States of Jersey
States Assembly

États de Jersey
Assemblée des États

Corporate Services Scrutiny Panel

MTFP 2016 - 2019

Presented to the States on 2nd October 2015

S.R.6/2015

Summary of Key Figures and Balances - MTFP 2016 - 2019

The following table represents a summary of certain parts of the proposition being presented to the States Assembly with regards to the MTFP 2016 - 2019.

If States Members approve the proposition as presently worded, the financial consequences are detailed below.

Approval of income forecasts, and income raising measures

Part (a) (i) of proposition	2016	2017	2018	2019	Total
Re : Summary Table A	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Total States Income	685,830	705,491	739,295	757,076	2,887,692
Additional taxes and charges proposed					
Re Rates		1,000	1,000	1,000	3,000
Re Healthcare Charge			15,000	35,000	50,000
		1,000	16,000	36,000	53,000
Total Proposed States Income - to be approved	**685,830**	**706,491**	**755,295**	**793,076**	**2,940,692**

Approval of total expenditure

Part (a) (ii) of proposition	2016	2017	2018	2019	Total
Re : Summary Table B	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Total Net Revenue Expenditure	(734,417)	(734,387)	(733,997)	(734,845)	(2,937,646)
Total States Net Capital Allocations (See Note 1)	(26,691)	(65,273)	(43,233)	(32,975)	(168,172)
Total States Net Expenditure Allocations - to be approved	(761,108)	(799,660)	(777,230)	(767,820)	(3,105,818)

This will result in the following net position (excluding depreciation)

	2016	2017	2018	2019	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Total Proposed Income	685,830	706,491	755,295	793,076	2,940,692
Total States Net Expenditure Allocations	(761,108)	(799,660)	(777,230)	(767,820)	(3,105,818)
Net position (See Note 2)	(75,278)	(93,169)	(21,935)	25,256	(165,126)
Deficit for the period of the proposed MTFP					**(165,126)**

Note 1 :
Capital expenditure will be funded mainly out of reserves, not from income.

Note 2 :
This figure does not include depreciation (which totals approximately £192 million over the period of the MTFP)

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1. EXECUTIVE SUMMARY

The Panel presents its report on the MTFP 2016 – 2019 (“MTFP2”). It has received advice from the Chartered Institute of Public Finance & Accountancy (‘CIPFA’), and also Dr Michael Oliver. A summary of key points is as follows:

- States Members are being asked to approve income forecasts totalling £2.9 Billion.
- The income forecasts are considered to be optimistic.
- States Members are being asked to approve the principle of a health care charge (tasked with raising £35 million per year),
- States Members are being asked to approve a mechanism to raise taxes in order to pay for the States to pay Parish rates.
- No detail has been given as regards these new income raising measures.
- States Members are being asked to approve expenditure totalling £3.1 Billion.
- There is no detail given as to any components of the expenditure for the years 2017, 2018 or 2019.
- States Members are being asked to approve a total of £148 million described as Contingency / Central Allocation.
- No detail has been provided as to the constituent elements making up the central allocation / contingency amount, for the years 2017, 2018 or 2019.
- There is also reference to user pays charges (including a charge for liquid waste) designed to raise £10 million annually from 2019.
- There is no detail as to how the liquid waste charge will be raised.
- The treatment of liquid waste is already paid for by Islanders through general taxation.
- No studies have been completed to analyse the distributional impact on Islanders of any of the new measures contained in the proposed MTFP.
- A very simple estimate indicates that the additional amount to be charged to each Household will be just over £1,000 per year.

Our advisers have made the following remarks about the proposed MTFP:

- There has to be a material change in the alignment of income and expenditure if there is to be a reasonable prospect of achieving a 'balanced budget' position over the four year period.

- At this stage within the cycle, running a four year MTFP based on only one year of detail and three years of control totals, with no reasonable detail for these three subsequent years, negates the benefits of the a medium term financial plan and significantly reduces its utility.

- Although a key attribute of a medium term financial plan is the provision of stability, it is clear that a combination of imprudent assumptions used within MTFP1 and lack of agility in adapting to a deteriorating financial position has driven the creation of a range of measures designed to counter emerging deficits.

- Strategic Financial Planning is in recovery mode rather than setting a stable financial strategy that delivers robust financial performance. At worst, using specific reserves to fund core expenditure and creating measures which are in effect short term tactical solutions without due focus being applied to causal drivers is not going to create the necessary conditions that will successfully recalibrate financial strategy for the medium and longer term.

- Much has been said about Jersey's "strong" balance sheet position…No matter how 'strong' the States net asset position appears to be - there is not an infinite timeline which would allow it to continually support/maintain a low tax/high spend jurisdiction especially with significant investment needs to cover demographic pressures.

- In respect of MTFP 2 the targeted £145 million of savings, charges and other measures by 2019 is highly ambitious and there is an acknowledged risk of non-achievement. Although MTFP 2 provides for an element of contingency, should such targets fail to be achieved, there is a lack of precision and definition on alternative options.

- In our view (CIPFA) there appears to be almost a cultural acceptance that there will be a significant element of non-achievement. It is our view that a number of key assumptions, principally around Income Tax and Savings targets including £70 million of People savings invite an unacceptable level of risk.

- The introduction of a Health Charge and User Pay strategy scheduled to bring a combined additional income of £45 million per annum in 2019 is considered to be insufficiently developed at this stage to validly incorporate within a meaningful plan designed to eliminate the structural deficit.

- The Panel's independent expert advisers CIPFA use a Financial Scoring Model that is the "gold standard" globally for best practice on Financial Management in the Public Services and is used extensively in North America, the Middle East and Australasia.

- CIPFA has stated that the scoring of this MTFP is significantly lower than what they would see in most of the organisations they work with. The Panel compared the total scoring used by CIPFA for MTFP 2012 – 2015 to MTFP 2016 – 2019 and was concerned to find that a number of these had deteriorated.

- This is consistent with the findings within the Comptroller and Auditor General's Report – Review of Financial Management dated 2nd April 2015, whereby a theme of poor financial management was considered to be prevalent with recommendations to reinforce a culture of collective responsibility for financial management issues by the Council of Ministers and the Corporate Management Board.

In Conclusion

- There is insufficient detail provided in the MTFP 2016-19 regarding the planned expenditure by the Council of Ministers for the years 2017, 2018 and 2019, and significant uncertainty about the associated income forecasts.

- The Panel recommends that in the absence of adequate detail with which to inform its decision, the States Assembly should only approve expenditure and income for 2016 at this time. It concludes that the Assembly will only be suitably informed to make such significant spending decisions for those years by waiting for the details to be provided in the Addition to the MTFP, which is to be lodged by 30th June 2016.

2. KEY FINDINGS AND RECOMMENDATIONS

Income Forecasting Group (IFG)

Finding 1
Whilst we fully endorse the intention to strengthen the IFG, the Panel is concerned that with all the members of the IFG being civil servants with one exception, it remains short of the wide breadth of knowledge required to enable it to produce accurate and meaningful forecasts that adequately take into account particular local conditions. (Page 10)

Recommendation 1
The Panel strongly recommends that membership of the IFG should consist of a broader base, which should include an equal split between private and public sector representation. (Page 10)

Income Forecasts

Finding 2
There are still significant risks in running the MTFP 2016-19 income tax yield estimates as currently presented, and the Panel and its advisers remain unconvinced about the validity of assumptions used to predict Income Tax, with predicted increases of 4.5%, 5.3%, 5.6%, and 4.1% respectively for 2016 – 2019. (Page 14)

Recommendation 2
Based on expert advisor opinion, the Panel strongly recommends that the Island's current tax regime is challenged and reviewed in advance of the lodging of the next MTFP. (Page 15)

Finding 3
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 the States 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. (Page 16)

Recommendation 3
The Panel recommends adopting an income forecast outlining a point between the lower and central scenarios outlined by the Income Forecasting Group. (Page 16)

Finding 4
There is a high level of uncertainty around the range applied to income forecasts and they are not sufficiently prudent. (Page 17)

Recommendation 4
The Panel recommends that the revised income line should be used to inform expenditure levels in the June 2016 addition for the years 2017, 2018 and 2019. (Page 17)

Finding 5
There is insufficient detail provided in the MTFP 2016-19 regarding the new income raising measures by the Council of Ministers for the years 2017, 2018 and 2019. (Page 18)

Recommendation 5
The Panel recommends that, in the absence of adequate detail with which to inform its decision, the States Assembly should not approve income forecasts for the years 2017-2019 at this time, but should await the details to be provided in the Addition to the MTFP for the years 2017, 2018 and 2019 which is to be lodged by 30th June 2016. (Page 18)

Proposed Expenditure for 2016-19

Finding 6
The total amount of expenditure the States Assembly is being asked to approve is approximately £3.1 billion for 2016 – 2019. (Page 20)

Finding 7
There is insufficient detail provided in the MTFP 2016-19 regarding the planned expenditure by the Council of Ministers for the years 2017, 2018 and 2019. (Page 20)

Recommendation 6

The Panel recommends that in the absence of adequate detail with which to inform its decision, the States Assembly should only approve expenditure for 2016 at this time. (Page 20)

Recommendation 7

The Panel recommends that the States Assembly should await the details to be provided in the Addition to the MTFP for the years 2017, 2018 and 2019, which is to be lodged by 30th June 2016, before taking any decision to approve expenditure for those years. (Page 20)

Capital Programme

Finding 8
The States capital projects programme has the potential of creating a high level of risk of a build-up of inflationary pressure in Jersey's economy and creating bottlenecks within the local economy. (Page 21)

Recommendation 8
States capital projects should be managed in a timely manner taking into consideration the consequences of the local economy and the prevailing economic conditions. (Page 21)

Finding 9
The Panel is concerned that no financial implications for the new hospital are referred to within this MTFP. (Page 21)

Recommendation 9
When plans are brought forward for the new hospital or any other significant capital projects, there should be full recognition of the effect of life cycle costs and any other revenue or capital impacts made within the relevant MTFP. (Page 21)

Central Contingency Allocations

Finding 10
A sum totalling £148 million has been included as a central allocation/contingency figure in the MTFP 2016-19. (Page 25)

Finding 11
No detail has been provided as to how the figure being put forward for contingencies for 2017, 2018 and 2019 has been calculated. (Page 25)

Finding 12
It is unclear whether the £19 million identified for "extraordinary items" in 2016 is discounted from the contingency allocations provided for subsequent years. (Page 25)

Finding 13
The safeguards around contingency do not do enough to stop the Council of Ministers declaring unspent contingencies as a saving. (Page 25)

Recommendation 10
Beyond the 'extraordinary items' identified for contingency allocation in 2016, stronger safeguards should be implemented to ensure all other spending from the central contingency allocation receives advance approval by the Assembly. (Page 26)

Recommendation 11
Controls should be in place to require States Assembly approval to release contingency expenditure, no more than one year before the period to which it relates. (Page 26)

Savings and User Pays - General

Finding 14
The £40 million of non-staff savings being proposed includes £10 million to be raised through user pays charges. (Page 27)

Recommendation 12
The Council of Ministers should not, within any MTFP, present figures which conflate savings with user pays charges. (Page 27)

Savings and User Pays: Health Funding Mechanism and Liquid Waste Charge

Finding 15
If the States approve Summary Table A, they would, in effect, be approving the introduction of a health care charge. (Page 29)

Finding 16
If the States approve the MTFP 2016-19, they would be, in effect, be approving the principle of raising £10 million from Islanders through additional user pays mechanisms. (Page 29)

Finding 17
Within the MTFP 2016-19, it is the clearly stated intention of the Council of Ministers to introduce a user pays liquid waste charge as a significant contributor to the £10million identified to be raised through new user pays charges. (Page 29)

Finding 18
The cost of the removal and treatment of liquid waste is currently paid for by Islanders through general taxation. (Page 30)

Finding 19
Each household will be asked to contribute in the region of £1,000 per year if the healthcare and £10 million user pays charges are contained in this MTFP are implemented. (Page 30)

Finding 20
The Panel is concerned that no impact studies have been completed regarding income, expenditure, tax and user pays. (Page 31)

Recommendation 13
The Panel strongly recommends that appropriate impact studies are carried out and presented to the States Assembly in advance of the lodging of the MTFP 2016-19 Addition. (Page 31)

People Savings

Finding 21
No impact studies have been undertaken with regards to the effect these changes will have on the economy and overall unemployment in the Island. (Page 33)

Finding 22
Insufficient consultation has been carried out with the Unions specific to the £70 million of proposed people savings. (Page 33)

Recommendation 14
The Panel strongly recommends that appropriate impact studies are carried out and presented to the States Assembly in time for the lodging of the MTFP 2016-19 Addition. (Page 33)

Finding 23
It remains the case that it would be prudent of the Council of Ministers to assess the affordability of the employer's contribution cap within the context of an employer's contribution which is lower than 16% or 16.5%. (Page 35)

Top Line Savings

Finding 24
The top slicing approach to savings adopted by the Council of Ministers will result in no real transformational change and offers little drive to change the culture of spending within the States. (Page 35)

Finding 25
The pattern of year end spending within the States of Jersey is indicative of undisciplined spending, with budget holders spending to avoid loss of budget rather than focusing on managing their costs. (Page 36)

Recommendation 15
Treasury and Resources must assess the reasons behind the pattern of year end spending and put measures in place to ensure that the culture of spending to avoid loss of budget, instead of budget holders managing their costs in a disciplined manner, is brought to an end. (Page 36)

What If The Savings Are Not Made?

