P. 2017/53 Amdt 12

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

27th June, 2017

Proposition No. P. 2017/53

AMENDMENT

Proposed by: Deputy E A Yerby
Seconded by: Deputy S L Langlois

Policy & Resources Committee

The Policy & Resource Plan – Phase Two

1. To delete Proposition 1 and substitute therefor the following Propositions and table:

"1A. To approve that the overall aim of the States' budget shall be to achieve a largely balanced budget each year from 2018 to 2021 principally through new income measures amounting to £9million in 2018 and £18million recurrently each year from 2019 to 2021; and to agree that any savings which are made by Committees or the States as a whole in pursuance of the initiatives set out in Paragraph 6.22 of the Medium Term Financial Plan, or the initiatives set out in individual Committee Policy Plans, shall be made available immediately for reinvestment in the areas of highest priority across the public sector, or for replenishment of the States' reserves."

1B. To approve the general approach detailed in the Medium Term Financial Plan (appendix 1), but with specific regard being had to the general underlying positions set out in the table below, headed "Table 2A", in place of those set out in Table 2 of the Plan (see table appearing immediately after paragraph 1.19 of the Plan at page 53 of Billet d'État No. XII of 2017) and any consequential changes to the Plan necessary to reflect the objective of a balanced budget from 2018 to 2021.

1C. To direct the Policy & Resources Committee to take account of the overall aim and agreement referred to in Proposition 1A and the general approach referred to in Proposition 1B when formulating proposals for inclusion in annual Budget Reports.

Table 2A

	2017	2018	2019	2020	2021
Underlying income position	408.30	408.90	410.40	411.40	412.70
Forecast income measures	0.00	9.00	18.00	18.00	18.00
Income position after measures	408.30	417.90	428.40	429.40	430.70
2017 cash limits	(362.50)	(362.50)	(362.50)	(362.50)	(362.50)
Health service grant reinstatement	0.00	(4.70)	(4.70)	(4.70)	(4.70)
Estimated cost pressures	0.00	(3.40)	(8.10)	(9.40)	(10.80)
Impact of Expenditure Savings	0.00	0.00	0.00	0.00	0.00
Underlying expenditure position	(362.50)	(370.60)	(375.30)	(376.60)	(378.00)
Service developments	0.00	0.00	0.00	0.00	0.00
Capital income - returns from trading assets	5.00	5.50	6.00	6.50	7.00
Capital income - property	0.00	1.00	1.00	1.00	1.00
Financial position before capital appropriation	50.80	53.80	60.10	60.30	60.70
Capital appropriation - major capital	(29.80)	(36.80)	(42.40)	(42.40)	(42.00)
Capital appropriation - routine capital	(10.50)	(10.50)	(10.50)	(10.50)	(10.50)
Capital appropriation - capital income	(5.00)	(6.50)	(7.00)	(7.50)	(8.00)
Total capital appropriation	(45.30)	(53.80)	(59.90)	(60.40)	(60.50)
Overall surplus / deficit	5.50	0.00	0.20	(0.10)	0.20

"

Explanatory Note

The first principle of the Fiscal Policy Framework is one of "*long-term permanent balance*." The States resolved, in the November 2016 debate on Phase 1 of the Policy and Resource Plan, "*to commit to achieving and maintaining a balanced budget in the short term and surplus in the medium term.*" The Fiscal Policy Framework defines the short term as "*up to five years*" and the medium term as "*between five and 15 years*."

The Medium-Term Financial Plan [MTFP] seeks to achieve a budget surplus in the short term (no later than 2020). In doing so, it puts undue pressure on both Committee spending and revenue raising. The first thing this amendment does is to remove the goal to achieve surplus within three years, and instead focuses on **achieving a balanced budget in the short term**, in accordance with the States' resolution on Phase One of the Plan.

The MTFP included Committee savings targets (line 7 of Table 2) from 2018 onwards. But from 2020, a proportion of these savings were reintroduced as money allocated to "service developments" (line 9 of Table 2). The allocation of money specifically for service developments is reminiscent of the FTP and the bidding process under the States' Strategic Plan. It is not an effective or transformational way to think about prioritisation and reinvestment of public sector spending. Indeed, the risks of this kind of approach appear to be acknowledged at paragraphs 6.16 to 6.18 of the MTFP itself.

We believe that Committees, and the States as a whole, can and will make significant efficiency savings over this States term. However, there are also areas which are significantly underfunded – which, if funded properly, could help to meet the demographic challenge, or could reduce costs in other parts of the public sector. One regularly cited example is the need to invest in community care in order to reduce the pressure on hospital care, but there are many other such issues across the public sector – as indicated by every Committee's Policy Plan.

Targets encourage short-termism and cost-cutting. If the States wants to deliver efficient, effective public services, we can't overlook the need to reinvest alongside the need to manage Committee budgets wisely and to make efficiencies wherever possible. We suggest that, instead of targets for savings and 'service developments', the States should **continue to pursue efficiencies, but reinvest these promptly in the areas of greatest need** or to help replenish the States' reserves. The net effect on overall States spending is, therefore, 0 – this is shown in lines 7 and 9 of our proposed replacement table.

Once the pressure to achieve a short-term surplus has been removed, and Committee savings targets and 'service development' allocations have been taken out, there is a need to raise £9m in additional income in 2018 and £18m per annum from 2019 onwards. This is not wildly more ambitious than the proposals for income-raising measures of £3.5m rising to £14m p.a. in the MTFP, which P&R believe can be achieved through "*a balance of increased revenues, particularly from those most able to pay.*" It is our view that this is a prudent, proportionate and achievable way of balancing the books over the short-term period covered by the MTFP.