ANTI-INFLATION STRATEGY

Lodged au Greffe on 4th July 2000
by the Finance and Economics Committee

STATES OF JERSEY

STATES GREFFE

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PROPOSITION

THE STATES are asked to decide whether they are of opinion -

(a) to agree that reducing the rate of inflation in Jersey should be a very high strategic priority, requiring concerted and sustained action on many fronts, by all sections of the Island's community;

(b) to adopt an inflation target of 2.5 per cent based on the RPI (X) measure of inflation;

(c) to agree that the overall level of construction activity in Jersey, excluding small projects and civil engineering works, should be limited to approximately £120 million a year (at December 1999 prices) initially for the years 2001-2003 and accordingly during those three years -

- (i) the States capital construction programme should be limited to £60 million a year; and
- (ii) the Industries Committee should apply Part III of the Regulation of Undertakings and Development Law 1973, as amended, to limit private sector construction to approximately the same amount.

(d) to agree that increases in States charges should be limited to a maximum of 2.5 per cent a year, with any exceptions, in extremely compelling cases only, to be subject to prior approval by the Finance and Economics Committee;

(e) to charge the Policy and Resources Committee to produce plans for modernising the public service, so as to achieve an annual increase in productivity of at least one per cent a year starting in 2001;

(f) to charge the Finance and Economics Committee to restrict growth in total States revenue expenditure for the years 2001 and 2002 to no more than six per cent a year, and in 2003 to no more than five per cent;

(g) to charge the Industries Committee to develop policies for introducing more competition in the Island's product markets, including the utilities sector and to bring forward draft legislation for this purpose by the end of 2001; and

(h) to endorse the Anti-Inflation Action Plan set out in the report dated 26th June 2000 of the Finance and Economics Committee.

FINANCE AND ECONOMICS COMMITTEE

Note: 1. The Policy and Resources Committee supports the Finance and Economics Committee in its fight against inflation, which has been identified as an urgent matter

2. The Industries Committee's comments are to follow.

REPORT

Introduction

1. This Report and Proposition follows up the statement made to the States on 4th April by the President of the Finance and Economics Committee about the threat facing Jersey from inflation. Inflation in Jersey is currently 4.6 per cent and seemingly on a rising trend. This compares with the United Kingdom rate, which has been around 2.0 to 2.5 per cent over the past 18 months; although it rose to 3.1 per cent in May 2000, it is forecast to remain below the target rate of 2.5 per cent. Inflation in Jersey has been persistently a little above the rate in the United Kingdom since the early 1980s. The differential between the Jersey rate of inflation and the United Kingdom rate, however, began to widen significantly from the middle of last year to more than two percentage points so that the Jersey rate has generally become double or more the United Kingdom rate. The apparent persistence of this trend became clear at the beginning of this year. The need to tackle the problem of inflation in Jersey systematically and firmly has now become urgent.

2. Permanently low inflation is an essential platform for achieving high and stable levels of growth and employment in the long term. Stable inflation allows people and businesses to plan for the future, which will lead to improvement in investment and productivity.

3. A failure to achieve permanently low inflation is likely to be very damaging in the long-term. Rising prices in Jersey have probably played a considerable part in reducing the competitiveness of the agriculture and tourism sectors. The rising cost of doing business in Jersey, compared with other places, will over time impact equally on, among others, the finance industry. This is potentially a major threat to the prosperity of the Island in the longer term.

4. Inflation is also socially divisive. It hits hardest the most vulnerable members of society through its impact on fixed incomes. It distorts markets and creates widespread uncertainty for people. It also very noticeably creates winners and losers in the housing market.

5. The statement by the President of the Finance and Economics Committee on 4th April was accompanied by publication of a report on inflation in Jersey by an independent economist, Mr. Michael Parr. This report had been commissioned at the beginning of the year when it emerged that Jersey's rate of inflation had risen in the previous half year to more than twice the United Kingdom level. It was realised that a greater understanding of all the factors involved was urgently needed.