Finding 26
The Panel and its advisers have significant concerns as to whether the total identified savings contained within the MTFP 2016-19 will be achieved within the envisaged timeframe. (Page 37)

Recommendation 16

The Minister for Treasury and Resources must ensure that growth expenditure is only released when the prescribed savings targets contained within the MTFP 2016-19 have been achieved, regardless of any additional income raised. Additional income is not a substitute for achieving the approved savings. (Page 37)

Balancing the Books

Finding 27
It is important that any measures taken by the Council of Ministers to ensure a positive balance is maintained on the Consolidated Fund do not impact on the delivery of the £145 million of measures needed to balance the books. (Page 38)

3. INTRODUCTION

P.72/2015 Medium Term Financial Plan 2016 – 2019 ('MTFP 2') was lodged au Greffe on 14th July 2015 by the Council of Ministers, having originally been due to be lodged by the end of June 2015, with a debate date of 6th October 2015. It might be noted that the Annex to the MTFP was only presented to the States Assembly on 24th July, and a Corrigendum to Figure 18 was issued as late as 17th September 2015.

This delay in lodging and difficulty in accessing information prior to this added significantly to the already extremely challenging timetable provided for scrutiny of such an important and complex Proposition, effectively leaving ourselves and the other Scrutiny Panels the task of conducting the bulk of our work in August, with all of the difficulties that month brings with the inevitable absences across the board due to the holiday period. The timing issue is one that Scrutiny will continue to take up with the Council of Ministers to ensure appropriate time is provided for the necessary scrutiny that should be undertaken of such an important document.

Despite these circumstances, the Panel has now completed its Review and is pleased to present its report. We have been grateful for the assistance of two independent expert advisors during the course of the Review, Mr Stuart Fair of CIPFA and Dr Michael Oliver of MJO Consultancy. Both advisors worked on MTFP 1 and, as with that Review, each has focused on discrete aspects of the plan. Their reports are attached in full as Section 9: Appendix 2 and Section 10: Appendix 3 respectively.

In addition, the Panel produced a framework of questions which it circulated to all other Scrutiny Panels. This has led to cohesive working across Scrutiny Panels resulting in a consistent approach to the Review. Panels were given the opportunity of tailoring this framework to suit the Department's needs. The question framework is appended to this Report (Section 8: Appendix 1).

It might be noted that the MTFP was intended to represent a significant development in the management of public finances. Before the first MTFP in 2013, debates about spending had taken place on an annual basis, but MTFP 1 set spending limits for three years with the aim of providing Departments with greater certainty and increased flexibility in the management of their budgets.

However, as a result of the 2015 amendment to the Public Finance Law *(P.42/2015 Public Finances (Amendment of the Law no.2) (Jersey) Regulations 201-),* although MTFP 2 establishes the frameworks for income and expenditure for four years from 2016 – 2019, the detail is only given for 2016. An "addition" to this MTFP will be lodged in June 2016 where the detail for 2017, 2018 and 2019 is due to be provided, and the Panel will undertake a further Review as that information emerges.

4. EXPENDITURE AND INCOME FORECASTS

A Ministerial Decision establishing the Income Forecasting Group (IFG) was signed on 15th December 2014. This group replaces the Income Tax Forecasting Group (ITFG) and allows it a wider remit to cover all States income as opposed to just income tax. When established, it was proposed the IFG would be more formalised within a structured reporting framework and with formal minutes being made available to the Council of Ministers. The members of the group are:-

- Treasurer of the States of Jersey
- Comptroller of Income Tax
- Director of Financial Services
- Chief Officer, Economic Development
- Chief Officer, Social Security
- Advisor, International Affairs
- Deputy Director of Tax Policy
- States of Jersey Economic Advisor
- An external person appointed by the Minister for Treasury and Resources (presently Mr K. Keen)

The objective of the IFG is to produce an absolute minimum of two forecasts each year on all States income from taxation and social security contributions which will be informed by economic assumptions endorsed by the Fiscal Policy Panel (FPP). The IFG reports are presented to the Minister for Treasury and Resources in advance of the Council of Minister's consideration.

Finding 1:

Whilst we fully endorse the intention to strengthen the IFG, the Panel is concerned that with all the members of the IFG being civil servants with one exception, it remains short of the wide breadth of knowledge required to enable it to produce accurate and meaningful forecasts that adequately take into account particular local conditions.

Recommendation 1:

The Panel strongly recommends that membership of the IFG should consist of a broader base, which should include an equal split between private and public sector representation.

4.1 THE FISCAL POLICY PANEL (FPP)

The FPP was formed in October 2007 to make recommendations on Jersey's fiscal policy to the Minister for Treasury and Resources and the States with reference to:

- The strength of the economy in Jersey
- The outlook for the Jersey and world economies and financial markets
- The economic cycle in Jersey

- The medium and long term sustainability of the State's finances
- Transfers to, and from, the Strategic Reserve and Stabilisation Fund

The FPP has endorsed the economic assumptions presented in April 2015. The Panel is concerned that following publication of its annual report in September 2015, the FPP presented a new set of economic assumptions which had not been allowed for in the draft MTFP. At its meeting with the FPP and the States of Jersey Economist, the Panel was told the impact of these figures would be used for the next IFG report which would not be published prior to the debate on the MTFP. The Panel is concerned that these updated figures may show a decrease in the income forecasts The States of Jersey Economist, however, has informed the Panel that such information should not be used in isolation and that the associated figures would need to be put into the forecasting model for the results to be known.

Concern was also expressed by both of the advisors to the Panel as to the robustness of the income forecasts being applied; excerpts of which are noted below.

> "*Looking back at actual spend and income positions covering the first MTFP (MTFP1), there are significant negative variations on both income and expenditure which highlight the vulnerability of the strength of assumptions used within MTFP1. Within the last two years the overall financial position of the States has continued to deteriorate. Financial performance reporting for the first two quarters within 2015 highlights a widening gap between tax yields against profiled estimate*."[1]

> "*The outcomes expected for income tax revenues have been significantly adrift from those predicted at the start of the MTFP 1 process. MTFP 2 begins from the premise that total income will be £20 million adverse compared to the 2015 Budget (the bulk of which will be made up of personal income tax). It is instructive to consider the deterioration in income forecasts since 2012*."[2]

The FPP published a pre-MTFP Report in January 2015 and an annual report in September 2015 commenting on the MTFP, as drafted. Within its report in January 2015, the FPP suggested a risk of a flat trend for GVA and productivity growth from 2018 onwards. It goes on to say future fiscal trends should be tested against a trend rate of real economic growth of 0% a year. It is within the recommendations of the FPP Report that Jersey should develop a plan that will address any structural deficit by 2018 and 2019.

It should be noted the FPP is supportive of this draft MTFP and consider its four guiding principles from the Pre-MTFP Report in January 2015 have been followed during its development.

<u>4.2 THE FINANCIAL FORECASTS – INCOME</u>

On review of the income forecasts, the Panel is very much of the opinion there is a high level of uncertainty around them and do not believe they are on the side of prudence. The Panel is

[1] CIPFA Report – September 2015
[2] MJO Consultancy Report – September 2015

concerned too much reliance is placed on income and economic forecasts to balance the books and has doubts as to how these will be realised. The Panel also notes the previous Corporate Services Scrutiny Panel addressed the reliance on income and economic forecasts as a concern in the previous MTFP Report. There is also concern from the Panel that the MTFP is setting the income and expenditure envelope for 4 years without giving the granular detail.

CIPFA have stated within their report "it is difficult to draw consistencies between the FPP's Jersey Annual Report September 2015 narrative on expected growth and the relevant GVA, Company profits, employment average earnings metrics with the income base estimates used to produce the revised income tax estimates."[3]

The Panel raised the question of what the consequences would be for the Island's finances should the actual income not meet the forecasts during its hearings with both the Chief Minister and the Minister for Treasury and Resources:

> ***The Connétable of St. John:***
> *"If I may, Minister, if as with the previous M.T.F.P., actual income does not meet the forecasts, what is your plan B for raising the level of income required to fund the proposed Medium-Term Financial Plan?*
>
> ***The Minister for Treasury and Resources:***
> *Of course, the solution would not just be to raise the amount of income. There would be other options, to increase the level of savings, perhaps, being delivered, or to look at other matters, which could include charges, which indeed would be a revenue-raising issue, which is part of the question you have just raised. So, charges or fees would be one option to be considered. Boosting economic growth, which is the reason that a sum of £20 million has been put aside over the term of the particular plan."*[4]

The lack of a detailed Plan B concerns the Panel and in respect of this response, it believes for these figures to be realised, there does not seem to be any option other than the introduction of the user pays charges as detailed within the draft MTFP or the raising of income tax. User pays charges are discussed in more detail later in this report.

The Panel considers there to be too much dependence on the IFG and other experts when making the forecasting assessments with little or no flexibility to move from this process. When questioned, the Minister for Treasury and Resources advised the Panel:

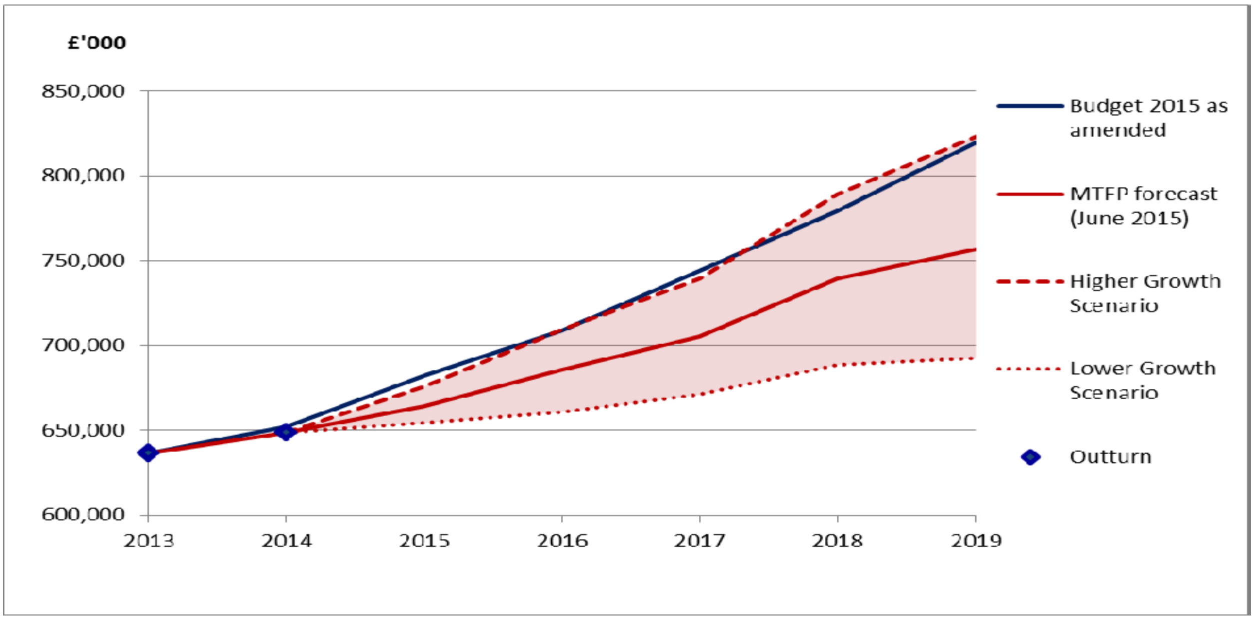
> *"…we have the independent Income Forecasting Group to make assessments, and they go through a set process. The key, as I have already alluded to, is that the assessment they have made, looking at all the various parameters, the impact on the economy and the economic performance of the Island, likely revenues such as income tax you were referring to, have been fed into their model and fully assessed, and they believe that that central forecast is prudent and conservative…"*[5]

[3] CIPFA Report – September 2015
[4] Public Hearing with Minister for Treasury and Resources – 21/07/15
[5] Public Hearing with Minister for Treasury and Resources – 21/07/15

The Executive uses models to determine the forecasts and relies upon the work of the Economics Unit. Forecasts are described as a range to allow for sensitivities from a low point to a high point. It is the mid-point which is used in the MTFP to indicate the intended income. Figure 18 on page 47 of the draft MTFP (as below) shows the assumed income forecast to 2019 as taking the middle point. The Panel recommends a more prudent position would be to take the midpoint between the middle and lower forecasts as the working assumption. This is supported by the advice received from our advisers.

