Minister for
Treasury and Resources

19-21 Broad Street | St Helier
Jersey | JE2 4WE

Government of JERSEY

Senator Kristina Moore
Chair, Government Plan Review Panel
Morier House
St Helier
Jersey
JE1 1DD

30 November 2021

Dear Senator Moore,

Government Plan Review Panel

1. **The Government Plan 2021-24 was described as a recovery plan. How would you characterise the Government Plan 2022- 2025?**

This Government Plan 2022 focuses on recovery and renewal for Islanders and our economy. It continues investment in our priorities whilst planning for the long-term sustainability of public finances. It also realises the ambitions that this Council of Ministers has successfully pursued across the last three years, as well as addressing other legacy issues and tackling the challenges of managing Covid-19.

2. **Please can you explain Treasury's understanding of Jersey's current position in the global economic downturn and what the current thinking is on how and when the economic situation will become more positive?**

In drafting the Government Plan, the Council of Ministers takes advice from the Fiscal Policy Panel on, amongst other things, the strength and outlook for the Jersey economy and the wider outlook in world economies and financial markets. In their annual report, the FPP acknowledge both the ongoing impact of Covid-19 on the economy and the ongoing uncertainty. However they highlight a faster than expected recovery, and the economic assumption they provided for the Government Plan were in the context of "cautious optimism" that Covid-19 related disruptions will ease. The economic context of this plan is therefore more positive than the previous plan.

3. **What assurance are you able to provide that public finances will not run at a deficit past 2022?**

The Government Plan has been drafted in line with FPP recommendation to run deficits whilst the economy recovers, before returning to balance in 2024/2025. However, there remains uncertainty in economic forecasts which in turn drive income and expenditure forecasts. However, the established practice is plan for 4 years, and use annual government plans to react to changes, as shown in the Government's response to Covid.

Whilst it is a matter for the next Government, I would expect the next Minister for Treasury and Resources and Council to continue to follow FPP advice and ensure that budgets are balanced in the medium term.

4. **Please can you describe how individuals who have more than one job are accounted for when calculating economic forecasts**?

The Fiscal Policy Panel forecast is for the number of full-time equivalent employees. Therefore, individuals with two part-time jobs will not be double counted. For example, if an individual previously had one full time (40hr) job and now has two part-time (20hr) jobs then the FPP forecast would not view this as representing a growth in FTE employment – even though it would be growth in the headline employment figures from the Manpower Survey.

5. **Please can describe how, as Minister, you are kept appraised of inequality levels in Jersey? What measurements are used and how regularly is income disparity monitored? Is it fair to state that some of data is out of date, for example, the income and expenditure survey?**

As the response to Written Question 357/2021 to the Chief Minister explains, income inequality in Jersey is measured in detail via the Living Costs and Household Income Survey (formerly the household Income Distribution Report). The last income distribution data published was from the 'Jersey household Income Distribution Report 2014/15' published in November 2015.

Recognising the need to update this data, Statistics Jersey started the Living Costs and Household Income Survey in mid-2019 but this household survey had to be cancelled in March 2020 due to Covid-19 restrictions, with only around half the expected number of responses. Statistics Jersey have not yet been able to process and analyse the results from the 2019-20 survey, as the work coincided with operation and then processing of the 2021 Census. The independent Statistics Jersey are using their best endeavours to ensure that this data is analysed and published during Q1 2022.

Furthermore, as the response to Written Question 145/2022 to the Chief Minister explains, recognising the need for information on household income distribution, including detail on households and people living in relative low income, Statistics Jersey came forward with proposals for restarting the survey. Funding has been provided as part of the Government Plan and Statistics Jersey have, as planned, restarted the Living Costs and Household Income Survey fieldwork from September 2021. Statistics Jersey are currently on track to enable a report on household income distribution (and relative low income) to be available in time for the production of the next CSP.

It will be for the next government to consider how often the Living Costs and Household Income Survey should be run in future, and therefore the frequency of the income distribution analyses.

6. **It was acknowledged in your letter to the Corporate Services Scrutiny Panel of the 28 October that a higher-than-usual number of taxpayers have been recorded as not having filed tax returns this year. However, it has also been stated that Treasury does not expect a material variation in expected Revenue. What action will need to be taken if the impact on revenue is higher than anticipated**?

