STATES OF JERSEY

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

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

STATES GREFFE

STATES OF JERSEY

TREASURY AND RESOURCES
RESPONSE TO THE REPORT OF THE FISCAL POLICY PANEL
OF 5TH NOVEMBER 2013

Treasury and Resources welcomes the FPP's considered comments on Budget 2014.

This detailed response to the recent report by the Fiscal Policy Panel has been prepared by the Treasury and the comments below cover the main issues raised by the FPP.

1. Service Departments will continue to work hard to progress our regular capital schemes quickly and cost effectively to benefit the economy and in line with FPP recommendations. Measures were already taken by Treasury and Resources and Departments to speed up our capital spending in January 2013. As a result there are now many projects underway or nearing completion that will also benefit Islanders and a pipeline of projects that will be completed next year.

2. The 2014 Budget brings forward ambitious plans for infrastructure investment. We are mindful of the FPP's important warning of the potential risk for Jersey's construction sector to 'overheat' and move from a position where the industry has had insufficient work and is losing jobs and profits, to a point where it is overstretched and does not have the capacity to fulfil projects.

The Council of Ministers has initiated work to commence immediately to monitor this position carefully with the help and cooperation of the local construction industry and which will consider contingency plans as advised by the FPP. The "Getting People into Work" Ministerial Sub-Group have been tasked to oversee this work, this includes the Chief Minister, Treasury and Resources, Economic Development, Social Security and Education Ministers. In addition, they will oversee the delivery of fiscal stimulus over the next 12 months to ensure that we support the economy in the manner advised by the FPP.

3. With regard to the FPP's recommendation to "define the purpose and optimal size of the Strategic Reserve". There are two key points to highlight.

(a) The purpose of the Strategic Reserve has been agreed by the States as a permanent reserve to insulate the Island's economy from severe structural decline or from a natural disaster and to meet the States' contribution to the Bank Depositors Compensation Scheme.

(b) The draft Budget 2014 proposes an additional purpose be added namely to fund the new hospital facilities from the investment returns on the Strategic Reserve. The Council of Ministers considers that funding the hospital facilities in this way, with no increase in taxation and no debt, will be of benefit to Islanders now and in the future, and is consistent with the objectives of the existing Fiscal Framework.

The Minister for Treasury and Resources has the sole ability to propose withdrawals from the Strategic Reserve. Even then withdrawals would need to be done only in accordance with the approved policy shown above. The FPP also needs to be formally consulted and now has a statutory duty under the Public Finances Law.

The controls on the Reserve are therefore extremely restrictive which has been effective historically in protecting the Reserve from inappropriate use and creating the opportunity to make this significant investment in hospital services.

Notwithstanding the above the Treasury and Resources Minister agrees that controls can always be strengthened and improved.

The Minister proposes before Budget 2015 to set out:

(a) A strengthened definition of capital within the Strategic Reserve;
(b) Confirmation of the role of the Stabilisation Fund and how it should be replenished;
(c) The arrangements for the repayment of the Housing Bond through the Housing Development Fund (HDF).

In summary, the Minister considers that the safeguards on the Strategic Reserve are already extremely strong. However the above will strengthen these arrangements further and provide greater clarity for States members before further funds are withdrawn to invest in our new hospital.

Senator Philip Ozouf

Recommendation 1: Planned fiscal stimulus delivered in 2013 and 2014

Recommendation 1

The States should ensure that the planned fiscal stimulus is delivered in 2013 and 2014, and that where possible additional expenditure should be brought forward to compensate for likely delays in other expenditure.

The States of Jersey Capital Programme is the simplest way for the States to provide fiscal stimulus to the economy through the construction industry. In 2012 the States also provided a one-off investment for Jersey Telecom's Gigabit project roll out which provided welcome opportunities in the jobs market, funding to the Parish of Trinity of up to £6 million by means of an investment from the Currency Fund to allow them to build first time buyer properties (this scheme is ahead of schedule) and further funding to the Housing Department of £27 million to enable them to accelerate Housing Capital Schemes.

The States has every intention of ensuring that the planned fiscal stimulus within the spending programmes is delivered in 2013 and 2014

The level of scrutiny and reporting over capital expenditure has significantly increased over the last year to bring it in line with previously established processes followed for revenue expenditure.

There is a new political oversight of capital expenditure in the short and medium-term through the Getting People into Work Ministerial Task Force. This comprises a mix of senior politicians and chief officers who provide challenge to projects supporting this important initiative. This is also supported by a senior officer group who look at the detail of these initiatives.

The Corporate Management Board Capital sub-group is involved at an early stage in the consideration of the capital programme providing review and challenge to departmental submissions and requests for Capital allocations. The allocations need to be affordable within the envelope agreed by the States as part of the MTFP and are subject to a prioritisation process across the States.

