficiencies in the public sector is fully embedded in all future States financial planning, and in particular, in time for the next MTFP. This process should identify ways in which the same services can be delivered but with fewer resources.	Accept	The Council of Ministers and the Minister for Treasury and Resources accept the recommendation and have signalled in the MTFP Addition that further efficiencies would be required over the next MTFP period. The Council of Ministers has endeavoured to reduce the impact on public services of the current savings programme by focusing on efficiencies in proposing the £77 million of expenditure measures in the MTFP Addition. Our planning assumptions include a principle of annual efficiencies alongside continued investment in strategic priorities. The new focus will be about removing duplication and silo empires, to create a modern, effective and	Ongoing ahead of next MTFP 2020 – 2023 Resource Framework for Strategic Plan in 2018 MTFP 2020 – 2023 target lodging date June 2019

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			efficient public service, and to quickly develop a "right first time" culture.	
3	Progress has been made in meeting the Panel's previous advice regarding contingencies, but there are two aspects worth giving further consideration to: • Ensuring that unspent contingencies that are returned to the Consolidated Fund are not used to weaken fiscal discipline and delay required permanent revenue or expenditure measures. • Further explanation on how the size of contingency allocations are determined and particularly so this is clearer ahead of the development of the next MTFP.	Accept	The Minister for Treasury and Resources presented R.110/2017 "Contingency allocation: revised policy" to the States on 15th September this year, and intended it to be conclusive. The policy covers the treatment of unspent contingency amounts, but the Council of Ministers and the Minister for Treasury and Resources will give regard to the Panel's recommendations when considering future requests for unspent monies. The MTFP Addition identifies the rationale and broad operation of the additional contingencies for specific purposes: Public Sector reform, EPGDP, etc. R.110/2017 clarifies that there are 2 permanent contingencies for DEL and AME expenditure, and that the MTFP Addition proposed additional contingency provisions for specific purposes. The MTFP Addition also explains the rationale for the size of these permanent contingencies. The Council will review the appropriate level of these permanent contingencies as part of the assumptions for the next MTFP.	R.110/2017 presented 15th September 2017 Contingency Policy to be further reviewed ahead of next MTFP 2020 – 2023 target lodging date June 2019
4	The Panel continues to highlight the need to prioritise delivering key capital projects on time, and particularly those that will support the local economy in 2017 and 2018 (particularly in the light of the September 2017 Business Tendency Survey results), but there is the risk that this could be pro-cyclical if the economy is above	Accept	Ministers are aware of the reduced output in 2016, compared with expectations, as part of their quarterly review process. As the majority of works are provided by on-Island construction companies, discussions with the construction industry will continue, and these help to understand the effects of delays and how government spends fits with private construction demands. There have already been signs of capacity issues, as tender prices received	Quarterly review by Council of Ministers Proposals for changes to the Public Finances (Jersey) Law 2005 by

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	capacity in the later years. However, it will be important as spare capacity continues to be used up across the economy also to be vigilant that these large capital projects do not put too much pressure on local resources and add to nascent cost pressures in the construction sector.		are higher than expected by local quantity surveyors. This has led to government looking at innovative construction and procurement techniques, such as modular builds where pre-fabricated materials can be imported, reducing the on-Island effort, and therefore costs. If necessary, we will look to off-Island providers in order to ensure value for money for the taxpayer. Proposed changes to the Public Finances (Jersey) Law 2005, and how capital allocations are to be managed, will help with lowering the levels of unspent capital at the end of each year. Working more on a cash-flow model rather than allocating the full requirements in Year 1.	December 2018
5	Given the scale of future capital expenditure there are a number of other risks that can be managed by: • Prioritising projects that demonstrably add to future productivity growth, for example in areas such as skills and infrastructure. • The States exerting tight control of costs to prevent projects over exceeding budgets. • Providing more certainty on the funding and timing of the new hospital development.	Accept	The current process of prioritisation does not consciously consider the balance of productivity growth versus environment and community benefit. This scoring mechanism can be included from the next MTFP, now that appropriate allocations are being made in the plan and historical lower levels of investment are rectified. Controls over capital expenditure are under review. The funding for the new hospital project, other than the sums already allocated, will be provided outside the normal capital programme. This approach will allow monies to be released as and when needed, rather than upfront.	MTFP 2020 – 2023 Review in 2018 P.107/2017 lodged 31st October, for debate 12th December 2017

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6	The improved position on the Consolidated Fund should not at this stage lead to any changes in the proposed scales and timing of measures to balance the Budget – either on the revenue and/or expenditure side.	Accept	The Council of Ministers and the Minister for Treasury and Resources welcome and agree with the Panel's recommendation. The Council has been very clear in its position for the Draft Budget 2018. The increased balance forecast in the Consolidated Fund is retained at this time to provide greater flexibility, due to the levels of uncertainty in 2019 and beyond, and is not used to offset proposed measures. The Draft Budget provides an update of the progress on measures, and the central growth prioritisation recognises the deferral of liquid waste charges. The Council has also signalled that the review of 2019 central growth should be dependent on the outcome of the implementation of waste charges for 2019. Similarly, the proposed Budget revenue-raising measures for 2018 are a first step to replace the £15 million revenue lost from the States' rejection of the proposed health charge in September 2016. The Council intends to review the Consolidated Fund position ahead of the Budget 2019, and would have regard to the Panel's recommendations at that time.	Maintain proposals for Budget 2018 Review draft proposals for Budget 2019 in June/July 2018 Draft Budget 2019 to be lodged September /October 2018 for debate November /December 2018
7	If the current forecasts come to fruition the Panel would expect to advise in future reports to reduce the balance on the Consolidated Fund by either transferring funds to the Stabilisation Fund or making a further repayment to the Strategic Reserve.	Accept	The increased balance forecast in the Consolidated Fund is retained at this time to provide greater flexibility due to the levels of uncertainty in 2019 and beyond. The Council intends to review the Consolidated Fund position ahead of the Budget 2019, and would have regard to the Panel's recommendations at that time.	Maintain proposals for Budget 2018 Review draft proposals for Budget 2019 in June/July 2018

