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# STATES OF JERSEY



## FISCAL POLICY PANEL ANNUAL REPORT: RESPONSE OF THE COUNCIL OF MINISTERS

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Presented to the States on 22nd September 2016  
by the Council of Ministers

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STATES GREFFE

## **Response to Fiscal Policy Panel Annual Report – August 2016**

### **Introduction**

The Treasury and Resources Minister welcomes the 2016 Annual Report of the Fiscal Policy Panel (FPP) and the update on the economic outlook for the Island after the UK Referendum decision to leave the EU.

The FPP has made a number of useful recommendations, which the Council of Ministers has considered in producing this response. It is reassuring that the Panel remains supportive of the broad approach taken in the MTFP Addition, and does not recommend any immediate amendments to the plan.

The FPP has said the approach taken to developing the draft financial plan, and the significant stimulus it adds to the economy, are appropriate in the current economic environment. Their report provides advice for the Treasury Minister and States Members before the Assembly debates the Medium Term Financial Plan Addition. The Panel's advice is particularly valuable given the uncertainty following the Brexit vote.

The Panel has also revised the economic assumptions and work has already been carried out with the Income Forecasting Group (IFG) to establish the impact on States finances and in particular income forecasts. The revised income forecasts show a slight worsening over the MTFP period and the advice of the FPP has been extremely timely and helpful to the Council of Ministers in considering any additional proposals ahead of the MTFP Addition debate.

The Council of Ministers will be proposing to States members that no change is made at this stage to the package of proposals but that a further drawdown from the Strategic Reserve be considered in 2018 if required at that point. This is consistent with the Panel's advice to use reserves rather than apply additional fiscal tightening. The Minister for Treasury and Resources is also proposing that further flexibility is considered at each annual Budget based on further revisions to the economic assumptions, financial forecasts and latest economic advice.

The FPP provides advice to the Treasury and Resources Minister and the States of Jersey on its 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.

The Panel will provide revised economic assumptions in March 2017 to enable a full update of the States' financial forecasts. The Panel will produce its next annual report in 2017 to inform the debate of the draft Budget 2018. The Public Finances Law does provide for additional reports to be requested from the Panel should the economic and/or fiscal situation change significantly. This will be kept under review as the circumstances and timing of the UK's withdrawal from the EU become more apparent.

### Recommendations:

Report Ref:	Recommendations	Accept/reject	Comments
<b>R1</b>	The Panel is encouraged by the approach to controlling expenditure outlined in the draft MTFP Addition and would urge the Council of Ministers to ensure that a permanent programme for securing additional efficiencies in the public sector is fully embedded in all future States financial planning. Progress in achieving efficiencies should be closely monitored, given their critical importance to the plan.	Accept	<p>The Council of Ministers accepts the recommendation and has already signalled in the MTFP Addition that further efficiencies would be required over the next MTFP period.</p> <p>The Council of Ministers has strived to reduce the impact on public services of the current savings programme by focussing on efficiencies in proposing the MTFP Addition.</p> <p>The Public Sector Reform (PSR) programme is now well established and these work streams will be key to delivering an ongoing programme of efficiencies. The Council of Ministers will work with departments to ensure that efficiencies are part of future financial planning.</p> <p>Procedures are already in place within PSR to monitor the delivery of savings and efficiencies.</p>
<b>R2</b>	A key priority is to ensure that the planned capital projects are delivered on time and particularly during the period when economic growth is now forecast to be weaker and economic slack greater. More attention and urgency should be given to those projects which are likely to have the largest positive impacts on the local economy.	Accept	<p>The monitoring and reporting of capital spend has been developed considerably over recent years to focus the attention of the Corporate Management Board and Council of Ministers on the level of allocated funding remaining unspent and the status of projects. Further work is being undertaken in 2016 to develop the information provided based on end user feedback.</p> <p>This reporting provides the opportunity to target resources to manage and react to any apparent obstacles with a view to assisting timely and targeted delivery of spend. It also provides</p>

an opportunity for peer review and scrutiny to challenge natural optimism bias at a project level to establish more robust spend forecast profiles.

Capital projects are vulnerable to many external factors capable of impeding progress such as:

- Planning approval
- Environmental surveys
- Regulatory compliance
- Contractor liquidity
- Adverse weather conditions

These factors make capital projects inherently susceptible to pressure on project schedules in both public and private sectors.

In addition to the internal monitoring reports, representatives of the Jersey Construction Council are consulted and given an opportunity to provide feedback on the impact of the current and proposed States capital programme on industry capacity and the wider economic environment relevant to their industry. This provides an important forum to consider the combined impact of private and public sector workflows, including Andium Homes and the States of Jersey Development Company, and what that means for the balance of supply and demand in the local market.