Quarterly capital update reports are presented to the full Corporate Management Board and the Council of Ministers. With the help of service Departments, in 2013 the monitoring information on each of the capital schemes has been widened to include additional data that demonstrates progress on the projects and identifies useful indicators on the impact of the project, on progress with tenders, jobs and employment and other matters of significance to the local economy. We have used this data to identify whether any projects are stalling, to specify the reasons for delays, and to provide an analysis of whether a simple solution would resolve the problem or whether it is of a more intractable nature. Where possible, action has then been taken to address the delays. In 2013 such issues included planning permission problems and a contractor going into administration - which was both unexpected and outside the Department's control.

This enhanced monitoring information has also been shared by Treasury with the Getting People into Work Ministerial Task Force. Whilst Departments' ability to bring forward schemes is limited by the current Capital allocation process we can already see departments flexing priorities according to ability to deliver. There is much greater flexibility in discrete areas such as the Housing and Infrastructure rolling votes where a sum of money is voted and a list of schemes that that funding will resource is provided.

Recommendation 2: Bringing forward capital projects

Recommendation 2

The effectiveness of fiscal stimulus through capital spending depends on bringing forward capital projects and making sure the expenditure takes place on time. The Treasury and Resources department should be proactive in:

- Identifying and resolving any bottlenecks and barriers in delivering capital projects
- Ensuring there is flexibility to bring forward (and potentially delay) capital projects
- Managing the capital programme in a similar way to the £44m fiscal stimulus programme in 2009.

Background

Capital expenditure is one of the few areas of States' expenditure that has a significant discretionary element and is not applied to meet the costs of recurrent service provision. There is flexibility in the annual capital approval process to reprioritise projects according to:

- Service priorities
- Strategic objectives
- Industry capacity
- Economic conditions
- Funding availability and similar factors.

A number of examples of the States using capital in the flexible ways are given above in response to Recommendation 1.

In addition, a Long Term Capital Plan (LTCP) has now been developed that sets out a schedule of projects over the next 25 years together with an assessment of available funding. This allows the Corporate Management Board and Council of Ministers to look ahead and plan for the funding required in conjunction with wider political and strategic priorities. The LTCP provides the context within which proposals for the three major infrastructure investments in housing, the hospital and liquid waste have been developed. This long term view of future major projects has enabled Treasury to work with Departments to develop effective means of funding major works that will benefit Islanders for many years ahead.

Whilst flexibility within the MTFP period is limited to the funding envelope approved every effort is being made with the new monitoring processes to maximise the impact in 2013 and 2014. Greater flexibility exists further into the future in the LTCP where no approved expenditure limit has yet been set.

<u>Response</u>

Identifying and resolving any bottlenecks and barriers in delivering capital projects

Capital projects are vulnerable to many external factors capable of impeding progress; in 2013 some of the main reasons have been as follows:

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, reasons for any delays, tender status, projected cashflow, and is reported back to the Corporate Management Board and Council of Ministers quarterly.

There is an inherent time lag between the allocation of budget and ‘breaking ground’ as departments cannot commit to a project until the whole budget has been approved.

Often final planning and design work cannot be completed until the full budget is allocated. The tender process then needs to commence to award contracts.

We already have a Planning Vote to provide funding upfront for some planning and feasibility studies, but departments cannot progress too far without full approval.

If it is identified through the additional monitoring, CMB Sub Group or Political Oversight Group that extra resources are required to further assist in problem areas the Treasury Minister would be prepared to support this.

Ensuring there is flexibility to bring forward (and potentially delay) capital projects

“…The report has helpfully illustrated the difficult balancing act of allocating resources to meet clearly identified spending needs in essential areas such as health, social care and job creation, supporting the economy in the short term and protecting the competitive system of taxation upon which our Island’s economy depends.” *(2012 FPP Response)*

“…at the same time we can get value for money while also investing in important government priorities. This is only possible because we have strong public finances which allow us the flexibility to invest to support the economy at this critical time.”

(2012 FPP Response)

The Council of Ministers has to manage the difficult balance of providing the appropriate stimulus to the economy with a fundamental requirement to work within the MTFP framework. There is a certain amount of flexibility within the available resources in each year of the MTFP and Budget. However, we are not permitted to run a Consolidated Fund deficit and have worked hard to close a structural deficit in harsh economic conditions. Deviating from these principles risks destabilising our financial planning principle of balanced budgets.

The current approval framework is not able to easily accommodate flexibility between allocated budgets. Approval is granted for specific projects and departments cannot commit to any projects until the full budget has been approved.

Schemes do not exist in isolation and frequently form part of a carefully planned sequence within a site or wider strategy. Ultimately the decision to commence a project must be based on the most efficient and cost effective solution operationally. Whilst departments can be encouraged to commence projects earlier this must not be to the detriment of value for money and operational effectiveness.