This Panel's advisor, MJO Consultancy made reference in his report to a more prudent forecasting range and states "Despite the income tax forecasts from MTFP 1 being below the bottom of the range, barring a significant economic disaster it is perhaps too cautious to plan expenditure over the lifetime of MTFP 2 using these (i.e. £440 million in 2016, £451 million in 2017, £462 million in 2018 and £471 million in 2019). One approach which might be adopted is to take the mid-point between the lower range and the central line of the income tax forecast as the 'income tax' contribution to total States income for the period and aggregate this to the other (unchanged) central scenarios"[6] Compared to the central MTFP 2012 – 2015 forecast, Jersey's income tax is now forecast to be cumulatively £95 million lower for 2014 and 2015 based on the central forecast from the IFG in May 2015.

<u>Figure 18 – Forecast range of States Income to 2019 (June 2015)</u>[7] (Version as originally lodged in July 2015)



The Panel suggested using a lower range of forecasting with the Minister for Treasury and Resources to which he responded:

> *"…The forecasting already contains 3 points, the higher, the middle (the midpoint) and the lower. So the feeling is that that is perfectly prudent…"*[8]

[6] MJO Consultancy Report – September 2015
[7] MTFP 2016 - 2019
[8] Public Hearing with Minister for Treasury and Resources – 21/07/15

The Department of Treasury and Resources has been required to issue a Corrigendum to the draft MTFP, as Figure 18 should show the mid-point forecast at £793 million (as per Summary Table A), i.e. the figure for 2019 the States Assembly is being asked to approve. The originally lodged table above showed a figure that was minus the £53 million for the proposed Sustainable Funding Mechanism for Health and the payment of States rates on property. The Panel draws attention to the fact that up until the Corrigendum was issued on 17th September 2015, there was a danger that States Members may have been under the impression they were not approving the health charge totalling £50 million for the period, when the opposite is the case. The updated figure 18 is shown below, and the significant difference in the draft MTFP forecast line is clear to see.

The Panel also notes the advice of both of its independent expert advisers with regard to the issue of the current tax regime in Jersey. CIPFA informed us:

> *"Much has been said about Jersey's "strong" balance sheet position – this was a 'strapline' within the Minister of Treasury and Resources narrative to the 2014 Annual report and Accounts. No matter how 'strong' the States net asset position appears to be - there is not an infinite timeline which would allow it to continually support/maintain a low tax/high spend jurisdiction especially with significant investment needs to cover demographic pressures. Given the potential requirement to now look at User Pays/Benefits/Charges, significant unsupported investment in a new Hospital project and expected challenges in re-engineering and transforming services within an exceptionally tight timeline, it is essential that as part of the formulation of overall financial strategy, that the States of Jersey revisit/challenge prevailing tax policy and objectively consider all tax raising options, however unpalatable this may appear politically."*[9]

Similarly, MJO Consultancy, when summing up his report, concludes that:

> *"A final note of caution is needed. The advisor fully recognises that Jersey has long enjoyed low rates of tax but a combination of falling revenue and increased government expenditure has transformed the fiscal framework. If the structural deficit is not eliminated by 2019 and it proves impossible to reverse the increase in public expenditure, the temptation to draw on the Strategic Reserve will be strong. Rather than drawing on the reserves, tinkering with tax rates and allowances or introducing additional user pay charges, it is strongly recommend that there should be a root and branch review of the tax system as currently configured*."[10]

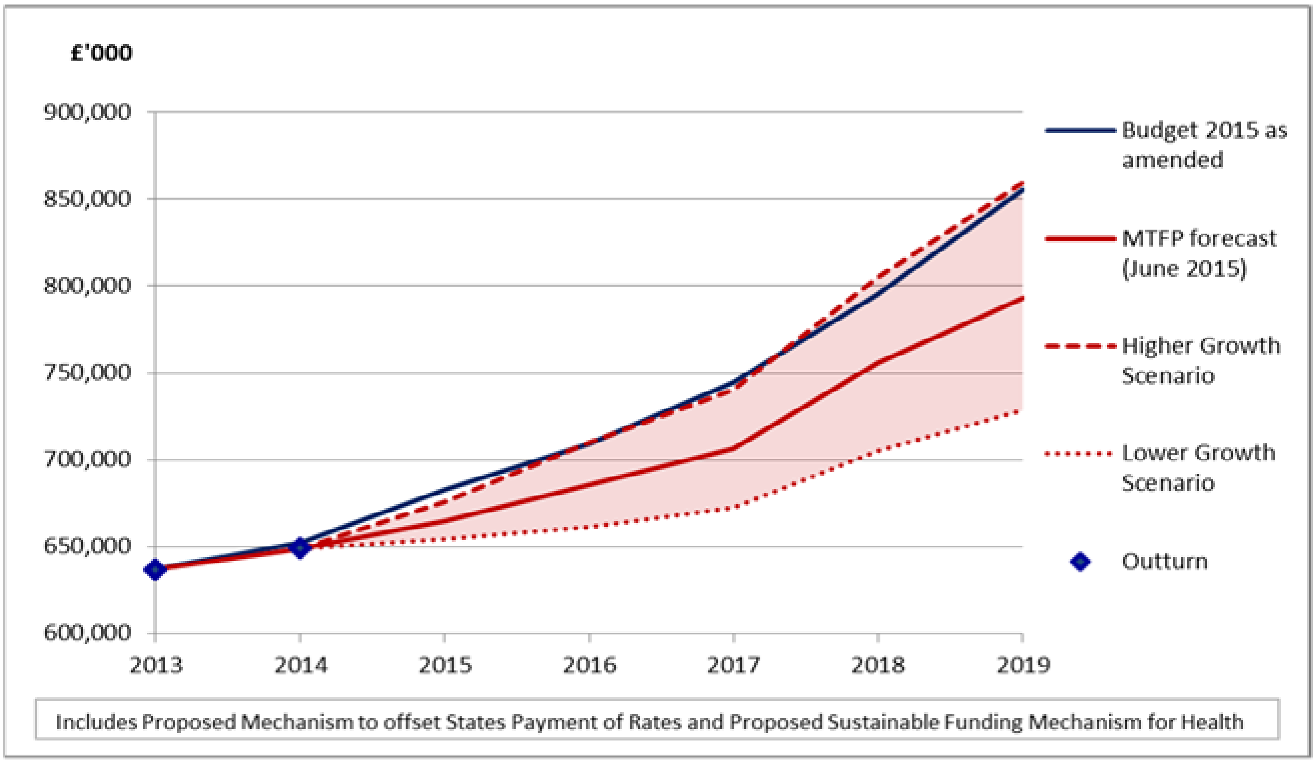
Finding 2:

There are still significant risks in running the MTFP 2016-19 income tax yield estimates as currently presented, and the Panel and its advisers remain unconvinced about the validity of assumptions used to predict Income Tax, with predicted increases of 4.5%, 5.3%, 5.6%, and 4.1% respectively for 2016 – 2019.

[9] CIPFA Report – September 2015
[10] MJO Consultancy Report – September 2015

Recommendation 2: Based on expert advisor opinion, the Panel strongly recommends that the Island's current tax regime is challenged and reviewed in advance of the lodging of the next MTFP.

Figure 18 – Forecast range of States Income to 2019 (June 2015)[11] (Updated September 2015)



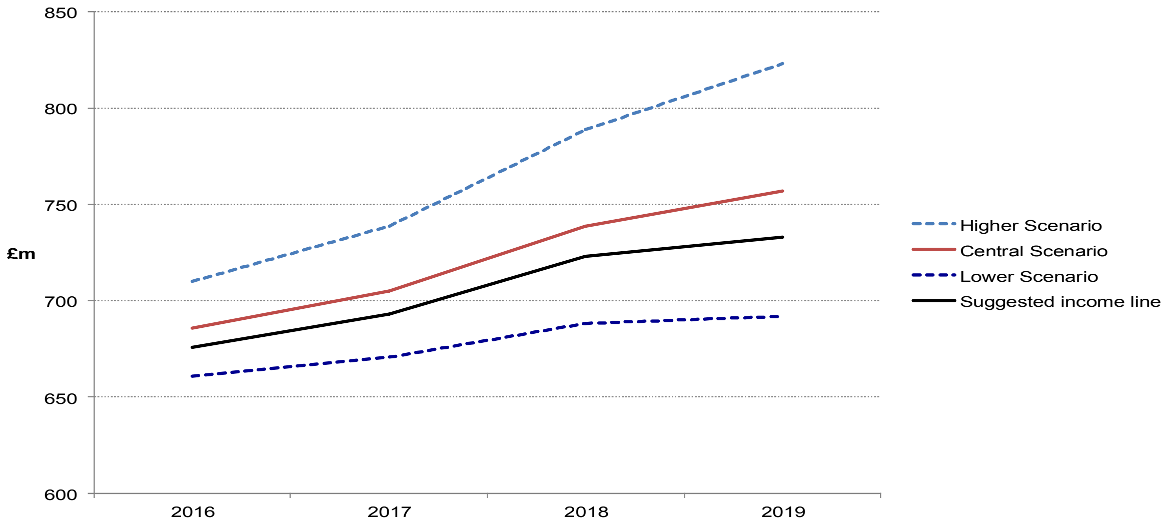
The Panel's advisor, MJO Consultancy also says:

> "*The current downward cycle is particularly protracted for Jersey and whilst there are signs that economic growth for 2014 will be positive for the first time since 2007, these forecasts would caution against the expectation of persistent healthier income tax receipts for the Treasury*."[12]

The advisor has produced an alternative graph showing a more prudent income forecasting line which is explained below.

[11] MTFP 2016 - 2019
[12] MJO Consultancy Report – September 2015

Figure 5. New suggested income line, 2016–19)[13]



"…There are various other combinations that might be adopted between the lower and higher scenarios in Figure 5 but the point being made is that this introduces an 'income contingency' whereby the central scenario remains in place but for expenditure purposes, the new suggested income line is used for expenditure purposes. If income receipts are above the new line, then they could be used to begin to replenish the Strategic Reserve or Stabilisation Fund. The economic assumptions indicate that there will be steady rates of economic growth over the lifetime of the MTFP. This will also give the Council of Ministers (a) an added incentive to control expenditure and (b) afford them with the opportunity to replenish reserves which have been used over the past decade during a period of economic growth…"[14]

Finding 3:

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 the States 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.

Recommendation 3:

The Panel recommends adopting an income forecast outlining a point between the lower and central scenarios outlined by the Income Forecasting Group.

The Panel also had reason to doubt the level of certainty on the forecasts due to the draft MTFP using a plus/minus range of 9% as opposed to 5% as in the previous MTFP. The Panel believed 9% showed a bigger range of forecasting which could be viewed as showing a degree of uncertainty in the forecasts overall. When questioned about using this higher range, the Minister for Treasury and Resources informed the Panel that the fact that 9% was used was

[13] MJO Consultancy Report – September 2015
[14] MJO Consultancy Report – September 2015

"*coincidental*"[15]. He went on to say that the IFG had looked at the amount of time used for the forecasting (4 years) and as time passes, the risk associated to the longer time horizon.

The Minister for Treasury and Resources did not deny there was a level of uncertainty and explained to the Panel:

> *"…So the further out you go, the greater the level of uncertainty. So consequently, the forecasting group that has looked at this, and it has been through the F.P.P. (Fiscal Policy Panel) as well, has concluded that it would be very sensible that as the time goes out, the forecasts will reflect the fact that there is a greater level of uncertainty. The fact that it is 9 per cent is just coincidental. Nobody has chosen 9 per cent as a figure…"*[16]

Finding 4:

There is a high level of uncertainty around the range applied to income forecasts and they are not sufficiently prudent.

