

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

Senator Kristina Moore
Chair
Corporate Services Scrutiny Panel
Via e-mail

24th of November 2020

Dear Senator Moore,

I am writing in response to your letter, sent by email and received on the 16th of November.

In respect of your request for further information, I am pleased to inform you of the following.

Central risk and Inflation

1. Even though the overall Capital Programme exposure has changed between Government Plans there has been no change in the Reserve for Central Risk and Inflation Funding – can you explain why this would not correlate or directly vary with actual project estimates?

The overall Capital Programme exposure has changed between Government Plans, a number of schemes were delayed in their deliverability due to the lockdown and then changes put in place in terms of ways of working, in response to protecting people from COVID-19. However, the largest change is the allocation of £20m to the Our Hospital project which holds its own risk and inflation funding.

Borrowing and Income Tax

2. Personal Income Tax accounts for some 60.3% of overall general revenue income whilst Corporate Tax some 16.7%. As income tax estimates are used within the annual accounts and the Government Plan are now largely based on forecasts produced by the Jersey Economics Unit, with any differences between current and prior years made when assessments are finalised, is there not a danger that decisions on overall borrowing and affordability being made based upon potentially high-risk levels of income stream forecasts?

Forecasts are made in partnership across the organisation, not solely by the Economics Unit, including Treasury & Exchequer (finance and Revenue Jersey), Financial Services & Economy, Social Security and JHA. The forecast is overseen and issued by the Income |Forecasting Group which includes 3 external members.

Furthermore, the forecast itself is underpinned by the forecast assumptions for the economy provided by the independent Fiscal Policy Panel. This process and governance for the preparation and issuance of the income forecast has been operating for recent years, alongside a regular review and improvements to the forecasting methodology.

The relative high level of dependence upon revenue arising from employment is acknowledged and is a long-term feature of Jersey's economy and government revenue streams, and the risks are accordingly reflected in the forecast. The IFG has taken a prudent approach to the forecast, given the level of uncertainty.

The strategy for borrowing is one that reflect the heightened level of uncertainty, in that it is one that proposes the use of short-term facilities, to allow a more certain position next year, before committing to longer term facilities.

3.The level of uncertainty on taxable income was acknowledged within the Income Forecasting Group's Report. The IFG report highlighted a number of significant risks to the economy in the short and medium term yet the changes to the economic forecast metrics such as GVAs and Average Earnings are relatively marginal, but the prolonged impact of the Pandemic seems to entrench further. Would it not have been prudent to use the IFG's downside forecasts given the unparalleled level of uncertainty than mid-range forecasts that have changed little since May?

In their March 2020 economic assumptions, the Fiscal Policy Panel forecast a recession for the Jersey economy in 2020 and crucially that the economy would most likely be smaller in future years as a consequence of the global pandemic – relative to their previous forecast. When the Income Forecasting Group (IFG) met to prepare and finalise their forecasts that draw on the FPP economy forecast more information was available to inform prospects for income. Notably the IFG was able to draw on their expertise and wider reporting that the impact on the financial services sector was likely to be larger than could have been expected in March.

Notably for income tax, A number of individual adjustments suggested by the IFG result in a £45m decrease to the forecast in 2020 gradually falling away over three years. However, these adjustments together with the updated FPP economic assumptions, and additional data, reduce the autumn 2019 forecast by £51m in 2020, decreasing to a £15m reduction in 2023. In their spring forecast, published in May 2020, The IFG also developed a forecast for a downside scenario. This scenario assumes both a prolonged period of restriction on economic activity, and a more severe impact on the economy – including more significant structural impacts that reduce the forecast in the medium term.

In their autumn forecast, published August 2020, the FPP forecast a larger recession in 2020 i.e. a fall in economic output (GVA) of 7.5% compared with 6.3% and that the negative impact on the economy in the medium term as a consequence of the global pandemic would be greater – around 6% compared with 4.5%. Crucially the FPP also made a significant revision to prospects for the financial sector. As the FPP state in their letter that accompanies the August 2020 economic assumptions - Overall, compared with March, the Panel's forecast is for a slightly steeper fall in real GVA this year and a slower recovery. This is driven by a considerable reduction in banking profits, which make up a significant share of output (GVA) in Jersey's economy. However, as this has already been factored into the latest revenue forecasts prepared by Government, this may not result in a significant further impairment to Jersey's fiscal projections.