The feedback from the Corporate Management Board Capital Sub Group and Jersey Construction Council also feeds in to the Economic Policy Group, comprising both executive and political members, which will coordinate policy across departments. This will identify areas where consideration of policy and regulation could assist with any issues identified. For example, a sustained skills shortage and consistent projected demand will encourage industry to invest in training and inform where public sector skills training is best placed for example through programmes like Back to Work and Trackers. It is also a helpful tool in managing appropriate employment and immigration regulations to balance on and off island supply releasing any build-up of inflationary pressure. The Population Office will also be involved so that if

			there is a need to provide temporary licenses for construction projects this can be achieved in a timely manner. This informed process enables a greater provision of local resource where appropriate and highlights a need for off island provision when it is economically appropriate and will help to limit the impact on local construction costs.
<b>R3</b>	The FPP considers that the overall profile of the States' adjusted fiscal position and the significant stimulus it adds to the economy over the MTFP period is appropriate. Whilst the economic outlook is affected by the UK referendum result the Panel does not think it appropriate at this time to change the broad approach. It remains important that the States supports the economy in the short term and that progress is made in achieving a more sustainable position in the medium term, irrespective of the exact future relationship between the UK and the EU.	Accept	The Council of Ministers remain committed to addressing the structural pressures created by the economic outlook and the need to invest in health and education services and also to undertake significant infrastructure investment. In addition the Council of Ministers recognises the importance of supporting the economy at a time when significant economic uncertainty is created by the UK referendum result. If the States agrees to the proposals set out in the MTFP Addition, Council of Ministers will ensure that the focus remains on both these priorities so that the FPP can assess progress in future reports. The flexibility highlighted in the response to the Panel's other recommendations will also be used to ensure these objectives are met and that the approach is on track.
<b>R4</b>	The work being undertaken by the Social Security Department looking at the sustainability of the Social Security Funds in the light of the ageing population is an important first step in meeting the FPP's recommendation to develop a strategy for the ageing society. However, this approach needs to be developed much further to take a whole-of-government view and the issues clearly communicated to the whole community.	Accept	<p>The Council of Ministers acknowledges the significant consequences of an ageing population and the importance of taking a whole of government view.</p> <p>A year-long consultation is already underway to help develop a new 20-year Island Vision with an opportunity for all areas of government and the private, voluntary and community sectors to be involved.</p> <p>A key element of the process is that it is not just about producing a new strategy document. Rather, it is about developing a new strategic planning and performance system which draws together departmental and partner activity into a coherent whole-of-government approach. In particular, the emphasis is on setting an outcomes focus for future delivery strategies and an assessment framework to ensure they are properly aligned and take into account strategic pressures such as demographic</p>

change and climate adaptation.

The Long-Term Vision will be informed by a number of separate work streams. This will include considering the implications of future trends – including the ageing society – for all areas of government activity. It will provide a coherent framework to assess the impact across government’s economic, environmental and social goals and support the development of a coordinated response.

There will be analysis of the long-term fiscal implications of the ageing society and how this will be impacted by changes in our economic performance and demographic trends. This issue has been central to the development and implementation of Population Policy.

The MTFP includes plans for a new income stream to address increasing health costs and a significant project (P.82/2012) is well underway to transform health services so that the Island has a cost effective health service that is designed to support an older population.

In addition, work already completed includes the introduction of a new ring fenced funding stream to provide financial support for the growing number of older individuals with long-term care needs and changes to the State Pension Age, which will start to rise from 2020.

The most recent phase of discrimination legislation relates to age and came into force on 1 September this year bringing protection against age discrimination in recruitment, employment and in the provision of services. (Conditions relating to retirement below Social Security pensionable age are effective from September 2018).

Certain of the benefit changes approved in the current MTFP also recognise the adjustments needed to reflect the demands of an ageing population.

			<p>The island is currently contributing to the British Irish Council project to examine the impact of demographic changes across government. This work will conclude at the end of 2016.</p> <p>The MTFP Addition identifies the major review of the Social Security Fund in 2016/17, driven by the growing cost of pension payments. The review is considering all aspects of the current scheme, including the level of contributions collected and the eligibility for, and the value of, pensions and benefits payable.</p> <p>Treasury and Resources and Social Security will continue to work together to promote financial independence in old age, and will review tax, funding and provision of benefits to help achieve this goal.</p> <p>A public consultation on income in retirement and the future role of the Social Security pension will be launched in the next few weeks.</p>
<p><b>R5</b></p>	<p>The governance procedures in place for the Economic and Productivity Growth Drawdown Provision (EPGDP) meet the Panel's previous recommendation. However, given the scale of the productivity challenge facing the Island, which recent events mean is even more important to tackle, these funds should be focused on medium-term policies that help raise productivity and increase the underlying rate of economic growth.</p>	<p>Accept</p>	<p>The Council of Ministers is very clear that strong governance will apply to this provision and welcomes the Panel's confirmation that the governance arrangements meet its earlier recommendation.</p> <p>Ministers remain determined that EGPDP funding will be focused on increasing the underlying rate of economic growth and raising productivity in the medium-term. Initiatives that receive funding will be programmes that offer lasting economic impacts that seek to build upon the existing levels of economic performance or intervene to reduce a real or prospective threat to economic growth or productivity. The EPGDP procedures have been amended to explicitly enable the latter approach, which is deemed to be equally important.</p> <p>Programmes that have received funding to date include a proposal to increase digital skills provision, a vital prerequisite for growing the high-productivity digital sector, and an initiative to</p>