Starting and stopping projects without seeing them through to completion threatens the ability to achieve value for money.

The benefits of having flexibility within a capital programme, so as to help manage the local economy, must not override the key objective of the capital programme which is to meet the strategic and operational requirements of the organisation.

Delaying capital projects can have a detrimental impact on service provision.

Projects should be prioritised on service need and not just on their ability to be tendered quickly. Treasury and Resources will consider ways in which the current Public Finance Law could be changed to improve the capital planning process without detriment to long term planning, prudence and value for money.

Managing the capital programme in a similar way to the £44m fiscal stimulus programme in 2009.

The 2009 fiscal stimulus programme was approved by the States' proposition P.55/2009 'Economic Stimulus Plan'.

- This decision approved the transfer of £44 million from the Stabilisation Fund to the Consolidated Fund to provide funding for discretionary economic stimulus package.
- The remaining balance of the Stabilisation Fund (£112m) was earmarked to cover the impact of the economic downturn on States' finances.
- At the time the States were running a deficit.
- This was a specific one-off programme and was only possible as a result of the funds available in the Stabilisation Fund and the

States’ decision.

The focus of the fiscal stimulus programme was very short term. Adopting similar ‘timely, targeted and temporary’ criteria would skew the prioritisation of capital projects away from delivering the best medium and long term outcomes for service provision.

Fiscal stimulus is not the primary objective of the capital programme but a beneficial consequence. The objective is to provide the infrastructure and resources to achieve the operational objectives and service level commitments of the departments and the organisation. However, the Council of Ministers is very conscious of the need to provide the appropriate stimulus to the economy in 2013 and 2014 and will continue to apply the principle of the 3 T’s wherever possible.

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 SoJ:

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.

<u>Recommendation 3: Make contingency plans for an improvement in economic conditions</u>

Recommendation 3.

The States should make contingency plans for an improvement in economic conditions and reduction in spare capacity from 2015. This would mean running counter cyclical fiscal policy and topping up the Stabilisation Fund. The plans could include:

- **Reducing Department expenditure and /or raising revenue**
- **Changing the profile of spending on the three significant projects or other projects in the capital programme**
- **Changing how key capital projects are delivered to put less strain on local capacity.**

Reducing Department expenditure and /or raising revenue.

The 3 year MTFP framework has been well received by Departments and is working very effectively. Departments are managing successfully within their agreed cash limits and are using the greater certainty over the approval of carry forwards to introduce service redesign and change that will cut costs.

The States has a certain amount of flexibility to vary the impact on the economy within the 3 year MTFP framework.

- Annual revenue expenditure can be varied by managing annual allocations to growth and to contingency.
- With regard to revenue raising, the States is already planning to introduce a Long Term Care charge at 0.5% from 2015 raising £8 million and increasing to 1.0% in 2016, raising £16 million per annum. There continues to be flexibility on revenue raising because the tax measures continue to be taken on an annual basis in the Budget.

Following the elections in autumn 2014, the new Council of Ministers and States' Assembly will consider a new Strategic Plan and MTFP for the period 2016-2019. This could allow for proposals to be brought forward to replenish the Stabilisation Fund, if resources allow and if economic conditions and growth are positive and improving.

Changing the profile of spending on the three significant projects or other projects in the capital programme.

The States has a certain amount of flexibility in its annual capital programme. Please see the response at Recommendation 2 which is a reminder that 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 2016-19 can also take account of both the prevailing capacity assessment and prevailing economic conditions.

Changing how key capital projects are delivered to put less strain on local capacity.

Work is already underway between Treasury and the Construction Council to try to 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 estimates an overall capacity of upwards of £175 million for 2014 of which the private sector contribution would be in the order of £60 million. This would leave a capacity of over £100 million on average to be taken up by States' capital programme and major capital projects.

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.

Recommendation 4: Define the purpose and optimal size of the Strategic Reserve

Strategic Reserve

Policy

The States approved P133/2006 which sets out the purpose of the Strategic Reserve. This agreed two purposes for the Strategic Reserve being:

- to insulate the Island's economy from severe structural decline such as the sudden collapse of a major Island industry; or
- in the event of a major natural disaster.

The States later added a third purpose, being in the event of a bank failure, to use up to £100 million of the Reserve if there was a call upon the Depositors Compensation Scheme. The Budget 2014 report proposes a fourth use being the funding of new hospital facilities of £297 million.

Legislation

The Strategic Reserve is established in the Public Finances (Jersey) Law as a permanent reserve and can only be used if the States agree to a request to do so submitted by the Minister for Treasury and Resources.