This means that when the IFG met again to prepare their forecast drawing on the August 2020 economic assumptions some of their previous judgements to inform their forecast for a downside scenario were now reflected in the latest economy forecast. In conclusion the central autumn IFG forecast, while lower, is closer to the spring central forecast than the downside scenario for the reasons set out above. The revisions to the economic assumptions between March and August are

substantive and not marginal, and the prolonged impact of the pandemic is reflected in these assumptions and then incorporated into the income forecast.

The autumn forecast is still central and is judged by the IFG to be the most likely outcome whilst acknowledging the downside risks embodied in the downside scenario, but there are also potential upside risks though these were not set out in an upside scenario. It would be wrong to infer that the most likely outcome lies between the central and downside forecasts that are published. It can be argued that it would always be prudent to prepare flexibility and contingency in planning for the risk of less income than is expected. However, it is important to prepare forecasts that are unbiased and represent the best estimate of future income to help inform present decisions. This means that these decisions for the Government around planning future income and expenditure can be made relative to this best estimate and hence make clear the inevitable trade-offs and risks in fiscal policy.

4. In formulating a borrowing strategy, given that tax yield, economic growth and investments are highly uncertain, would it not have been more prudent to keep all options open rather than create a strategy exclusive to external borrowing?

Our view is that by creating an external borrowing strategy, we have kept all options open, through using short term facilities until next year. If tax yields were to fall materially short or expenditure needs were to extend beyond current expectations and not able to be funded within the plans as set out in Government Plan 2021-2024, we still have the option to utilise reserves or other assets (subject to assembly approval) because that option is not exhausted already. This is consistent with advice received from the Fiscal Policy Panel and the Treasury Advisory Panel.

5. The strategy is built on the retention of reserves which are invested through the CIF and that external loan repayments will be financed through the retention and diversion of returns from transitional positions from Prior Year and Current Year Personal Tax assessments by way of establishing a sinking fund. Given the regressive nature of the value of money over time how is the sinking fund ever going to keep pace with the financing costs required some 15/20 years further down the timeline?

The nature and structure of medium-term debt issuance is still to be finalised and as stated will be decided next year. It is likely that any debt instrument will only require a single capital repayment at maturity which provides time for the CIF to grow in value, based on our current investment return forecasts, to a level that will be more than sufficient to repay debt. Similarly, the returns on a sinking fund are, at worst, anticipated to keep pace with inflation. Whilst the capital repayments, are modelled to be funded from the sinking fund, the financing costs of any medium-term debt strategy would more likely be funded from general revenues, as currently laid out in the Government Plan, rather than from returns on investments.

6. Why has the Revolving Credit Facility Costs changed to a profile that costs some £16.5m across 2023 and 2024 just for the facility to be in place – why do we need this if Bond Finance is in contemplation later in this cycle?

The Revolving Credit Facility Costs are an estimate of the expected annual borrowing costs through either the use of the Revolving Credit Facility, alternative financing through a medium-term debt issuance strategy or a combination of both. The Council of Ministers intends to finalise its medium-term debt strategy in 2020, as final decisions on Our Hospital are taken ahead of the expiry date of the Revolving Credit Facility, at which time we can provide a more precise breakdown of how the finance costs apply to the different components of the strategy. For the

purpose of this Government plan those estimated finance costs have been combined within the Revolving Credit Facility Costs.

Efficiencies

7. Increased tax revenues through enhancement of domestic tax compliance is highlighted as a recurring rebalance, this figure is given as £1.25 million. Is this seen as a balanced income when the Domestic compliance (Spend to raise) project costs around £1.5 million a year

The forecast profile of incremental tax revenue from domestic compliance activity builds over the five-year period 2020 – 2024 from revenue of £6.35m to £13.5m per annum, which by exceeds the annual costs of the team. This aggregates to £51.35m and it is this value against which any project costs should be considered.