			<p>ensure that Jersey maintains EU adequacy for data protection thus enabling the continuation trade with EU countries that relies on holding personal data. Both of these programmes will have a lasting impact into the medium-term and beyond.</p>
<b>R6</b>	<p>The time to address any (as yet unidentified) structural impacts of the UK's decision to leave the EU on the local economy and States finances is the next MTFP period. However, this is contingent on the expectation that the current package of measures (or others of equivalent value) and capital expenditure are delivered as planned.</p>		<p>The Council of Ministers has acted promptly to ensure that the impact of the Panel's latest economic assumptions are assessed and modelled to provide interim income forecasts ahead of the MTFP Addition.</p> <p>Procedures are in place to monitor the progress of the savings and efficiencies programme to ensure that these are delivered in a timely way. The response to recommendation R2 illustrates the processes and monitoring in place to ensure the expansive capital programme provides the stimulus to the economy that is required.</p> <p>The Council of Ministers will be able to consider the success or otherwise of the fiscal measures at each Budget during the MTFP period and propose adjustments to the plan as appropriate and based on further advice from the Panel.</p> <p>The proposed approach is to maintain the current package of proposals and ensure these are delivered and to use the flexibility within the plan as required to ensure the proposals are affordable. The intention is to continue to move towards balanced budgets and based on latest advice to plan to achieve this during the next MTFP period.</p>
<b>R7</b>	<p>If the States needs to draw more from its reserves over the 2016-19 period the Panel believes that this is preferable at this stage to implementing additional fiscal tightening (above what is already planned) during what will be a period of continued external economic instability.</p>	Accept	<p>The Council of Ministers welcomes the advice of the Panel in relation to the appropriate measures to address the slight worsening of income forecasts. The IFG has prepared revised forecasts to enable the Council of Ministers and the States to consider the appropriate action ahead of the MTFP Addition debate.</p> <p>In light of the Panel's advice the Council of Ministers is proposing that no change is made at this stage to the package of</p>



			<p>proposals but that a further drawdown from the Strategic Reserve be considered in 2018 should it prove necessary. The Council of Ministers is also proposing that further flexibility is considered at each annual Budget based on further revisions to the economic assumptions, financial forecasts and latest economic advice. The excess return on the Strategic Reserve over and above that required to maintain the capital value would provide scope for further drawdown in future years if required and appropriate.</p>
<p><b>R8</b></p>	<p>Given the economic conditions and general uncertainty facing the Island in coming years it is still vital to ensure that additional flexibility is built into plans over the 2016-19 period and in both directions. There may be a need to provide further support to the economy (in line with the 3Ts: timely, targeted and temporary) but it is also important to develop plans to implement measures to balance the budget in the next MTFP if necessary. If the economy performs better than expected in the short term there might even be a case for bringing these measures forward towards the end of this MTFP period.</p>	<p>Accept</p>	<p>The considerations for capital expenditure and overall impact of the capital programme will be addressed as identified in the response to Recommendation 2 and this will be central to keeping fiscal policy counter cyclical.</p> <p>The Council of Ministers will hope to generate additional flexibility through the initiatives and additional funding set aside for economic growth.</p> <p>The response to recommendation 1 above demonstrates how public sector reform will continue to identify efficiencies that could be implemented.</p> <p>If necessary there is also the ability to look at measures that will impact on the revenue side. Although it may be difficult to accelerate the introduction of taxes/charges the profile of the health and waste charges could be altered. Similarly, the annual budgets provide for tax proposals to contribute to additional revenues not forecast in the MTFP. Relatively minor annual changes could compound to deliver more significant revenues by 2018/2019 and could assist in adjusting the balance of fiscal policy if the FPP advise that it is necessary.</p> <p>The annual budgets will also provide an opportunity to respond to changing circumstances and progress on individual measures within the MTFP.</p>

**Conclusion:**

The Minister for Treasury and Resources and the Council of Ministers are pleased to accept all of the Panel's recommendations.