Corporate Services Scrutiny Panel

Draft Budget 2016

Presented to the States on 11th December 2015

S.R.10/2015

CONTENTS

1. PANEL MEMBERSHIP, TERMS OF REFERENCE AND EVIDENCE CONSIDERED

Panel Membership and Terms of Reference

The Corporate Services Scrutiny Panel comprised the following Members:

Deputy J.A.N. Le Fondré, Chairman

Deputy S.M. Brée, Vice-Chairman

Connétable C.H. Taylor

Deputy K.C. Lewis

The following Terms of Reference were agreed for the review:

1. To consider the proposals of the Minister for Treasury and Resources in the Draft 2016 Budget Statement in respect of:
    a) Income Tax;
    b) Goods and Services Tax (GST);
    c) Impôts;
    d) Stamp Duty; and
    e) Other tax proposals;
2. To consider the Capital Programme for 2016 as presented in the Draft 2016 Budget Statement;
3. To consider any transfers which the Minister may propose in the Draft 2016 Budget Statement between the Consolidated Fund and other Funds and reserves;
4. To consider the economic implications of the Minister's proposals in the Draft 2016 Budget Statement;
5. To consider the impact of the updated financial forecasts and the status of Long Term Revenue Planning;
6. Consider how the likely outturn for 2015 including carry forwards is going to impact the 2016 base budget position including the position on reserves and funds;
7. To consider progress being achieved in the identification of savings and how they will impact 2016.

Evidence Gathered

The following documents were considered by the Panel during its review:

a) Draft Budget Statement 2016

b) Medium Term Financial Plan 2016 – 2019

c) Written Submissions from

   a. NASUWT – The Teachers' Union

   b. Jersey Chamber of Commerce

   c. Customs and Excise

   d. Randalls Brewery Limited

2. FINDINGS AND RECOMMENDATIONS

Finding 1

No background studies have been carried out as to the consequence on the housing market should these changes be implemented. (Page 9)

Recommendation 1

An up to date impact study is carried out on the impact on the housing market to include the rental sector, as a result of these changes to MITR. This is to be presented prior to the lodging of the MTFP Addition – currently due on 30th June 2016. (Page 9)

Finding 2

The Panel is also concerned that those already struggling to pay a mortgage may face great financial difficulty when this benefit is removed as it is not something they had planned for in the long term. (Page 9)

Recommendation 2

The implementation of these changes are reviewed following the results of the impact study. (Page 9)

Finding 3

The eventual withdrawal of age enhanced exemption thresholds will adversely impact on pensioners, when one in three pensioners are already living in relative low income – twice the proportion of that in the UK. (Page 10)

Recommendation 3

The age enhanced income tax exemption thresholds for taxpayers aged over 65 should not be removed from the year of assessment 2018 from taxpayers reaching the age of 65 after 1st January 2017 and that the age exemption thresholds should not be held at 2016 levels and instead should continue to rise in line with standard exemption thresholds. (Page 11)

Finding 4

The forecasts for overall States income have increased by approximately £9 million since the presentation of the MTFP 2016 – 2019 in July 2015. (Page 16)

Finding 5

The personal tax forecasts in the 2016 Budget compared to the MTFP 2016 – 2019 show a deterioration of £26 million. (Page 16)

Finding 6

The trend over the last decade of downgrading personal income tax forecasts continues in this budget, which raises questions about the accuracy of forecasting models. (Page 16)

3. INTRODUCTION

The Draft Budget Statement 2016 (the Draft Budget) was lodged on 20th October 2015 as P.127/2015 and will be debated on 15th December 2015.

It contains the proposals of the Minister for Treasury and Resources in respect of taxation, capital expenditure and more generally, the fiscal framework. The Draft Budget follows the recent review on the Medium Term Financial Plan 2016 – 2019 which was approved and debated by the States Assembly on 20th October 2015. Most of the issues underpinning the Budget modelling for 2016 were covered in the comprehensive report on the MTFP 2016 – 2019 and the Panel's review is therefore more concise than would normally be the case on such an important Proposition.

The Panel received a written submission from Jersey Chamber of Commerce who commented that the Draft Budget contained little in the way of specific proposals to either hinder or support the business community. Consequently, many have suggested that it is a relatively neutral Budget Statement with little in the way of meaningful content or substance.[1]

The Panel is grateful for the work of its expert advisors from the Chartered Institute of Public Finance and Accountancy (CIPFA) and MJO Consulting whose reports may be read in Appendix 3. The Panel would like to make reference to the comments of CIPFA under Good Practice where they have stated that the Financial Strategy within Treasury and Resources has substantially improved.

[1] Written Submission – Jersey Chamber of Commerce

4. TAX PROPOSALS

Within the Draft Budget 2016 the Minister states his aims for the Island's tax system.

These aims are:

- Achieving long term sustainable public finances
- Simplification
- Stability
- Addressing inequalities and anti-avoidance
- Flexibility to adapt to changing circumstances
- Supporting economic growth
- Improved, efficient administration

The Minister also states that in order to be consistent with the aim of maintaining a stable tax system, no changes are being proposed to the main areas of the tax system.

"…no changes are proposed to the key elements of the tax system namely:

- *The 20% standard rate of personal tax income*
- *The corporate tax regime which delivers a tax neutral vehicle in a transparent and internationally acceptable manner; and*
- *A low, broad and simple GST with low income households compensated through the benefits system where appropriate…"*[2]

The Panel is therefore highly concerned that immediately following this Statement in the Draft Budget, the Minister outlines a number of changes to the current income tax measures. Although the Panel is aware that Draft Budgets by their very nature usually bring about changes to income tax, the Panel wishes to comment on 2 areas in particular.

Phasing out of Mortgage Interest Tax Relief (MITR)

The Draft Budget proposes to phase out the MITR over a 10 year period commencing in 2017. The current allowable deduction is capped at £15,000 and will remain unchanged for 2016. The Panel is concerned that implementing this change will make it even more difficult for first time buyers to get onto the property ladder and in addition, may have an effect on those with a new mortgage who have not budgeted long term for this change. The Panel was keen to understand what feasibility studies

[2] Draft Budget Statement

had been undertaken to assess the impact that such a change may have on the housing market and raised this with the Minister for Treasury and Resources at a Public Hearing.

Deputy J.A.N. Le Fondré:
What is the date of the last study that was carried out to ascertain the impact on the housing market when the mortgage interest tax rate is removed? In other words, have you done a study and when was it last done?

Head of Tax Policy:
We have not done a specific study on the Jersey market but obviously last year as part of the Property Tax Review Green Paper that was circulated, PwC contained some advice around mortgage interest tax relief, which I think highlighted the inefficiency of the relief and the sort of ineffective nature of the relief. So that was the last time that someone has specifically provided advice to us on the effectiveness of the mortgage interest tax rate.[3]

The Panel learned that the study undertaken by PWC was in fact a generic study undertaken for the UK and was not specific to Jersey.

The Panel also queried what studies had been done on the possible effect of the rental market in Jersey and was given the following response:-

Deputy J.A.N. Le Fondré:
Has anybody done an impact assessment on what it will have on the rental market?

The Minister for Treasury and Resources:
Yes, that is relevant to what I am about to say. The point is that we are taking it away as of next year, we are phasing it out starting in 2017 over a 10-year period. So that allows people the opportunity to adjust and that will apply both to the rental market, of course, that you are asking about but more importantly or as importantly the impact on the capital value of properties, so it is time.

Deputy J.A.N. Le Fondré:
Has there been an impact study done on what will happen on the rental market?

[3] Public Hearing with Minister for T&R – 9/11/15

The Minister for Treasury and Resources:

As you have just heard, there has been no specific impact assessment.[4]

The Panel does not believe rational background studies have been carried out to understand the overall impact on the housing market should these changes be adopted.

Finding 1

No background studies have been carried out as to the consequence on the housing market should these changes be implemented.

Finding 2

The Panel is also concerned that those already struggling to pay a mortgage may face great financial difficulty when this benefit is removed as it is not something they had planned for in the long term.

Recommendation 1

An up to date impact study is carried out on the impact on the housing market to include the rental sector, as a result of these changes to MITR. This is to be presented prior to the lodging of the MTFP Addition – currently due on 30th June 2016.

Recommendation 2

The implementation of these changes are reviewed following the results of the impact study.

Income Tax Exemption Thresholds for over 65's

Taxpayers aged 65+ at the start of the year of assessment are entitled to an age enhanced exemption threshold of £1,700 for a single person and £3,300 for a married couple. This is highlighted below:-

Type of Taxpayer	Standard Exemption 2015	Age enhanced Exemption 2015	Differential	Tax Benefit @ 26%
Single	£14,200	£15,900	£1,700	£442
Married/Civil	£22,800	£26,100	£3,300	£858

The Panel notes that the higher exemption thresholds currently cost the States approximately £4 million per annum in lost tax revenue with a growing cost of £300,000 per year due to the ageing demographic. It is proposed in the Draft Budget that this growing cost is limited with effect from the

[4] Public Hearing with Minister for T&R – 9/11/15

2018 year of assessment meaning that only those taxpayers who turn 65 years old before 1st January 2017 will continue to be eligible for this benefit in 2018 and later years.

In addition, the Minister is also proposing to hold the current level of age enhanced exemption thresholds at 2016 levels to reduce the differential between the standard exemption thresholds and the age enhanced exemption thresholds. The Panel notes that this freeze will affect every tax payer presently aged 65+.

The Panel considers these changes to be, in effect, increases in taxation on older persons, and is concerned that such changes are highly likely to have an impact on the overall costs of living for the elderly.

The Panel also notes it has been reported that half (52%) of adults agreed at some level that they were worried about their standard of living in retirement, including nearly a third (31%) of those of retirement age.[5] In addition, the Jersey Household Income Distribution report states that one in three pensioners in Jersey were in relative low income.

> *"…After housing costs, 26% of households and 23% of individuals were living in **relative low income** (RLI)*
> *one in three (29%) **children** were in RLI, a similar proportion to the UK (28%)*
> *one in three (28%) **pensioners** in Jersey were in RLI, twice the proportion of that in the UK (14%)…"*[6]

The Draft Budget follows soon after the recent States Debate and approval of the MTFP 2016 – 2019 where concerns were raised that those over 65 were being targeted to help address the deficit. The Panel believes that this group is once again being targeted and has concerns that this change in over 65's income tax will come as a shock as it was not raised in the MTFP 2016 – 2019.