8. £30,000 has been identified as a 2021 efficiency proposal due to a reduction in cash handling fees resulting from an increase in non-cash payment options. Is there evidence that islanders are using non-cash payments more often beyond the current position? What are the metrics on the volume of transactions upon which this £30,000 is based?

Analysis has been undertaken to determine the cost incurred by GoJ of collecting, handling and transporting cash on the island which ranges from 8p to 20p for every £1 of cash income collected. This has included reviewing cash transactions for Les Quennevais, Fort Regent and Springfield as well as the cash received within the Customer and Local Services department.

The level of card (non-cash) payments continues to increase in line with national trends and this is expected to continue.

Further policy work and subsequent decision making is required to determine the extent to which payments for services move to a cashless basis and the T&E department is confident of delivering this value of this efficiency, or a portion thereof, in the event of any delay in implementing this policy.

Efficiencies and rebalancing plans (both 2020 and 2021) show the incremental revenue from domestic tax compliance as contributing towards the objectives (£40m in 2020 and £20m in 2021). Within the accounts, as set out in the Government Plan (both '20 – '23 and '21 – '24), this revenue is excluded from the attribution of efficiencies and rebalancing measures to departmental cash limits, and is rather included within the general taxation income.

9. Efficiencies Plan 2020-23 highlighted a potential additional tax revenue of £7.35m, however this was not included within the efficiencies totals. Why has additional revenues been included this time as an efficiency? Are Tax Revenue estimates already included within the expected level of tax forecasts that become the revised estimates?

Efficiencies and rebalancing plans (both 2020 and 2021) show the incremental revenue from domestic tax compliance as contributing towards the objectives (£40m in 2020 and £20m in 2021). Within the accounts, as set out in the Government Plan (both '20 – '23 and '21 – '24), this revenue is excluded from the attribution of efficiencies and rebalancing measures to departmental cash limits, and is rather included within the general taxation income. The tax revenue forecast for the current year is deemed to include the incremental revenues arising from the domestic compliance measures

10. Is there actual precision around the £5m HCS Budget reduction arising from the zero-based budget review and the £750,000 around the IHE Target Operating Model proposals? Is there confidence the HCS can readily accommodate this level of budget reduction without service delivery implications?

Yes, the Zero-Based Budgeting process within HCS will set out the line items and specific services from which efficiencies can be derived. The plans for 2021 are now well advanced and are being reviewed by the HCS leadership team before being presented to the Minister for review and approval. This level of specificity provides confidence in delivery and supports the tracking process.

The IHE operating model development, whilst less advanced, offers sufficient opportunities to deliver the value of efficiencies and more detailed plans will be shared as different underlying service reviews are completed.

11. Are the £900,000 of Modernisation and Digitalisation of One Gov recurring cashable efficiency savings not contingent upon associated capital projects delivering without slippage?

No, the delivery of this efficiency has no dependencies on capital projects. The activity relates to the transfer of technology functions from CYPES and HCS to the Modernisation and Digital function. This provides opportunities for better deployment of resources and a more commercial approach to supply contracts.

12. Net revenue near cash expenditure has continued to rise and is forecasted to do so through this plan. COVID aside, will expenditure by the Government of Jersey perpetually increase?

a) Will there be a drop in Government Expenditure when the well discussed efficiencies/rebalancing is realised?

b) What is the estimated timeframe?

The purpose of the re balancing programme is threefold:

Firstly, to provide a source of funds that will finance the Government's expenditure and avoid the need for a call on tax increase or the like. Secondly it is to facilitate the Government ensuring that the services it provides are value for money and islanders monies are being used wisely and as necessary, lastly it promotes transformation and thus improvement of services on a continuous basis

It is not at this stage planned as a means of reducing overall **net** expenditure which is itself very significantly impacted by Covid, growth in services etc which are to date of a magnitude much larger than the re balancing work.

The key spending proposals for the current Government Plan take a long-term approach, setting out funding requirements for the medium to long term. In particular, the JCM investment serves to reduce future health expenditure in the medium to long term.