As previously stated, it is highly unlikely that the increase in non-filing among lower-income taxpayers will materially affect receipts. The Treasury routinely monitors all revenue receipts against the forecasts of the Income Forecasting Group. IFG revenue forecasts are typically expressed within ranges and fluctuations within those ranges are unlikely to cause concern.

In the unlikely event that there was a more significant variation in year, the Treasury would consider whether corrective action was needed to be considered by Ministers although the Public Finance Law does not require adjustment to the approved Government Plan.

7. **Page 83 of the Government Plan details the approaches that can be taken to deliver efficiencies and rebalancing measures. Children, Young People, Education and Skills and Infrastructure Housing and Environment are specifically mentioned as departments continuing to work with Treasury to determine how they can implement savings measures. How will Treasury ensure that departments do not come under undue pressure to find savings in a way that is detrimental to the delivery of services?**

In the process of establishing savings targets and the respective measures to deliver the targets, Accountable Officers are asked to consider the impact of any proposed measures on affected services and their users. This should include ensuring that the impacts are defined, that appropriate plans are developed and that actions to be taken are appropriate in the context of the Government's Common Strategic Policy Priorities. All departmental proposals must be approved and supported by the Minister concerned.

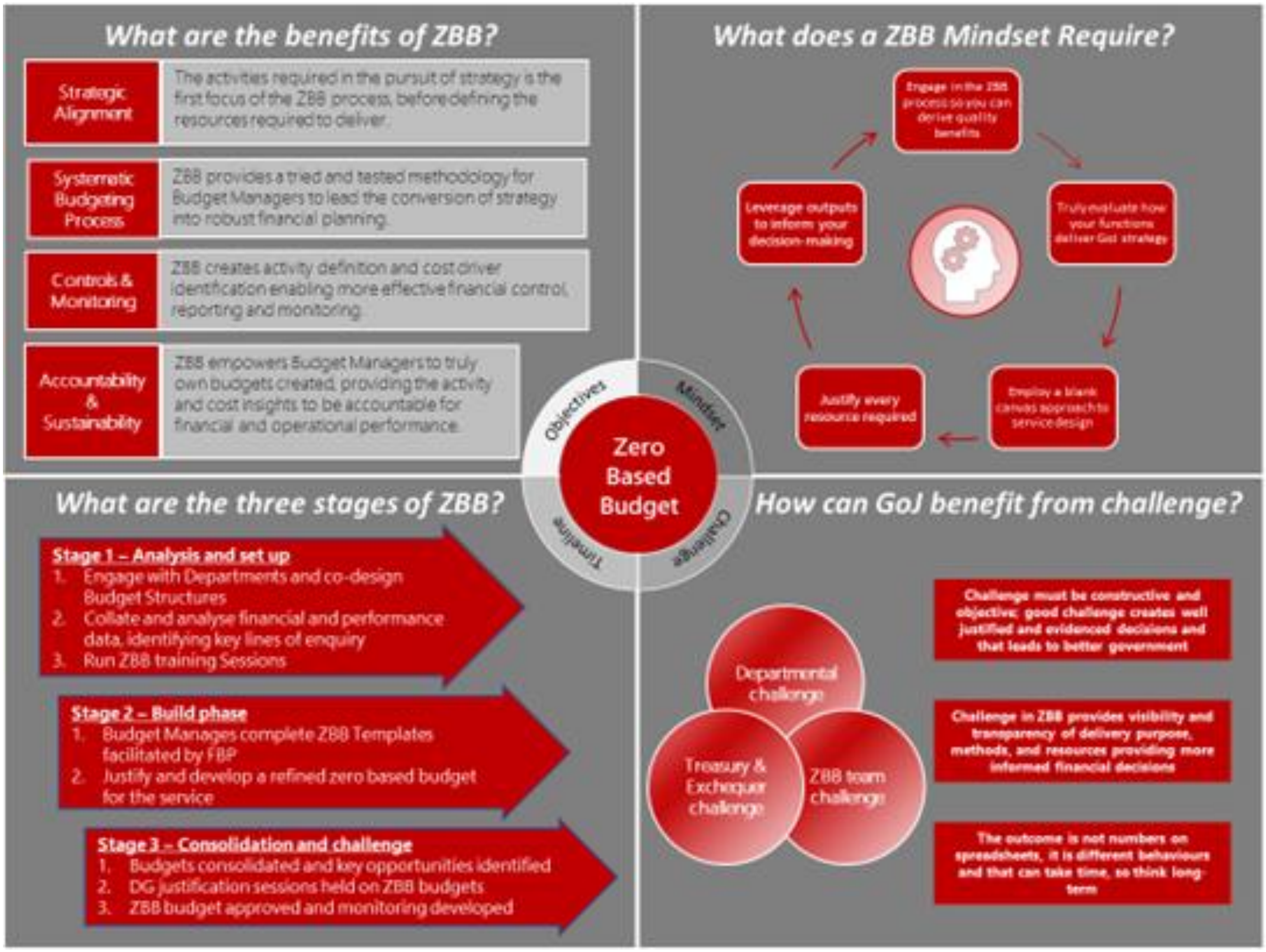
During the development of the Government Plan 2022- 2025, the Departments for CYPES and IHE found it challenging to identify measures to meet the full initial target requested, in part due to the timescales required to put forward proposals and due to some uncertainties or market conditions which cannot be confirmed at this time. As such, the Government Plan sets out (on page 83) the following with the proposed approach to be taken:

