STATES OF JERSEY

GREEN INITIATIVE FUND: ESTABLISHMENT (P.12/2013) – COMMENTS

Presented to the States on 18th March 2013
by the Council of Ministers

STATES GREFFE

COMMENTS

In 2012 the States approved its first Medium Term Financial Plan (MTFP), covering the years 2013 to 2015. Within a month of this Plan coming into effect, Deputy G.P. Southern of St. Helier has lodged a proposition seeking to increase expenditure by £30 million. Mechanisms exist within the Public Finances (Jersey) Law 2005 ("the Law") to approve additional expenditure, with States approval, in certain circumstances. Whilst the motivation behind the Deputy's proposition may be worthwhile, the subject matter does not remotely fall within the criteria within the Law to seek additional funding.

This proposition would more properly have been brought as an amendment to the MTFP proposition, when it could have been considered alongside all other spending pressures. Members will be aware from the debate on P.69/2012 on the MTFP how finely balanced States finances are over the next 3 years, and how challenging the task was for the Council of Ministers to put forward proposals within the available funding envelope. Many worthwhile proposals simply could not be funded, and it is inappropriate to seek to circumvent that prioritisation process now. The States have been criticised in the past, for example by the previous Comptroller and Auditor General and the Public Accounts Committee, for failing to stick to agreed spending limits.

The Council of Ministers also wishes to endorse the comments of the Minister for Planning and Environment, and agrees that short-term stimulus needs for 'Green initiatives' could be met through the Innovation Fund, whose aim is described as *'is to support innovation and will be available to support a wide range of activity from direct business support to strategic infrastructure investments, in the private, public and third sectors. The one consistent factor of policies that merit support will be that they improve the rate of innovation in Jersey and lead to significant employment creation'*. The Council of Ministers also acknowledges that, in the longer term, many of the actions proposed in the consultation document 'Pathway 2050: An Energy Plan for Jersey' would encourage initiatives to stimulate the economy through the development of environmentally sustainable projects.

<u>Financial implications – as provided by the Assistant Minister for Treasury and Resources</u>

Prior to lodging his proposition, Deputy Southern posed a number of questions of the Treasury. In response the Minister offered to meet with him. As such a meeting has not taken place, the Minister is pleased to provide information in these comments to address the Deputy's specific questions.

- **What would the likely loss of interest be in the Strategic Reserve if £30 million is taken out?**

The States agreed in December 2006 (P.133/2006) that the Strategic Reserve "should be a permanent reserve, where the capital value is only to be used in exceptional circumstances to insulate the Island's economy from severe structural decline such as the sudden collapse of a major Island industry or from major natural disaster." Deputy Southern has, on several previous occasions, attempted to persuade the States to agree to spend some of the interest on the Reserve. His attempts have been defeated each time, and the Minister can see no reason why the current membership of the Assembly should have any different views.

In order to provide the information requested, the Minister can confirm that, based on average performance of the Reserve since 2010, the opportunity cost of lost interest on £30 million would be approximately £2.3 million per year.

- **What would be the repayment costs of £30 million borrowing or bond and how would these be met?**

There are various considerations if the Fund was to raise monies from borrowing. The amount of monies the States of Jersey may borrow is constrained by the limits set out under the Public Finances (Jersey) Law 2005.

Under Article 21(3) of the Law –

> "(3) The States shall not authorize any borrowing if it would permit the total amount borrowed by the States at that time to exceed an amount equal to the estimated income of the States derived from taxation during the previous financial year."

Under the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005, the Minister for Treasury and Resources has powers to borrow up to £1 million in respect of any one transaction, with other exceptions. As this proposition is clearly for £30 million borrowing, the decision as to whether to borrow is one for the States and not the Minister for Treasury and Resources.

The calculation of this amount is defined under Article 21(4) of the Law –

> "(4) In calculating the total amount borrowed by the States for the purpose of paragraph (3) there shall not be taken into account –
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> (a) any amount borrowed from a third party by a company owned or controlled by the States; and
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> (b) the liability of a company owned or controlled by the States under any guarantee or indemnity given by the company."

Borrowing can take various forms and instruments, for example bank debt, retail bonds, public bonds and private placements. A bond is a form of borrowing obtained from the Capital Markets.

In relation to bank financing it is advised that, due to the current economic climate, banks are generally not keen to lend monies for periods in excess of 7 years. Therefore this would be a very costly option for the States, both in terms of capital and revenue annual repayments.

As an illustrative example, the annual costs associated with a private placement bond issue for £30 million, based on current assumed rates, are likely to be in the order of £1.9 million for a 30 year issue or £3.7 million for a 10 year issue.

- **Would there be any new income for the States to offset the costs of running the new fund?**

There, are, potentially, income streams the Fund may generate should it be approved by the States:

Direct income generation – Income generation is potentially possible in the long term if a grant-assisted utility scale renewable energy were able to export electricity into the European grid and receive incentive feed-in-tariffs. However, Jersey's eligibility for such feed-in-tariffs is as yet unconfirmed; although there is considerable work being undertaken to establish the situation since it is one of the factors that could potentially make large-scale renewable energy projects feasible for Jersey.