Expenditure

13. The Head of Expenditure for Treasury and Exchequer has dropped 48% from an allocation of £129.7m in 2020 to £67.1m in 2021. An allocation of £133.2m had been estimated for 2021 in last year's plan. What has allowed this drop-in expenditure?

The majority of that reduction is the removal of the £65.3 million States Grant payment into the Social Security Fund.

Tax Policy and Returning to 'Balance'

14. The 2021 plan increases standard income tax exemption thresholds. How much loss in revenue is there through these increases and is this built into the current personal tax forecasts used in the revised plan?

The cost of the increases to personal income tax thresholds is £1.2m as set out in table 26 of the proposed Government Plan. This is included in the revenue forecasts underpinning the Government Plan.

a) Would further increases support those on lower incomes?

Further increases to personal income tax thresholds, above the rate of inflation, would benefit more than 88% of personal income taxpayers i.e. all those on the marginal rate plus those on standard rate who would move onto the marginal rate calculation as a result of the increase in thresholds. However, many households on the lowest incomes would not benefit from increases to income tax thresholds as their incomes are lower than the existing threshold and therefore, they do not pay income tax. This means that around $\frac{1}{4}$ of the 'personal taxpayer base' would not benefit. It is considered that a cut in the rate of Employee Social Security contributions is better targeted those on lower incomes, and this is one of the reasons why this has been implemented on a temporary basis as part of the broader fiscal stimulus programme – as those on lower incomes are more likely to spend any additional income (as opposed to saving it). This is in addition to the £100 direct payment to Income Support and Pension Plus households, which again is better targeted at lower income households when compared with an above-inflation increase in income tax thresholds

15. The International Services Entity fees has risen, how large a proportionally increase has this been?

ISE fees have risen by around 40% in aggregate

a) How does this proportion equate to the amount not paid into the GST system by those predominantly supplying services to overseas customers?

No data is available to answer this question at this time; however, the increases have been developed in discussion with representatives of Financial Services providers.

b) Of the received revenue, what proportion is paid by the Finance industry?

The vast majority of ISE Fees are paid by the Finance Industry.

c) Why was the International Services Entity fee not increased further if, as it has been previously stated the finance industry has not been greatly impacted so far by the pandemic?

ISE Fees have been increased as far as Ministers judge appropriate given, thus far, the finance industry has not been as detrimentally affected by the pandemic. The increases have been consulted on with the industry

16. The Plan highlights approximately £10 million in additional tax revenue by 2024 through measures brought forward in the government Plan 2022. Why are these measures not being brought forward sooner?

In line with FPP advice, it would not be right to over-burden the economy with additional taxation at this time, instead aiming to balance the books by 2024, retaining flexibility to adjust to changing circumstances. Measures which do not harm the economy, will however be considered ahead of then, on a measure by measure basis.

a) If you break down the proposed £10 million, proportionally how much is being estimated to come from broadening the tax base, medical cannabis, residential and commercial stamp duty?

It is not possible at this time to disaggregate the estimate of revenues that may be generated from individual policy initiatives: the aim is to establish what could naturally arise out of an emerging cannabis industry; what would fall out of rationalisation of (particularly commercial) stamp duty; and then determine what additionally might be needed from broadening the tax base to meet the £10 million target

b) If the estimates are “rough”: why are the figures included in this plan?

The figure is an approximate estimation, at a prudent level of the additional tax revenue that could be achieved by 2024. We will be able to further refine this forecast in 2021 for the Government Plan 2022-25.

Projects

- **Insurance Premium (OI4-2)**

17. Where will funding come from if the chosen insurance strategy incurs additional costs?

There are increases associated with the insurance premium which have been included in Government Plan 2021-2024. A review of our insurance arrangements is underway which will hopefully help manage our risks and inform those we insure with. If there are further unexpected increases, departments are expected to do their best to manage costs internally. If that is not possible then there is General reserve that can be applied to for funding.

