

STATES OF JERSEY



MEDIUM TERM FINANCIAL PLAN 2016 – 2019 (P.72/2015): FIFTH AMENDMENT (P.72/2015 Amd.(5)) – COMMENTS

**Presented to the States on 5th October 2015
by the Council of Ministers**

STATES GREFFE

COMMENTS

The Corporate Services Scrutiny Panel proposes that:

Members have the ability to vote on the total States' income targets for each of the years of the MTFP 2016 – 2019 separately, rather than as a 4-year plan.

The Council of Ministers strongly opposes this Amendment and the associated Amendment (4) and urges States Members to oppose this Proposition

Summary of Council of Ministers' Comments

- The proposed amendment put forward by the Corporate Services Scrutiny Panel attempts to undermine the principles of the Medium Term Financial Planning process approved by the States Assembly in 2011 and supported by the Fiscal Policy Panel (FPP).
- The content and format of the draft MTFP 2016 – 2019 is in line with the States' decision of 16th June 2015 on P.42/2015, as amended, and supported unanimously by the Corporate Services Scrutiny Panel.
- The amendment offers no alternative to the fiscal strategy and income levels estimates of the Council of Ministers; it merely asks the States to vote for or against the overall intended income figures for 2016 – 2019 put forward by the Council. Without the overarching income and expenditure levels, there is no States' plan to return to balanced budgets by 2019.
- The Panel appear to be advocating an approach which reflects a retrograde step which could see a return to an annual planning cycle, which is an approach that this Council cannot support and which would not be supported by the FPP.
- The Council of Ministers' Medium Term Financial Plan has been developed in accordance with the recommendations from the independent Fiscal Policy Panel.
- A new Income Forecasting Group has been formally established by the Minister for Treasury and Resources (the Terms of Reference are included as Appendix 7 to the MTFP (pages 167 – 168)), whose purpose is to act as an advisory function on the forecasts of all States income from taxation and social security contributions. This follows the recommendations of the previous Corporate Services Scrutiny Panel.
- The Council of Ministers believes that additional funding is needed in Health and Social Services in this MTFP, building upon the investment in MTFP1. However, it would be irresponsible to do so without agreeing to the principle of an additional funding-stream to ensure public finances are sustainable.

Background

The Council of Ministers is extremely surprised and disappointed that the Corporate Services Scrutiny Panel has brought forward this amendment, which the Council believes is an attempt to undermine the principles of the medium term financial planning process approved by the States Assembly in 2011 and supported by the independent Fiscal Policy Panel.

Public Finances (Jersey) Law 2005 amendment (P.42/2015 – Draft Public Finances (Amendment of Law No. 2) (Jersey) Regulations 201-)

The Council of Ministers has developed and put forward its draft MTFP for the period 2016 – 2019 completely in line with the information included in P.42/2015, as amended (copy of the approved amendment to the Public Finances (Jersey) Law 2005 – this incorporates amendments to the process put forward by the Corporate Services Scrutiny Panel themselves).

It is interesting to note that Hansard records the Chairman of the Corporate Services Scrutiny Panel (Deputy J.A.N. Le Fondré of St. Lawrence) commenting that –

“On that basis, (being that the amendment would only apply to the 2016 – 2019 MTFP and that the MTFP addition would be lodged for a minimum 12 week period by 30th June 2016) I am very happy to be supporting the Regulations (P.42/2015) as amended by our (CSSP) amendment as amended.”

There were only 2 States Members who are recorded as speaking during this debate (Assistant Minister for Treasury and Resources, Deputy T.A. Vallois of St. John, who acted as Rapporteur, and the Chairman of the Corporate Services Scrutiny Panel – Deputy J.A.N. Le Fondré of St. Lawrence) and there were only 3 States Members who voted against the draft Regulations (Deputies G.P. Southern of St. Helier, M. Tadier of St. Brelade and S.Y. Mézec of St. Helier) with all members of the Corporate Services Scrutiny Panel voting in favour of the proposals.

States Strategic Plan – Corporate Services Scrutiny Panel Amendment for “Sustainable Finances”

The draft MTFP sets out the States’ overall tax and spending envelope for the next 4 years and departmental expenditure limits for 2016. The Council remains committed to placing Jersey on a path to fiscal balance and in addressing any structural deficit by 2019 in line with both advice from the Fiscal Policy Panel and with the States’ own “Sustainable Public Finances” Strategic policy.

Indeed, it was the Corporate Services Scrutiny Panel themselves that brought forward the amendment to P.27/2015 (Draft Strategic Plan 2015 – 2018) to establish “sustainable public finances” as the first priority.

Medium Term Financial Planning and Fiscal Framework

Jersey is facing similar issues to many advanced economies – an ageing society, intensifying global competition, rapid technological and environmental change. Advice from the States’ Economic Unit and the FPP states that: “By setting out the fiscal framework it is anticipated that a clear and transparent decision-making process will help lead to fiscal decisions that support the Island’s economic objectives and underpin medium-term fiscal sustainability.” The States must continue to plan and react if Jersey is to remain a competitor in the global market. The overall income limits for 2016 – 2019 put forward in the MTFP recognise the importance of these factors.

R.102/2014 (Updating Jersey's Fiscal Framework) issued by the Minister for Treasury and Resources, highlighted the importance of the MTFP which had ensured much greater focus on the medium term and led away from annual business planning, and had contributed to an improved fiscal framework for Jersey.

