

# STATES OF JERSEY



## **DRAFT BUDGET 2012 (P.159/2011): SECOND AMENDMENT (P.159/2011 Amd.(2)) – COMMENTS**

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**Presented to the States on 7th November 2011  
by the Minister for Treasury and Resources**

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**STATES GREFFE**

## COMMENTS

The Minister for Treasury and Resources opposes this amendment.

Deputy Southern is proposing that the Minister for Treasury and Resources be requested to lodge a proposition in accordance with Article 4(3) of the Public Finances (Jersey) Law 2005 asking the States to agree to transfer £20 million from the interest on the Strategic Reserve Fund to the Consolidated Fund so that the Minister for Treasury and Resources will have sufficient resources to maintain appropriate Fiscal Stimulus measures to support the economy through 2012.

### Comment

The Minister for Treasury and Resources recognises that the latest “On-Island” economic indicators and, particularly the latest global economic forecasts are disappointing. However, the Minister for Treasury and Resources remains confident that the 3 part plan to return to balanced budgets by 2013 remains the appropriate strategy. The 2012 Business Plan and draft Budget reinforce this strategy with no further increases in expenditure and no further changes in taxation.

This view is endorsed by the latest advice from the Fiscal Policy Panel in its October update report. The Panel recommends “the need to remain focused on phased fiscal consolidation and financial stability in the medium term”. The Panel also recommends that the States should avoid making decisions in the 2012 Budget that permanently reduce revenue or increase expenditure.

As well as broadly supporting the fiscal consolidation of the Council’s 3 part plan, the Panel is also clear that “there should be no transfers into or out of the Strategic Reserve” at this stage. Despite the worsening of global economic forecasts, the Panel does not recommend that the Stabilisation Fund (or other new money) be used for further discretionary fiscal stimulus at this stage.

What the Panel does comment is that if the current economic conditions continue to worsen, it may be appropriate to consider making the most of existing expenditure allocations and accelerating the profile of agreed capital projects where possible.

Ministers are currently working to identify schemes which could be accelerated in the existing capital programme, prioritised from the unspent capital balances and make best use of any further unspent balances from the current fiscal stimulus programme.

This funding will not move away from agreed States policies, and does not propose or require a draw-down of the Strategic Reserve. States policy is clear that that the Strategic Reserve is provided for significant structural change, not temporary, cyclical events.

The 2012 Business Plan also shows that a further £36 million will be employed, as planned in 2011, to enable the existing level of public services and capital programme to be maintained while tax revenues recover. This is the final phase of the automatic stabilisers provided from the Stabilisation Fund. Furthermore, the improved balance on the Consolidated Fund at the end of 2010 will enable the small projected deficit in 2012 to be managed from current balances and public services can therefore be maintained.

It may appear enticing to some Members to support the use of the interest on the Strategic Reserve and leave the capital balance untouched. This would, however, ignore the fact that at a time of market uncertainty, low interest rates and rising inflation, there is a danger of the Island's key reserves being eroded in real terms. Increases in the value of the Strategic Reserve are now measured by how much the Reserve's proportion of the Common Investment Fund has increased. This amount includes both interest received and capital appreciation. Between December 2010 and June 2011, the value of the Strategic Reserve had increased by £14 million to £601 million. Spending this appreciation in value would actually reduce the real terms value. It should certainly not be viewed as a "free" option without consequences.

If economic conditions continued to deteriorate and the States were advised that further funding was required for appropriate fiscal stimulus, then the Minister for Treasury and Resources would have to consider how this could be funded. In the first instance, the £10 million balance remaining in the Stabilisation Fund could be used. However, the current advice is that any improvements in States finances should be used to increase the level of the Stabilisation Fund, recognising the fact that most of the risks to the forecasts are on the downside.

Deputy Southern has, on at least 4 occasions previously, brought forward proposals to utilise the interest on the Strategic Reserve –

- P.154/2006 – Stabilisation Fund: rescindment;
- P.1/2008 – Millennium Town Park: Funding from Strategic Reserve (subsequently withdrawn);
- P.113/2010 – Public Sector cuts and alternative taxation measures;
- P.157/2010 Amd. – Expenditure Proposals for 2012 and 2013 and Draft Budget Statement 2011 (P.157/2010): amendment;

and in 2 of the 3 Assembly votes has received 10 or less supporters. It is clear that the States consistently has no appetite to spend the Island's Strategic Reserve. The Minister for Treasury and Resources trusts that this attitude will remain unchanged.

The Deputy's views on use of the Strategic Reserve are not in line with States' agreed policy and ignore the advice from the Fiscal Policy Panel. It is clear that no transfers from the Strategic Reserve or Stabilisation Fund are recommended at this stage, and no new monies are recommended to be allocated to discretionary stimulus.

### **Financial implications**

The amendment proposes that the financial implications are neutral and this is achieved by proposing to draw down £20 million from the Strategic Reserve. The risks are that the £20 million is permanently removed from the Strategic Reserve, and would be particularly inappropriate when £10 million remains in the Stabilisation Fund and could, if necessary, be used for appropriate Fiscal Stimulus in due course and if economic conditions deteriorate further.

The Minister for Treasury and Resources urges Members to hold to the principles they have long established through previous votes, and reject this amendment and any use of the Strategic Reserve other than for the purpose for which successive generations

have built it up. He is actively seeking alternative ways of maintaining fiscal stimulus for the economy during difficult times.

**Statement under Standing Order 37A [Presentation of comment relating to a proposition]**

These comments were late in distribution due to the Minister for Treasury and Resources having had limited opportunities to consider his response and to consult with the Council of Ministers, following the States' decision to sit in the week commencing 31st October 2011.