Recommendation 4:

The Panel recommends that the revised income line should be used to inform expenditure levels in the June 2016 addition for the years 2017, 2018 and 2019.

4.3 PROPOSED STATES INCOME TARGETS 2016 - 2019

Section (a)(i) of the Proposition, is asking the States to approve *the intended total amount of States income for each of the financial years 2016 – 2019, as set out in Summary Table A and being the central forecast of the States income forecast range for 2016 – 2019 as shown in Figure 18*[17].

The Panel wishes to draw attention to Summary Table A and the fact that not only will the States Assembly be approving income of £2.9 billion, it will in effect be approving a total of an additional £53 million made up of the proposed sustainable mechanism for health and the offset of the States payment of rates. The proposed sustainable funding mechanism for health is discussed later in this report.

The Panel believes it "unreasonable" for the Council of Ministers to make such a request of the States Assembly to approve new methods of levying income from Islanders for 2017, 2018 and 2019 without any detail as to where those figures are going to come from, or the impact upon Islanders. Whilst the Panel understands income is a forecast, total expenditure will also be set over the draft MTFP period and in the current, unpredictable economic climate, the Panel believes the reliance on the central income forecast could be imprudent. The Minister for Treasury and Resources told the Panel:

[15] Public Hearing with Minister for Treasury and Resources – 21/07/15
[16] Public Hearing with Minister for Treasury and Resources – 21/07/15
[17] P.72/2015 – Medium Term Financial Plan 2016 - 2019

"…Obviously we had a debate with you as a panel about the timing, there had been a request for April. If you remember we have settled on June from a lodging perspective, so these details - and this is the key - the devil of course is always in the detail and that will come back when it is lodged in June next year for debate by the States Assembly. So the States will have the opportunity to see those details at that particular point…"[18]

Finding 5:

There is insufficient detail provided in the MTFP 2016-19 regarding the forecasted income by the Council of Ministers for the years 2017, 2018 and 2019.

Recommendation 5:

The Panel recommends that, in the absence of adequate detail with which to inform its decision, the States Assembly should not approve income forecasts for the years 2017-2019 at this time, but should await the details to be provided in the Addition to the MTFP for the years 2017, 2018 and 2019 which is to be lodged by 30th June 2016

4.4 PROPOSED TOTAL STATES NET EXPENDITURE FOR 2016 - 2019

Section (a)(ii) of the Proposition asks the States to approve:

''…*the total amount of States net expenditure for each of the financial years 2016 – 2019, being the total net revenue expenditure and the total net capital allocations, as set out in Summary Table B.''*[19]

As with income forecasts above, the Panel wishes to draw attention to Summary Table B and the fact that the States Assembly will be asked to approve in excess of £3.1 billion in expenditure without the details for 2017, 2018 and 2019.

The Public Finances (Jersey) Law 2005 states that the funding agreed for 2017 to 2019 cannot be spent until it has come back to the States Assembly and is agreed. The Panel quizzed the Treasurer of the States on this area at a recent public hearing:

Treasurer of the States:
"…Can I just make a clarification on the Public Finances (Jersey) Law that for 2017 to 2019 by not agreeing individual cash limits there is no mechanism by which 2017 to 2019 can be spent until such a time as further States approval is given.

Deputy J.A.N. Le Fondré:
But what will happen is that a proposition will come back which says that you have approved the overall total and now here is the detail in the department. But we have effectively still signed up to the spend.

[18] Public Hearing – Minister for Treasury and Resources – 09/09/15
[19] P.75/2015 – Medium Term Financial Plan 2016 - 2019

Treasurer of the States:
Yes, but the States will, at that point, have the option or otherwise to approve or not the individual line by line numbers.

Deputy J.A.N. Le Fondré:
So you are saying that actually the States can amend the total spend for 2017 and take off £50 million if it wished to, for the sake of argument?

Treasurer of the States:
No, the law ... well, it can reduce, yes.

Deputy J.A.N. Le Fondré:
Can it increase?

Treasurer of the States:
Yes, it can increase ... the law, I will have to go through in some more detail but it is quite prescribed under the circumstances as how that can happen in terms of increasing, or when that can happen. It links to deterioration in income forecast, for example.

Deputy J.A.N. Le Fondré:
But if we look at the expenditure that we are ...

Treasurer of the States:
You are setting the limits, yes, you are setting the limits but that does not, in itself, give authorisation for any of that to be spent. This is about planning. It is say, and it comes with the economic advisory, to deliver a balance which yes you can go for a higher or a lower income figure which would have a knock on effect to the higher or lower expenditure but given the plans of the Council of Ministers it infers - well more than infers - a figure therefore for expenditure to be in place by 2019. But it is setting it at a total. The question related to are we giving the authority to spend or are the States going to give the authority to spend. They are not giving the authority to actually spend the money until the detail comes back line by line in cash limits…"[20]

The Panel's advisor, MJO Consultancy stated:

> *"…One major concern is that the expenditure cuts are highly aspirational without sufficient granular detail to judge whether they can be achieved (that is, other than simply by not providing cash to Ministerial and Non-Ministerial departments. It is unclear whether further counter-cyclical spending is apt for an economy which appears to have undergone structural change and which is more in need of a major productivity revival.*
> *In the short-run the capital expenditure (if delivered according to the plan in the MTFP) might provide a boost to economic growth but there is also the possibility that if the economy is growing more quickly, it will lead to bottlenecks, overheating and inflation…""*[21]

[20] Public Hearing on MTFP – 07/09/15
[21] MJO Consultancy Report – September 2015

Finding 6:

The total amount of expenditure the States Assembly are being asked to approve is approximately £3.1 billion for 2016 – 2019.

Finding 7:

There is insufficient detail provided in the MTFP 2016-19 regarding the planned expenditure by the Council of Ministers for the years 2017, 2018 and 2019.

Recommendation 6:

The Panel recommends that in the absence of adequate detail with which to inform its decision, the States Assembly should only approve expenditure for 2016 at this time.

Recommendation 7:

The Panel recommends that the States Assembly should await the details to be provided in the Addition to the MTFP for the years 2017, 2018 and 2019, which is to be lodged by 30th June 2016, before taking any decision to approve expenditure for those years.

4.5 DEPARTMENTAL SPENDING LIMITS

An amendment to the Public Finance Law enabled the Council of Ministers to bring the draft MTFP to the States Assembly into two parts. This allowed for an addition showing departmental expenditure limits for 2017 – 2019 to follow in June 2016. This draft MTFP includes details of the States income and expenditure for 2016 – 2019 together with detailed departmental allocations for 2016 only. This is covered in more detail later in this report.

Overall departmental expenditure for 2016 amounts to £697,214 million net with an additional sum of £37 million in contingencies. This figure does not include approximately £27 million for net capital allocations. The Departmental expenditure essentially amounts to that which will be spent by the 10 Executive Departments, the States Assembly and its services, the 10 non Ministerial states funded bodies and the Jersey Overseas Aid Commission. It was not within this Panel's remit to consider the spending levels of each Department however, the Panel supplied each Department with a framework of questions covering growth pressures, growth bids, staffing, sources of income, capital projects, services, carry forward and contingencies, savings, user pays charges and other sources of income. This has led to a cohesive working across Scrutiny Panels resulting in a consistent approach to the Review.

4.6 CAPITAL PROGRAMME

Within Summary Table B, the States Assembly is being asked to approve approximately £168 million of investment in capital programmes. It should be noted the proposed new hospital has not been included within this figure. However, the Panel is concerned to note comments from its advisor, CIPFA, stating:

> "…*the significant lack of consistency in profiled spending – particularly in final quarter of the financial year (40% in 2014 and 33% in 2015) does not indicate a controlled and co-ordinated approach being taken to the management of the capital programme*."[22]

During its presentation to States Members, the FPP discussed the "bottlenecking" of capital projects. One of its recommendations states:

> "…*the States should plan how it will deliver capital projects to reduce the risk of a build-up of inflationary pressure in Jersey's economy. To avoid the need to change the timing of important projects or make adjustments to other spending or income, the States should consider whether resources could be imported cost-effectively from outside the Island to reduce any bottlenecks within the local economy.*"[23]

The FPP goes on to say:

> "…*it is important that the consequences for the local economy are managed taking account of the prevailing economic conditions.*"[24]

Finding 8:

The States capital projects programme has the potential of creating a high level of risk of a build-up of inflationary pressure in Jersey's economy and creating bottlenecks within the local economy.

Recommendation 8:

States capital projects should be managed in a timely manner taking into consideration the consequences of the local economy and the prevailing economic conditions.

Finding 9:

The Panel is concerned that no financial implications for the new hospital are referred to within this MTFP.

Recommendation 9:

When plans are brought forward for the new hospital or any other significant capital projects, there should be full recognition of the effect of life cycle costs and any other revenue or capital impacts made within the relevant MTFP.

4.7 STATES ASSETS

The States Assembly is being asked to approve Summary Table J – Intended Strategic Reserve Transfers for 2015 – 2019. This table lists "Transfer from Consolidated Fund – Asset Disposals"

[22] CIPFA Report – September 2015
[23] FPP Report – September 2015
[24] FPP Report – September 2015

of £20 million in 2017 and £20 million in 2018. The Panel is unclear as to what these proposed asset disposals are and sought clarity from the Minister for Treasury and Resources and also the Chief Minister:

> ***Deputy S.M. Brée:***
> *"…Yes. Going back to summary table I, if I may, one thing that I believe needs further clarification. Will you detail exactly what the asset disposals as detailed in summary table I totalling £40 million relate to?*
>
> ***The Minister for Treasury and Resources:***
> *In due course, yes.*
>
> ***Deputy S.M. Brée:***
> *So just to confirm, at this present time you cannot provide this panel, or indeed other Members of the States Assembly with the exact details as to which assets have been identified for sale and yet you are asking us to approve this M.T.F.P. without any prior knowledge whatsoever of those assets?*
>
> ***Deputy S.M. Brée:***
> *Will you, Minister, provide details of what those assets are prior to the debate?*
>
> ***The Minister for Treasury and Resources:***
> *Well, if you look at summary table J you will see that the £40 million is spread over the years from 2017 to 2019 and we have stated several times that the detail in relation to that second phase is going to come back to the States; it will be lodged next June. You will have the detail in advance of that…"*[25]

The matter was also addressed at a separate hearing with the Chief Minister:

> ***Deputy S.M. Brée:***
> *"…Chief Minister, will you kindly explain what the asset disposals as detailed in summary table I and again in summary table J totalling £40 million relate to?*
>
> ***The Chief Minister:***
> *I would like to be able to, but I do not think the details of those have been agreed yet, and I think they will be coming in the second stage, unless Treasury is further advanced than we are aware of…"*[26]

The Panel again raises its concern around the lack of detail within this draft MTFP.

[25] Public Hearing with Minister for Treasury and Resources – 07/09/15
[26] Public Hearing with Chief Minister – 07/09/15

5. CENTRAL CONTINGENCY ALLOCATIONS

DEFINITION of 'Contingency'

A potential negative economic event which may occur in the future. In finance, managers often attempt to identify and plan for any contingencies that they feel may occur with any significant likelihood.[27]

The Proposition asks the States Assembly to approve the amount to be allocated for contingency for the financial year 2016 as set out in summary Table D.

Summary Table D below shows the central contingency allocation for 2016. Although it shows contingency running at £37 million, the Panel was informed that approximately £19 million of this was classed as extraordinary items.

Summary Table D

Central Contingency Allocations	Proposed Allocation 2016 £'000
AME - Anually Managed Expenditure	2,000.0
DEL - Department Expenditure Limit	5,000.0
Committee of Inquiry	4,000.0
Economic and Productivity Growth Provision	5,000.0
Restructuring Provision	7,000.0
Redundancy Provision	10,000.0
Workforce Modernisation, Pay and PECRS Provision	4,203.1
Total Central Allocations	**37,203.1**

The Minister for Treasury and Resources:
"…Well part of this we have covered before, certainly with regard to the economic growth. We have got £5 million in there for economic growth. There is £5 million in each year but in the year in which you are referring, where there is £37 million in total, we have got the economic growth, we have got also the Committee of Inquiry at £4 million - that is not a usual item - which bolsters the figure, and we have also got the redundancy provision, I think is the other one, which makes £19 million in total. So effectively you have £19 million greater level of central contingency than you would normally have, based on those extraordinary items that I have just referred to…"[28]

The Panel raised this with the Minister and asked that if £19 million was for exceptional items for 2016, why then does the total net revenue expenditure not reflect this for 2017, 2018 and 2019. The Panel was informed that it would be the decision of the States Assembly in agreeing the figures for 2017 to 2019 within that total. The Panel pressed for further clarification on this at its Public Hearing with the Minister for Treasury and Resources:

[27] http://www.investopedia.com/terms/c/contingency.asp#ixzz3mAqIeBWD
[28] Public Hearing with Minister for Treasury and Resources – 21/07/15

Deputy J.A.N. Le Fondré:
"…But if one assumes that there is £37 million in this year ... well, there is £37 million in 2016, all things being equal, is it not reasonable to assume that there is a similar level of contingency going forward for 2017, 2018, 2019?

