STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2016 – 2019 (P.72/2015): THIRTEENTH AMENDMENT (P.72/2015 Amd.(13)) – COMMENTS

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

STATES GREFFE

COMMENTS

Deputy J.M. Maçon of St. Saviour proposes that –

> the Education, Sport and Culture Department's net revenue expenditure be increased by £1.4 million in 2016 and the allocation to Contingency for the Economic and Productivity Growth Drawdown Provision (EPGDP) for 2016 be reduced by an identical amount, in order to fund higher education costs.

The Council of Ministers strongly opposes this Amendment and urges States members to oppose it.

Summary of Council of Ministers' Comments

- The Council of Ministers cannot support the £1.4 million reduction in the EPGDP contingency for 2016. This is an important provision for investment in initiatives, which seeks to improve future tax revenues and contribute to sustainable public finances.
- This provision, along with the other specific contingencies in 2016, are proposed to be funded from transfers from the Strategic Reserve and the Council of Ministers does not therefore believe it would be appropriate to use this funding for the purposes proposed by the Deputy for recurring higher education costs.
- The Education, Sport and Culture and Treasury and Resources Departments are working together to bring forward coherent long-term proposals to higher education funding.
- The proposed Amendment doesn't appear to recognise the improvements since 2001 to higher education funding in the Education Department or the tax relief provided by increases in child tax allowances. The Minister and the Department do not support the Amendment.
- The Council of Ministers has prioritised the proposals in the MTFP on the strategic priorities of the States.
- The prioritisation was carried out alongside an ongoing spending review, supported by external advisers, to identify savings and efficiencies, both across the States and within individual department programmes.
- The Council of Ministers conducted a series of workshops, and the prioritisation of available funding has evolved over a period of discussion and several iterations of the proposals before the final allocations were agreed.
- The Council opposes the Amendment and urges the States to await the outcomes of the ongoing work for a sustainable longer-term solution.

Detailed Comments

The Deputy's proposition states that rapidly rising tuition fees and living costs have made university funding increasingly unaffordable, especially for lower/middle-income families who are just over the threshold to qualify for financial support from the States. The amendment seeks to restore higher education funding to levels equivalent to 2001.

The Department accepts that the cost of going to university has increased significantly over the past 16 years whilst the threshold for access to grants for higher education has remained fairly static. U.K. government policies have changed the financial landscape of the sector completely. It has moved to a cost-recovery model that is based on a student loan. This change to the way universities are funded is beyond Jersey's control, but has had an impact on our university students.

However, measures have been introduced in Jersey to help deflect the changes: the budget has increased to enable the States to pay for the higher tuition fees for students who are eligible; there is an increased provision of degree courses on Island; access to a States-guaranteed loan of £1,500 per year from a commercial bank; and small cost-of-living increases in the maintenance grant.

The Department recognises that there is increasing pressure on families, and has started to investigate the financial issues relating to access to higher education and explore options. A public workshop was held in July 2015 to outline the current difficulties and consider potential solutions. This event revealed a range and variety of concerns, both over where the responsibility for higher education lies, and for methods of financing. Suggestions included the introduction of a loan scheme, maintenance of grants, and the provision of a tax-incentivised savings scheme. Generally it was recognised that there was joint responsibility between parents, student and the States. A second workshop is being planned, and discussions will be continuing with the Treasury.

In view of the work underway, it would be premature to make changes to the current higher education funding system. The timescale would potentially create confusion for families and inequalities among students, some having received more financial help than others. The Deputy's funding proposal only relates to 2016, and this is problematic. Student finance is allocated on the basis of an academic, not financial, year so could not be implemented until September 2016. Unless agreed as an ongoing sum, it could then be removed the following term. It would be preferable for the Minister to bring forward a coherent, long-term solution to the problem, and work on this is underway. Therefore this proposition is not supported at the current time.