Tax Policy and International Team Investment (CSP3-1-08)

18. Tax Policy and International team investment estimates have dropped from the Government Plan 2020-23 by £367,000 in the 2021 to 2023 period, what actions will allow these savings?

This reduction was predicated on a reduction in growth of the team but is highly dependent upon the demand for domestic tax-policy and international-policy reviews/changes and the expectation that resources may be freed up from domestic operations (and re-directed to policy work) as more taxpayers interact with us digitally. Given the current pressures on Revenue Jersey; the decision to abolish the Prior-Year-Basis of paying taxes; and the potential levels of customer contact that may be involved in moving to Independent Taxation, the Comptroller and the Treasurer will keep this proposed reduction in growth under close review (mindful of the Panel's concerns about levels of funding available to the tax administration.) and to this extent the Treasurer has asked the Comptroller to identify additional funding requirements to enable the effective implementation of the PYB changes in particular and also to improve further the service to customers.

Building Revenue Jersey Team (O13-01)

19. The stated allocation for 2023 and 2024 is £995,000, will this be the recurring cost of the Revenue Jersey Team moving forward?

It is unlikely (post 2024) that as much as £995k pa will need to be invested in Revenue Jersey as the transformation will be very-well-advanced

20. Are the £200,000 costs for implementation of the Prior Year Basis tax reform updates included in these figures? – if not where?

No – the £200k spent on PYB is a reallocation and reprioritisation of existing funding that may need to be made up to ensure future planned policy projects are delivered. See answer to question 18.

Domestic Compliance (Spend to Raise)

21. The Panel notes a drop of £57,000 funding for Domestic compliance (Spend to Raise) per year from 2022, why is the additional amount required in 2021?

The Comptroller has no plans to reduce funding for Domestic Compliance work but the £57k reduction in 2021 reflects a number of known retirements of higher-graded staff where recruitment is likely to be prolonged.

22. Funding allocation remain constant from 2022 onward, is this a stagnant cost?

Funding for Domestic Compliance from 2022 is likely to be a recurring cost for some years beyond the life of this Government Plan. Any future additional costs will be dependent on appraisal at that time as to whether further funding is needed or whether it will lead to higher revenues that exceed the additional costs

Government of Jersey Bank Charges (013-05)

23. The funding allocation for Government of Jersey Bank charges was given due to increased costs in relation to growth in the number of individuals paying for government services via digital channels. The project was classed as “reduced” in the 2020 6-month report, what impact has this had?

The project has established that merchant charges remain competitive and that we continue to get value for money for card fees. The project has therefore been reduced to monitoring and tactical changes. The Stay at Home period, April to June, has also enabled the Government to make a step change in digital payments and deliver the outcomes planned for the project.

During the Stay at Home period a higher number of payments were received via the Government's website and this has continued through 2020. During the Stay at Home period the Government received over 7,000 payments (£10 million) from customers paying on gov.je. During the same period in 2019, 3,500 payments (£4 million) were received by this digital channel.

We have also experienced a significant increase in the number payments received via our automated telephone payment line for the payment of tax, social security and invoices. This channel is an accessible channel for those customers that do not use the internet and is available 24 hours a day, 7 days a week. During the Stay at Home period the number received over 800 payments via our automated telephone payment line compared to around 200 in the same period the previous year.

Sports facilities have reopened only accepting card payments delivering operational efficiencies in cashing up. We have also successfully moved suppliers and customers to payment via bank transfer during this period as individuals/businesses were unable or unwilling to visit bank branches to pay in cheques.

24. Will this charge increase follow the closure of Le Motte street and the potential further rise in digital payments?

A channel shift to digital payments was expected from the project and is consistent with international trends. The closure of La Motte Street has enabled this to happen more quickly. Digital payments are more operationally efficient and secure. The resulting increase in bank charges are offset by operational efficiencies.

In 2020, we have seen some areas of lower bank and merchant fees. For example, the closure of sports facilities and the introduction of no parking charges at car parks reduced card transaction costs in 2020. We will continue to monitor card fees and bank charges as a result of the closure of La Motte Street and customer payment trends.