6. Mr. Parr's report concluded that Jersey did indeed have an inflation problem. There was a variety of reasons for this -

   - the Island's economy was growing well above the capacity of the Island to produce goods and services at a rate consistent with stable prices;
   - monetary conditions were loose: in real terms interest rates were too low because they were set for conditions in the United Kingdom, where inflation was substantially lower;
   - States spending was rising too fast and this was fuelling the excessive growth;
   - the labour market was extremely tight, with virtually no unemployment and a very high level of unfilled vacancies;
   - there was evidently insufficient competition in many product markets, not least in the public utilities. This meant that cost increases were likely to be passed straight on to consumers, without the discipline of competition present in most other economies as a spur to firms to seek out efficiencies instead of raising prices;
   - inflationary expectations seemed to be prevalent, in particular through a considerable degree of indexation in wage and other contracts. Wages were chasing prices upwards, and vice-versa.

7. In particular, Mr. Parr noted that Jersey's prices were rising faster than the United Kingdom's. Given that the majority of Jersey's trade and visitor flows were with the United Kingdom, this was making Jersey increasingly uncompetitive. Taking 1968 as a base, Jersey's prices were now 20 per cent higher than the United Kingdom's, notwithstanding the United Kingdom having introduced VAT in the 1970s (at a rate now generally as high as 17.5 per cent). This trend had been largely imperceptible for many years, but the differential with the United Kingdom

had widened noticeably since mid-1999. The position is illustrated in Chart 1 at the end of this report.

8. Mr. Parr made a number of important recommendations for the States to begin to tackle inflation. Jersey should, he argued, adopt a clear medium term inflation target, recognising that there were no ‘quick fixes’ for achieving low inflation permanently but rather that this would require sustained and determined action. Action towards achieving the target needed to be underpinned by, especially -

- bringing down expectations about inflation. Actions for example to restrict increases in States charges and to limit indexation in contracts (including contracts let by the States themselves) would be important in this regard;

- reducing the rate of growth in States expenditure to what was prudent in economic terms rather than what was affordable in purely financial terms. Although the States in theory had plenty of money to spend from buoyant tax revenues, spending it all in response to various political pressures was simply fuelling the inflation problem because Jersey could not absorb all the resulting activity in a way that allowed price stability to be retained;

- developing competition policy, together with other policies to increase flexibility and diversity in the Island’s economy.

9. The Finance and Economics Committee accepts Mr. Parr’s recommendations. It has been pleased by the strong support across the community for the development of policies and actions aimed at bearing down strongly on inflation. One of the Committee’s first acts when the scale of the inflation problem became apparent earlier this year was to establish a separate Anti-Inflation Task Force to develop the necessary policy responses to tackling inflation. The Task Force comprises the Presidents of the Policy and Resources, Finance and Economics, and Industries Committees, together with their Chief Officers and the Head of Statistics and the Economic Adviser from the Policy and Resources Department. The Task Force has been meeting weekly, well supported by Dr. Lane of the Policy and Resources Department as its secretary. The Committee’s intention is that the Task Force will now assume a permanent role, with a brief to monitor the position and to keep all aspects of anti-inflation strategy and other relevant factors under review, and to recommend appropriate measures and actions towards meeting the inflation target.

10. The Task Force’s main business in recent months has been to prepare the Action Plan for beginning to tackle inflation set out in this report and proposition. Not only is the Plan endorsed strongly by the Finance and Economics Committee, but also it reflects valuable views and opinions that have emerged, especially from the business community and through the new Jersey Economic Forum set up by the Industries Committee, in the wide-ranging debate that has followed publication of Mr. Parr’s report. The Committee very much hopes that this process of debate and discussion will continue, and indeed will be strengthened, by publication of this report. For, just as it is important for the States to take a lead in tackling inflation, so equally is it important, and necessary, for the private sector to play its part too. The clear public expectation will be for the private sector as well as the States to show leadership and restraint in order to make its contribution to reducing inflation.

Anti-inflation action plan

(i) Priorities

11. First and foremost it is essential that, as set out in proposition (a), the States clearly endorses the view that reducing the rate of inflation is a very high strategic priority that needs to be tackled with urgency through actions on a range of fronts. Equally it is important for the States to recognise that the inflation problem is complex and will not be solved overnight. Bringing inflation under control will require sustained and determined action and it is essential that all Committees are fully aware of the political and economic imperatives behind this objective, the States having explicitly accepted it, and that the need to beat inflation is fully reflected in all Committees’ policies.