Increases in child tax allowances

In the 1994 year of assessment the child allowance was changed so that taxpayers with a child in further education were given a higher allowance than that given for other children. In 1994 that allowance was £3,000 per child in further education (as compared to the standard child allowance of £2,000 per child). Each of the child allowances was available to both marginal and standard rate taxpayers.

Over the following years, the higher child allowance was increased steadily. In 1997 it was increased to £4,600, which was double the standard child allowance, this ratio has been broadly maintained ever since. In 1999, the higher child allowance was increased to £5,000, and then in 2008 it was increased to £6,000.

Then in 2014 the higher child allowance was increased to £9,000 for marginal rate taxpayers only (i.e. a marginal rate taxpayer is able to deduct £9,000 for each child in further education, whilst a standard rate taxpayer is able to deduct £6,000). The current value of the higher child allowance is £2,340 at the marginal rate (£9,000 @26%) and £1,200 at the standard rate (£6,000 @20%).

Investment in Economic and Productivity Growth

The Amendment proposes to reduce the investment in the provision for Economic and Productivity Growth in 2016 by £1.4 million and possibly future years.

Economic and productivity growth leading to job creation and income generation is one of the 5 objectives in the States Strategic Plan 2015.

It is also a key part of the measures to provide flexibility within the MTFP, with any additional tax revenues generated contributing to sustainable public finances and balanced budgets by 2019.

The Council of Ministers is proposing that the States should act now and develop a clear strategy for raising productivity (in both the public and private sectors) and competitiveness in the Jersey economy.

The Council of Ministers is proposing that up to a £20 million provision be set aside in this MTFP period be drawn down, so that new initiatives that can demonstrate they cannot be funded from existing resources and that have a strong rationale that they can have a positive impact on productivity, can be allocated additional funding.

This funding is proposed at a level of up to £5 million in each year of the MTFP from 2016, but importantly only for the period of this MTFP and not on a recurring basis. Any reduction in funding for these initiatives is likely to have an impact on future tax revenues.

General Comments

Use of Contingencies

Although the Deputy is targeting the specific Contingency provision for Economic and Productivity Growth, it is still important to recognise that this provision is for one-off initiatives. The proposed increase for higher education costs must be assumed to be recurring.

These additional provisions for Committee of Inquiry, Redundancy and Economic and Productivity Growth initiatives are proposed as part of the Contingency Allocation only to provide appropriate governance and control over the allocation of this funding.

The Council of Ministers would also want to highlight that these additional provisions are primarily funded in 2016 from transfers from the Strategic Reserve, and does not therefore believe it would be appropriate to use this funding for the purposes proposed by the Deputy for recurring higher education costs.

Process of re-allocation and re-prioritisation

The Deputy is proposing a re-allocation of funding that has been carefully considered as part of a significant prioritisation process and spending review –

- The Council of Ministers has prioritised the proposals in the MTFP on the strategic priorities of the States.

- The prioritisation was carried out alongside an ongoing spending review, supported by external advisers, to identify savings and efficiencies both across the States and within individual department programmes.
- The Council of Ministers conducted a series of workshops, and the prioritisation of available funding has evolved over a period of discussion and several iterations of the proposals before the final allocations were agreed.
- Each department has prioritised the available funding, and we can't afford to cherry-pick certain savings or growth. We have to make decisions which align with our strategic priorities; this means that every department will be affected and has to contribute to the overall reprioritisation.
- Further work is required to develop the detail for 2017 – 2019, but the Council of Ministers believes that it is presenting a balanced and sustainable package in line with the strategic priorities.
- This investment is made possible by the re-prioritisation of resources to States strategic priorities, and also means that all departments, including Health and Education, must contribute to the savings required.

Financial implications

The Education, Sport and Culture Department's net revenue expenditure for 2016 would increase by £1.4 million and would be met by reducing the allocation to the EPGDP Contingency in 2016 by an identical amount.

The financial implications of this Amendment are primarily a reduction in the EPGDP contingency allocation and therefore the important investment in economic and productivity growth initiatives. This could have financial implications for States revenues in future years.

It is unclear if the financial implications of this amendment are intended to be recurring.