Treasurer of the States:
It is not unreasonable among another range of possible things that would not be unreasonable.

Deputy S.M. Bree:
…in producing the figures, the headline figures for 2017, 2018 and 2019, what level of contingency have you included? Is it £37 million per year or not?

Assistant Minister for Treasury and Resources:
That is entirely up to the Council of Ministers to decide how it is divvied up. The States will agree the bottom line. What will come forward will be the detail for 2017, 2018, 2019."[29]

The Panel is concerned that the safeguards around contingency do not do enough to stop the Council of Ministers declaring unspent contingencies as a saving. The Panel is aware that a contingency is exactly that, a contingency, and is not really meant to be spent otherwise however, when the Panel asked the Minister for Treasury and Resources what he thought of the concept of using unspent contingencies as a saving he replied that although he would be unsupportive of it, he did accept that;

'*…potentially, politically it could be done.*'[30]

CIPFA discuss within their report the significant improvements in the control of carry forwards since their previous work on the previous MTFP where they highlighted that in some cases carry forwards were being utilised to mitigate following year efficiency savings targets, they comment that "there is still evidence that sub optimal budget behaviours are arising – particularly at year end."[31]

The Panel also found a lack of clarity around how much of a contingency fund was being carried forward year on year. From what the Panel understands, because the figure of the contingency has not yet been agreed, it may in fact be lower than shown in Summary Table D for future years. However, the Panel also draws attention to Figure 16 – Summary of Financial Forecasts for draft MTFP 2016 – 2019, which indicates that contingency and central allocations of approximately £37million per annum for the entire period of the plan is provided for in this MTFP, totalling approximately £148 million. This table is shown below.

[29] Public Hearing with Minister for Treasury and Resources – 07/09/15
[30] Public Hearing with Minister for Treasury and Resources – 07/09/15
[31] CIPFA Report – September 2015

Figure 16 – Summary of Financial Forecast for draft MTFP 2016 – 2019

2014 Outturn £'000	Financial Forecast	Forecast (June 2015) 2015 Forecast £'000	MTFP Proposals (June 2015) 2016 Proposed £'000	2017 Indicative £'000	2018 Indicative £'000	2019 Indicative £'000
	States Income					
436,665	Income Tax	438,000	458,000	475,000	499,000	519,000
80,226	Goods and Services Tax	81,740	83,334	84,968	85,779	86,609
54,103	Impôts Duty	55,323	55,367	55,444	55,615	55,820
25,977	Stamp Duty	26,890	26,357	28,802	30,946	31,800
11,896	Island Wide Rate	11,967	12,279	12,598	12,976	13,365
8,283	Other Income (Dividends)	10,859	10,699	8,354	14,515	9,279
18,236	Other Income (Non-Dividends)	12,255	11,703	11,352	10,560	10,283
13,581	Other Income (Return from Andium)	27,554	28,091	28,973	29,904	30,920
648,967	**States Income**	**664,588**	**685,830**	**705,491**	**739,295**	**757,076**
	Proposed Mechanism to offset States Payment of Rates		-	1,000	1,000	1,000
-	Proposed Sustainable Funding Mechanism for Health		-	-	15,000	35,000
648,967	**Total States Income - incl: Proposed Health Charge**	**664,588**	**685,830**	**706,491**	**755,295**	**793,076**
	States Expenditure					
674,163	Departmental Net Revenue Expenditure	687,146	697,214	697,214	697,214	697,214
	Central Allocations	33,483	37,203	37,173	36,783	37,631
	Proposed Allocation for Committee of Inquiry	10,000				
674,163	**Total Net Revenue Expenditure (excl: Depn)**	**730,629**	**734,417**	**734,387**	**733,997**	**734,845**
(25,196)	**Forecast Operating Surplus/(Deficit) for the year**	**(66,041)**	**(48,587)**	**(27,896)**	**21,298**	**58,231**
56,901	Departmental Depreciation	50,098	44,800	44,000	49,200	54,600
(82,097)	**Forecast Deficit of General Revenue Expenditure and Income**	**(116,139)**	**(93,387)**	**(71,896)**	**(27,902)**	**3,631**

Finding 10:

A sum totalling £148 million has been included as a central allocation/contingency figure in the MTFP 2016-19.

Finding 11:
No detail has been provided as to how the figure being put forward for contingencies for 2017, 2018 and 2019 has been calculated.

Finding 12:
It is unclear whether the £19 million identified for "extraordinary items" in 2016 is discounted from the contingency allocations provided for subsequent years.

Finding 13:

The safeguards around contingency do not do enough to stop the Council of Ministers declaring unspent contingencies as a saving.

Recommendation 10:

Beyond the 'extraordinary items' identified for contingency allocation in 2016, stronger safeguards should be implemented over the central contingency allocation.

Recommendation 11:

Controls should be in place to require States Assembly approval to release contingency expenditure, no more than one year before the period to which it relates.

5.1 ECONOMIC AND PRODUCTIVITY GROWTH DRAWDOWN PROVISION

The Council of Ministers is proposing funding of £5 million be created in each year of this MTFP period that could be drawn down:

> '…*if new economic growth and productivity initiatives can demonstrate they cannot be funded from existing resources and that have a strong rationale that they can have a positive impact on productivity and can be allocated additional funding*.'[32]

Although the FPP is supportive of this provision, within its Report in September 2015 it states:

> '…*strong governance measures should be put in place to control how the £20 million is allocated*.'[33]

Throughout its evidence gathering for this Review, the Panel was made aware that a Ministerial Oversight Group would be incorporated to decide how the allocation of the £5 million per year would be distributed. Although membership of this group has not yet been finalised, the Panel has learnt it will be an Officer and Ministerial group to include the Chief Minister, the Minister for Treasury and Resources and the Minister for Economic Development.

The Panel questioned the Minister for Treasury and Resources asking how the performances of that spend would be assessed before releasing each tranche of funding. The Minister informed the Panel:

> "…*the money was there for one off projects to hit the objectives outlined during the period of the MTFP*".[34] The Minister went on to say "*in terms of controls, broadly that work is yet to be finalised.*"[35]

This response concerned the Panel as it believes in effect the States Assembly is being asked to approve up to £20 million over the life of the MTFP yet no processes are in place to monitor the spend. However, the Minister did tell the Panel that details of these processes will be made available to the States Assembly prior to the debate on the MTFP. [36]

[32] Draft MTFP – Page 56
[33] FPP Report – September 2015
[34] Public Hearing with Minister for Treasury and Resources – 07/09/15
[35] Public Hearing with Minister for Treasury and Resources – 07/09/15
[36] Public Hearing with Minister for Treasury and Resources – 07/09/15

6. SAVINGS AND USER PAYS

On presentation of the draft MTFP in July 2015, the Minister for Treasury and Resources made the following statement:

> *"…Taking into account our latest income forecasts and our planned programme of investment in priority areas, we need to find a total of £145 million by 2019. This plan outlines how we will fund our priorities and balance our budgets by 2019…"*[37]

Throughout its evidence gathering and information received from the Department of Treasury and Resources, the Panel understands the £145 million deficit will be funded as follows:-

- £50 million sustainable funding for Health
  - £15million to be introduced by 2018
  - £35million to be introduced by 2019

- £40 million non-staff savings to include:-
  - Social Security Benefits
  - Grants and Subsidies
  - Other non-staff costs
  - User pays/charges*

- £70 million people savings to include:-
  - Pay restraint
  - Vacancy management
  - VR/CR
  - Performance management
  - Service Re-design/LEAN/egov/mergers
  - Outsourcing
  - Regulation
  - Stop doing

The Panel believes the calculation of £40 million non-staff savings to be incorrect and wishes to clarify that this is not a £40 million saving but in fact includes £10 million of new charges levied on Islanders. The Panel considers this to be to all intents and purposes a new form of taxation.

Finding 14:

The £40 million of non-staff savings being proposed includes £10 million to be raised through user pays charges.

Recommendation 12:

The Council of Ministers should not, within any MTFP, present figures which conflate savings with user pays charges.

[37] www.gov.je - MTFP Presentation – 14/07/15

6.1 PROPOSED SUSTAINABLE FUNDING MECHANISM FOR HEALTH

The Panel was alarmed that there did not seem to have been an independent impact study carried out as to the figure of £35 million proposed for the sustainable funding for health or indeed the impact this user pays charge would have on the tax payer. The Chief Minister informed the Panel that this was the figure that would be used for investment into health and any advice was taken from individual departments with regards to how much could be saved. The Panel was also informed that the amount of money needed to be spent links into P.82, the Redesign of Health and Social Services:-

> ***The Chief Minister:***
> *"…Well, if you are talking about the amount of money that is needed to be spent then that comes out of the redesign of health and social services, P.82 and the work that KPMG did about the extra money that would be needed, but that is not directly the extra charge that we are proposing. The amount of money has got independent expert advice behind it that we are going to spend on health but not a quantum of what the charge would be, so the balance is just normal taxpayer money…"*[38]

The Chief Minister went on to say the FPP would be looking to see what effect taking that money might have out of the economy. The Panel queried that the FPP is not an expert in health charges and therefore would be unable to assess what the actual charge should be. The Chief Minister explained there was work that KPMG undertook around P.82 regarding the extra money that would be needed to sustain the health system. However, he went on to explain that this was not directly the extra charge that was being proposed.

> ***Deputy J.A.N. Le Fondré:***
> *"…So the quantum of the charge is the balance over and above the sum that was required as identified through KPMG, effectively…?*
>
> ***The Chief Minister:***
> *Yes.*
>
> ***Deputy J.A.N. Le Fondré:***
> *KPMG have identified, for the sake of argument, £100 million or whatever it is. We have got £65 million in the normal funding. The difference is £35 million. That is what we have got to spend. I am talking in principle.*
>
> ***The Chief Minister:***
> *I am not sure it is quite that exact but it is that sort of ... yes…"*[39]

As mentioned previously in this report, the Panel is concerned of the lack of impact studies that have been carried out as to the final figure of this charge and how it will affect each household financially. The work is yet to be completed, as acknowledged by the Minister, which means that the States Assembly is being asked to approve £50 million for the life of the MTFP without any detail.

[38] Public Hearing with Chief Minister – 05/08/15
[39] Public Hearing with Chief Minister – 05/08/15

As the Panel could not obtain any detail regarding the proposed sustainable funding mechanism for health and how it would affect households financially, it has calculated a very basic sum based on the number of households in Jersey (@ 43,300 as at end of 2013) divided by the £35 million per year proposal for the health charge. The Panel has also added the £10 million of new income due to be levied on Islanders as user pays to try and obtain a complete picture of additional per annum charges to Islanders. The result is approximately £1,000 per household additional charge.

- Number of Households @ 43,300[40] - £45* million/43,300 = £1,039
  *£35million proposed health charge and £10 million user pays

Finding 15: If the States approve Summary Table A, they would be, in effect, approving the introduction of a health care charge.

Finding 16: If the States approve the MTFP 2016-19, they would be, in effect, approving the principle of raising £10 million from Islanders through additional user pays mechanisms, which the Panel regard as additional taxation

6.2 USER PAYS CHARGES

As previously mentioned in this Report, approval of the draft MTFP in its present form is through the Summary Tables. P.63/2003 was approved by the States Assembly in 2003, requiring that all new user pays charges introduced by Committees of the States (subsequently Ministers) must receive prior in principle approval by the States Assembly. The Panel still has concerns as to the implementation of these charges and the cost to Islanders. There is also doubt as to what alternative plan the Council of Ministers has should the user pays charges not be approved by the States Assembly when brought back for debate. When questioned, the Chief Minister told the Panel:

> "…*We then have to think of other ways of delivering those changes or we then have to have a conversation about do States Members not want to invest in health into the future, do we not? So there is no easy answers here…*"[41]

Finding 17: Within the MTFP 2016-19, it is the clearly stated that it is the intention of the Council of Ministers to introduce a user pays liquid waste charge as a significant contributor to the £10million identified to be raised through new user pays charges.