"Plan D: Non-pay inflation available to departments is reduced to the same value as undelivered targets. Departments (CYPES and IHE) will continue to work with the Treasury & Exchequer to determine the extent to which they can implement saving measures to achieve their targets, one off or recurring i.e. Plan B or C. Plan D should be considered as the last option"

8. **Please can you describe what is meant by zero-based budgeting principles and how these have encouraged efficiencies and rebalancing in the Government Plan?**

The Government is developing a programme of Zero-based budget review which encourages departments and respective budget holders to analyse their resource requirements from "scratch". By considering their strategic objectives, functions and specific activities as outlined below in the diagram below:

Diagram 1



As has been explained at one of the recent Corporate Scrutiny Panels, the ZBB programme commenced in 2020 when EY were commissioned to support the set-up of the programme and support GoJ with the initial roll-out. The Pandemic has presented challenges to the progress of the project in terms of logistics, capacity and resources.

An initial pilot-wave ran in March 2020; however, this could not be completed due to the Covid-19 lock-down so the programme was paused for a period. Further waves were subsequently conducted in May 2020 through to Jan 2021 in HCS and JHA. In May 2021, the programme was remobilised and now led by a small in-house team. The team are currently supporting review work in HCS and CYPES (aligning with the Education Reform Programme and the Funding Formula review) and more recently reviews have commenced with COO, CEO and revisiting T&E which was one of the original pilot areas. Successive waves are being planned for the first half of Financial Year 2022.

Taking the principles above, the programme will aim to support departments in identifying and meeting their efficiency targets, however, the overall objective of ZBB is more fundamental in its approach as it seeks to clarify all assumptions upon which budgets are built, to question if the right resources and in the right places and to encourage budget managers to assess affordability and to formulate any necessary plan of action where misalignment is identified.

ZBB reviews are inherently time and resource intensive and therefore a full review exercise would not normally be advocated an annual basis. ZBB principles can also be applied in other scenarios for example, stand-alone service reviews or policy and business case development. The Programme not only seeks to enhance the under-lying methodology and processes budget holders deploy to understand their resource needs, build budgets and address any variants: it also involves cultural change across the organisation. In relation to the latter, the programme will deliver several “products” to assist in the ongoing embedding of ZBB principles, for example, training material and tools-kits.

9. **What is your current understanding of the likelihood of a rise in interest rates? a. What impact will any rise have on the plans for borrowing and bond issuance outlined in the Government Plan? b. Is it anticipated that the first bond issuance for the Our Hospital Project will take place before the end of the year? c. What action would be taken should borrowing become more expensive than anticipated?**

When considering the likelihood of a rise in interest rates it is important to differentiate between short-term interest rates with which the public are more familiar, e.g. UK Base Rate, and longer-term gilt rates which receive less public coverage but are more relevant to long-term borrowing, i.e. through bond issuance.