The Panel received a written submission from NASUWT – the largest teachers' union in Jersey who also commented on the withdrawal of tax allowance for over 65's. They state that the proposed measure hits all pensioners equally in cash terms and if it is the intention of the States to make wealthy pensioners "pay their way" it should be done in such a way as to mitigate the effects on the poorest. *"…when changes to the benefit system are taken into account, the effects are multiplied for lower income pensioners…"*[7]

[5] Jersey Annual Social Survey 2015
[6] Jersey Household Income Distribution report 2014/15
[7] Written Submission from NASUWT

Finding 3

The eventual withdrawal of age enhanced exemption thresholds will adversely impact on pensioners, when one in three pensioners are already living in relative low income – twice the proportion of that in the UK

Recommendation 3

The age enhanced income tax exemption thresholds for taxpayers aged over 65 should not be removed from the year of assessment 2018 from taxpayers reaching the age of 65 after 1st January 2017 and that the age exemption thresholds should not be held at 2016 levels and instead should continue to rise in line with standard exemption thresholds

5. IMPÔTS DUTY PROPOSALS

Each year in advance of the Budget, the proposals for impôts duties are reviewed against the prevailing economic conditions, the Island's financial position and the States strategies on alcohol and tobacco and for the environment.[8]

Figure 9, page 25 of the Draft Budget illustrates how the Minister is proposing increases* on Impôts duty:-

Figure 9, page 25 of Draft Budget	Impôts duty increase	GST on impôts duty increase	Total additional cost
Spirits – litre bottle @ 40% ABV	85.7p	4.3p	90p
Wine – 75cl bottle	1.9p	0.1p	2.0p
Pint of Beer/cider exceeding 4.9% ABV	4.8p **	0.2p	3.0p
Pint of Beer/Cider exceeding 2.8% ABV but not exceeding 4.9%	2.8p **	0.1p	1.0p
Tobacco – pack of 20 cigarettes	33.3p	1.7p	35.0p
Litre of unleaded petrol	2.1p **	0.1p	1.0p

* The Panel queried the reason why, in some cases, the figures did not add up to the total in the right hand column and was informed that the tables came from Impôts and were presented with a mixture of both percentage and cost.
** Percentages

The Panel, in gathering its evidence, received a written submission from Randalls Limited. Randalls raise concern that the proposed increases *"once again above inflation in alcohol"*[9] will do little to help the recently formed Visit Jersey whose aim is to increase visitor numbers. Randalls are of the opinion that a more sensible and equitable manner should be applied to duty increases in ale and lager as this blanket approach targets social and responsible drinkers and does little to address the major problem of alcohol dependency on the Island. Within their submission, Randalls state *"…Whilst we are aware of the continuing need for the States to raise annually more cash, we feel that the hefty increases proposed to beers above 4.9% ABV and Spirits at 40 proof to be wholly unjust and frankly unacceptable…"*[10]

Jersey Chamber of Commerce also commented that the rises in Impôts Duties were significantly ahead of current inflation levels and raised concern that the above inflation rises will do little to support the growth in the Island's tourism and leisure related activities.

[8] Draft Budget 2016
[9] Written Submission from Randalls
[10] Written Submission from Randalls

The Panel asked the Minister why he was raising the Impôts Duty when the Island was trying to increase tourism. Although the Panel is aware it is not just cheap duty free that attracts tourism, it was keen to state the recent increase in duty may be seen as "…Not as a single item on its own, but it is one of the many, many, many nails in the coffin…"[11]

> ***The Minister for Treasury and Resources:***
> *I think it is fair to say that our tourism industry has moved on considerably since the days when I remember seeing an old film advertising the Island, with shops piled high with cigarettes and alcohol, and that was the reason that people came here. We have moved on considerably since then. The basis of our tourism industry and the success that it is had is far more broad-based than that. We do not believe, in summary, that measures contained within this Budget are going to have any impact on the success of our tourism industry and its ability to grow its numbers in the coming years, as identified, which is why we have set up Visit Jersey, and it is beginning to deliver on its remit.*
>
> ***The Minister for Treasury and Resources:***
> *I do not think the tourism sector would consider themselves on their last breath. In fact, the sector and the industry are performing and has performed remarkably well through the recession. I think the new direction set by Visit Jersey and the impetus of bringing the sector together is positive.*[12]

The Panel did not undertake detailed research into the justification for the above inflation rises that both Stakeholders mention however, is of the opinion the measures being implemented to raise the States income is hitting not only tourism but the everyday taxpayer.

[11] Panel quote – Hearing with Minister for T&R – 9/11/15
[12] Hearing with Minister for T&R – 9/11/15

6. INCOME FORECASTS

Within the Draft Budget, the income forecasts have increased by approximately £9 million since the presentation of the MTFP 2016 – 2019 in July 2015. These increases are summarised in the Draft Budget as follows:-

- Improvements in corporate income tax based on 2015 in-year information which after examination is expected by the Taxes Office to continue in future years (i.e. is not one-off in nature)

- A reduction to personal income tax forecasts from 2016 onwards reflecting latest trends from ITIS in-year data, suggesting slightly lower year-on year-increases for the first half of 2015 in respect of employment income

- Improvements in the GST and impôts duty forecasts for 2015, which are likely to include the impact of the Island Games. These have therefore been treated cautiously as one-offs and not built into future forecasts until further analysis is undertaken

- Movements in investment returns and the changes in the balances available to invest on the Consolidated Fund and Currency Fund have resulted in variances to the projected return over the period of the forecast. The additional dividend from Jersey Post proposed in Budget 2015 is now confirmed to be received in 2015

- A range of smaller variations resulting from the remodelling of income forecasts using the revised economic assumptions from the FPP Annual Report (September 2015)

Prior to the Panel holding a Public Hearing with the Minister for Treasury and Resources, the Governor of the Bank of England made a statement regarding the weakening of the outlook for global growth and its impact on potential increases in base rates moving forwards. The Panel asked the Minister if he had any plans to make adjustments to the forecasts in light of this statement to which he replied "none at the moment". The Minister went on to say

> *"…The next forecasts, first of all, are due next year, which are going to inform the next part of the Medium Term Financial Plan that is the period for the final 3 years. As you know, we have done a one year assessment so far. So we will have updated forecasts in March/April of next year, which will ultimately come from the income forecasting group and go past the Council of Ministers but will, at some stage, inform that particular document…"*[13]

[13] Public Hearing with Minister for T&R – 9/11/15

The Panel's advisor, MJO consulting made reference to two important issues regarding income forecasting and the addition of £9 million:

- An additional £4 million per annum has now been added to the base forecast for corporate tax for the period 2016–19. In addition, the downward adjustment of £5 million from 2017 assumed in MTFP 2 has been revised upwards and at the same time there has been a slight reduction in tax from a corporate taxpayer that will no longer operate in Jersey. On balance, both factors have led to a forecast of an additional £2 million receivable from 2017 onwards.

- Personal income tax has been reduced by £1 million per annum for the period 2016–19 in light of adjustments by the Tax Office and has been further reduced by £2 million in 2016 and then £1 million in the remaining years of MTFP 2 because of new economic assumptions. There is also an assumption of a £4 million recurring reduction on the basis of ITIS half-year information for 2015.[14]

Whilst the optimistic growth in total income tax revenues from 2015 are forecast at 2.7%, 4.4%, 5.1% and 4% for the period 2016–19 respectively, this is tempered by the forecasts for personal income tax. The cumulative difference between the personal tax forecasts in the 2016 Budget and MTFP 2 is £26 million (i.e. a deterioration of £26 million between 2015–19)[15] As noted in the Corporate Services Scrutiny Report on MTFP 2, this further downgrading in personal income forecasts has been a persistent feature of each financial forecast this decade and the latest Budget continues the trend. However, largely due to the changes mentioned above to the corporate tax forecasts, the updated income tax forecast shows an overall improvement of £2 million over the period compared to the assumptions in MTFP 2. [16]

The economic assumptions that have been used in Budget 2016 have taken into account developments since June 2015. This has not resulted in any significant changes to the forecast range from MTFP 2. On balance, it would be fair to say that there are still a number of downside risks recognized and these are adequately considered. However, given the deterioration in the personal tax forecasts mentioned above, this does raise a concern whether the income-forecasting model is fully capturing the changes which seem to be occurring in the Jersey economy.[17]

[14] MJO Consulting – Report November 2015
[15] Taken from Figure 43, page 92 of Draft Budget – the difference between the Budget Years 2015 – 2019 as was reported in latest MTFP and the updated total personal
[16] MJO Consulting – Report November 2015
[17] MJO Consulting – Report November 2015

Previous Scrutiny Reports on both the Budget and MTFP recommended that income forecasts needed to be revised downwards. The Panel believes that the argument for prudence remains strong and has concern that the income forecasts may, once again, be over optimistic. The Panel is also concerned that preparation for the MTFP Addition due to be lodged in June 2016 may include an over optimistic range of incomes.

Finding 4

The forecasts for overall States income have increased by approximately £9 million since the presentation of the MTFP 2016 – 2019 in July 2015.

Finding 5

The personal tax forecasts in the 2016 Budget compared to the MTFP 2016 – 2019 show a deterioration of £26 million.

Finding 6

The trend over the last decade of downgrading personal income tax forecasts continues in this budget, which raises questions about the accuracy of forecasting models.

7. OTHER AREAS OF CONSIDERATION

As previously mentioned, the Draft Budget follows closely after the MTFP 2016 – 2019 when the Panel undertook a comprehensive piece of work. As such, the Draft Budget has generated only limited comment and opinion. The Panel has therefore listed below other areas of concern that Members would ordinarily expect to see within a Scrutiny Report on the Budget.

<u>Capital Programme</u>

The Panel note there are no changes to the Capital Programme as proposed in the MTFP 2016 – 2019. Within the 2016 allocation, only £1 million has been allocated to a major project – Les Quennevais School rebuild. The Panel also wishes to remind Members that the Capital Programme excludes funding requirements for the future hospital and the office consolidation project – both of which are under separate consideration and will require subsequent approval to include the source of funding.

<u>Allocation of Growth for 2016</u>

The States approved the expenditure proposals in the MTFP and consequently there are no further Growth allocations to be proposed in the Draft Budget for 2016.

<u>Expenditure</u>

Expenditure in the Draft Budget remains the same as what was approved in the MTFP 2016 – 2019. This is reassuring as the States cannot use the increased £9 million of additional forecasted income as 2016 expenditure.

