STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2016 – 2019 (P.72/2015): FOURTH AMENDMENT (P.72/2015 Amd.(4)) – COMMENTS

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

STATES GREFFE

COMMENTS

Corporate Services Scrutiny Panel proposes that –

> Members have the ability to vote on the States expenditure 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 fifth amendment 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 by the Corporate Services Scrutiny Panel.

- This amendment offers no alternative to the fiscal strategy proposed by the Council of Ministers nor the expenditure levels of the Council of Ministers, it merely asks the States to vote for or against the overall expenditure 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.

Background

The Council of Ministers has been open and transparent in its approach to the second MTFP process and Ministers cannot understand the change in direction behind the amendments by the Corporate Services Scrutiny Panel. The Panel were consulted with, regarding the changes to the Public Finances (Jersey) Law 2005 amendment (P.42/2015 – Draft Public Finances (Amendment of Law No. 2) (Jersey) Regulations 201-), and the Treasury in recognising their concerns, worked with the Panel to produce a more acceptable approach. This resulted in a framework for the Council to work with through the production of the draft Medium Term Financial Plan for debate by the States Assembly. Not only will this amendment 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, it will also negate the purpose of the amendment to the Public Finances (Jersey) Law 2005.

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 is attached – this incorporates amendments to the process put forward by the Corporate Services Scrutiny Panel themselves).

(For clarity, the Corporate Services Scrutiny Panel's own amendments restricted the amendment to just the 2016 – 2019 MTFP, with a requirement that any outstanding detail on years 2017 – 2019 would be lodged, for a minimum 12 week period, no later than 30th June 2016.)

It was made very clear in the covering report with the draft Regulations and in the speech made by the Assistant Minister for Treasury and Resources (who acted as rapporteur for the proposal) what the States would be debating in the MTFP 2016 – 2019 and what the States would be asked to approve –

- Total States' income targets for each year 2016 – 2019;
- Total maximum expenditure allocation for each year 2016 – 2019;
- Total net capital allocation limits for each year 2016 – 2019; and
- Department spending limits, central contingencies, savings and other measures for 2016 only;
- Departmental revenue spending limits for 2017 – 2019 would be brought back to the Assembly in 2016 no later than 30th June 2016. It was clear that the draft MTFP would, however, include the high level intended income and expenditure figures for these years which would require States' approval.

The Minister for Treasury and Resources highlighted that this would "afford the Council and the States time as well as flexibility to consider, consult and analyse how the financial challenges faced by the States should be addressed. The Council were rightly extremely conscious that the original concept of the medium term financial planning process should be retained and to ensure that financial control and discipline are maintained".

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

There are fundamental changes needed within the proposals for public sector reform and reorganisation over the next 4 years. The purpose of the amendments to the Public Finances (Jersey) Law 2005 proposed in P.42/2015 was to provide the time for this detail to be worked through. The MTFP Addition is also intended to provide time to consider the impact of the changes on public services and also the distributional effect of the whole package of measures.

The Council of Ministers could have considered provisional budgets for departments for the years 2017 – 2019 ahead of the detail being worked through and proposed these allocations in July 2015.

However, Ministers did not feel this was appropriate because of the scale of change that was likely to be required by Ministerial transfer once the detail of 2017 – 2019 was known. This approach would have undermined the States' decisions and put budget setting in the hands of Ministers – something which CSSP has criticised previously.

Instead, the Council of Ministers proposed the amendment to the Public Finances Law (P.42/2015) to enable the detail to be explained to the Assembly in an open and transparent way in the MTFP Addition with appropriate detail.

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 agreed by the States in only April 2015.

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.

Without the overall targets for States income and total expenditure levels, the States would no longer be approving a clear plan for balanced budgets or sustainable public finances by 2019.

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 Fiscal Policy Panel 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 expenditure 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’ Economics Adviser and 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.

The Council of Ministers has been clear throughout the development of this MTFP that it will bring back full details of departmental expenditure proposals for 2017 – 2019 in the MTFP Addition which will be lodged by 30th June 2016. States Members will then have the opportunity to consider these proposals and decide if they are able to support the Council of Ministers’ expenditure plans.

The Council is fully aware that the expenditure limits set for 2017 – 2019 in the MTFP will require difficult decisions to be made across the States, which will transform the Island’s government and enable money to be redirected from current budgets to invest in States’ approved strategic priorities.

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 independent Fiscal Policy Panel and has been keen to ensure that it fully considered, and 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 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.

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

The Council of Ministers is keen to highlight that although the detail on departmental revenue expenditure allocations (including growth and contingency) is omitted for the years 2017 – 2019 from the draft MTFP, the way in which capital expenditure and income is proposed is in line with the MTFP process approved by the States in 2011 and included in the Public Finances (Jersey) Law 2005.

The Council is disappointed that the CSSP has failed to offer any constructive alternative to its proposals and would have hoped this could have been put across as part of the amendments under P.42/2015 – the Panel appear to be merely attempting to undermine the fiscal approach put forward by the Council.

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.

It is interesting to note then when reviewing the original Law amendment introduced in P.42/2015, the CIPFA Adviser to the Corporate Services Scrutiny Panel had some reservations regarding the 2-part approach –

> *"We had some initial reservations around this proposal - "running a four year MTFP based on only one year of detail and three years of control totals with no reasonable detail for these three subsequent years would negate the benefits of the MTFP and significantly reduce its utility."[1]".*

But in his most recent report to the Panel the Adviser comments –

> *"However, notwithstanding the impact on the MTFP we fully acknowledge the rationale for the amendment (the revised planning work to restructure services would be insufficiently advanced by the time of the required submission) although we recommended that such a change be limited to a 'one off' event with a strict time clause on the amendment being applied.".*

[1] CIPFA – Corporate Services Scrutiny Panel – Review of proposed amendment to Public Finances (Amendment of Law No. 2) (Jersey) Regulations 201-

Financial implications

The Corporate Services Scrutiny Panel has not identified any financial implications arising from their proposal. However, the Council of Ministers strongly believes that the consequences of not approving total expenditure limits 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.

APPENDIX

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

8A Medium term financial plan for 2016 to 2019 – subsequent approval of certain net States expenditure

(1) The draft medium term financial plan for the financial years 2016 to 2019 need not seek the approval of the States to all or any of the amounts described in Article 8(2)(c) and (d) for the second or any subsequent financial year to which the draft plan relates.

(2) If such amounts for the second or a subsequent financial year are omitted from the draft medium term financial plan for the financial years 2016 to 2019 –

(a) the Council of Ministers must prepare a draft addition to the medium term financial plan that would add the amounts to the medium term financial plan for that year (a "draft addition");

(b) a draft addition may add amounts for one or more financial years;

(c) Articles 8, 24A, 24B and 24C apply, with any necessary modifications, to the preparation of a draft addition as they apply to the preparation of a draft medium term financial plan;

(d) a draft addition must be lodged no later than 30th June 2016.

(3) Subject to paragraph (4), only the Council of Ministers may lodge a draft addition.

(4) The Council of Ministers may agree that a draft addition is lodged by the Minister.

(5) Where a draft addition is to be lodged by the Minister, the Minister may lodge the draft addition and a draft budget as one proposition.

(6) The minimum lodging period that applies to a draft medium term financial plan shall also apply to a draft addition (whether lodged by the Council of Ministers or, in accordance with paragraph (5), by the Minister).