(ii) Adopting an inflation target

12. The Finance and Economics Committee has accepted Mr. Parr’s recommendation that there should be a clear, medium-term inflation target as the centre-piece of any anti-inflation strategy. This is the approach pursued both in the United Kingdom and the Euro-zone. Because the majority of the Island’s trade and visitor flows are to and from the United Kingdom, and because Jersey’s interest rates are those set in the United Kingdom to meet the United Kingdom inflation target, the only plausible option for a Jersey inflation target is to set it at the same rate as the United Kingdom, that is, 2.5 per cent. The target in the United Kingdom is, however, defined not by the all items

RPI, but by the RPI (X), which excludes mortgage interest repayments. RPI (X) is a better measure of short-run inflation since rises in interest rates, which are intended to bear down on inflation, would otherwise have the perverse effect of immediately increasing inflation through their effect on mortgage payments. Jersey's inflation target should also therefore be defined by the RPI (X) measure.

13. Chart 2 at the end of this report shows the movement in Jersey's RPI (X) calculated over the last five years and compared with the all-items RPI. The comparable United Kingdom data is also shown. The Jersey RPI (X) calculation excludes States loan repayments as well as mortgage interest payments, since they are akin to mortgage repayments. It can be seen that Jersey's RPI (X) tracks the all-items RPI very closely. In March 2000 Jersey's RPI (X) showed an annual increase of 4.3 per cent compared with 4.6 per cent for the all-items RPI. The RPI (X) measure has not previously been published for Jersey but it is essential that it now should be, and the Policy and Resources Committee will accordingly be doing this, starting with the June 2000 index, to be published in July.

14. The Finance and Economics Committee strongly recommends to the States that, as set out in proposition (b), it endorses a 2.5 per cent RPI (X) inflation target for Jersey. It should be emphasised that this will be a medium term target, but its importance will be in its giving focus to the rest of the anti-inflation strategy.

(iii) Action on States' revenue expenditure

15. As Jersey does not have the option of using interest rates to damp down inflationary pressures in the economy, the States will have to place greater emphasis on the use of fiscal measures - i.e. public spending and taxation - to influence demand in the economy. Public spending in particular impacts directly upon inflation because it adds to demand pressures and it is therefore of the first importance to keep it under control. This has, indeed, become a cardinal policy objective in virtually every developed economy.

16. Revenue expenditure by the States has been growing in excess of eight per cent per annum in the last two years. This is substantially in excess of the recent rate of growth in public spending in, for example, the United Kingdom, and is incompatible with both population policy objectives and reducing the rate of inflation. The Finance and Economics Committee proposes, as set out in proposition (f), that in each of the next two years, 2001 and 2002, States revenue expenditure should grow by no more than six per cent per annum, which is consistent with previously agreed cash limits for those two years. Expenditure growth in 2003 and beyond should be no more than five per cent, reflecting the impact of an intensive process of prioritisation and modernisation within the public sector as a whole that will be essential if service pressures are to be met effectively within these figures. Some may view annual increases of up to six per cent in public expenditure in the next two years as too high, since on present data it would represent a real terms growth of one to two per cent, but the Finance and Economics Committee believes such a figure represents the correct balance between seeking to reduce inflation and allowing for increased spending on essential public services such as education, health and social security. The figure of six per cent will, however, be kept under careful review as a maximum rather than a norm with a view to revising it downwards if circumstances allow.

(iv) Action on States' construction expenditure

17. Although the notional States-approved capital programme has been £55 million per annum for a number of years, the use of creative funding mechanisms, such as the Housing and Tourism Development Funds, trading committee funds and private finance initiatives, has led to a burgeoning publicly-driven construction programme. The programme planned for 2001, combined with the high level of private sector construction activity anticipated for 2001-2003, would without remedial action be well beyond the Island's capacity to absorb without significant inflationary implications. If the level of capital construction expenditure remains unchecked, demand for labour will simply even more greatly exceed supply, with further upward pressure on wage costs in the construction sector and consequent price rises feeding through to the whole economy. And this, moreover, would be happening in what is already a very tight labour market.

18. Accordingly, the Policy and Resources, Finance and Economics, and Industries Committees have agreed that the overall level of construction activity in the Island must be capped at a reasonably sustainable level, initially for the three years 2001-2003. This level has been assessed, based on the evidence available and in consultation with the construction industry, as being approximately £120 million per annum (at December 1999 prices). This figure excludes small projects (defined as those costing up to £500,000), civil engineering works, fees, projects other than building projects and capital equipment purchases. The aim is to focus attention on major building construction activity but with the clear aim of enabling Jersey's construction industry to work within its capacity. The intention is that £60 million should be allocated to the public sector, as set out in proposition (c)(i), the remainder being for the private sector (see section (vii) below).