<u>Asset Disposal</u>

Proposals in the MTFP 2016 – 2019 and again in the Draft Budget allow for asset disposals of £20 million in both 2017 and 2019 totalling £40 million. The Panel has repeatedly asked for further details of these asset disposals but has been unsuccessful in obtaining an answer. Without this information, the Panel is concerned these figures are aspirational.

8. EXPERT ADVISORS' REPORTS

Income forecasts in the 2016 Budget – a brief note

The 2016 Budget includes a revised income forecast which shows a number of small variations compared to the Medium Term Financial Plan 2016–2019 (MTFP 2).[18] In summary, the income forecast presented in the 2016 Budget illustrates an improvement in total revenues for 2015 (increased corporate tax and one-off increases in GST revenues and impôts duty); a reduction in 2016 (lower personal income tax revenues) and small net changes over the remaining years of the forecast to 2019. On the basis of an expenditure profile which is largely unchanged since MTFP 2, this currently results in a forecast surplus of £13 million in 2019 (compared to £4 million reported in MTFP 2). Table 1 shows the combined impact of changes to the MTFP 2 income tax forecast.

Table 1. Combined impact of changes to the MTFP 2016-2019 income tax forecast

Budget Year	2015	2016	2017	2018	2019
Personal tax					
MTFP 2016-2019	359	375	395	417	434
New economic assumptions	0	-2	-1	-1	-1
Adj. for in year forecast from Taxes Office (TO)	-1	-1	-1	-1	-1
Adj. for 2015 ITIS half year information		-4	-4	-4	-4
Updated total personal	358	368	389	411	428
Corporate tax					
MTFP 2016-2019	82	85	82	85	88
New economic assumptions	0*	0	0	0	0
Adj. for in year forecast from TO	4	4	4	4	4
Adj. for tax payer developments**			2	2	2
Updated total company tax	86	89	88	91	94
Bad debts***	-1.3	-2	-2	-3	-3
Updated total income tax forecast	**443**	**455**	**475**	**499**	**519**
MTFP 2016-2019 forecast	438	458	475	499	519
Difference Provisional - MTFP	*5*	*-3*	*0*	*0*	*0*

* No adjustment has been made in 2015 for higher financial services profit growth in 2014 GVA

** New information regarding significant changes for individual corporate tax payers

*** Includes 2015 Taxes Office in-year estimate for 2015

Source: States of Jersey (2015, p. 92)

It is important to note two things about the income forecasts:

[18] This is a short note as the 2016–19 position has been discussed at length in a recent report by the Corporate Services Scrutiny Panel (Corporate Service Scrutiny Panel 2015).

- An additional £4 million per annum has now been added to the base forecast for corporate tax for the period 2016–19. In addition, the downward adjustment of £5 million from 2017 assumed in MTFP 2 has been revised upwards and at the same time there has been a slight reduction in tax from a corporate taxpayer that will no longer operate in Jersey. On balance, both factors have led to a forecast of an additional £2 million receivable from 2017 onwards.

- Personal income tax has been reduced by £1 million per annum for the period 2016–19 in light of information contained in tax returns submitted to the Taxes Office during 2015 and has been further reduced by £2 million in 2016 and then £1 million in the remaining years of MTFP 2 because of new economic assumptions. There is also an assumption of a £4 million recurring reduction on the basis of ITIS half-year information for 2015.

Whilst the optimistic growth in total income tax revenues from 2015 are forecast at 2.7%, 4.4%, 5.1% and 4% for the period 2016–19 respectively, this is tempered by the forecasts for personal income tax. The cumulative difference between the personal tax forecasts in the 2016 Budget and MTFP 2 is £26 million (i.e. a deterioration of £26 million between 2015–19). As noted in the Corporate Services Scrutiny Report on MTFP 2, this further downgrading in personal income forecasts has been a persistent feature of each financial forecast this decade and the latest Budget continues the trend. However, largely due to the changes mentioned above to the corporate tax forecasts (up by £26 million), the updated income tax forecast shows an overall improvement of £2 million over the period compared to the assumptions in MTFP 2.

The economic assumptions that have been used in Budget 2016 have taken into account developments since June 2015. This has not resulted in any significant changes to the forecast range from MTFP 2. On balance, it would be fair to say that there are still a number of downside risks recognized and these are adequately considered. However, given the deterioration in the personal tax forecasts mentioned above, this does raise a concern whether the income-forecasting model is fully capturing the changes which seem to be occurring in the Jersey economy. Whilst it is recognized that 'employment income growth is a key driver of trends in personal income and the tax that comes from it. The profile going forward for personal tax growth is for it to increase as the economy continues to grow in real terms' (States of Jersey 2015, p. 90) this doesn't really explain much about the changes in the composition of personal tax which underlie the updated total personal tax figures in Table 1.

As the 2016 Budget acknowledges, the forecasts of States income are a crucial component of the States medium and long term financial planning. In the current tax structure, the growth of personal income tax is critically important to finance public expenditure. Personal income tax accounts for 81 per cent of the overall yield from income tax. Are there some changes associated with personal income tax since the Global Financial Crisis which are not fully accounted for by the income tax model and which might inadvertently have led to forecasting errors? To answer this question would require a great deal more analysis and discussion than can be presented here; however, in terms of providing some basic data a series of recent Freedom of Information requests have provided numbers on the total number of individuals who pay tax in Jersey (Table 2).

Table 2. Number of taxpayers who pay income tax in Jersey, 2012–13

	Total number of taxpayers in Jersey	Pay no tax	Pay marginal rate tax	Pay standard rate (20%)

2012	60,619	15,444	38,464	6,711
2013	61,135	16,598	38,201	6,336

Source: various Freedom of Information requests

For 2013, the 38,201 taxpayers on marginal rate paid income tax totaling £190 million and 6,336 taxpayers on the standard rate paid income tax totaling £163 million. Although a final breakdown of figures are not available for 2014, the Treasury Minister notes in his foreword to the 2016 Budget statement that 40 per cent of the lowest-earning people contributed 3 per cent of the £354 million of personal income tax raised in 2014 and 80 per cent of taxpayers have effective rates ranging from 7 per cent to 15 per cent (States of Jersey 2016, p. 7).

It would be informative to extend Table 2 back to before the Global Financial Crisis and to examine the relationship between the actual revenues generated by personal taxpayers and what the income tax model predicted. Moreover, it would be instructive to consider more fully the changes in financial sector salaries and to question whether the *level* of earnings is changing as a result of consolidation, disintermediation and de-risking in the sector. In short, is there evidence that former high paying jobs or newly created jobs in finance are lower paying than previously which will result in a lower tax revenues than expected, irrespective of the higher growth in nominal GDP?

In the author's report on the MTFP 2 it was suggested that it might be prudent to introduce an 'income contingency' which would result in officials planning for lower revenues totaling £64 million between 2016–19. The author had hoped by the 2016 Budget that such pessimism might have been misplaced; however, in the space of three months personal tax revenues are now projected to be £26 million lower over the MTFP 2 period. A more detailed assessment will be provided for the Panel in June 2016.

MJO Consultancy

References

Corporate Services Scrutiny Panel (2015), *MTFP 2016–2019*, S.R. 6/2015, Jersey: States of Jersey.

States of Jersey (2015), *Draft Budget Statement 2016*, Jersey: States of Jersey.

CIPFA The Chartered Institute of Public Finance & Accountancy

States of Jersey
States Assembly

États de Jersey
Assemblée des États

CORPORATE SERVICES SCRUTINY SUB PANEL

BUDGET 2016

DRAFT REPORT

November 2015

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Contents

1. Introduction

1.1 In October 2015, the States of Jersey commissioned CIPFA Business - Finance Advisory (the commercial arm of the Chartered Institute of Public Finance and Accountancy) to support the work of the Corporate Services Scrutiny Panel in an assessment of the States of Jersey Budget Proposals 2016. This draft report outlines CIPFA's preliminary position on this work to 20 November 2015.

Our Approach

1.2 Our approach to this independent review has sought to draw together a wide range of evidence including previous Budget Review work at the States including the recent assessment on the Medium Term Financial Plan 2016-2019. The majority of the conclusions and recommendations contained within this draft report are based on interviews with Officers within the States of Jersey and some Document Review. Evidential sources also included prevailing best practice on budget setting and wider financial management practice as encapsulated within the CIPFA Financial Management (FM) Model.

Scope

1.3 Our scope of work included for the assessment of the Financial Management attributes of good practice in respect of the main components of the Budget Proposition outlined within the Draft Budget Statement 2016 covering the following:-

- Budget Modelling
- Impacts on Strategic Reserve and Consolidated Fund
- Income Tax Proposals and Yield Forecasts
- Impôts and Stamp Duty land Transaction Tax Changes
- Other Income
- Base Budgets
- Capital Programme

2. Budget Deficit Modelling - 2016

2.1 Moving on from the approval of the base MTFP 2016-2019 and the base position for 2016, notwithstanding the additional revenue generating budget proposals, the States are actively budgeting for a significant deficit for 2016. Beyond 2016 general revenue expenditure can be tracked from a forecasted 2016 deficit position of £101.668 million with progressive reductions in subsequent year deficits of £56.584 million in 2017 and £19,500 million in 2018 to reach a surplus of £13.046 million in 2019 (all including depreciation).