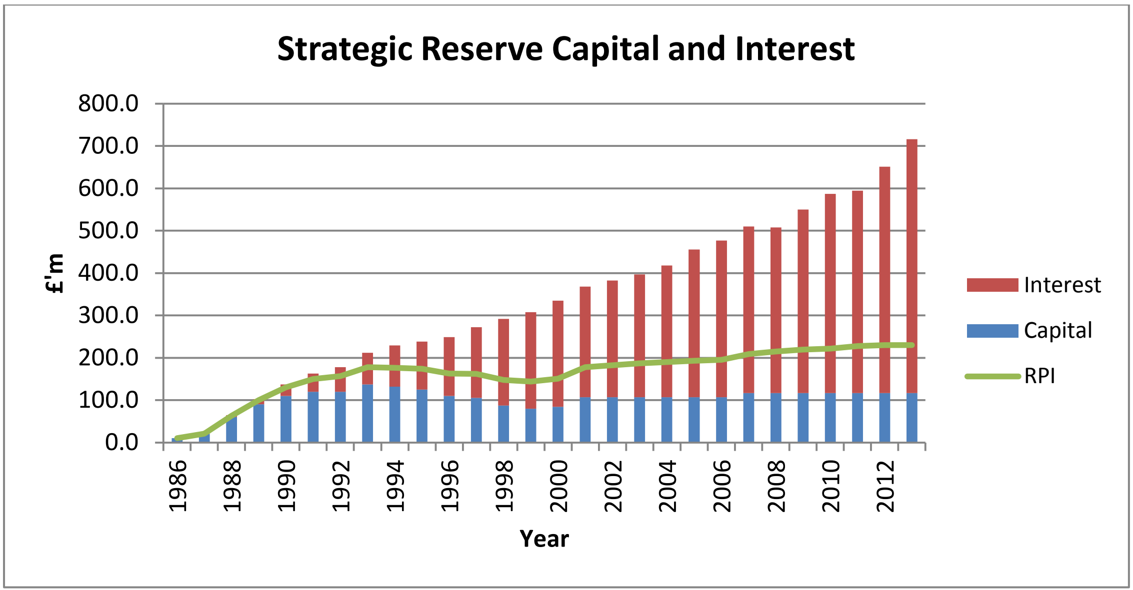
Growth and allocations

The Strategic Reserve was established in 1986 and since its inception £177.2 million has been allocated into the Fund, in previous years £60 million has been allocated out for specific purposes (out of excess financial returns). The current value of the Fund is £716 million (as at 31st August, 2013).

The Strategic Reserve has been used previously for investment in Tourism and the development of ICT for schools. This was before the approval of P133/2006 where a revised purpose was established as above.

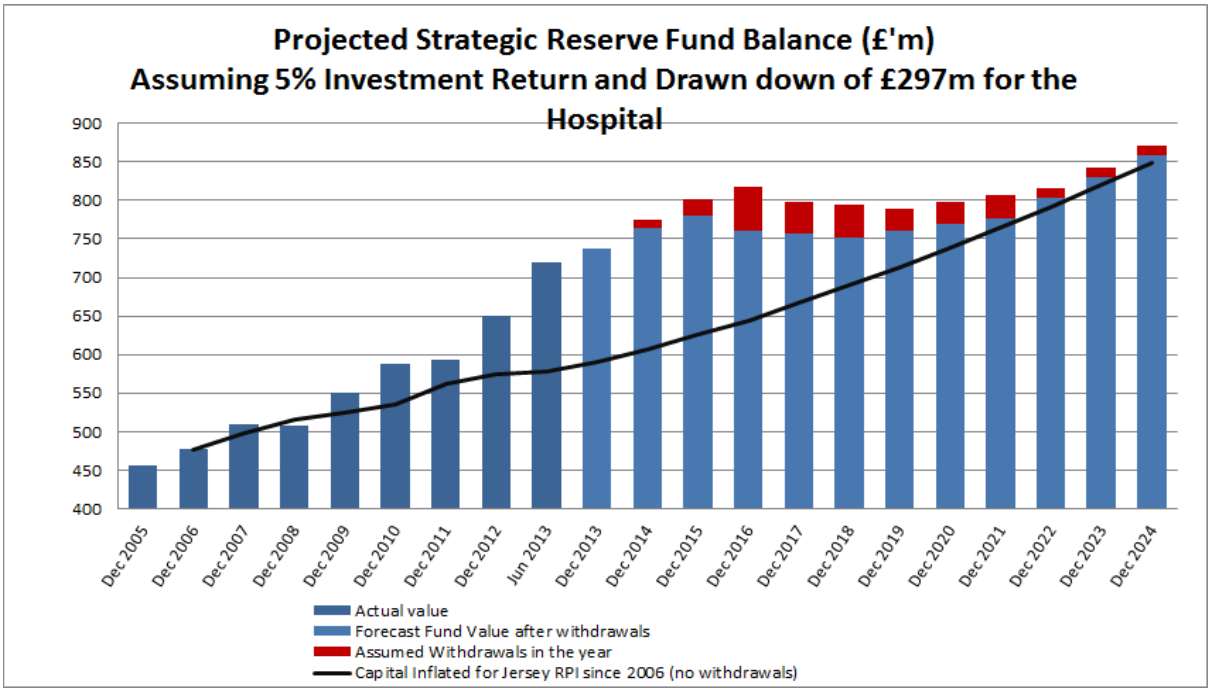
The 2014 Budget documentation clearly shows that the proposal to fund the Hospital Redevelopment from the returns generated by the Strategic Reserve.