19. The necessary public sector reductions will be achieved mainly through slippage of approved projects. There have been detailed discussions on this between the Policy and Resources Committee and the relevant Committees, and general agreement has been reached. Full details will be given in the 2000 Resource Plan which it is intended will be presented to the States in September. A team has been established at official level under the direction of the Treasurer of the States, drawing on staff from the Policy and Resources, Public Services, Economic and Commercial Development, and Planning and Environment Departments, as well as his own, to manage the whole process within the public sector and to monitor implementation. A key aspect of the new arrangements will be to move the focus at the centre more towards budgetary control rather than detailed monitoring of individual projects, in order to achieve the financial targets set. The intention is that this should lead in due course to individual Committees being responsible for determining their own priorities within agreed financial allocations. One or two pilot schemes in this vein will be established as soon as possible. Significant attention will also be paid by the new team to all aspects of the procurement process from a value for money perspective and it will be asked to bring forward specific proposals as soon as possible.

(v) Action on other fiscal measures

20. The other fiscal instruments which can be used in Jersey to attack inflation are direct and indirect taxation. The Finance and Economics Committee intends to bring forward a package of direct and indirect taxation measures in the 2001 Budget, to be presented to the States in December, aimed firmly at reducing inflation in both the short and medium term.

(vi) Action on States charges

21. For many years the Finance and Economics Committee has sought, with limited success, to contain increases in States charges to 2.5 per cent per annum. With the adoption of an explicit 2.5 per cent inflation target, together with the need to damp down inflationary expectations and focus more on efficiency savings, this objective now becomes an imperative. The Finance and Economics Committee has therefore accepted the view of the Task Force that the 2.5 per cent limit must now be met as a matter of course, and a Code of Direction will accordingly be issued presently. This is covered by proposition (d).

22. It is recognised that there may be legitimate and compelling instances where an increase above 2.5 per cent is desirable. These may be, for example, for ‘user pays’ reasons (i.e. if one particular group receiving a valuable service from the States is charged below cost, then that group is simply being subsidised by taxpayers generally) or in pursuit of health or environmental objectives, where the purpose of raising a charge may be to signal the relative undesirability of a given activity. So the Code of Direction will allow for increases above 2.5 per cent in exceptionally compelling circumstances, but any such cases will require the Finance and Economics Committee’s prior approval. The Committee is anxious to emphasise that this will be an exceptional procedure and will not be an ‘escape route’ for departments to increase charges (which may well be monopolistic) in excess of inflation when perhaps more attention should be given to reducing costs thus overriding the need to increase charges in the first place.

(vii) Action on private sector construction expenditure

23. As already indicated, the intention is to match action to limit public sector construction spending by limiting private sector expenditure on major construction projects to approximately £60 million per annum at December 1999 prices, on the basis set out in paragraph 18 above, initially for the three years 2001-2003. As with the public sector, this essentially means smoothing the flow of projects coming on to the market.

24. In order to seek to achieve this, the Industries Committee will be bringing forward shortly a new policy under Part III of the Regulation of Undertakings Law, as set out in proposition (c)(ii). This policy will be subject to full public consultation in the usual manner. Effective implementation of the new policy will be aided by the widespread understanding in the private sector of the urgent need to tackle inflation, and by the Industries Committee’s understanding, in applying the new policy, that it will be essential to ensure that the local construction industry is enabled to work within its capacity. The Industries Committee is already engaging in detailed discussion with the construction sector and its main clients in the business community in order to assist the process of achieving the desired outcome in a reasonable and pragmatic way. It is important for the States to accept that there will be certain resource implications in the Regulations of Undertakings Office from implementing this new policy.

(viii) Action on the housing market

25. Property prices will naturally rise along with economic growth and incomes. But property markets sometimes become unbalanced, going through periods of rising values which are far above the general rate of increase in prices. This adds substantially to the personal wealth of property owners, raising their confidence about the future and encouraging more consumer spending. Inflationary pressures are then fuelled further throughout the economy.

26. Excessive rises in property prices also create winners and losers in the community and are socially divisive. This has happened in Jersey. Owner occupiers in the Island have done well in the 1990s but those wishing to enter the market for the first time have experienced problems. This has added to wealth differences amongst people. It has also created pressures for higher public spending to offset the consequences of a housing market which has not been working well.