Revenue Expenditure to Income

2.2 An extract from page 58 of the Draft Budget Statement 2016 illustrates the expected movements on Income impacting Total Net Revenue Expenditure:

Outturn 2014 £'000	Financial Forecast	Forecast October 2015 £'000	Forecast Update for Draft Budget 2016 October 2015 2016 £'000	2017 £'000	2018 £'000	2019 £'000
	States Income					
436,665	Income Tax	443,000	455,000	475,000	499,000	519,000
80,226	Goods and Services Tax	83,757	83,334	84,968	85,779	86,609
54,103	Impôts Duty	55,942	55,616	55,649	55,812	56,006
25,977	Stamp Duty	26,946	26,357	28,802	30,946	31,800
11,896	Island Wide Rate	12,031	12,248	12,554	12,930	13,318
8,283	Other Income (Dividends)	13,260	11,527	8,871	15,034	9,801
18,236	Other Income (Non-Dividends)	10,846	9,698	10,939	12,337	12,176
13,581	Other Income (Return from Andium and Housing Trusts)	27,506	27,821	28,459	29,352	30,350
	Proposed Budget Measures		1,848	5,461	6,465	7,431
648,967	**States Income**	**673,288**	**683,449**	**710,703**	**747,655**	**766,491**
-	Proposed mechanism to offset States Payment of Rates	-	-	1,000	1,000	1,000
-	Proposed sustainable funding mechanism for	-	-	-	15,000	35,000
648,967	**Total States Income - incl: Proposed Health Charge**	**673,288**	**683,449**	**711,703**	**763,655**	**802,491**
674,163	Departmental Net Revenue Expenditure	687,146	697,377			
	Central Allocations	37,483	42,940			
	Proposed Allocation for Committee of Inquiry	10,000				
674,163	**Total Net Revenue Expenditure (excl: Depn)**	**734,629**	**740,317**	**724,287**	**733,955**	**734,845**
(25,196)	**Forecast Operating Surplus/(Deficit) for the year**	**(61,341)**	**(56,868)**	**(12,584)**	**29,700**	**67,646**
56,901	Departmental Depreciation	50,098	44,800	44,000	49,200	54,600
(82,097)	**Surplus/(Deficit) of General Revenue Expenditure over Income**	**(111,439)**	**(101,668)**	**(56,584)**	**(19,500)**	**13,046**

Consolidated Fund and Strategic Reserve

2.3 Whereas the budget proposals are designed to assist with bringing the general revenue expenditure over income back into surplus by 2019 there are consequential impacts upon the Consolidated Fund and Strategic Reserve. Excluding depreciation, an effective deficit of £56.868 million is being set for 2016. Transfer funding from the Strategic Reserve of £56.691 million is required in addition to £36.700 million transferred for 2015. Funding sources for the 2016 Capital Programme totalling some £26.691 million are set as follows:-

- Consolidated Fund - £25.691 million after transfer from the Strategic Reserve
- Strategic Reserve - £1.000 million relating to Les Quennevais School (to be repaid from future asset disposal)

2.4 Whilst within the overall modelling there are impacts on the Strategic Fund it is important to acknowledge that both the MTFP and Budget 2016[19] clearly outlines the specific items which are due to be funded from the Strategic Fund and there is no direct funding of general revenue expenditure from the Strategic Fund. Outwith the Capital Programme allocation outlined above allocations from the Strategic Fund specific to 2016 are as follows:

Activity	Amount £,000
Committee of Inquiry	£4,000
Economic and Productivity Growth Provision	£5,000
Redundancy Provision	£10,000
Funding for Working Balance on the Consolidated Fund	£5,000

2.5 Unidentified asset sales are expected to deliver some £3 million. These movements take an expected brought forward balance of £40.829 million (positively impacted by the 'one-off' accounting policy adjustment in 2015 of £60 million) to finally outturn at a forecasted closing balance of £16.961 million. Overall movements are highlighted below[20]:

[19] Summary Table E – Consolidated Fund Forecast for 2016 – Page 85

[20] Figure 28 – Summary Forecast of Consolidated Fund 2015-2019

Summary Forecast Consolidated Fund Balance (including Budget Measures)	Draft Budget 2016 Forecast (October 2015)				
	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000
Opening Balance brought forward (unallocated)	**4,707**	**40,829**	**16,961**	**24,377**	**34,077**
Forecast Operating Surplus/(Deficit)	(61,341)	(56,868)	(12,584)	29,700	67,646
Measures to manage 2015 Shortfall	39,773				
Change in Accounting Policy - Income Tax	60,000				
Funding for Capital Programme	(64,504)	(26,691)	(65,273)	(43,233)	(32,975)
Proposed Transfers from Strategic Reserve	36,700	56,691	70,273	-	-
Proposed Transfers to Strategic Reserve	-	-	(20,000)	-	(50,000)
Currency Fund Infrastructure Investment	25,494				
Proposed Asset Disposals	-	3,000	20,000	-	20,000
Proposed Transfers from Health Insurance Fund (HIF)			15,000	15,000	
Proposed Transfer from Criminal Offences Confiscation Fund				8,233	
Forecast Closing Balance carried forward (unallocated)	**40,829**	**16,961**	**24,377**	**34,077**	**38,748**

2.6 Such modelling including significant transfers from the Strategic Reserve which allows for Public Finances Law obligations[21] to be met in relation to setting a budget that negates a deficit balance being run on the Consolidated Fund. However, we are unsighted on the latest balance of the Strategic Reserve for 2016 Budget setting purposes. The Draft Budget Statement does not contain details of the impact on the Strategic Reserve. Whilst we understand that the MTFP 2015-2019 contains the following table[22] with significant detail around commitments made within the MTFP process, it would be helpful to illuminate the latest balance on the Strategic Reserve as well as commitments made on transfers and transfer strategy:

Figure 37 – Estimated balances on the Strategic Reserve 2013 - 2019

Strategic Reserve - Estimated Balances	2013 Actual £'000	2014 Actual £'000	2015 Forecast £'000	2016 Forecast £'000	2017 Forecast £'000	2018 Forecast £'000	2019 Forecast £'000
Strategic Reserve - Protected Capital Value [2]	664,240	672,875	684,987	702,797	721,070	742,702	764,983
Strategic Reserve - Accumulated Excess Return [1]	78,888	113,647	98,101	64,457	19,819	35,231	103,096
Strategic Reserve - Estimated Fund balance	**743,128**	**786,522**	**783,089**	**767,254**	**740,888**	**777,933**	**868,079**

[21] Article 10(8) of the Public Finances (Jersey) Law 2005 states: - "The Minister must not lodge a draft budget that includes a report that shows a deficit in the consolidated fund at the end of the financial year to which the budget relates."
22 Medium Term Financial Plan 2015 – 2019 – Page 93

Budget Proposals - Income 2016

2.7 The proposed Budget 2016 income measures apply only a modest £1.324 million of additional income growth. Whilst Income Tax proposals will inevitably affect the 2016 year of assessment, the consequential revenue implications substantially fall within 2017 onwards. This is illustrated within the following table:-

Measure	Estimated impact on 2017 taxation	Estimated impact on 2018 taxation	Estimated impact on 2019 taxation
Income Tax	(£)	(£)	(£)
- Increase standard income tax exemption thresholds by 0.9% (June 2015 RPI) and maintain age enhanced exemption thresholds	2,200,000	2,200,000	2,200,000
- Grandfather entitlement to age enhanced exemption thresholds	-	-	300,000
- Phasing out standard child allowance and APA from standard rate taxpayers	645,000	1,290,000	1,935,000
- Modernise WEIA and CCTR	100,000	100,000	100,000
- Phase out mortgage interest tax relief	-	100,000	200,000
- Removal of non-residents relief	500,000	500,000	500,000
- Reduction of benefit in kind exemption	360,000	360,000	360,000
- Removal of remaining pension relief	-	350,000	350,000
- Additional Child Care Tax Relief	(100,000)	(100,000)	(100,000)
Income Tax sub-total	3,705,000	4,800,000	5,845,000
Impôts Duty:			
- Alcohol duty increases	249,000	248,000	251,000
- Tobacco duty increases	627,000	608,000	593,000
- Fuel duty increases	452,000	452,000	452,000
- VED duty increases	648,000	577,000	510,000
Duty sub-			
Stamp Duty/Land Transactions Tax	**(220,000)**	**(220,000)**	**(220,000)**
Total Financial Implications	5,461,000	6,465,000	7,431,000

2.8 Whilst we would regard the 2016 Tax proposals as being progressive and will provide a higher tax baseline for the years ahead, there are significant dependences on other components of the overall modelling that must be realised if the deficit of £56.868 million is to be maintained including planned balances on the Strategic Reserve and Consolidated Fund.

2.9 Such dependencies would necessarily include performance on 2015 outturns and would include:

- Generating Income Tax yields to latest forecast

- Departmental Net Expenditure Budgets – delivering to the latest 2015 forecast including the £39.773 million required to manage the 2015 shortfall
- Achieving critical Other Income forecasts of £63.643 million including £27.506 million from Andium and Housing Trusts

2.10 Most of the issues underpinning the modelling for 2016 have been covered within the comprehensive work carried out by the Corporate Services Scrutiny Panel on the MTFP 2016 – 2019. However, key assumptions will be specifically identified within the remaining components of this analysis.

2.11 Within our Budget 2015 work we made the following recommendation:

"We would strongly suggest that a framework is created which formally connects expenditure with income capability and is embodied within the Budget setting process in a way that Expenditure is fully driven by Income generating capability and not on the utilisation of reserves."[23]

2.12 Given the extended deficit financing now required through to 2019 and the minimal likelihood to generate additional income generation capability in 2016, the primary focus, in terms of financial management capability, will necessarily turn to further cost reduction.

3 Income Tax Proposals and Yield Forecasts

[23] Corporate Services Scrutiny Panel - Budget 2015 – CIPFA - Page 17 – para 4.7

3.1 The 2016 Budget proposals includes for ten Income Tax proposals – nine impacting personal income tax and one relating to a corporate income tax measure. These are:-

- Increase standard exemption thresholds by 0.9% and freeze age enhanced exemption thresholds (raises revenue because income forecasts)
- Phase-out standard child allowance and additional person allowance from standard rate taxpayers
- Modernise wife's earned income allowance (WEIA)
- Modernise child care tax relief (CCTR)
- Increase tax relief for child care costs
- Phasing out of mortgage interest tax relief (MITR)
- Removal of non-residents relief
- Reducing the benefits in kind (BIK) exemption
- Removal of remaining pension relief
- Corporate – non-payment of tax credits to companies taxable at 0%

3.2 We have been advised that there is no revenue impact on 2016 tax yield arising from the above proposals however those current year assessed taxpayers will benefit from these measures in 2016 as their effective rate will be impacted by these changes. In terms of future years the additional revenue impacts are scheduled to materialise as follows:-

Measure	Estimated impact on 2017 taxation	Estimated impact on 2018 taxation	Estimated impact on 2019 taxation
Income Tax	(£)	(£)	(£)
- Increase standard income tax exemption thresholds by 0.9% (June 2015 RPI) and maintain age enhanced exemption thresholds	2,200,000	2,200,000	2,200,000
- Grandfather entitlement to age enhanced on thresholds exemption	-	-	300,000
- Phasing out standard child allowance and APA from standard rate taxpayers	645,000	1,290,000	1,935,000
- Modernise WEIA and CCTR	100,000	100,000	100,000
- Phase out mortgage interest tax relief	-	100,000	200,000
- Removal of non-residents relief	500,000	500,000	500,000
- Reduction of benefit in kind exemption	360,000	360,000	360,000
- Removal of remaining pension relief	-	350,000	350,000
- Additional Child Care Tax Relief	(100,000)	(100,000)	(100,000)
Income Tax sub-total	3,705,000	4,800,000	5,845,000

3.3 In terms of prevailing tax strategy, the relevant 2016 budget proposals achieve improved alignment with the principles of the long term tax policy principally through equitable simplification and set the foundation for some measured additional tax revenues over time. In respect of meeting these objectives we would commend the approach now taken.