The States' Economic Adviser and the FPP have stated that in developing the latest update to the Fiscal Framework R.107/2015 (Fiscal Framework for the Medium Term Financial Plan 2016 – 2019 and beyond), it is important to take account of international experience that suggests strong and resilient fiscal frameworks have the following key components –

- Numerical fiscal rules
- Independent fiscal institutions
- Medium-term budgetary frameworks: where the horizon of fiscal planning is extended beyond the annual budgetary timetable and reflects the impact of past and new policy measures
- Budgetary procedures.

The European Commission even advises that –

“The reform of these elements, namely numerical rules, independent fiscal institutions, medium term budgetary frameworks and budgetary procedures should be regarded as a single process. All these fiscal arrangements are closely inter-connected, and the functioning of one of them affects the working of the remaining elements. Partial or fragmented reforms usually fall short of providing the needed improvements.”.

The Council of Ministers believes that the format and content of the MTFP rightly takes into consideration all of these factors.

Improved process for Income Forecasts

The Council of Ministers is keen to highlight that the level of detail on States income in the MTFP for the years 2016 – 2019 is consistent with the MTFP process approved by the States in 2011 and included in the Public Finances (Jersey) Law 2005, and with the detail provided for approval in the first MTFP for 2013 – 2015.

The forecasts for all States income derived from taxation and duty have been reviewed and agreed by the new Income Forecasting Group (IFG). The IFG were established by the Minister for Treasury and Resources to formalise the income forecasting process. The terms of reference for IFG determine the scope and timing of income forecasts and clarify the reporting requirements.

The FPP is now formally required to endorse the economic assumptions used by the IFG for the income forecast modelling for the MTFP.

The MTFP report contains greater detail on the States income forecast in its Appendices, and the full IFG report is published as P.72/2015 Add.

As highlighted in the MTFP, the latest economic assumptions provide a range of assumptions for income – higher, lower and central. In the MTFP the Council of Ministers has used income estimates based on the central point. The Council is acutely aware that there are risks on the downside of the central scenario, the response to any variation in income will vary depending on the scale of change, but the Council has identified contingency plans (in Section 14 of the MTFP) depending on the scale of variation.

Inclusion of proposed funding mechanisms

The Corporate Services Scrutiny Panel is critical of the inclusion of funding mechanisms for Health and for States payment of rates. The investment in Health as a result of P.82/2012 is not sustainable without a funding solution for Health.

The principle of the inclusion of a Health charge recognises the significant investment agreed in P.82/2012 and which has been allocated in the first MTFP in 2013 – 2015 and the further funding proposed for 2016 – 2019. In the short term, the Council is proposing use of the Health Insurance Fund to allow the Health charge to be phased in at a time when the economy should be more robust.

The States will have the opportunity to debate the exact nature of the charge when the Council of Ministers brings back the detail of the proposals before the charge can be introduced. The Council of Ministers has also been very clear that without a new funding source for Health, the level of investment in the draft MTFP will not be affordable over the period of the Plan or sustainable in the longer term.

The States' income forecasts include a provision for a sustainable mechanism to fund the States' payment of Rates. This was the basis on which the Council of Ministers accepted the Connétable of St. Helier's amendment to the Strategic Plan.

Any detailed proposals for changes in taxation will be brought forward by the Minister for Treasury and Resources as part of the States' annual budget debate. The States will continue to have the opportunity to debate new taxation proposals in the 2016, 2017, 2018 and 2019 Budget debates.

Advice and input from the States Independent Fiscal Policy Panel (FPP)

The Council of Ministers has consistently consulted with, and considered the independent advice provided by, the States' Fiscal Policy Panel, and has been keen to ensure that it took on board the recommendations of the Panel that the 4 guiding principles for fiscal policy should form the cornerstone of the MTFP 2016 – 2019. These being –

- i. Aim to balance the budget over the economic cycle;
- ii. Aim to ensure long term fiscal sustainability;
- iii. Adopt a practical and realistic assumptions for future trends in income and expenditure; and
- iv. Include flexibility within a clear framework for expenditure.

The Fiscal Policy Panel has commented “The Panel considers that their four guiding principles have been followed during the development of the draft MTFP”.

The Fiscal Policy Panel has produced the economic assumptions which underpin the States income forecasts reproduced in the MTFP.

The Council of Ministers believes that the format and content of the MTFP rightly takes into consideration all of these factors.

The Council of Ministers believes that the draft MTFP it has put forward reflects the advice and input received from the FPP, who have indicated that they are encouraged with the approach taken by the States in medium term financial planning terms.

Comments on the proposal by the Corporate Services Scrutiny Panel (CSSP)

The Council is disappointed that the CSSP has failed to offer any constructive alternative to its income proposals – the Panel appears to be merely attempting to undermine the fiscal approach put forward by the Council.

The Panel appears to be advocating an approach which reflects a retrograde step which could see the States return to an annual planning cycle, which is an approach that this Council cannot support and which would not be supported by the FPP.

Financial implications

The Corporate Services Scrutiny Panel has not identified any financial implications arising from its proposal. However, the Council of Ministers strongly believes that the consequences of not approving total States income targets for 2017 – 2019, and therefore not providing a financial framework and a clear path within which the States can plan ahead, puts at risk the plan to return to balanced budgets by 2019.

This is detrimental to the aims of the Fiscal Framework, the first priority of the Strategic Plan for sustainable public finances, the States' own Resource Principles and the recommendations of the Fiscal Policy Panel.