The following graph illustrates that actual returns on the Fund since inception exceed RPI growth figures by approximately £486 million as at July 2013.



The graph also illustrates the level to which investment returns have exceeded growth at Jersey RPI since the new Fiscal Framework was agreed in 2006.

The full amount required for the Hospital Redevelopment will be drawn down in phases leaving the balance in the Reserve to be invested and generate returns. The following graph shows that using the central scenario of 5% investment return the fund balance will remain above the level that would be achieved by inflating the fund at Jersey RPI, i.e; protecting the value of the fund in real terms.



The FPP report refers to the proposed withdrawal from the Strategic Reserve as a "worrying exception". The Treasury Minister considers that it is entirely appropriate to request the States to agree an exception to the use of the Strategic Reserve for the "planning and creation of new hospital services".

Stabilisation Fund

There is currently no provision in the PFL which enables financial surpluses to be automatically transferred into the Stabilisation Fund. In future years contributions into the Stabilisation Fund will be considered and budgeted for within the Medium Term Financial Plan.

Consolidated Fund

As part of recent changes to the PFL to introduce the MTFP process a Contingency Fund was introduced which has alleviated the need for the Consolidated Fund balance to be used to meet additional expenditure requests.

Provision remains in the PFL for requests additional funding to come from the consolidated but only in limited circumstances.

Recommendation 5: Provide a progress update on the Panel's seven main recommendations

Treasury and Resources will provide an update on progress made with implementing measures that are set out in the Report in response to the FPP's recommendations as was done in 2012.

Recommendation 6: Every budget should include:

- **A financial forecast for the current and next three years including updated income projections.**
- **Proposed movements on the Consolidated Fund, Stabilisation Fund and Strategic Reserve for the current year and next 3 years.**
- **Data which shows what happened to these Funds in the previous 3 years.**
- **A financial forecast showing the surpluses and deficits adjusted to recognize the economic impacts.**

A financial forecast for the current and next three years including updated income projections.

The MTFP provided a financial framework for the next three years 2013-2015 and a detailed financial forecast. The main report and appendices also include supporting information on income forecasts. A separate Annex to the MTFP provided extensive analysis detailing department expenditure for the 3 year period. The MTFP proposed total income targets and total expenditure levels for 2013 to 2015 which were agreed by the States.

The 2014 Budget is presented to the States in the context that the financial forecasts remain within the ranges presented in the MTFP. The only exceptions are the proposal for the three major projects which are extensively explained and included as part of the main proposition. The proposals for the three main projects and their associated funding do not affect the overall MTFP spending levels and have been accommodated within the existing capital expenditure limits set out in the MTFP.

The 2013 and 2014 Budget have both included updates to forecasts to show clearly the financial implications of all the relevant budget proposals on both the forecasts of States Income and the Consolidated Fund position as required by the Finance Law for the preceding, current and forecast year. For the 2014 Budget this represents 2012, 2013 and 2014.

Whilst a detailed and updated report has been prepared by the Income Tax Forecasting Group, and this can be included in the Update to the MTFP Annex for 2014, we do not want to row back on our positive choice to have 3 year MTFP forecasts and to work within them. We are providing more certainty and stability for financial planning purposes to the States and to Departments through the use of the 3 year financial plan. Instead of focusing efforts on the short term we are turning our attention to extending our financial planning horizons still further by developing a Long Term Revenue Plan over 7 years, and a Long Term Capital Plan over 25 years.