Underlying Assumptions on Yield

3.4 In respect of Income Tax it is noted that there is an overall expectation that the 2015 tax yield will bring in £5 million more than the revised MTFP forecast position and achieve a total of £443 million for 2015. Even if this is achieved the growth to the 2016 base is 2.7% then accelerates to 4.4%, 5.1% and 4% respectively as illustrated below:

Year	2015	2016	2017	2018	2019
Income Tax £'000	£443,000	£455,000	£475,000	£499,000	£519,000
Growth £'000		£12,000	£20,000	£24,000	£20,000
% change		2.7%	4.4%	5.1%	4.0%

3.5 These base figures do not include the impact of the Income Tax Budget 2016 proposals.

3.6 In terms of proportionality, personal Income Tax is the largest component of Income Tax coming in at an approximately 81% of overall yield and is significantly influenced by employment related indices.

Budget Year	2015	2016	2017	2018	2019
Personal tax					
MTFP 2016-2019	359	375	395	417	434
New economic assumptions	0	-2	-1	-1	-1
Adj. for in year forecast from Taxes Office (TO)	-1	-1	-1	-1	-1
Adj. for 2015 ITIS half year information		-4	-4	-4	-4
Updated total personal	358	368	389	411	428
Corporate tax					
MTFP 2016-2019	82	85	82	85	88
New economic assumptions	0*	0	0	0	0
Adj. for in year forecast from TO	4	4	4	4	4
Adj. for tax payer developments**			2	2	2
Updated total company tax	86	89	88	91	94
debts	-1.3	-2	-2	-3	-3
Updated total income tax forecast	**443**	**455**	**475**	**499**	**519**

3.7 It is important to note that the original Budget set for Income Tax for 2015 was £455 million and that the latest forecasted position is some 3% or £11.767 million under what was the approved estimate[24].

[24] Quarterly Corporate Revenue Report – Q3 2015 – Page 1

3.8 In previous Budget Setting for 2014 and 2015 we have been especially critical about the assumptions used to formulate Income Tax budget setting. Following on from our previous recommendations made within the Budget 2015 scrutiny process we understand that the governance arrangements around the Income Forecasting Group (IFG) has been significantly strengthened including membership composition and the extent of the application of internal challenge. In the formulation of tax yield estimates we understand that the ITG look at three streams of information. The baseline position analysis reporting now provided by the IFG is comprehensive and the latest reporting position adopted by Treasury and Resources[25] incorporates the following explanation underpinning the formulation of the 2016 estimate:

"The forecast updates for the draft Budget 2016 reflect the latest in-year data for 2015 and have been remodeled where appropriate to show the impact of the latest economic assumptions endorsed by the FPP in its Annual Report (September 2015).
Further information is also available which has been taken into account in re-modelling the income tax forecasts this relates to:

- *New information from the Taxes Office on in-year estimates for 2015 personal and corporate tax.*
- *Latest analysis from the Taxes Office for corporate tax and from ITIS data on employment income.*

In summary, the forecast update shows a number of small variations compared to the MTFP 2016-2019 position which generally reflects an improvement in the 2015 position, a reduction in 2016 and small net changes in the position over the remaining forecast years.
The main variations which are described in more detail in the individual sections of the report can be summarised as follows:

- *Improvements in corporate income tax based on 2015 in-year information which after examination is expected by the Taxes Office to continue in future years, i.e. is not one-off in nature.*
- *A reduction to personal income tax forecasts from 2016 onwards reflecting latest trends from ITIS in-year data, suggesting slightly lower year on year increases for the first half of 2015 in respect of employment income."*

3.9 We understand that the economic assumptions endorsed by the Fiscal Policy Panel (FPP) provide the foundation for the setting of Income Tax budgets. Real GVA, Employment and Average Earnings indicators are some of the key indicators used in the setting of the 2016 baseline as outlined within the table below:

[25] Report on the Forecast Update of States Income for the preparation of draft Budget 2016 (September 2015) Page 2

FPP central scenario - September 2015

	2014	2015	2016	2017	Return to trend 2018	2019
Real GVA	5.6	2.0	1.8	1.5	0.0	0.0
RPI	1.6	1.1	2.0	3.0	3.3	3.3
RPIY	1.6	1.1	1.8	2.5	3.0	3.0
Nominal GVA	7.2	3.0	3.6	4.0	3.0	3.0
Company profits	11.2	2.1	3.0	3.7	3.0	3.0
Financial services profits	22.0	1.1	3.1	3.3	3.0	3.0
Compensation of employees(a)	4.1	3.8	4.0	4.3	3.0	3.0
Employment	1.5	2.0	0.5	0.5	0.0	0.0
Average earnings	2.6	1.8	3.0	4.0	3.0	3.0
Interest rates (%)	0.5	0.5	0.8	1.3	2.0	2.5
House prices	3.0	2.9	4.0	5.0	3.0	3.0

3.10 Assuming that the re-forecasted 2015 position outturns to plan the 2016 baseline requires year on year growth of 2.7% or £12m as illustrated in our table above, with £10 million coming from Personal Income Tax. We understand that there are approximately 200 corporate tax payers of significance and that the Tax Office carefully monitors corporate performance accordingly. We have been provided with assurance that enhanced tracking of the latest data held on the Taxes Office’s systems allows the Tax Office to provide improved reliability on trend data. Within our Budget 2015 work we had commented that the work of the Tax Office was considered to be robust in the context of tracking tax yields but expressed our concern that the actual final formulation of the estimates were not developed with the latest intelligence:-

“Our session with the Finance Director of the Tax Office revealed that there is a considered approach to tracking and forecasting Tax yields and employs a ‘bottom up’ approach which aims to capture movements within all components of tax using Excel and Chrystal Report Writing Tools on top of the iTax Base system. It would be our view that the methodology appears to be robust and that the extent of variances experienced on forecasting reflect the volatility and complexity of tax impacts as well as prevailing economic conditions rather than any explicit weakness in the work of the Tax Office.
Given the continuing deteriorating position on Income Tax forecasts it is critical that the latest forecasts are used in determining the 2014 Outturn and setting the base for 2015. A worst case scenario could be that failure to adjust projections in line with the latest intelligence could mean that Members could be voting on a Budget that senior officers know is unlikely to be achieved.”[26]

3.11 Notwithstanding our reservations on the formulation of the 2016 Income Tax baseline, the level of scrutiny and quality of analysis provided by the IFG in conjunction with data supplied by the Tax office is considered to be robust and likely to lead to significantly improved precision around the formulation of tax yield estimates. Risks and uncertainties are well outlined albeit conceptual in nature, with the Draft Budget Statement indicating that the risks are “balanced on the downside”[27.] . Whilst we would acknowledge the rigorous work carried out to provide in-depth analysis we remain unsighted over the weighting placed by the economic indicators used and the actual impact on the formulation of the final estimates.

[26] States of Jersey – Corporate Services Scrutiny Panel – Budget 2015 - CIPFA – Page 20 – Para 4.15
[27] Draft Budget Statement 2016 – Page 91

3.12 On 25 November 2015 the UK Office for Budget Responsibility has indicated that UK GDP for 2016 is likely to be 2.4% (2017 2.4%, 2018 2.5% and 2019 2.4%). Forecasts have been moved up *"reflecting both higher population growth (<u>driven by higher net migration</u>) and the Government's decision to slow the pace of fiscal tightening."*[28] In this context, whilst we would fully acknowledge essential differences between the UK and Jersey, we would have concerns that the 2.7% growth expected in tax yield for 2016 might be slightly optimistic with the differential growing where Jersey's year on year tax yield growth is 4.4% for 2017, 5.1% for 2018 and 4.0% for 2019.

[28] Office for Budget Responsibility – Economic and Fiscal Outlook November 2015 - Page 9 – Para 1.14

4 Other Income Proposals

4.1 The 2016 Budget proposals cover two main categories of activities totalling net additional revenue for 2016 of £1.848 million. This is split between the following components:-

- Impôts Duty Increases – additional £2.068 million in revenue for 2016;and
- Stamp Duty/Land Transaction Tax – a reduction in revenue of £220,000 for 2016.

4.2 A detailed split for 2016 is outlined below:

Measure	Estimated impact on 2016 Taxation Revenue (£)
Impôts Duty:	
- Alcohol duty increases	245,000
Tobacco duty increases	649,000
- Fuel duty increases	452,000
VED duty increases	722,000
Impôts Duty sub-total	**2,068,000**
Stamp Duty/Land Transactions Tax	**(220,000)**
Total Financial Implications	**1,848,000**

4.3 Moving forward, additional income is scheduled to be profiled as follows:

Measure	Estimated impact on 2017 taxation (£)	Estimated impact on 2018 taxation (£)	Estimated impact on 2019 taxation (£)
Impôts Duty:			
- Alcohol duty increases	249,000	248,000	251,000
- Tobacco duty increases	627,000	608,000	593,000
- Fuel duty increases	452,000	452,000	452,000
- VED duty increases	648,000	577,000	510,000
Impôts Duty sub	1,976,000	1,885,000	1,806,000
Stamp Duty/Land Transactions Tax	**(220,000)**	**(220,000)**	**(220,000)**

Impôts

4.4 Although the proposals are expressed as raising additional revenue of approximately £1.346 million on Alcohol, Tobacco and Fuel duties, the fundamental underlying assumption in the calculation of each component of tax is that that the appropriate consumption/sales volumes are realised. It is interesting to note the expected retrenchment on Alcohol and Tobacco increases moving forward.

4.5 On Vehicle Emissions Duty the removal of the discount currently given to older vehicles and changes to the VED bands are primarily designed to encourage a behavioural change – moving vehicle owners/users towards the vehicles with lower emissions. Revenue within the existing duty scheme had been falling and the proposals effectively raise the VED rate from £1,473 to £1,800 for the highest polluting vehicles.