The bond issuance will not take place before the end of 2021.

The consensus amongst economists for short-term interest rates is that the UK MPC will implement a number of interest rate rises in the coming months to address their concerns about rising inflation. This is supported by the forecasts shown in the Fiscal Policy Panel’s most recent report. These interest rate rises are, in part, already incorporated in longer-term rates (gilts) which are also affected by factors other than just inflation.

a) The Report accompanying the Our Hospital Proposition and the Debt Framework (R.132/2021) both include forecasts of interest rates which are at the upper end of the expected range. The Panel will recall that the costs of servicing the borrowing for Our Hospital are being met from the Strategic Reserve as opposed to general revenues. It is currently anticipated that, even with a nominal rise in long-term rates, the States will still be able to undertake borrowing at interest rates that are lower than these forecasts. The borrowing costs outlined in the Proposition used prudent estimates to reflect these upper end forecasts and demonstrate financing costs could be met based on these forecasts.

b) The procurement process for all the relevant parties required to be able to implement long-term debt issuance has already commenced and it is anticipated that this will be completed in the coming weeks. A key requirement for issuing a bond is the need for up-to-date audited financial accounts to be available to investors which indicates that the earliest point at which a bond could be issued will be in April 2022. We can continue to use our Revolving Credit Facilities to managed borrowing requirements in the meantime.

c) The procurement process referred to above will allow the relevant action to be taken at any time prior to debt issuance if advice is received to indicate that borrowing costs could rise. Options can be considered to fix the cost of borrowing in advance of bond issuance, although the costs and risks of doing so would need to be carefully considered and appropriate advice would be sought.

10. **Please can you explain how the debt policy limits the uses of external financing and whether a change to those conditions would be considered? a. Would borrowing for an emergency, such as the climate emergency, be considered to offset larger public expenditure in coming years? b. There have been public calls for further borrowing to assist in transition to carbon neutrality by 2030, what are your views on how to fund this transition**?

The debt policy (Debt Framework) is a Report to the Assembly incorporating the Council of Ministers policy on obtaining financing (required under the Public Finances Law) and the Debt Strategy of the Minister for Treasury and Resources. Limitations on the level of financing/borrowing permitted are determined through the approvals provided separately by the Assembly either through individual Propositions or the Government Plan.

It is difficult to determine when borrowing or the use of reserves might or might not be appropriate based on individual circumstances. The most recent obvious example of an emergency is the COVID pandemic for which it was the Assembly who determined the most relevant source of funding. Funding for the response to Climate Emergency, will be further considered in the Carbon Neutral Roadmap to be debated in early 2022, and the next Government Plan.

From a personal perspective I believe that the proposed levels of borrowing within the current Government Plan are appropriate for our fiscal position and I would not be in favour of additional debt being raised at this time to support the transition to carbon neutrality.

11. **It is the Panel's understanding of your evidence to the Corporate Services Panel on 12th November, that it is likely that the next Council of Ministers will need to raise taxation levels in order to meet spending commitments. Is it your belief that this Government Plan leaves public finances in good order for the next Council of Ministers and what specific examples of improvement can you provide from the start of this Government's term of office to the publication of this Government Plan?**

I believe that the Government Plan leaves public finances in good order, and plans for the ongoing long-term financial sustainability of the Island. Across the Government Plans of this council we have invested in our CSP priorities and addressed a number of legacy issues. To give a few highlights

- We have followed the advice of the FPP, and leave a position where budget return to balance by 2024 despite the pandemic, with a plan to meet the unforeseen costs of reacting to the Covid-19 global pandemic.
- We have an agreed funding mechanism for Our Hospital – the largest infrastructure project in a generation.
- We have proposed the re-financing of pension liabilities to make substantial savings for taxpayers.
- We have reformed the Tax system to move all taxpayers onto a current year basis, and will soon have established independent taxation.