The proposition also alludes to the potential for feed-in-tariffs to contribute to an income stream if renewable energy generation installations could sell electricity back into the grid. It might be optimistic to expect that this could be particularly significant in the absence of 'incentive feed-in-tariffs'. These are tariffs that pay back more than the avoided cost of the energy generated. Currently, Jersey Electricity plc. pay local generators close to the 'wholesale' price of electricity they purchase from France, thus any income is likely to be much lower. In addition, the amount of electricity generated and available for export is relevant and relates to the efficiency of the technologies supported and the amount of on-site energy demand.

Wider fiscal stimulus arising from the proposition – At the domestic scale investment (through grants or otherwise) in energy efficiency measures bring benefits to the householder. For example, currently for every one pound paid out by the Energy Efficiency programme, there is a saving of £5.40 for the consumer. The impact of c.£30 million investment in energy efficiency could thus bring about significant savings to many individual Islanders, which in turn may lead to an increase in disposable income of those in receipt of energy efficiency measures. This extra money could find its way back into the local economy, but a more detailed economic assessment would be required to understand this impact further.

There is an expectation that if such a grant scheme was in place, there would be employment opportunities from this sector that would likely upscale to provide the level of energy interventions that the market would demand. It is worth noting that currently the Energy Efficiency Service is partially limited in its turnover of applications due to constraints in the sector. For example, there are a very small number of operatives in Jersey that can currently install cavity wall insulation.

- **What would the staffing requirements of operating the new Fund be and how would these be funded?**

Whilst the proposition makes comparisons to the Innovation Fund, currently proposed to be established with £5 million funding, it is difficult to make direct comparisons until further detail is available as to the proposed methods of funding – grants, loans and possibly investments; number of projects and complexity. However, at this stage the Minister has attempted to provide initial thoughts in relation to costs which are dependent upon further information –

Resourcing required for achieving the £30 million (Treasury and Resources)

Initially there would be costs of raising a private placement issuance. It would be prudent to assume one FTE for half a year costing approximately £40k. This would be a one-off set-up cost in addition to the issuance costs discussed above.

Committee and Governance Structure (Treasury and Resources)

It is difficult to ascertain the potential operational and management costs of the proposed scheme. Therefore the skill set and governance structure would vary dependent on the Fund's terms of reference.

Assuming that the Fund would operate a combination of all 3 types of funding – grants, loans and investments; a Committee would need to be established to assess the projects, most likely with a constitution made up of States Officers and the External Advisory Experts (assumed to be technical and financial). It would be hoped that external members of the Committee would be voluntary; however, it is reasonable to assume that some members will require remuneration. Based on current rates, daily attendance rates can range from £240 – £650 per expert.

In addition to the Committee, it would be prudent to assume that, due to the nature of the Fund, some third-party technical consultancy work would be required prior to a Committee making a decision about a project. Whilst the proposition alludes to joint working, in addition it is prudent to assume that on occasions work would be required to be commissioned from external consultants, specialists in their field. Until the exact terms of references are determined for the Fund, this would be impossible to quantify financially.

In order to support such a Committee, initial thoughts are that it would be realistic to assume that in addition to current staffing levels at least 2 additional FTEs would be required, potentially totalling £150,000 per annum.

Operational costs (including accounting) (Treasury and Resources)

The accounting and reporting of the Fund could be incorporated into day-to-day activities in the Treasury.

However, if there are any loans issued under the proposed Fund, the administration would need to be funded by way of a mixture of internal and third-party sources.

As it is difficult to ascertain how many loans and the complexity of administration required, it would be prudent to initially assume at least one FTE would be required costing £60,000 per annum, supported by third-party collection agency costs in the magnitude of £15,000 – £30,000 per annum, dependent on the number of loans for the life of the loans issued.

No opportunity costs have been assumed for current staffing levels or the costs of any potential partnerships.

Operational costs (Department of the Environment)

It is difficult to identify the resource requirement to manage such a Fund, because the overhead requirement is partly dependent on the nature and number of the grants given. For example, the Deputy notes that current overheads for the Energy Efficiency Service are relatively high. This is because the nature of the target group is such that a 100% turn-key grant is required with a substantial amount of assistance (staff time) given by the Department to the client in arranging energy efficiency works. Should such a larger Fund as proposed be established, where energy efficiency measures were offered beyond the socio-economically vulnerable, this requirement would drop, since the ‘able-to-pay’ market are more able to organise energy efficiency works themselves. Nevertheless, it could be expected that there would be high take-up of grants and this would impose a significant new workload, perhaps beyond what it proposed in the Deputy’s proposition.

Similarly, a Fund that sought to assist in more extensive projects – perhaps pump-priming one or 2 large-scale renewable energy installations – may impose a low turnover of applicants, but the complexity of such administration would be much higher.

To summarise, it is reasonable to apply typical operational overheads to such a Fund and assume 5 – 15% of the capital amount of the Fund (£1.5 million to £4.5 million per year).

The Council of Ministers therefore recommends Members reject this proposition.