4.6 As with other Impôts, the level of precision on the additional income will depend on expected volumes being realised and anticipated purchasing/falling predicted trends.

Stamp Duty and Land Transaction Tax on borrowing to £400,000

4.7 Following on from Budget 2015 changes which reduced Stamp duty/LTT payable on mortgages secured on Jersey property, the 2016 Budget proposes a further reduction on the stamp duty/LTT payable on the registration of mortgage debt. The aim is to reduce/equalise the stamp duty/LTT differential between cash buyers and those requiring a mortgage to buy property – which is regarded as being the average property price on Jersey. The proposed reduction only applies to properties worth not more than £450,000. In practice, on the first £350,000 of mortgage debt there will be no stamp duty/LTT however on the next £100,000 of mortgage debt stamp duty/LTT will be payable at the reduce rate of 0.25%.

4.8 The reduction is expected to reduce tax revenues by £220,000 per annum on current "housing trends".

4.9 The proposals for Impôts and Stamp Duty Land Transactions appear to be wholly consistent with prevailing public policy as well as providing valuable additional revenues. However, consistent with our comments in Budget 2015, the proposals would benefit with more transparency provided on base assumptions (expected volumes) underpinning these specific income streams. Although not specifically related to 2016 expected incomes, expected income changes covering 2017 to 2019 imply a range of reducing volumes (save Fuel and Stamp Duty/LTT).

5 Base Budgets

5.1 The Draft Annex to the MTFP 2016-19 substantially provides the detailed base budgets that are reflected within the Draft Budget Statement 2016 albeit with a few changes agreed within the MTFP debate itself – the consequentials from the approval of five amendments. The Base Total Net Revenue Expenditure by Departments and Non Ministerial Bodies excluding depreciation is £740.317 million for 2016 and the detail relative to departments and other bodies is highlighted below:

	MTFP 2016-2019 (as amended)			
States Funded Bodies	Total Net Expenditure 2016 £'000	Total Net Expenditure 2017 £'000	Total Net Expenditure 2018 £'000	Total Net Expenditure 2019 £'000
Ministerial Departments				
Chief Minister	22,550			
- Jersey Overseas Aid Commission	10,337			
Community and Constitutional Affairs[1]	49,270			
Economic Development	17,196			
Education, Sport and Culture	111,658			
Department of the Environment	5,205			
Health and Social Services	203,776			
Social Security	189,479			
Transport and Technical Services	28,618			
Treasury and Resources	32,495			
	670,588			
Non Ministerial States Funded Bodies				
- Bailiff's Chambers	1,563			
- Law Officers' Department	7,797			
- Judicial Greffe	6,616			
- Viscount's Department	1,320			
- Official Analyst	604			
- Office of the Lieutenant Governor	738			
- Office of the Dean of Jersey	25			
- Data Protection Commissioner	267			
- Probation Department	1,990			
- Comptroller and Auditor General	777			
States Assembly and its services	5,086			
Total Non-Ministerial Departments	26,788			
Total Departmental Net Revenue Expenditure	**697,377**	**-**	**-**	**-**
Central Allocations	42,939			
Total Net Revenue Expenditure	**740,317**	**724,287**	**733,955**	**734,845**
Net Capital Expenditure Allocation - Annual	25,691	26,273	35,000	32,975
Net Capital Expenditure Allocation - Other Projects	1,000	39,000	8,233	
Total States Net Capital Allocations	**26,691**	**65,273**	**43,233**	**32,975**
Total States Net Expenditure Allocations	**767,008**	**789,560**	**777,188**	**767,820**
For Information:				
Departmental Depreciation	44,800	44,000	49,200	54,600

5.2 The Annex to the MTFP 2016-19 provides valuable detail on base estimate changes including expected savings, transfers and additional funding. Staffing movements relative to base budget positions are also highlighted. A key control is the reconciliation of net revenue expenditure for each Department highlighting all base budget impacts. The budget detail is provided in both subjective and objective analysis. In respect of the latter, a Near Cash DEL (Departmental Expenditure Limit) position is highlighted as well as a Non Cash position. Incorporating details on change projects and financial narrative, the key base budget information format substantially accords with good practice and allows a high level of transparency on key budget lines within a subjective analysis format. However there is little transparency on the allocation of overheads - particularly as it relates to the objective analysis format and we would recommend that overhead allocation, including the related basis used, is fully highlighted.

Base Budgets and Efficiency Savings

5.3 Whilst the base budget is well presented (save overheads) within the Annex to the MTFP the degree to which budget construction meets with good practice is still considered to be variable across departments. We have consistently commented on the high level of flexibility departmental Chief Officers have in the utilisation of resources and a significant aspect of this can be related to the high level of incremental budget setting which is still prevalent within most departments.

5.4 With the challenge of delivering some £145 million of savings over MTFP 2 to 2019 and the detail required for presentation by 30 June 2016 on 2017 to 2019, it is difficult to achieve visibility on which budget lines within the subjective analysis format will be required to be reduced. As the 2015 deficit is expected to be approximately £66 million, including the incorporation of some £39.773 million as measures to manage the 2015 shortfall, it is critical that departments subject all of their budget lines to a zero base challenge. We understand that 'Red Book 1 savings' of 2% "have been take across the board." Anecdotal evidence suggests that some departments still retain an element of capacity/flexibility within the 2016 base budget position and this may be retained to mitigate more challenging cost reduction that will need to be made from 2017 through 2019.

5.5 On base budgets staffing costs accounts for some £363.470 million or approximately 44% of overall expenditure of £825.022 million (including Social Security - £183.734 Million as amended but excluding Depreciation - £43.613 million).Whilst staff saving requirements of some £70 million are required within the MTFP 2 recovery plan (from a total of £145 million in savings), the overall movement in full time equivalent employees from 2015 to 2016 is only marginal. Within our MTFP 2016-2019 report we commented:-

"Figure 46 on page 126 of the Draft MTFP 2 submission illustrates a net downward reduction on staffing of only 0.21% which is not even one quarter of one percent on the overall 7,276.9 -2015 staffing FTE structure. This produces an indicative 2016 FTE position of 7,261.6 which is "hardly the stuff of significant service redesign and down-sizing. "[29]

[29] States of Jersey – Corporate Services Scrutiny Panel – CIPFA – MTFP 2016-19 Page 15 – Paragraph 3.12

Growth – additional Funding

5.6 Additional funding of £21.869 million for 2016 was proposed by the Council of Ministers and was incorporated and approved within the MTFP process. Base budgets (Departmental Net Expenditure Limits) have been adjusted accordingly. It is interesting to note that from this growth funding Health and Education were granted some £7.947 million and £4.807 million respectively while £9.115 million was allocated to other departments. Approximately £2.7 million from the remaining allocation relates to Energy from waste income shortfalls and £4 million relates to additional property maintenance costs associated with HSSD properties.

Health and Social Services

5.7 Within overall budget strategy it is acknowledged that Health and Education activities have been provided with a degree of protection – in terms of investment/growth. However, we were able to acquire additional evidence on the processes used to challenge budget lines, deliver cost reduction and efficiency savings and the recalibration of base budgets.

5.8 Health and Social Services applies its own semi-annual spending review process. This is a rigorous process of testing budget headings within a 'bottom up approach'. 'Red Book' revenue expenditure savings of some £12 million has been readily absorbed and the service is actively involved in reallocating counterfactual savings through this spending review process in pursuit of a continuous approach of optimising resources. The department has an extremely advanced understanding of cost pressures synonymous with Health - as well as delivering Health within the island context and has become adept at adapting to developing pressures and unforeseen challenges. In the context of public services, Health is regarded as being the most complex (next to Defence) of services to manage. Relevant challenges include the matching of available resources to growing service delivery pressures including rapidly changing demographic trends and scientific advances/advanced commercial provision as well as growing user expectations.

5.9 Through the semi-annual spending review process the department has been able to deliver required 'Red Book' savings as well as manging down some £9.5 million of additional internal cost pressures. The department is committed to establishing a zero base budget review process and starting with Children's Services, it is anticipated that the full department will be able to accommodate full zero basing within a five year rolling review period. The department has a highly detailed asset replacement programme with a Fixed Asset Replacement quantum for 2016 of £3.305 million. This programme includes specialised equipment and is fully tracked to the Fixed Asset Register.

5.10 The HSSD Financial Plan 2016–19 is highly developed and it is our considered view that at HSSD, arrangements for Budget Setting and financial performance management are strong and should be highly commended.

Education, Sport and Culture

5.11 The overall movement in departmental base budget to a 2016 position of £111.658 million was accommodated through net growth of £3.067 million or 2.8% on the 2015 base. With approximately £1 million being removed from the Sports Budget it is clear that there has been an appreciable growth in School revenue provision.

5.12 Like Health and Social Security, Education Culture and Sport (ECS) have robust internal arrangements for the recalibration of resources from both budget setting and in-year budget management. A feature at ECS is the conscious strategy of reducing corporate administration overhead with emphasis on redirecting savings towards 'front line' school provision. Improved procurement has delivered some savings but the bulk of overhead reduction has been achieved through rigorous internal budget challenge. In terms of shaping and managing base budgets both HSSD and ECS should be regarded as exemplars within the States public services framework.

Other Departments

5.13 The movement in base budgets for all other departments between 2015 and 2016 is relatively modest. In context this is relative to the overall level of expenditure reduction required covering MTFP 2 to 2019 in order to achieve overall savings on £145 million on the annual base position. The 2016 base Budget position is in effect a 'first stage' recovery position with detailed service re-engineering proposals being constructed that will deliver the level of savings required to bring revenue expenditure back to revenue balance by 2019. Indeed, in context of UK HM Treasury spending review budget reduction requirements of UK central government departments and in particular the impact on English local authorities, (where at least £3.3 billion or 12% equivalent of their overall budgets is sought for 2016/17) the baseline changes within the 2016 Budget for the States are not readily comparable.