27. More needs to be understood about the way in which the housing market works in Jersey, and the role which it may have played in the wider inflation process. The Housing Committee, in close consultation with other relevant departments, is already undertaking a new economic study into this issue. The research will review again the factors which have been driving the supply and demand for housing in the Island and try to analyse the impact of States policy. It will also try to assess the role which rising property prices have played in driving general inflation.

(ix) Action on competition policy and labour market flexibility

28. It is very important to carry the attack on inflation into the market place. More competition will certainly bear down on prices. Better regulatory policies for the utilities will bring similar benefits. Modernisation of labour market practices and institutions will encourage a better allocation of manpower, which is very important in Jersey given the extreme tightness of the labour market. Better training and management practices can raise productivity. Reform of wage systems and other contractual arrangements, with less indexation, will reduce inflationary pressures.

29. None of these areas of endeavour, or the desired outcomes from them is short term. The development of competition policy in the Island, where effectively there is now none, will take a number of years. So will lasting structural changes in the labour market. So will effective independent regulation of the utilities. The Industries Committee is developing an agenda for change, fully recognising the longer term nature of the process -

- it is intended to legislate this year for the incorporation of Jersey Post and Jersey Telecoms, the new companies to be regulated in the interests of customers by a new independent regulatory body to be called the Jersey Competition Regulatory Authorities (JCRA). This process is an important first step towards independent regulation of all the Island’s utilities and the development of the JCRA into a more fully-fledged competition authority. For the moment, the Industries Committee’s intention, in bringing forward proposals to the States shortly to establish the JCRA, is to limit the new body’s general competition role to investigating, upon request from the Committee, any matter relating to competition in the Island. This will, however, be a valuable first step because it will enable the profile of competition policy to be raised and should generate benefits for customers simply through the medium of good and informed publicity about, for example, restrictive practices or the abuse by firms of dominant market positions. As set out in proposition (g), the Committee plans to bring forward, after public consultation, further legislative proposals in 2001 to take forward the development of a legal framework for competition policy.

- the Committee is reviewing the operation of the Regulation of Undertakings Law, responsibility for which it took over from the Finance and Economics Committee at the beginning of 2000. It is important in the context of an anti-inflation strategy to look closely at how the Law impacts in practice upon the labour market, and the Committee is anxious to respond to concerns expressed by many businesses in the Island that the Regulation of Undertakings Law is regulating the local supply of labour in a manner that is not only pushing up wage costs as firms compete for staff in the same limited pool but also perhaps reducing the intended focus on seeking to keep in check the supply of non-locally qualified labour from a population policy perspective. The Committee is pushing ahead with a range of consultation on this subject and intends to publish a document on the way forward, for further consultations, in time for the forthcoming States debate on population and immigration policy.

- the Committee is beginning to develop an overview of strategy on training for industry, in close co-operation with the Employment and Social Security and the Education Committees, pursuant to the mandate given to it by the States last year. Much good work in this sphere is going on already but the Committee is also conscious of what seems to be a general view that the effort is too fragmented, and perhaps not sufficiently closely focused on the actual needs of business and industry. Getting this right is a crucial component of greater labour market flexibility and the subject will be considered in detail by the new Jersey Economic Forum and the new strategic industry boards that the Committee is now establishing.

(x) Action on economic information and advice

30. Mr. Parr made the important point in his report that there was a need for further economic indicators to be prepared in order to provide an adequate, up to date understanding of the economic condition of the Island. The additional information will need to include -

- data on sales and value added by sectors of Jersey business enabling ongoing estimates to be made of the level of economic activity;

- data on the population including inward and outward flows and its age and activity structure;

- measurement of labour productivity;

- more frequent collection of earnings data (quarterly instead of annually);

- updating of the Jersey economic model (after it is established later in the year) and better forecasting of how the Island's economy is likely to perform in future.

31. The further economic information should also include comparative information, to the extent practicable, on prices, both movements and levels, so that Jersey's competitiveness can be evaluated not only in comparison with the United Kingdom but also with other countries.

32. The Task Force has asked the Head of Statistics and the Economic Adviser in the Policy and Resources Department to consider these information requirements in detail and to come forward with firm proposals by the end of September including any resource implications.

33. Quite apart from this, action has already been taken to begin the recruitment of two extra members of staff for the Statistics Unit, including an additional professional statistician, in order to meet existing workload requirements including quarterly RPI (X) statistics and improved labour market statistics.