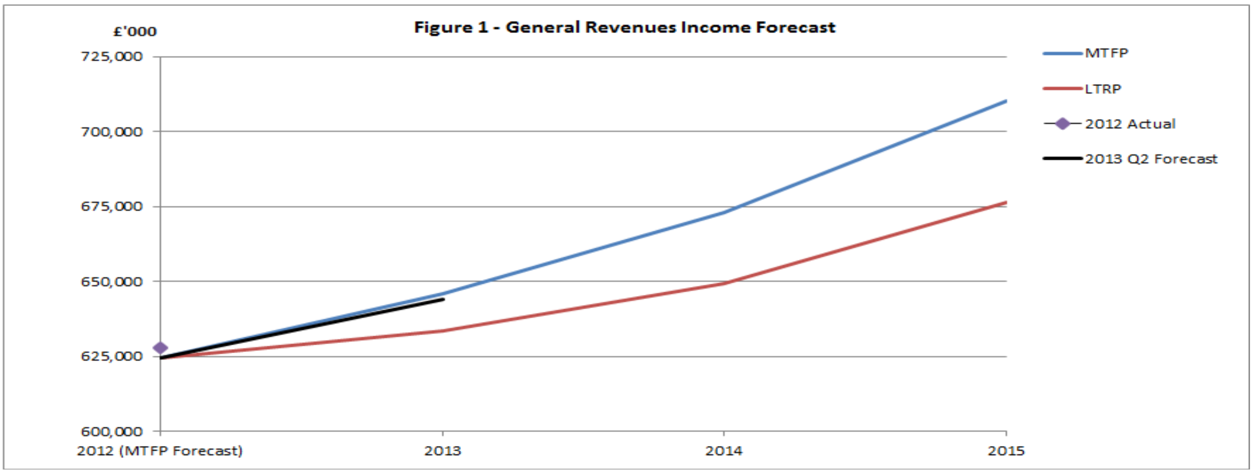
<u>Future forecasts and the next MTFP</u>

Treasury and Departments are developing a Long Term Revenue Plan (LTRP) and Long Term Capital Plan (LTCP) in preparation for the next MTFP from 2016-2019 and to extend financial forecasts and planning horizons still further, in the case of the LTCP for 25 years.

Supplementary Note on Income Forecasts

2014 Budget

The 2014 Budget is based on the MTFP financial forecasts adjusted for the minor reduction in impôts duties approved in the 2013 Budget. This is represented by the blue line in the graph in Figure 1 below.



Revised Income Forecasts for Long Term Planning

Following on from the MTFP a revised set of longer term forecasts have been produced to support the work to develop a Long Term Revenue Plan (LTRP) and Long Term Capital Plan (LTCP). These forecasts have used the economic assumptions as at April 2013 compared to those used in the MTFP as at March 2012. The revised forecasts are also updated by the information from the 2012 Accounts. As we look out to the longer term there is necessarily more uncertainty and hence we tend towards more prudent forecasts the further out the forecasts go.

Although these forecasts show a slightly lower forecast for States revenues in 2013 to 2015, represented by the red line on Figure 1, they remain within the lower range of the forecasts produced for the MTFP to 2015. The main variances to the MTFP identified in the revised forecasts are within Income Tax and Stamp Duty. The black line on Figure 1, very close to the MTFP is the 2013 half year position.

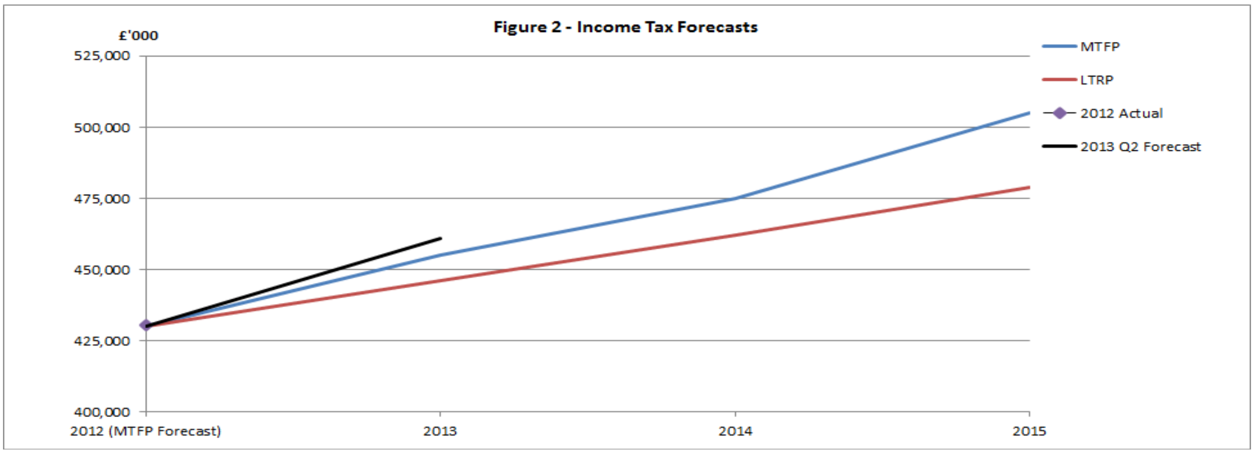
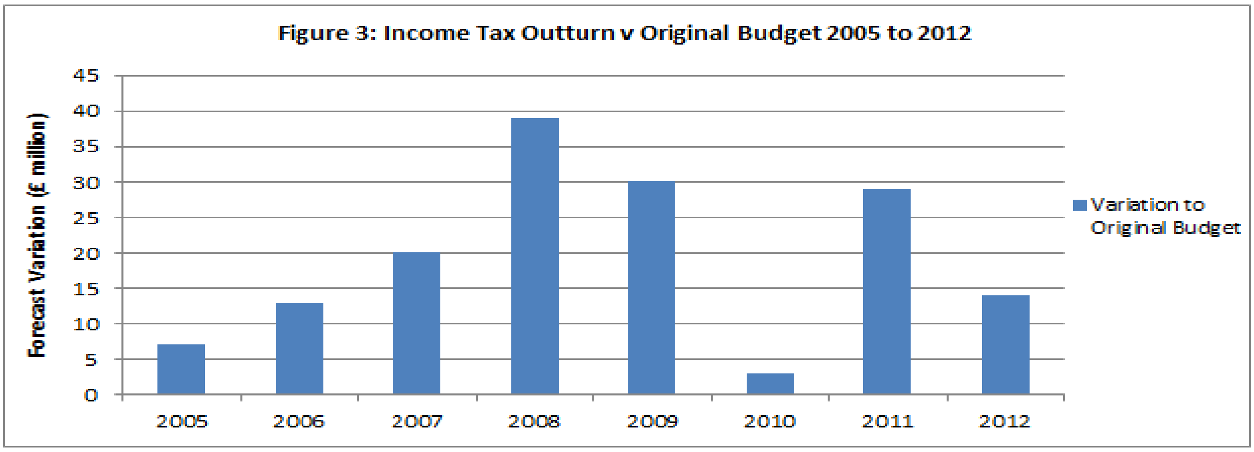