Other Income

5.14 There are four lines of income which do not contain specific budget proposals although nevertheless are of significance. These are highlighted within an extract below:

Outturn 2014 £'000	Financial Forecast	Forecast October 2015 £'000	Forecast Update for Draft Budget 2016 2016 £'000	2017 £'000	2018 £'000	2019 £'000
	States Income					
11,896	Island Wide Rate	12,031	12,248	12,554	12,930	13,318
8,283	Other Income (Dividends)	13,260	11,527	8,871	15,034	9,801
18,236	Other Income (Non-Dividends)	10,846	9,698	10,939	12,337	12,176
13,581	Other Income (Return from Andium and Housing Trusts)	27,506	27,821	28,459	29,352	30,350

5.15 The Island Wide Rate is collected through the 12 parishes although levied by the States. We understand that the level of forecasting accuracy is relatively high. However, in terms of volatility, the budget line Other Income (Dividends) has moved down significantly. The main contributors are entities in which the States have a shareholding and are as follows:

Entity	**States Control**
Jersey Telecom	100%
Jersey Post	100%
Jersey Electricity	86.4%
Jersey New Waterworks	83.3%
SoJDC	100%
Ports of Jersey	100%

5.16 We are led to understand that the change from £13.3 million to £11.5 million reflects a significantly reduced dividend for Jersey Telecom and that is reflected within the 2016 position.

5.17 The Other Income (Non Dividend) component is a range of income streams including investment returns from the Consolidated Fund and Currency Fund pooled through the Common Investment Fund (CIF) Investments. Lower levels of fund balances arising from reduced income forecasts and changes to capital funding have had a consequential impact on the size of funds available for investment.

Andium Homes and Housing Trust

5.18 In respect of the required income from Andium Homes and Housing Trust we are unsighted on the potential for the £27.8 million to be achieved in 2016 and the 2015 outturn of £27.5 million. We understand that the 2014 outturn was well below expectation. However, we have received assurance from Treasury and Resources that the governance and performance management arrangements covering this income are such that the income is considered to be ‘secured’.

6 Capital Programme

6.1 The 2016-2019 MTFP approved an overall Capital Programme allocation for 2016 of £26.691 million. The Programme includes two categories - Major Projects and 'all other projects'. Major Projects include:

- Sewerage Treatment Works – Upgrade
- Future Hospital
- Office Consolidation Project
- Les Quennevais School Rebuild
- Prison Improvement Works Phase 6

6.2 Within the 2016 allocation only £1 million has been allocated to a major project – Les Quennevais School Rebuild. The full programme is highlighted by department heading below:

	Proposed Programme 2016 £'000	Indicative Programme 2017 £'000	Indicative Programme 2018 £'000	Indicative Programme 2019 £'000
Chief Minister's				
Desktop Upgrades	737	-	-	1,000
Income/Payment Management System	379	-	-	-
Corporate Web Platform Refresh	300	300	326	500
Web Search Engine Upgrade	105	-	-	100
Content Management System Refresh Upgrades)	105	-	-	
Hardware Refresh	200	200	201	281
Citizen Database Upgrade	-	-	316	325
Business Database Creation	-	-	211	217
Open Data Platform Refresh	-	-	53	77
Data Warehouse Platform Refresh	-	-	-	487
CRM Platform Refresh	-	-	316	-
Talentlink Replacement	-	-	474	-
Finance System - JD Edwards Upgrade	-	-	474	-
Taxes Office System Renewal	579	3,408	2,463	2,507
E Government (Previous Rephasing)	2,200	-	-	-
T&R JDE System (HRIS) (Previous Rephasing)	1,238	-	-	-
Replacement Assets - CMD	-	-	451	430
Chief Minister's Total	**5,843**	**3,908**	**5,285**	**5,924**
Community and Constitutional Affairs				
Minor Capital	300	381	169	505
Fire and Rescue HQ Colocation with	-	500	-	-
Community and Constitutional Affairs Total	**300**	**881**	**169**	**505**

Education, Sport and Culture				
Grainville Phase 5 (Inclusive of provision for Service) *	-	8,234	1,995	-
St Marys School Refurbishment *	-	-	5,500	-
Replacement Assets and Minor Capital - ESC	200	200	200	250
Jersey Heritage Trust - Archive Store	3,500	-	-	-
Education, Sport and Culture Total	**3,700**	**8,434**	**7,695**	**250**
Department of the Environment				
Equipment, Maintenance and Minor Capital	-	12	-	12
Fisheries Vessels	-	-	54	-
Met Radar Refurbishment / Upgrade	372	-	-	-
Department of the Environment Total	**372**	**12**	**54**	**12**
Health & Social Services				
Replacement Assets (Various)	2,510	3,100	3,000	3,500
Replacement Assets RIS / PACS IT assets	-	-	-	1,900
Refurbishment of Sandybrook (Previous	1,699	-	-	-
Health & Social Services Total	**4,209**	**3,100**	**3,000**	**5,400**
Transport and Technical Services				
Replacement Assets	1,661	1,637	4,089	5,102
Infrastructure Rolling Vote	8,373	8,165	14,164	12,688
Waste: La Collette Cell Construction	-	-	500	1,148
		-	-	1,750
	10,034	**9,802**	**18,753**	**20,688**
Replacement Assets - T&R	-	86	-	17
Treasury and Resources Total	**-**	**86**	**-**	**17**
Non Ministerial				
Replacement Assets - Non Mins	33	50	44	179
Non Ministerial Total	**33**	**50**	**44**	**179**
Vehicle Replacement (additional from consolidated	**1,200**	**-**	**-**	**-**
Total Projects	**25,691**	**26,273**	**35,000**	**32,975**
Major Projects Excluded Above				
Sewage Treatment Works – Upgrade	-	-	-	-
Future Hospital*	-	-	-	-
Office Consolidation Project*	-	-	-	-
Les Quennevais School Rebuild*	1,000	39,000	-	-
Prison Improvement Works – Phase 6	-	-	8,233	-
Total Major Projects	**1,000**	**39,000**	**8,233**	**-**

TOTAL CAPITAL PROGRAMME	**26,691**	**65,273**	**43,233**	**32,975**

Funding Sources

6.3 As highlighted in Section 3, funding sources for this proposed programme totalling some £26.691 million is as follows:

- Consolidated Fund - £25.691 million after transfer from the Strategic Reserve;
- Strategic Reserve - £1.000 million Les Quennevais School (to be repaid from future asset disposal)

6.4 Good practice requires that the arrangements for financial reporting of assets and the calculation of depreciation should be linked to the organisation's asset management strategy. In this respect, with the exception of the asset replacement programme at Health, we saw little evidence that investment decisions involving assets were informed by this process.

6.5 We understand that some £40 million of asset disposals are scheduled to be realised (£20 million in both 2017 and 2019) and the replacement for Les Quennevais School is to be funded in this way with preliminary costs - £1 million being spent within the 2016 capital programme. We further understand that there is a lack of definition on exactly what assets are being sold and the likely level of surplus/deficit on current asset holding valuations would apply. In essence the funding source estimates are aspirational targets at this stage.

Key Projects – e-Government - £2.2 million

6.6 The e-Government programme is expected to spend some £2.2 million in 2016. This is re-phased costs to 2016 previously agreed and relates to an on-going and, in some ways embryonic programme work that is designed to help drive the level of overall service re-engineering required to deliver the level of savings required within MTFP II. There are five distinct components to this project including:

- Strategic Change Capability including the establishment of a Strategic Change Design Authority – this approach may have a minimum of 2 years;
- Strategic Componentisation – simplification of on-line processing across public services
- Standardisation of systems/process to consolidate departmental approaches to processes

6.7 If successful the project will radically change departmental processes particularly in the mode/method of interaction with service users. The impact of enhanced digitalisation has the potential to significantly change the overall overhead base including staffing costs. Within the UK, digitalisation of some public services including Land Registry, Companies House and DVLA has led to significant cost reductions as well as improved outcomes/quality of service for users.

6.8 Whilst there is commonality on expected outcomes, the project components are, at this stage, quite distinct. At a more modest level the project team are working with both HSSD and ECS on a common system for the management of child related services. The level of complexity involved with this project is high and the capital cost provision of £2.2 million is substantially aspirational. Aspects of the project (components 4 and 5) are around 'proof of concept' stage. However, success across these five components will be critical to the overall efficiency agenda reforms that deliver a realignment of total states expenditure to income. Whilst the business case may not have the level of precision on forecasted costs that we would normally expect to see the level of challenge faced in setting up this work which has significant cross departmental reach is likely to be considerable and will inevitably include resistance to change and other cultural barriers. It is critical that this work is fully endorsed and a corporate approach applied by the senior management team at Chief Officer level.

Key Projects – Solid/Liquid Waste

6.9 It was our original (Budget 2014) understanding that the proposed Liquid Waste Sewerage Treatment Works system would have an estimated total capital costs of £75m and be funded from £12m of existing TTS Infrastructure Budget with the balance of funding met from £30.5m main Capital Programme funding over the duration and an investment of the Currency Fund - £29m and contributions from the Consolidated Fund of £3m with existing resources funding - £0.5m. Within Budget 2015 our comments on this project were as follows:-

In respect of projects costs we understand that the overall exposure of £75m remains but the costs are re-profiled as follows:-

Item Description	**Funding £m**							
Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
STW site works incl. construction, and TTS & professional fees for prelim. works	0.5	9.44	12.564	31.446	0.0	0.0	0.0	53.950
Effluent outfall	0.0	0.16	2.590	0.0	0.0	0.0	0.0	2.750
Contingencies	0.0	0.0	5.135	6.295	0.005	0.005	0.005	11.445
Professional Fees (for STW)	0.0	0.0	4.80	0.0	0.0	0.0	0.0	4.800
TTS Costs	0.0	0.0	0.411	0.411	0.411	0.411	0.411	2.055
TOTAL	**0.5**	**9.6**	**25.5**	**38.152**	**0.416**	**0.416**	**0.416**	**75.000**

As outlined within our 2014 Budget Report we had reservations about the precision on the costs and the ability of TTS to meet the estimated £1.7 million per annum for principal and interest payments to finance the £29m borrowed from the Currency Fund. £1m of this Financing Payment is proposed to be generated from internal TTS operating savings:-

- *Energy Savings on £1m annual exposure - £0.5m*
- *Chemical – Pasteurisation savings - £0.25m*
- *Annual site maintenance on outdated and customised equipment - £0.25m*

The remaining £0.7m was proposed to be financed from additional internal departmental efficiencies. We envisage that this will pose a formidable challenge for the Department especially against the backcloth of further revenue savings it may be obliged to make as a result of overall expenditure retrenchment in Jersey. Indeed we previously summarised our position on this project as follows and would not seek – a year on - to change this:-
"..This significant and wholly necessary project lacks maturity in terms of the lack of overall cost exposure information as well as lacking precision in the sourcing of a significant component of annual financing costs.[30,31]

6.10 We now understand that due to questions of overall affordability, the specification has been re-scoped to move costs down towards a likely total quantum of some £58/59 million. Indeed the September 2015 Capital Monitoring Report Q3 highlights the following:-

- ***Liquid Waste Strategy:*** *Expected Completion Date: 2018/19*
Project is in the planning phase, with the appointment of the Early Contractor Involvement. Current proposals to dramatically reduce the capital program have resulted in consideration of alternative funding sources which may result in some delays in commencing the next stages.[32]

6.11 For 2016, approximately £4 million of the Transport and Technical Services (TTS) Infrastructure rolling vote within the indicative Capital Programme of some £8.373 million is expected to be utilised for this project. Given the material uncertainties surrounding this project it will be essential that clarity is provided to enable the efficient utilisation of the Infrastructure Vote accommodated within the 2016 Capital Plan.