34. As regards measurement of inflation itself, the Head of Statistics has been giving very careful consideration to what needs to be done to maintain statistical veracity. The need to begin to measure RPI (X) has already been mentioned. This has not hitherto been calculated for Jersey. In the Island's Retail Price Index the equivalent of the United Kingdom's mortgage interest element includes not only mortgage interest payments as such but also equivalent payments against States loans. The Head of Statistics intends to exclude both items from the Jersey RPI (X) so that the resultant index is as comparable as possible with the corresponding United Kingdom RPI (X). The Finance and Economics Committee endorses this. The new index will be published quarterly at the same time as the all items Index, starting with the June 2000 index in July 2000. Several years of historical information will be provided so that recent changes in RPI (X) can be seen in context. Chart 2 at the end of this report shows this in summary form.

35. Mr. Parr commented in his report on the coverage and methodology of the Jersey Retail Price Index, while accepting that it provided an adequate measure of the overall movement in consumer prices. As regards coverage, he suggested that more quotations were needed for some of the items included in the index, in order that a representative average price was available for each item. The Statistics Unit has been actively engaged in a programme of work since mid-1999 addressing just this point, initially increasing the number of prices collected for food items and subsequently extending this to the full range of goods and services covered. This work was substantially complete by the June 2000 price collection round. On RPI methodology, a review by experts from the United Kingdom Office for National Statistics will take place later this year.

36. All this will be able to be overseen by the new Statistics User Group approved by the States last year. There has been a little delay in getting this established because of the need to find an appropriate person to serve as an independent chairman. A suitable person, of high standing in the field of public sector statistics, has now been identified and nominations from appropriate user organisations in Jersey, such as the Consumer Council and the Trade Unions, will be sought very soon so that the Group can start work.

37. The debate about anti-inflation strategy has in particular highlighted the urgent need to enhance the expertise available to the Policy and Resources, Finance and Economics and Industries Committee to support the development of economic policy across the whole range of macro and microeconomic issues, including competition and regulatory policy. The Task Force has accordingly recommended that a leading firm of economic consultants should be retained to give advice and undertake work or research as and when required. The Finance and Economics

Committee endorses this. Presentations will shortly be invited from five leading consultancies with a view to an appointment being made by the end of July.

(xi) Action on behalf of consumers

38. The people of Jersey must recognise that they too have a major role to play in the battle against inflation. They are not powerless victims of an inexorable rise in prices but can themselves promote real competition through their everyday actions. The price of a good or service is something agreed between a willing buyer and a willing seller. Armed with good information, for example on where to find the best value for money, the consumer can make his or her stand for or against those who attempt to charge the highest price the market will bear.

39. The Consumer Council, through its regular newsletters and media slots, is already making a valuable contribution in this area, but with stronger backing this might be made more immediate and more effective still. Initial soundings with the Council indicate that there is potential to increase the frequency of its newsletters and there may be other ways in which the Island's consumers can be mobilised to withstand rising prices. The Industries Committee intends to explore with the Council how its work in the area might be enhanced, without compromising the Council's vital independence.

40. The proposal that the Industries Committee should be empowered to ask the planned new Jersey Competition and Regulatory Authority to investigate and report on any matter affecting competition in the Island has considerable potential to increase the information available to consumers. Also very important in this regard is the intention that the statutory duty of the JCRA in respect of postal services and telecommunications (and, later, for other utilities too) should be to act in a manner best calculated to ensure that the interests of customers are safeguarded and promoted. This is the first time that an explicit duty of this kind will have been placed on any public body in the Island. Experience in other countries suggests that explicit action along such lines towards bearing down on utility prices has the potential to have a significant long run effect on prices.

(xii) Action on modernising the public service

41. It is already States policy to limit the size of the public sector workforce so that by June 2002 numbers are no greater than in June 1999. The Policy and Resources Committee was charged last year with reporting back to the States on how this target was to be achieved, and the intention is to address this in the 2000 Resource Plan. The emergence of anti-inflation strategy as a key policy driver and the consequent intention of the Finance and Economics Committee to reduce the rate of increase in public spending have added a new dimension to this objective. Given the seriousness of the issues surrounding the tight labour market, it is essential that the public sector operates as efficiently and effectively as possible in order to free up the maximum resources for the Island's economy as a whole. It is not self-evident that a fairly crude 'headcount' approach is necessarily the best way of dealing with this, given especially that there are many completely genuine and necessary service-led requirements for additional staff that cannot but be accepted: if there are more pupils and more patients, then more teachers and more nurses are needed, unless staffing ratios are radically changed.