[40] Jersey Household Projections – 2013 Release
[41] Public Hearing with Chief Minister – 05/08/15

Finding 18:

The cost of the removal and treatment of liquid waste is currently paid for by Islanders through general taxation.

Finding 19:

Each household will be asked to contribute in the region of £1,000 per year if the healthcare and £10 million user pays charges are contained in this MTFP are implemented.

The Panel has not seen any evidence that the Council of Ministers has considered the implication of the savings targets not being met or the user pays charges not being approved. The Panel believes this puts the Island in a vulnerable position with no alternative other than to use the strategic reserve fund or raise taxation.

Within its Report presented in September 2015, the FPP highlights the risks to achieving the draft MTFP. One of the risks discussed is that the proposed changes in the draft MTFP may not be sustainable, and the FPP recommended:

> "…*as details of the proposed package of measures to meet the 2016 MTFP addition are developed attention should be given to ensure that they are sustainable, including their potential distributional impacts.*"[42]

The Panel has itself, on various occasions, highlighted concerns around the lack of impact studies that have been carried out in taking the decision to propose the changes. The Panel publicly asked the Chief Minister if he could advise what studies had been done on the distributional consequences of the proposed savings plan and charges contained within the draft MTFP:

> ***Deputy J.A.N. Le Fondré:***
> *"… Chief Minister, I would like to move on to, if I may, the F.P.P.'s annual report, issued by them in September 2015, and just talk about a couple of the risks to achieving the Medium Term Financial Plan that they have highlighted. The first one that really I want to ask about is the fact that one of the risks is the proposed changes may not be sustainable. They are talking here about the distributional consequences. Can you advise us what studies have been done on the distributional consequences of the M.T.F.P.?*
>
> ***The Chief Minister:***
> *I cannot add anything to the answer that I gave last time I came before you. Those studies are being undertaken. Of course the details of everything that might be done are still being worked on but we have certainly started analysing with regard to benefit changes. You have got the health charge to come in on the other side of things as well, so that work is being done, but it is not complete at this time.*

[42] FPP Report – September 2015

Deputy S.M. Brée:
So the studies on the distributional consequences will not be available until the additions in June 2016. Is that correct?

The Chief Minister:
Yes.

Deputy S.M. Brée:
And yet you are asking the States Assembly to approve the draft M.T.F.P. without knowing what the distributional consequences may be. Is that correct?

The Chief Minister:
Well because we are not asking the States to decide on all the individual measures. We are asking the States to agree the bottom line so I would expect the States when they are looking at the individual measures for 2017, 2018 and 2019 to have due regard to the distributional analysis and that will inform part of the decision making process..." [43]

Finding 20:

The Panel is concerned that no impact studies have been completed regarding income, expenditure, tax and user pays.

Recommendation 13:

The Panel strongly recommends that appropriate impact studies are carried out and presented to the States Assembly, in advance of the lodging of the MTFP 2016-19 Addition.

6.3 STATES PAYMENT OF RATES

Continuing with the theme of user pays charges, the Panel has issues with the proposed mechanism for payment of States rates. Again this seemed to be in a very embryonic stage, yet the States Assembly is being asked to approve a charge of £1 million per year which would be forwarded onto the tax payer. The Panel believes that seeking approval of these types of charges is unreasonable at this stage, especially given the lack of detail and clarity as to (a) how they will be collected and (b) what the funds will specifically be used for.

The Panel raised both areas with the Minister for Treasury and Resources:

Deputy S.M. Brée:
"…You are not prepared to give us any indication at the moment?

The Minister for Treasury and Resources:
No, because that again is an area that has got to be worked up…"[44]

The Panel also questioned the Chief Minister about the matter:

[43] Public Hearing with Chief Minister – 09/09/15
[44] Public Hearing with Minister for Treasury and Resources – 07/09/15

> ***Deputy J.A.N. Le Fondré:***
> *"…So in short, that a taxpayer somewhere, or a group of taxpayers somewhere, is likely to be asked to pay or fund for the States paying rates?*
>
> ***The Chief Minister:***
> *Well, we will have to raise the extra revenue, yes.*
>
> ***Deputy J.A.N. Le Fondré:***
> *It has not being caught up in the efficiency savings that you are going to achieve?*
>
> ***The Chief Minister:***
> *That is not the proposal, no…"*[45]

The Panel is concerned that this charge will be passed on to Islanders and has lodged an amendment to the draft MTFP proposing the £1million per year is allocated from central contingencies. The Panel is also proposing that the charge is brought forward from 2017 to 2016.

6.4 NON STAFF SAVINGS

The Department of Social Security has proposed to save £10 million by 2019 by implementing changes to the benefits scheme. A Ministerial Order has been made to implement the change that jobseekers under the age of 25 living at home with Parents who do not qualify for income support will no longer be eligible to receive their benefit. The Panel understands that no impact study has been carried out on the changes to benefits and is worried that those affected by this change will have to deal with an already saturated job market due to the impact the voluntary and compulsory redundancies will have on the Island. The Panel is also concerned that such an important decision, representing a fundamental change to the benefits system, was taken by Ministerial Order rather than a decision by the States Assembly.

6.5 PEOPLE SAVINGS

Within the term of the draft MTFP, there is a proposal of £70 million to be made in people savings. The Panel enquired as to what impact of redundancy studies had been undertaken with regards to what impact these changes will have on the economy and the overall unemployment on the Island. The Panel was alarmed to learn that no such study had been carried out.

The Panel enquired of the Chief Minister as to what talks had been held with the Unions with regards to these people savings. He responded:

> "…*we have had a long process of consultation with the unions over the last probably 18 months to 2 years. We have signed up a framework agreement with them about modernisation and workforce redesign. Of course, we did not consult I think in the way*

[45] Public Hearing with Chief Minister – 07/09/15

> *that you are suggesting, which is why I was trying to probe what it was you were actually driving at, about the number that we would be targeting for staff savings or reprioritisation…*"[46]

The Chief Minister also informed the Panel that it was no surprise to hear that Unions are concerned about what the implications might be for their members.[47]

During the drafting of this Report, the Panel has learned the Unions are proposing industrial action due to the implications these changes may have on their members.

CIPFA make the point that Figure 46 on page 126 of the draft MTFP 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*."[48]

It has been recognised by CIPFA that there has been significant recent work carried out to identify options for reducing payroll costs including reshaping the workforce, deployment of pay restraint, voluntary/compulsory redundancy and service redesign. However, the actual impacts are only at an early stage and there is considerable uncertainty as to the level of potential to change the size and composition of the overall manpower establishment. Such uncertainty is reflected within CIPFA's scoring detailed within their Report which can be found appended to this Report.

The Panel would like to draw attention to the bar graph as shown as Figure 8 detailing average earnings in both the Public and Private Sector, as provided by its advisor, MJO Consultancy and wish to draw attention to the significant difference between the private and public sector.

Finding 21:

No impact studies have been undertaken with regards to the impact these changes will have on the economy and overall unemployment in the Island

Finding 22:

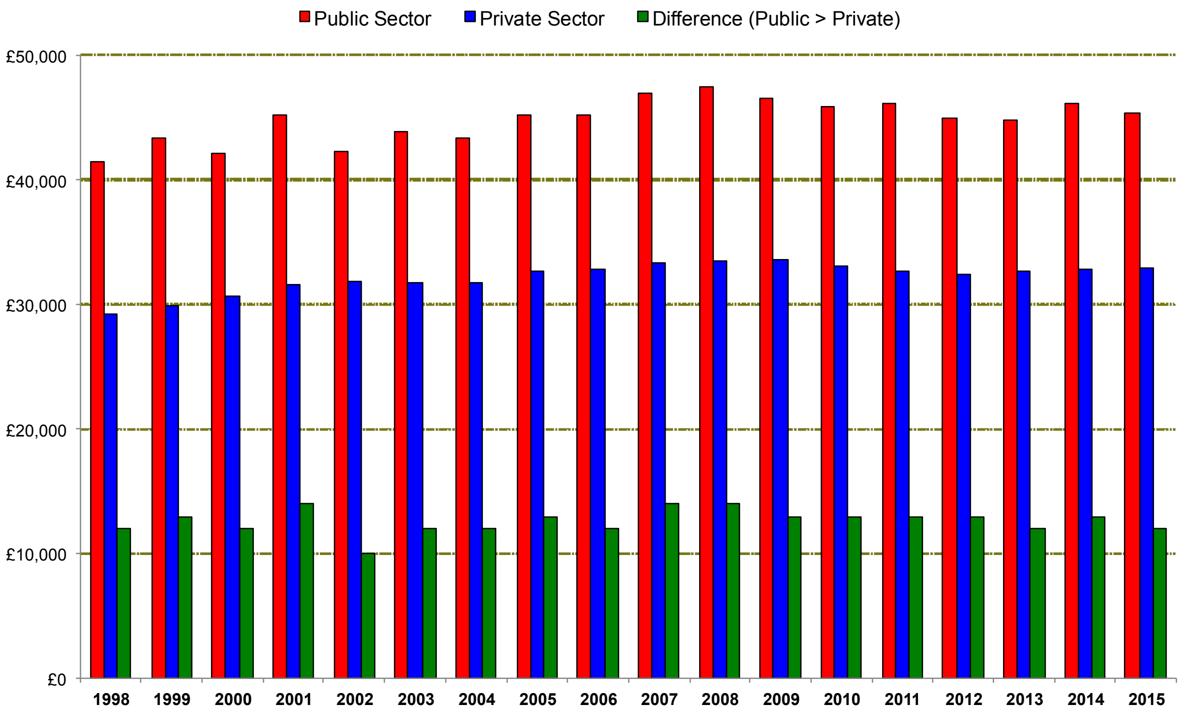
Insufficient consultation has been carried out with the Unions specific to the £70 million of proposed people savings.

Recommendation 14:

The Panel strongly recommends that appropriate impact studies are carried out and presented to the States Assembly in advance of the lodging of the MTFP 2016-19 Addition.

[46] Public Hearing with Chief Minister – 05/08/15
[47] Public Hearing with Chief Minister – 05/08/15
[48] CIPFA Report – September 2015

Figure 8. Average earnings in the public and private sector, 1998–2015, per FTE (2013 prices)[49]



Due to the large earnings differentials between the public and private sector there are clearly implications for income tax receipts if cuts in higher paid jobs in the public sector are made as part of the £70 million in proposed staff savings. Economists could well assume that displaced workers from the public sector will gain jobs in the private sector but existing market imperfections suggest that this will not happen without significant retraining of workers (the finance sector currently already requires more highly skilled workers than are available in the Jersey workforce).[50]

> *"It is important to consider these issues through a piece of economic research which examines the impact of staff savings but also the benefit cuts and the wider distributional consequences of the social and economic reform of the public sector. There are legitimate concerns to be addressed that disadvantaged groups in society on low incomes might be affected as well as higher earnings, where the impact might be felt through falling house prices."*[51]

Noting the differential in earnings between the public and private sector, the Panel also draws attention to the need for ongoing assessment of the matter of public sector pension contributions. Our adviser has recommended that in view of the uncertainty about long-term fiscal sustainability:

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[49] MJO Consultancy Report – September 2015
[50] MJO Consultancy Report – September 2015
[51] The University of Warwick has undertaken a number of excellent studies in the UK examining the impact of spending cuts, see http://www2.warwick.ac.uk/fac/soc/law/research/centres/chrp/projects/spendingcuts/resources/database/reportsgroups/

'…the recommendation by the Corporate Services Scrutiny Report (S.R. 4/2014) on the affordability of the proposed employer's contribution cap should be examined within the context of a lower employer's contribution than 16% or 16.5%."

Finding 23:

It remains the case that it would be prudent of the Council of Ministers to assess the affordability of the employer's contribution cap within the context of an employer's contribution which is lower than 16% or 16.5%.