In Year Performance

6.12 In respect of the current financial year the Q3 Capital Report on activity to 30 September 2015 highlighted that:

- Total **unspent budget for departments as at the end of September 2015 was- £135.4 million**
- Total capital expenditure for the year to date for departments totalled £33.0 million – up from £20.8 million as at 30 June
- Revised departmental gross forecast spend for 2015 is £66.0 million subject to the equivalent of the first nine months spend being replicated in volume terms within the remaining three months

6.13 Current year expenditure by Department at Q3 is analysed as follows[33]:

[30] States of Jersey – Corporate Services Scrutiny Panel – Budget 2015 - CIPFA – Page 31
[31] States of Jersey – Corporate Services Scrutiny Panel – Budget 2014 - CIPFA – Para 1.46
[32] Quarterly Corporate Capital Monitoring Report - Page 31
[33] Quarterly Corporate Capital Monitoring Report - Page 3

Capital Projects	Current Year			
	As at 30th September 2015	Q1 Static	Q3 report	
Capital Projects	Current Year Actual Spend	Forecast Spend	Current Year Forecast	Variance
Chief Minister's Department	2,088,338	3,251,055	4,658,971	1,407,916
Education, Sport & Culture	1,976,502	2,933,232	2,743,232	(190,000)
Health & Social Services	1,780,243	8,958,532	5,657,530	(3,301,002)
Home Affairs	730,440	3,152,067	1,460,794	(1,691,273)
Department of the Environment	327,621	638,306	679,281	40,975
Transport and Technical Services	9,227,946	29,087,190	23,474,442	(4,074,748)
Treasury and Resources	7,911,688	15,321,146	12,189,473	(3,131,673)
Non Ministerial States Funded	366,736	400,000	592,249	192,249
Major Projects Total	8,644,265	58,231,161	14,569,121	(43,662,040)
Departments	**33,053,778**	**121,972,689**	**66,025,093**	**(54,409,596)**
Jersey Carparking	80,712	1,708,410	2,556,911	848,501
Jersey Fleet Management	1,131,324	582,658	3,723,154	3,140,496
Traders Total	**1,212,037**	**2,291,068**	**6,280,065**	**3,988,997**
Combined Total	**34,265,815**	**124,263,757**	**72,305,158**	**(50,420,599)**

6.14 We have been previously critical of the overall performance in bringing in mainstream capital expenditure to profile and there is a clear and consistent track record of underspending to programme. We would reiterate our position highlighted within our Budget 2015 Report that current arrangements "*does not indicate a controlled and co-ordinated approach being taken to the management of the capital programme.* "[34] The method of allocation of the entire funding in the first year may appear to be prudent but the lack of flexibility within the way this is used will inevitably impair the ability of the States to accurately predict the overall profile of capital expenditure in any given year. We would re-affirm our position noted within our report on the 2015 Budget:-

"On the Capital Programme we believe that the States face challenges in improving the precision of key assumptions as well as capacity including performance management capability and ultimately, affordability. The appropriate legislative allocation approval

[34] States of Jersey – Corporate Services Scrutiny Panel – Budget 2015 - CIPFA – Page 17 – Para 3.23

process has created a dysfunctional impact upon Financial Performance and Strategy as it is driven largely by aspirational/expectation rather than reality. Continuation of the existing position will act as a significant impediment to the formulation of a robust financial strategy that informs both the annual Budget Setting process and the MTFP."[35]

6.15 In summary, the 2015 forecasted position does not provide overall confidence that optimal resource utilisation decisions are being taken in the management of capital investment. Within our report on the MTFP 2016-2019 [36] we made a specific recommendation which we would re-affirm within our Budget 2016 assessment:

Capital Programme Performance – it is recommended that the legislative framework around the Capital Allocation process and incorporation within the Budget process be reviewed to allow for the realistic delivery of the Capital Programme and that appropriate performance management arrangements are put in place to ensure delivery.

[35] States of Jersey – Corporate Services Scrutiny Panel – Budget 2015 - CIPFA – Page 35 – Para 11.9

[36] States of Jersey – Corporate Scrutiny Panel – MTFP 2016 – 2019 Section 6 Page 24

7 Concluding Comments and Recommendations

7.1 Following on from the extensive MTFP exercise, significant work has been carried out by the Financial Planning Team at Treasury and Resources in compiling the Draft Budget Statement 2016.

7.2 In terms of strategic financial planning we would take the view that there is now relative transparency within the overall modelling. It is the extent of that transparency and strength of the modelling used that has highlighted the degree of financial challenges now being faced and the strength/weaknesses in key assumptions used within financial planning. In essence, the modelling has illuminated the requirement for significant management intervention to allow the appropriate recalibration of expenditure to income. Any further improvement on financial planning is not likely to substantially alter the practical requirements of this challenge.

2016 Budget Proposals

7.3 The 2016 Income Tax proposals are fully consistent with improving alignment with existing long term tax policy and we would be of the view that these are well considered. Such proposals are phased to provide additional net revenue and the approach taken will positively improve the overall baseline position.

7.4 The proposals for Impôts and Stamp Duty Land Transactions appear to match prevailing public policy considerations. Impôts and Vehicle Emission Duty changes will provide valuable additional net revenues. However, consistent with our comments in Budget 2015, such proposals would benefit with more transparency provided on base assumptions (principally expect volumes) underpinning these specific income streams.

2016 Budget Risks

7.5 Notwithstanding noted improvements on budget modelling we would identify a number of Risks associated with the 2016 Budget. These principally relate to key underlying assumptions and specifically relate to:-

- Income Tax growth assumptions
- Base Budget Challenge – visibility on the allocation of overheads
- Base Budget - Other Income – investment and Housing income assumptions
- Departmental capability in delivering efficiency savings
- 2015 Outturn Revenue deficits impacting opening Consolidated Fund balance
- Capital Programme performance

7.6 In terms of managing such risks, our recommendations made within our assessment of the MTFP 2016-2019[37] substantially cover these specific risks. We would, however recommend that further clarity is provided in three areas:-

Income Tax Growth Assumptions – clarity on the precise extent to which the economic indicators are applied to the formulation of both Corporate and personal Income Tax base estimates

Base Budgets – improved visibility on the allocation of overhead to the objective analysis required

Strategic Reserve – improved visibility on the latest balance - whilst this is substantiality addressed within the MTFP 2015 – 2019 – the latest position including any working balance transfer to the Consolidated Fund would provide helpful context

7.7 As outlined in Section 6 we would reiterate our recommendation on improving Capital Programme Performance:

Capital Programme Performance – it is recommended that the legislative framework around the Capital Allocation process and incorporation within the Budget process be reviewed to allow for the realistic delivery of the Capital Programme and that appropriate performance management arrangements are put in place to ensure delivery.

Good Practice

7.8 We had previously been critical of what we saw as a failure to adjust Financial Strategy in line with the very latest intelligence. This had particular resonance with the deteriorating Income Tax yield position. Current evidence clearly suggests that this position has been substantially improved and financial strategy is responsive to changing conditions. We would, however, still be of the view that the lead time taken to produce the quarterly financial performance information exceeds typical standards we see in most organisations we work with. The quality of management information (MI) has been described as being 'variable' across a number of departments and we would reiterate our position on the need to appreciate that the quality of data and foundational assumptions can represent risk to accurate forecasting and the formulation of a robust financial strategy:-

"Good forecasting helps managers identify risks, but they need to take into account that data and assumptions can themselves be part of that risk."[38]

7.9 In terms of Budget construction and in-year budget management, we would especially commend the work undertaken in Health and Social Services (HSS) and Education Culture and sport Departments. We were particularly impressed with the way that the semi-annual spending review regime adopted within HSS allows a dynamic approach to be employed in the use of resources in what is arguably the most complex of service environments.

[37] States of Jersey – Corporate Scrutiny Panel – MTFP 2016 – 2019 Section 6 Pages 24/25
[38] NAO – Forecasting in Government to achieve Value for Money – January 2014 - Para 3.11 – Page 29

Direction of Travel

7.10 Notwithstanding a noted improvement in the general direction of travel on budget setting there is still clearly much more to do. The continuation of a structural deficit within 2016 and beyond to 2018, with the need to fund net core spend from specific Reserves/Funds represents a set of serious challenges that go to the cost effectiveness of core of service delivery. It is clear that economic growth will not, in itself, provide any relief in augmenting the need to reengineer public services.

7.11 Within our comments on the Budget 2015 we concluded that:-

"Moving on one year - we believe that if the causal misalignment of Expenditure with Income is not adequately addressed the States will face even larger Deficits moving forward on 2016 and 2017 and less flexibility in the utilisation of Reserves. In order to fully deal with the issues highlighted within this report and allow for the setting of a robust financial strategy there needs to be a cultural acceptance within Senior Officers of the underlying factors that have had a negative impact upon the 2015 Budget Setting process and the need to pursue a strategy of recovery and stability." [39]

7.12 Whilst this prediction on a further deterioration on financial performance has been realised we would have confidence that the States are now on track to turn around this position and are within a critical phase of recovery. Full recovery and stability will, of course be predicated upon the extent that the States can substantially deliver significant service change. Realistically this is likely to take place post 2016. The 2016 Budget sets a clear initial position on recovery although the formulation of detailed realisable estimates across 2017 to 2019 must provide further evidence that the structural deficit can be eliminated and that the States can fund current spending from current income.

7.13 Finally we would wish to take this opportunity to record our sincere gratitude to Members of the States Assembly, Management and Staff at the States of Jersey for the provision of extremely valuable support in the course of our work.

[39] States of Jersey – Corporate Services Scrutiny Panel – Budget 2015 - CIPFA – Page 35 – Para 11.13