42. So a 'headcount' approach, while not unimportant, needs to be handled pragmatically, with clearly urgent and unavoidable requirements being met in the interests of good public service without bureaucratic delay (which itself is costly in terms of staff resources). The reverse side of this is that there needs to be a detailed and systematic focus on the business processes of the public service, in order to free up resources for the delivery of services themselves, and on the prioritisation of those services. The Policy and Resources Committee will be developing plans in the coming months for a long-term project towards this end. The aim will be modernisation of the public service, by focusing not just on what it does but on how it does it, and the target will be a productivity increase of at least one per cent per annum over a sustained period. This is as set out in proposition (e). The Committee's view is that there is no alternative to a strong approach on this if the rate of increase in public spending is to be reduced while key 'front-line' service pressures are met to the greatest extent possible. But it has to be recognised that it will require the investment of resources 'up front' in order to achieve savings in the longer term.

(xiii) Action on consultation

43. Inflation affects everybody, businesses and individuals alike. The States has a major part to play in tackling inflation but it cannot do it on its own. The problem will not be solved without wide understanding and acceptance of the seriousness of the problem and that difficult choices and decisions will be needed to alleviate it. This is why it is important that the Jersey Consumer Council is sufficiently resourced to be able to communicate effectively and regularly with people so that there is good information about prices, competition and generally all aspects of the anti-inflation strategy.

44. In relation to the business community, the Industries Committee has recently established the Jersey Economic Forum. This brings together business and other interests from throughout the Island with members and officers of the Industries Committee, and Presidents of other related Committees, to consider key issues affecting the Jersey economy and doing business in the Island, and to offer views, advice and recommendations to the Committee. Discussion in the Forum on the inflation problem has already been very useful in helping to shape the policy approaches presented in this report, and the Forum will be an ideal place over the coming months for continued intensive discussions on the actions needed, in both the short and medium term, and in both the public and private sectors, to meet the inflation target and thus to establish and maintain a long term competitive commercial environment.

45. The President of the Finance and Economics Committee has also set up a small consultation group comprising persons from the private sector in order to discuss all the issues surrounding tackling inflation on an informed, but informal, basis. This group is fully supportive of the way ahead mapped out by the Task Force and presented in this report.

46. There will be continuing consultation in other forums too, such as the Industries Committee's new strategic industry boards. This is over and above specific consultation on issues such as policies to restrain and smooth the flow of private sector construction projects through the use of Part III of the Regulation of Undertakings Law. The Task Force has formed the clear view that bearing down on inflation simply will not work unless there is the fullest possible public discussion leading to wide common ownership of the problems and commitment to the solutions needed.

47. Last, but by no means least, the Finance and Economics Committee will ensure that there are regular opportunities for updating States members on the progress of the anti-inflation strategy and for their views to be taken into account as work proceeds.

Financial and manpower implications

48. A number of aspects of the anti-inflation strategy will have resource implications including administering the phasing of private sector construction using Part III of the Regulation of Undertakings and Development Law, the creation of the Jersey Competition Regulatory Authority, increasing the range and quality of economic information and advice, and creating a team to drive forward the modernisation of the public service. The manpower and financial implications will be contained within agreed States public sector workforce and financial resource limits.

49. Any initial financial and manpower pump priming will, however, be far outweighed by the long term savings arising from the strategy, a central tenet of which is to improve competition and productivity in both the public and private sectors. The target one per cent improvement in productivity in the public sector, alone, would reduce States expenditure by over £15m a year within five years if achieved. Any fall in the rate of inflation will also reduce the cost of capital projects and many other services procured by the States.

Conclusion

50. This report has made clear that inflation in the Island is a major problem to be tackled and that there are no quick or magic solutions. This is why the Task Force proposed a range of actions across a wide front, recognising that some were fairly short-term and others much longer-term. The Finance and Economics Committee has strongly endorsed the approaches recommended by the Task Force and will be asking it to keep all aspects of the anti-inflation strategy under regular review, and to secure the best possible advice and analysis on the policy options to be followed. On this basis the Committee commends to the States the actions set out in this report and proposition and seeks its endorsement of the Action Plan as a whole, as set out in proposition (h), as a first response to the serious inflation problem in the Island that has now been so clearly identified.

26th June 2000