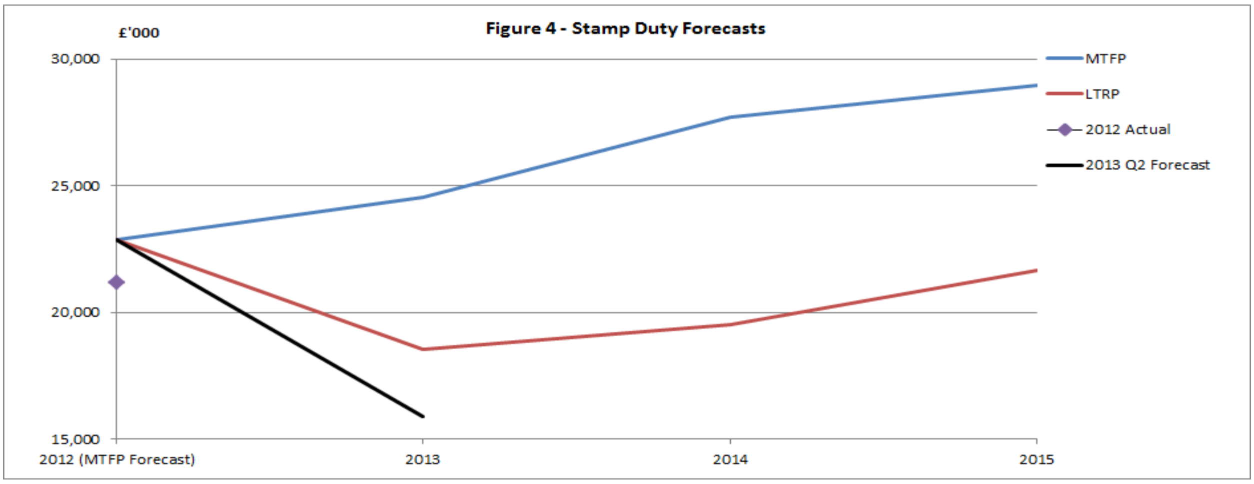
Figure 2 shows the revised forecasts for Income Tax as the red line on the graph. The 2013 half year position is represented by the black line which shows a small improvement on the MTFP forecast.

Based on this information and the uncertainty within income tax forecasting the figures within the 2014 Budget have not been adjusted.

We also have several years' experience of income tax out-turn exceeding budget, see Figure 3, which illustrates the uncertainty in forecasting income tax. For example, in 2011 and 2012 income tax forecasts exceeded the original budget by £29 million and £14 million respectively



The stamp duty returns in 2013 have been significantly below the MTFP for the first half of the year, see Figure 4, but the returns have improved in recent months and the recent feedback from the construction industry and the house price index has indicated a more positive trend in the market. Whilst an £8 million shortfall in stamp duty against a £24 million budget is a worry, we think for the short term this is not cause for a change in our 3 year Medium Term Financial Plan framework.



Summary

The normal practice is to publish the actual out-turn for 2013 in the States' Accounts and to review the forecasts again in preparation for the annual Budget. Past experience of outturn exceeding forecast and this year's up to date monitoring information lead to the conclusion that the MTFP forecasts remain robust for the 2014 Budget.

Revised forecasts will be used to provide a prudent framework for the longer term financial planning within the LTRP and LTCP process.

Proposed movements on the Consolidated Fund, Stabilisation Fund and Strategic Reserve for the current year and next 3 years.