6.6 TOP LINE SAVINGS

As part of the 2015 budget measures to balance the budget, Departments were asked to make 2% savings from their annual expenditure for 2015. These savings are now recurring in 2016 and contribute towards the required savings for the MTFP. Departments have also identified further savings for 2016 and work is ongoing to identify targets for each area for 2017 – 2019. The granular detail of these savings will be presented in the MTFP addition due in June 2016. The Panel has been informed by CIPFA that they would expect to see MTFP 2016 - 2019 based on service planning and corporate strategies covering the full 4 year period with direct linkages to departmental business plans overlaid by corporate strategies.[52]

Although the Panel understands the importance for savings to be made, it has concern that the arbitrary "top slicing" of Departmental budgets is illogical. The Panel is of the opinion that some Departmental spending should be considered more essential than others and this top slicing approach will therefore have an effect on front line services. The Panel believes that an overall study should have been carried out within Departments to see exactly where savings could be made, with the possibility of some Departments being able to save more than others.

Finding 24:

The top slicing approach to savings adopted by the Council of Ministers will result in no real transformational change and offers little drive to change the culture of spending within the States.

Within its report, CIPFA have commented on the expenditure patterns being shown by Departments at each year end. They illustrate a "hockey stick" pattern associated with period 12 of expenditure and illustrate this with a table showing the relationship between expenditure met in period 12 of both 2014 and 2013 and the average period expenditure covering periods 1-11 for key areas of non-payroll expenditure:

	Year	Year
Expenditure Type	**2013**	**2014**
Premises & Maintenance	158%	156%
Supplies & Services	166%	173%
Administration Costs	142%	210%

[52] CIPFA Report – September 2015

CIPFA go on to say:

> *"…Such a pattern of spending behaviour is indicative of budget holders managing their budgets (spending to avoid loss of budget) rather than managing their costs. Such behaviour can negatively impair strategic financial planning capability…"*[53]

Finding 25:

The pattern of year end spending within the States of Jersey is indicative of undisciplined spending, with budget holders spending to avoid loss of budget rather than focusing on managing their costs.

Recommendation 15:

Treasury and Resources must assess the reasons behind the pattern of year end spending and put measures in place to ensure that the culture of spending to avoid loss of budget, instead of budget holders managing their costs in a disciplined manner, is brought to an end.

6.7 WHAT IF THE SAVINGS ARE NOT MADE?

Within its Report published in September 2015, the FPP has stated:

> *"…the implementation of the £145 million of proposed measures looks challenging particularly as they are very dependent on unspecified future staff and other savings…"*[54]

If these savings are not achieved, the lack of a Plan B will bring the Island into an even bigger, structural deficit. The Minister for Treasury and Resources told the Panel:

> "…*Quite simply, there are undertakings from departments to make savings, efficiencies, and redesign services. By the way, these efficiencies will not happen without redesign. It is absolutely critical. If those savings are identified, are not delivered on, then the growth funding will be withheld, or the option is available to withhold growth funding, so there is a degree of control over it*…"[55]

The Panel asked the Minister how confident he was that the savings would be achieved. The Minister informed the Panel that he was aware the plan put in place would be challenging but:

> "…*without doubt I am confident that by working together States Departments can deliver on what has been laid out..*."[56]

The Panel asked the same question of the Chief Minister to which he responded:

> *"…the particular measures that we are proposing in the first part are not delivered then we will need to look for other measures to deliver them but the important thing is that we*

[53] CIPFA Report – September 2015
[54] FPP Report – September 2015
[55] Public Hearing with Minister for Treasury and Resources – 07/09/15
[56] Public Hearing with Minister for Treasury and Resources – 07/09/15

are committed to ensuring that we do not have a structural deficit by 2019. So if any one particular measure is not delivered then we will have to look at other measures to make up the difference. So it is not about the structural deficit potentially getting any bigger, it is if we do not have sufficient measures in place for that quantum then there will be a structural deficit but this plan is based upon the premise that we put measures in place to make sure there is not a structural deficit…"[57]

To date, the Panel is not aware of a plan to reduce the deficit should the savings plan fail. The Panel's advisor from CIPFA has summarised overall concern stating:

"*Although MTFP 2 provides for an element of contingency should such targets fail to be achieved, there is a lack of precision and definition on alternative options. In our view there appears to be almost a cultural acceptance that there will be a significant element of non-achievement. It is our view that a number of key assumptions, principally around Income Tax and Savings targets including £70 million of People savings invite an unacceptable level of risk. The introduction of a Health Charge and User Pay strategy scheduled to bring a combined additional £45 million per annum in 2019 is considered to be insufficiently developed at this stage to validly incorporate within a meaningful plan designed to eliminate the structural deficit."*[58] *…"We have been assured that the 2015 savings are already 'in-train' and will be achieved. However, it is difficult to identify from the latest 2015 Q2 Financial Performance Monitoring reporting the extent of actual achievement to date.*"[59]

Finding 26:

The Panel and its advisers have significant concerns as to whether the total identified savings targets contained within the MTFP 2016-19 will be achieved within the envisaged timeframe.

Recommendation 16:

The Minister for Treasury and Resources must ensure that growth expenditure is only released when the prescribed savings targets contained within the MTFP 2016-19 have been achieved, regardless of any additional income raised. Additional income is not a substitute for achieving the approved savings.

[57] Public Hearing with Chief Minister – 07/09/15
[58] CIPFA Report – September 2015
[59] CIPFA Report – September 2015

7. BALANCING THE BOOKS

A funding shortfall of £50 million was identified in the 2015 budget and the income forecasts at that stage indicated that sustainable measures would be required over the period of the next MTFP in order to return to balanced budgets. This £50 million was due to be managed in 2015 through short term measures and it is proposed will be permanently closed by 2019. In the draft MTFP, the States of Jersey aims to balance its budget and address any structural deficit with sustainable measures which requires the States to make £145 million of savings and other measures by 2019. The MTFP states:

> '…*this target has a central plan which will be continually reviewed over the MTFP period and particularly in advance of the proposals for the MTFP addition in June 2016. The target will be adjusted, as required, for any variation in income forecasts and the delivery of the programme of savings and other funding measures*.''[60]

Measures are required in the years 2016 – 2018 to ensure a positive balance is maintained on the Consolidated Fund. Part of these measures include the 2% savings Departments were asked to make from their annual expenditure for 2015. The Panel believes it important that any measures do not impact on the delivery of the £145 million of savings and other measures needed to balance the books.

Finding 27:

It is important that any measures taken by the Council of Ministers to ensure a positive balance is maintained on the Consolidated Fund do not impact on the delivery of the £145 million of measures needed to balance the books.

[60] Draft MTFP – Page 73

8. APPENDIX 1 DEPARTMENTAL FRAMEWORK

Framework for Scrutiny Panels – MTFP

Pressures

- What funding pressures face the Department; are they being addressed in the MTFP; and, if so, how?

Growth Bids

- What growth bids for expenditure were made and which have been taken forward?
- Which appear for the first time in the MTFP?

Savings and User Pays Charges

- How will savings be achieved within the Department?
- What new user pays charges have been considered and what will be pursued?

Other sources of income

- What other sources of income does the Department have and what changes if any are envisaged during the MTFP period?

Carry Forwards

- What will carry forward funding be used for in the Department? How much, if any, of this is recurring?

Capital Projects

- Have any been delayed or not provided for?

Services

- How will Departmental services be affected by the MTFP proposals?

9. APPENDIX 2: ADVISOR'S REPORT – CIPFA

CIPFA The Chartered Institute of Public Finance & Accountancy

States of Jersey
States Assembly

États de Jersey
Assemblée des États

CORPORATE SERVICES SCRUTINY PANEL

REVIEW OF MEDIUM TERM FINANCIAL PLAN

REPORT

September 2015

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CIPFA FINANCE ADVISORY

Certificate No. 5631/06

Contents

APPENDICES

1. Background

1.1 In March 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 the assessment of the States of Jersey Medium Term Financial Plan 2016 – 2019 (MTFP). This report outlines CIPFA's position on this work to September 2015.

Context

1.2 The scope of the MTFP is outlined within the Public Finances (Jersey) Law 2005 (as amended) and includes for incorporation of all States Income, Revenue and Capital Expenditure and appropriations for Growth, Contingency and Reserves.

Deteriorating Financial Position

1.3 Notwithstanding previously highlighted MTFP and annual budget related issues covering risks around income forecasting, budget setting, sub-optimal budget behaviours and financial performance, there appears to have been little strategic progress achieved on effectively managing such risks. Looking back at actual spend and income positions covering the first MTFP (MTFP1), there has been significant negative variations on both income and expenditure which highlight the vulnerability of the strength of assumptions used within MTFP1. Within the last two years the overall financial position of the States has continued to deteriorate. Indeed, financial performance reporting for the first two quarters within 2015 highlights a widening gap between tax yields against profiled estimate. The following table is an extract from the reported second Quarter 2015 Revenue Monitoring Report in respect of actual v profiled income including revised forecasted income for the full year – 2015:

Prior YTD	Prior Yr	Entity	Year to date (June)				Full Year			
					Budget				Forecast	
Actual	Actual	Entity	Actual	Budget	Variance	Var	Actual	Budget	Variance	Var
£000	£000		£000	£000	(Adv)/Fav	%	£000	£000	(Adv)/Fav	%
245,744	436,665	Income Tax	233,674	255,233	-21,559	-8%	438,000	455,000	-17,000	-4%
42,727	80,227	GST	45,064	42,841	2,223	5%	81,740	80,650	1,090	1%
22,682	54,102	Impots	23,639	24,658	-1,019	-4%	55,323	55,649	-326	-1%
11,828	25,977	Stamp Duty	14,258	11,820	2,438	21%	26,890	23,838	3,052	13%
5,740	11,896	Island rate	5,950	6,110	-160	-3%	11,967	12,219	-252	-2%
13,839	40,099	Other Income	28,254	30,532	-2,278	-7%	50,668	55,175	-4,507	-8%
342,560	648,966		350,839	371,194	-20,355	-5%	664,588	682,531	-17,943	-3%

1.4 Cost pressures impacting overall net expenditure have also been prevalent during MTFP 1.

Remedial Action

1.5 We understand that a Council of Ministers report on the MTFP 2016-19 dated 26 March 2015 outlined revised income and expenditure forecasts and consequential impact upon the MTFP modelling for MTFP 2. The report highlighted a differential between overall income and net expenditure as".. a big number – somewhere around £120m - £150m figure."[61] The

[61] Council of Ministers – MTFP 2016 – 2019 Agenda item B1 C - 26 March 2015 Appendix A Page Point 1

March 2015 report considered that there was "an urgent need to consider short-term funding measures for 2015 – 2019"[62]. Among a wide range of actions outlined to consolidate a corporate approach to the impending deficits, including the use of voluntary and compulsory redundancy, the report identified a "need to urgently consider changes to Public Finance Law to accommodate requirements of MTFP2."[63]

1.6 Within the Council of Ministers' Executive Summary within the lodged MTFP 2, a figure of some £145m of funding measures was identified and split as follows:-[64]

- Staff and Non Staffing savings - £90m
- Holding benefit spending at 2015 levels - £10m
- Implementing a Health Charge - £35m
- Introducing a 'user pays' charges for liquid and solid waste - £10m

1.7 This £145 million gap is referred to as a structural deficit within the latest Fiscal Policy Panel Report dated September 2015.[65]

- *"It appears that the proposed measures in the MTFP are aiming to close a structural deficit in the region of £80-145 million, depending on whether the situation is considered before or after the inclusion of additional expenditure for the Strategic Plan priorities, such as health and education.*

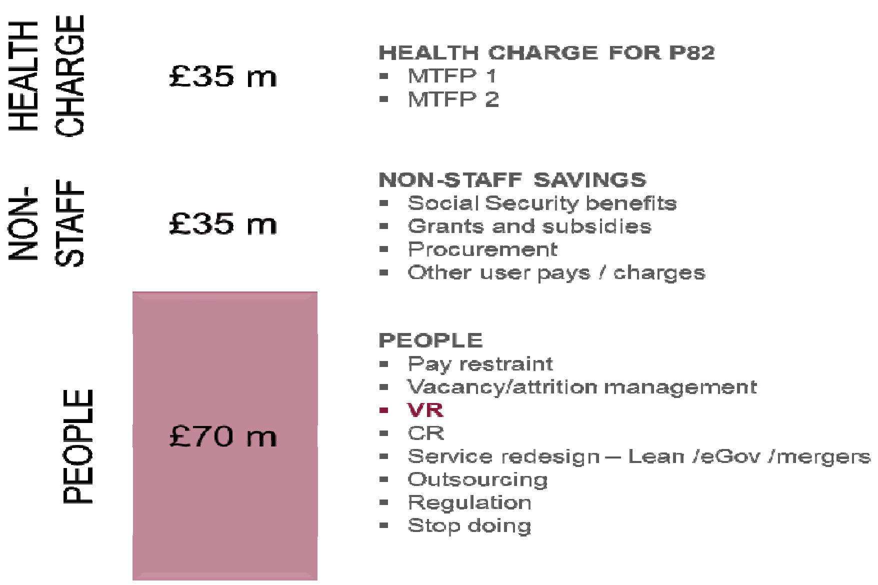
- *The draft MTFP proposes to deal with the £145 million expected funding shortfall by 2019, as advised by the Panel in their third Pre-MTFP recommendation."*