I am proud of the achievements delivered during my term as Minister for Treasury and Resources, particularly during the challenges posed by the pandemic. We have introduced major and long overdue changes to our tax system, including the move from Prior Year Basis to Current Year Basis for many Islanders and taking the first steps to introduce Independent Taxation. We also responded at speed to the pressures put on our economy and community by Covid-19, with numerous schemes for businesses introduced and business cases and funding approved for our track and trace and vaccination programmes.

12. In a Public Hearing held with this Panel on 10th November, the Chief Minister described the Government Plan as being a more flexible and responsive document than its predecessor, the Medium Term Financial Plan. What examples can you give of this flexibility and how it has impacted on departmental spending, allocations and alignment with common strategic priorities?

The most obvious example of the flexibility is the ability of Government to react the Covid-19 pandemic. Under the MTFP, expenditure limits would have been set, and a process of amending the MTFP would have been required.

Under the Government Plan, we were able to react to the requirements of the pandemic to support Islanders and the Economy in the Government Plan 2021 (continuing in this plan). This has meant that much needed funds for Covid have been made available to departments, via a separate head of expenditure, which would not have been possible in an MTFP.

13. Please can you describe the process by which Treasury reviews departmental business plans and how accountability based on outcome is encouraged?

The Department for Treasury and Exchequer (T&E) collates, reviews and provides the financial information set out in the ‘Our Financial Context’ section of each Departmental Operational Business Plan (DOBP). Responsibility for the rest of the content of each DOBP rests with the Director General for each Department.

With respect to accountability based on outcomes, the Island Outcomes and Indicators are published on the Jersey Performance Framework. They allow the Government of Jersey to monitor the sustainable wellbeing of Islanders over time. As part of the completion of Business Cases for inclusion in the Government Plan, Departments are required to consider the impact of the Business Case on sustainable wellbeing. This impact is set out in the Business Cases which are found at the Government Plan Annex.

14. The Fiscal Policy Panel's report advised that it was not in favour of maintaining separate funds for individual projects. Against that background, is there any intention to wind up the Ecology Fund by releasing the funds there held to be applied to environmental or similar measures? Please could a schedule of all other funds established for specific purposes with their current values be provided?

The Ecology Trust Fund is established as a Trust Fund rather than a States Fund. There is no current plan to wind up the Trust Fund.

Estimated balances on States Funds are included as Table 40 of the Government Plan (P167). The detail for other special funds which are included in the Government Plan (but not listed separately) is as follows:

Other Special Funds	2022 Opening Balance (£000)
Criminal Offences Confisc Fnd	6,180
Civil Asset Recovery Fund	1,201
Tourism Development Fund	17
CI Lottery (Jersey) Fund	1,490
Agricultural Loans	564
Jersey Innovation Fund	3,863
Dwelling Houses Loan Fund	5,314
Assisted House Purchase Scheme	2,271
99 Year Leaseholders Account	831
Insurance	7,420
Total	**29,150**

15. In the Panel's recent hearing with the Chief Minister it was highlighted that there was additional growth and capital expenditure that would aid in putting children first, this is highlighted as an additional £6.8 million [GP page 123]. However, Net Revenue Expenditure in Children, Young People, Education and Skills will only increase £792,000 over what had been indicated in last year's plan. [Annex 22-25 p.24, Annex 21-24 p.19]. The Chief Minister indicated that he felt that this was 'still an improvement'. Do you also hold the view that it is an appropriate and transparent way in which to report 'growth' in a department's budget?

As stated in the plan (P123): *"This plan proposes to invest further monies into our strategic priorities, including £45 million in 2022. This includes £8 million **identified in previous plans**, as well as £37 million of new investments (including hospital financing costs)."*

Much of the investment in Putting Children First had already been identified in previous plans – Page 19 of the Annex 21-24 showed an increase of £6m between 2021 and 2022. Newly identified investment for this plan is set out in Appendix 3.

Table 8 in the Annex to the Government Plan shows the changes in Heads of Expenditure, which separately includes both new and previous investment, but also other items such as service transfers and rebalancing. This is, in my view, very transparent.

Yours sincerely

Susie Pinel

Deputy Susie Pinel
D +44 (0)1534 440215
E s.pinel@gov.je