Audit Fees (O13-08)

25. Could you please update the Panel on the increased audit fees project?

The investment in improving financial management and ensuring the accounting framework applied in the States of Jersey Annual Report and Accounts benchmarks well against international standards requires an equivalent investment in audit fees to support the funding of the breadth and quality of consequential audit services.

As part of the continual improvement within Treasury financial reporting, in addition to producing the 2019 States of Jersey Annual Report and Accounts significantly faster than in previous years, quality has also been improved. For example, the recognition of personal income tax was revised to align with International Financial Reporting Standards (IFRS). This was a significant change to produce an estimate of income tax revenue in excess of £300 million and required additional review by the external auditors Deloitte in their first year as States of Jersey external auditors. The

implementation was successful, and the additional audit work carried out also enabled further process improvements.

The Panel will be aware that the Comptroller and Auditor General has appointed another new external auditor, Mazars LLP, in 2020. The additional investment will ensure sufficient resources are available to support a smooth transition and maintain the standard of audit for the 2020 States of Jersey Annual Report and Accounts.

The financial reporting improvement plan within the Government Plan period also includes consolidating the four majority/wholly owned entities currently recognised as Strategic Investments into the States of Jersey Annual Report and Accounts (JT Group, Jersey Electricity, Jersey Post and Jersey Water). This is a significant project for the Treasury and will also potentially require investment in audit services in the short term.

As financial management continues to improve and the investment in systems is delivered, there will be opportunities to improve the efficiency of external audit which could reduce costs.

Effective Financial Management (014-01)

26. What are the tangible outputs in cash terms for more effective financial management? Are these not already captured in the revised downward movement on budgets as a result of efficiency savings? Why have these not been identified separately?

Effective financial management is an enabler for the delivery of wider government objectives as well as the more directly associated financial performance metrics. It is cross-cutting in nature – the basis and benefits of the investment are already outlined in the business case included alongside the Government Plan 2020 - 2023.

As an example, Treasury officers played a very significant role in driving the identification and agreement of the £20 million of rebalancing measures / efficiencies in 2021 as part of the rebalancing of government finances activity.

As noted by the previous C&AG – Finance Transformation will take a number of years to be delivered. Equally, part of the transformation is a move to a more agile way-of-working, meaning that change becomes continuous as the Government adapts and improves (for example by adopting new technologies).

Sustainable Finance Transformation must involve a shift to departmental culture which seeks to continuously improve and transform. The Treasury and Exchequer Departmental Delivery Plan includes a number of significant transformational projects. Many of these will be delivered by teams within the new departmental Target Operating Model – with newly formed teams owning the transformation. The organisation is also committed to investing in people to ensure that they have the skills to deliver the changing role of the finance function in the future.

Transformation cannot be delivered off the side of a desk, and the investment included in the Government Plan will be used to both support these teams, and to deliver specific projects where this is appropriate. In particular:

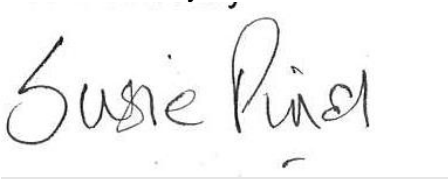
- Supporting the COO to successfully deliver the Integrated Technology Solution, and delivery of the change readiness required by this programme. The Integrated Technology Solution

will be a key enabler to finance transformation, allowing our people to use modern technology to support them in their roles (which will deliver efficiencies to the costs of the finance function, including in the Plan)

- Delivery of Zero-Based Budgeting
- Investment in our people – both within the department and in financial management across the departments (for example training budget-holders).

The Treasury and Exchequer Senior Leadership Team reviews all transformation projects as part of a dedicated Finance Transformation meeting. This includes a review of portfolio of projects in the context of the current circumstances – to ensure that portfolio will result in the desired transformation and is deliverable.

Yours sincerely

A handwritten signature in black ink that reads "Susie Pinel". The signature is written in a cursive style and is contained within a thin black rectangular border.

Deputy Susie Pinel
Minister for Treasury and Resources
D +44 (0)1534 440215
E s.pinel@gov.je

Enc.