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				Draft Budget 2019 to be lodged September /October 2018 for debate November /December 2018
8	The Panel continues to support the ongoing monitoring of trends in States assets and liabilities, as set out in the Council of Ministers' Fiscal Framework, and this should include regular assessment of trends as a share of GVA.	Accept	The Council of Ministers and the Minister for Treasury and Resources accept the recommendation, and have included forecasts of the majority of States funds as part of the MTFP Addition, and most recently the Draft Budget 2018. These forecasts will continue to be included in each MTFP and Budget to enable assessment of trends and position relative to the size of the economy.	Forecasts included in Draft Budget 2018. Next update Draft Budget 2019 – to be lodged September /October 2018
9	Build on the work done by the Social Security Department looking at the sustainability of the Social Security Funds in the light of the ageing population and take a whole-of-government view for a strategy to deal with the ageing society.	Accept	The Future Jersey 2017 – 2037 initiative will be a crucial part of establishing a strategy to deal with the challenges of an ageing society. Determining Jersey's long-term approach, including all aspects of the community, environment and economy, will give the direction to a whole-of-government approach to the ageing society. In addition, further analysis planned by the Economics Unit in the first half of 2018 on the interaction of economic performance, demographics and government revenue/expenditure in the long term will help inform policy trade-offs and choices.	Resources Framework for next Strategic Plan in 2018 Further detail in next MTFP 2020 – 2023; target date for lodging June 2019

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10	The Economic and Productivity Growth Drawdown Provision (EPGDP) should continue to identify medium-term policies that help raise productivity and increase the underlying rate of economic growth. Consideration should be given as to how the EPGDP could facilitate the adoption of new technology across all sectors in Jersey and drive significant productivity growth.	Accept	The Officer Group that makes recommendations regarding the EPGDP will consider how it could do more to facilitate the adoption of new technology across all sectors.	The Officer group will bring forward any recommend-ations by the end of Q1 2018
11	When considering the longer-term challenges that the Jersey economy and public finances face, this gives some direction for the key issues that need to be developed and addressed in the next MTFP: (a) Future structural pressures: The longer-term challenges facing Jersey make it clear that further adjustment is likely to be required during the next MTFP period. A strategy to address this should be developed that looks at what is realistic in terms of further efficiency savings (as opposed to expenditure reductions) and whether revenue-	Accept	(a) The Fiscal Framework requires a 4 year outlook where States income forecasts are produced at least twice a year, and revenue expenditure forecasts and planning assumptions are updated annually. Work has already begun with departments to begin to identify the expenditure pressures for the next MTFP 2020 – 2023. Our planning assumptions will include a principle of annual efficiencies alongside continued investment in strategic priorities. The new focus will be about removing duplication and silo empires to create a modern, effective and efficient public service, and to quickly develop a "right first time" culture. Ahead of the new States and Council of Ministers in June 2018, further work will be done to consider the overall resource framework and the options available to maintain investment in priorities, but also to deliver balanced budgets. Determining Jersey's long-term approach, including all aspects of the community, environment and economy, will give the direction to a whole-of-	Resources Framework for next Strategic Plan in 2018 Further detail in next MTFP 2020 – 2023; target date for lodging June 2019

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	raising measures will be required. Capital expenditure: identifying what capital expenditure is required that is conducive to economic growth and productivity improvements. Also, how it will be financed and managed to get the balance right between preventing capacity pressures and supporting the economy. The fact that fiscal policy in Jersey did not operate in a countercyclical way in 2016 is a timely reminder of how difficult this can be. (b) Planning for surpluses: if economic conditions over the life of the next MTFP are such that the States runs budget surpluses in any year, these should be used to replenish reserves – either the Stabilisation Fund or Strategic Reserve.		government approach to the ageing society. In addition, further analysis planned by the Economics Unit in the first half of 2018 on the interaction of economic performance, demographics and government revenue/expenditure in the long term will help inform policy trade-offs and choices. (b) The capital programme for 2018 and 2019 has been revisited in developing the proposals for the Draft Budget 2018 and other funding sources identified to ensure the important projects are delivered. The current process of prioritisation does not consciously consider the balance of productivity growth versus environment and community benefit. This scoring mechanism can be included from the next MTFP, now that appropriate allocations are being made in the plan and historical lower levels of investment are rectified. Work also continues on reviewing the current capital allocations process with the intention of bringing forward proposals to improve the current system using a cash-flow approach with required changes to the Public Finances (Jersey) Law 2005, ahead of the next MTFP. (c) The Draft Budget 2018 forecasts a return to balanced budgets in 2019, subject to the approval and delivery of the remaining measures. The current balance of the Consolidated Fund provides flexibility against the uncertainties ahead. As the position for 2019 and beyond becomes clearer, the Minister for Treasury and Resources will be guided by the Panel's advice in terms of the appropriate use of any fund surpluses.	