Data which shows what happened to these Funds in the previous 3 years.

The proposed movements on the Consolidated Fund and Stabilisation Fund are set out in the Medium Term Financial Plan. Projected movements for 2016 and beyond are included within the Long Term Revenue Plan (LTRP).

With regard to the Strategic Reserve, the half yearly monitoring report to June 2013 was issued to all States members. This report included the balance on the Strategic Reserve and on all States' funds included in the Common Investment Fund (CIF).

The 2014 Budget includes significant analysis on the Strategic Reserve which details the movements on the Reserve since it was created in 1986. The report then looks at various scenarios explaining how the balance on the fund would vary over the next 10 years based on various investment assumptions and the funding requirements of the Future Hospital project.

A financial forecast showing the surpluses and deficits adjusted to recognize the economic impacts.

An initial financial forecast showing the surpluses and deficits adjusted to recognize the economic impacts was provided to the FPP to assist with the preparation of their report. This forecast included extensive analysis at a project level of the various States capital projects and their spend profile. This work was discussed with the FPP in advance of the report and updated as a result of those discussions so that it could help inform the FPP's conclusions.

The Treasury will continue to produce this economic impact analysis to support the work in development of the LTRP and LTCP and ensure it is available to the FPP for it's annual report. Consideration will be given to the inclusion of this analysis In the next MTFP 2016-2019.

General Comments

Update to Department Expenditure Limits

An Update to the MTFP Department Expenditure Annex for 2014 will be produced once the States has determined the allocations for Central Growth and Capital Expenditure for 2014 in the Budget. This document will provide updated department expenditure allocations including any transfers between heads of expenditure that have been approved since the MTFP in November 2012. This document will be published as a Report to the States (Rxx/2014) and will form the basis for comparison within the 2014 Financial Report and Accounts.

Summary

The Treasury Minister considers that significant improvements in financial planning and forecasting, in particular to extend financial planning horizons, have been made in the last few years.

Recommendation 7: Consolidated Fund for remaining contingencies in a year

Recommendation 7.

The Treasury and Resources Department should identify the maximum buffer that is required in the Consolidated Fund for the remaining contingencies in a year. Any funds in excess of that buffer should be transferred to the Stabilisation Fund.

The changes to the Public Finance Law and the subsequent proposals agreed in the MTFP for 2013-2015 have established the provision of annual allocations for growth and contingency for each of those years. These provisions are specifically defined and allocated to be applied as required over the period of the MTFP to provide essential flexibility within the overall States expenditure limits.

As a consequence, the Consolidated Fund is not required for contingency items in a year.

The Consolidated Fund balance is similar to a current account providing an operational/working balance for the States over a period of years.

The Finance Law requires the Treasury Minister to include in the annual Budget a forecast of the Consolidated Fund for the Budget year and requires that the Fund be forecast to be in balance for the period of the MTFP.

The FPP refers to the balance of £31 million at the end of 2012 and questions whether an allocation should have been made to the Stabilisation Fund (page 38), but in the report October 2012 (Recommendation 5) when the MTFP forecast for 2012 was £34 million the FPP recommended that no transfers to or from the Stabilisation Fund or Strategic Reserve should be made in 2012 or 2013.

Treasury and Resources policy remains that proposals to replenish the Stabilisation Fund would be brought forward within the Medium Term Financial Plan once the economy begins to recover. The Treasury and Resources Minister considers that there is an opportunity at each annual Budget to propose transfers to the Stabilisation Fund and therefore does not consider an automatic trigger point is required.

However, if the FPP's recommendation was specifically to consider establishing a level of Consolidated Fund balance above which it would be appropriate to transfer funds to the Stabilisation Fund, the Treasury would be prepared to consider and evaluate a change to the Public Finance Law.

Recommendation 8: Distinguishing between spending to maintain and renew existing infrastructure

Recommendation 8

Further work should be undertaken on the nature of the capital programme, in particular distinguishing between spending to maintain and renew existing infrastructure and spending on new or enhanced infrastructure. This would help ascertain whether or not there is an underlying structural deficit.

In 2009, the States of Jersey adopted Generally Accepted Accounting Principles, 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.

After some discussion 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 adequately to 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 adequacy of the relevant repairs and maintenance budgets. This analysis will be used to inform development of the MTFP.

Comments on the Panel's report

General Issues

Capital expenditure – are the FPP comparing like for like figures for capital spend (page 31 of 51- 2010 and 2011- £72 m and 2012 £36m – is there a split of this expenditure over equipment and works, especially as the former years are the years when the Incinerator was developed an a substantial amount of money went outside the Island on equipment purchase?).

Page 40/51 – Why not include the amount spent by the Traders in the figures?
Capital Expenditure

Capital projects are approved as part of the Annual Budget and it is difficult to bring forward capital projects outwith this process.

29th November 2013