1.8 In response to the emerging gap including revised Income Forecasting Group (IFG) Income projections tabled in May 2015, the Department of Treasury and Resources co-ordinated a list of measures that would bridge the difference between anticipated levels of expenditure and the revised income forecasts. A representation of the resulting modelling is outlined below:-

[62] Council of Ministers – MTFP 2016 – 2019 – Agenda item B1 (c)- 26 March 2015 Appendix A Page Point 19
[63] Council of Ministers – MTFP 2016 – 2019 – Agenda item B1 (c) - 26 March 2015 Appendix A Point 13
[64] MTFP 2016 – 2019 – Section 2 Page 9
[65] Jersey's Fiscal Policy Panel Report – September 2015 – Page 3

	Draft MTFP 2 forecasts			
Position agreed at end of 20 May Workshop	**2016 £'m**	**2017 £'m**	**2018 £'m**	**2019 £'m**
States Income - Provisional IFG Forecast (20 May 2015)	686	705	739	756
Forecast Base Net Revenue Expenditure (including Commitments, Pay Prices and Benefits provisions)	736	753	773	791
Base funding shortfall/deficit at mid-point	**(50)**	**(48)**	**(34)**	**(35)**
Allocation for Capital	35	35	35	35
Depreciation (over and above capital allocation)	0	0	0	10
Proposed Health Investment	8	18	32	39
Proposed Education Investment	5	6	8	9
Proposed Other Department Funding (including base pressures, demographics and growth)	9	10	10	12
Funding shortfall/deficit at mid-point	**(107)**	**(117)**	**(119)**	**(140)**
Proposed Sustainable Measures - Staff Savings target	20	40	55	70
Proposed Sustainable Measures - Other Savings target	18	23	30	40
Proposed Sustainable Measures - Health Charge	0	0	22	35
Funding shortfall/deficit after Proposed Sustainable Savings	**(69)**	**(54)**	**(12)**	**5**
Reduced Capital Allocation	9	9	0	0
Short-term measures to balance	60	45	12	0
Forecast Funding shortfall/deficit after Short Term Measures	**0**	**0**	**0**	**5**

1.9 A recent briefing to the Council of Ministers[66] articulated the overall savings quantum refined as £140m with the following source options:



[66] Briefing to Council of Ministers – Voluntary Release – 2015 Outcomes – September 2015 – Page 2

1.10 In terms of current Public Finance Law an amendment was made in early July 2015 to Article 8A – Medium term financial plan (MTFP), the effect of which allowed the lodging of only one year of detailed expenditure with detailed expenditure beyond year 1 of the medium term financial plan (which is already required for annual budget setting) being delivered through the option of the Minister "coming back at a later date to add it to the plan but with the necessary control that it must be lodged in sufficient time for it to be debated and approved by the States before the year starts."

1.11 We had some initial reservations around this proposal - "*running a four year MTFP based on only one year of detail and three years of control totals with no reasonable detail for these three subsequent years would negate the benefits of the MTFP and significantly reduce its utility."*[67] However, notwithstanding the impact on the MTFP we fully acknowledge the rationale for the amendment (the revised planning work to restructure services would be insufficiently advanced by the time of the required submission) although we recommended that such a change be limited to a 'one off' event with a strict time clause on the amendment being applied.

Lodgement

1.12 As scheduled, the Medium Term Financial Plan (MTFP 2) was presented to the Assembly in July 2015 with only 1 year of detailed expenditure accompanied by control totals for years 2, 3 and 4 to 2019 as aligned to estimates of states income covering this same period. Proposed total income of approximately £2.94 billion[68] including some £35 million of a Health Charge is incorporated within the MTFP submission against what would be approximately £3.1 billion [69]of total net expenditure.

1.13 One of the main features of the submission is the formal acknowledgement within the plan that "*the States need to find a total of £145 million per year by 2019"*[70]. In essence, the MTFP measures and our FM model score applied to the MTFP2 is reflective of a detailed single year expenditure budget with some embryonic though developing remedial measures. MTFPs ideally would incorporate developed strategic proposals for remediation actions.

67 CIPFA – Corporate Services Panel - Review of proposed amendment to Public Finances (Amendment of Law No.2) (Jersey) Regulations 201

68 MTFP 2016 – 2019 Summary Table A – Proposed States Income Targets 2016 – 2019 – Page 138

69 MTFP 2016 – 2019 Summary Table B – Proposed Total States Net Expenditure – Page 139

70 MTFP 2016-2019 Section 2 Council of Ministers' Executive Summary Page 9

2. Assessing the MTFP2 Submission

2.1 The CIPFA Financial Management Model (FM) Model is the "gold standard" globally for best practice on Financial Management in the Public Services and is used extensively in North America, the Middle East and Australasia. We assessed the MTFP 2 submission and some aspects of the operating environment for the application of the plan against relevant components of the CIPFA Financial Management Model.

Assessing the strength of MTFP 2 – 2016-2019 using the CIPFA FM Model

2.2 In order to assist with the assessment we have formulated an approach applying the most relevant statements and supporting questions from the CIPFA FM Model to the States of Jersey MTFP 2. Specific evidential themes focussed on the following areas:-

- Construction of the MTFP
- Assessment of Key Assumptions used within the MTFP
- Performance Monitoring and Reporting of the MTFP
- Utilisation of the MTFP

2.3 In terms of our approach in testing MTFP 2, we modified our standard methodology to test only those statements (using supporting questions) relevant to arrangements covering MTFP 2. The relevant Statements that were considered appropriate to the assessment of the strength of MTFP 1 were applied in the same manner for MTFP 2. These Statements (9 in total) were categorised between Primary Statements where we would expect the fundamental attributes of good practice to exist within MTFP 2, including at a granular level, testing the strength of some of the important assumptions. Each statement is supported by questions which seek to cover a range of relevant evidence which assists with the scoring. Scoring rises in increments of 0.5 from 0 to 4 within a determination as follows:-

Score	How Far Does the Best Practice Statement Apply to the MTFP2?
0 / 0.5 / 1	Hardly
1.5 / 2	Somewhat
2.5 / 3	Mostly
3.5 / 4	Strongly

2.4 For reporting purposes we will represent the scoring at a high level with a "traffic light" (RAG Rating) approach with the following ranges:-

Colour	Score
Red	**0.0 – 1.9**
Amber	**2.0 – 2.9**
Green	**3.0 – 4.0**

Evidence

2.5 Primary sources of evidence consisted of:-

- Document Review – primarily the MTFP 2 submission and subsidiary plans and workings;
- Attendance at Scrutiny Panel Meetings;
- Reports received from stakeholders;
- Meetings with Senior Finance Staff in Treasury & Resources and Departments; and
- CIPFA data.

2.6 It should be recognised that this assessment work is carried out on a restricted set of evidence and should be seen as specific to medium term financial planning and associated financial management issues relating to MTFP 2 rather than an indicator of the overall strength of financial management capability at the States of Jersey. Having carefully considered all the relevant available evidence, our scoring for each of our relevant statements in relation to MTFP 2, as currently constituted, is as follows (the relevant MTFP1 positions are also displayed):-

Statements of Good Practice

Number	Primary Statements	MTFP 2 2016-2019 Scoring	MTFP 1 2013 – 2015 Scoring
L2	**The organisation's leadership allocates resources to different activities in order to achieve its objectives and monitors the organisation's financial and activity performance.**	2.0	2.5
L3	**The organisation integrates its business and financial planning so that it aligns resources to meet current and future business objectives and priorities. Performance management is conducted through measures of service delivery and clear understanding of the costs incurred.**	1.5	1.5
L4	**The organisation has a developed financial management strategy to underpin long term financial health.**	1.5	2.0
L6	**The organisation develops and manages employees pay and benefits strategically.**	2.0	2.0
PR8	**Budgets are robustly calculated.**	2.0	2.5
PR12	**The organisation's medium-term financial planning process underpins its strategic priorities.**	1.0	2.5
PR13	**The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.**	2.0	2.0
PR14	**The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement and commissioning.**	2.0	2.0
PR15	**The organisation pursues value for money through active management of its fixed assets.**	2.0	2.5

2.7 On a comparative basis there has been a lack of progression on statement scoring on the MTFP 1 position, and indeed, some scores, notably on statements L2, L4 and PR12 are lower. Based on the evidence presented to date our high level comments underpinning our scoring are outlined below.

Leadership – Securing Stewardship/Supporting Performance

Leadership Stewardship	**L2**	The organisation's leadership allocates resources to different activities in order to achieve its objectives and monitors the organisation's financial and activity performance.	2.0
Leadership Performance	**L3**	The organisation integrates its business and financial planning so that it aligns resources to meet current and future business objectives and priorities. Performance management is conducted through measures of service delivery and clear understanding of the costs incurred.	1.5
	L4	The organisation has a developed financial management strategy to underpin long term financial health.	1.5
	L6	The organisation develops and manages employees pay and benefits strategically.	2.0

2.8 For the Leadership Financial Management Dimension and Securing Stewardship Financial Management Style, statement L2 considers basic elements of an effective framework of Financial Management. The scoring is significantly lower than in most of the organisations we work with: the global average scoring for this specific statement is 3.0. For statement L2, there is an expectation that Financial Strategy and related resource allocation is captured over a period of at least three years and that budgets are realistic, with over- and under-spending/income recovery being within expected tolerances. Within our work on the 2015 Budget we raised concerns on what we identified as an "apparent failure to adjust Financial Strategy in line with the very latest intelligence."[71]

2.9 There has been a lack of agility in adapting to a deteriorating financial position. Indeed within our 2015 Budget work we commented that the "..*utilisation of reserves to fund core spend is a "real wakeup call"* and *"is typically the product of a rapidly deteriorating fiscal position".* Given the continuing deterioration on the overall financial position, as evidence in the 2015 quarterly monitoring reports for both Quarter 1 and Quarter 2, we have seen little to change our position first identified in our 2015 Budget work.

2.10 The questions underpinning L3 primarily deal with the link between an organisation's operational plans and its financial plans and ensuring that operational plans are both realistic and achievable. The scoring of 1.5 is below the latest average global scoring of 2.4

[71] CIPFA – Corporate Services Scrutiny Panel - States of Jersey Budget 2015 – Paragraphs 7.11 – page 38

for this statement. Our evidence suggests that the reporting of target outcomes and related resource utilisation/financial performance is weak with integration of Business Planning with Financial Planning not being achieved. We would expect to see MTFP 2 based on service planning and corporate strategies covering the full 4 year period with direct linkages to departmental business plans overlaid by corporate strategies. Whilst there has been efforts to build up a funding requirement that meets the high level priorities, the foundational income and financing components are not consistent with current trends/service pressures. Measures designed to counter budget deficits appeared to be short term tactical solutions rather than focus being applied to causal drivers (building fundamental understanding of key drivers of spend and sensitivity to business environment) over the medium to longer term.

2.11 Statement L4 seeks to address the issue of longer term Financial Management strategy through the actions of management and the development of appropriate policies. The global average scoring is 2.5 for this statement. Whilst there was an obvious commitment to a robust financial strategy as evidenced with MTFP1, financial management arrangements are not, in the absence of a stable long term approach, likely to support strategic business aims, provide resilience and financial stability over the longer term. Within our 2015 Budget work we highlighted the following:-

"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 the States 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."[72]

2.12 L6 sets a strategic financial standard on Employee Planning. As employee costs are the biggest expenditure within some organisations this statement checks the prevailing strategic approach to employee related cost and impacts. We acknowledge that there has been significant recent work carried out to identify options for reducing payroll costs including reshaping the workforce, deployment of pay restraint, voluntary/compulsory redundancy and service redesign. However, the actual impacts are only at an early stage and there is considerable uncertainty as to the potential to change the size and composition of the overall manpower establishment. Such uncertainty is reflected within our scoring.

Processes – Supporting Performance

Securing Stewardship (PR8)	**PR8**	Budgets are robustly calculated.	2.0
	PR12	The organisation's medium-term financial planning process underpins its strategic priorities.	1.0
Supporting	**PR13**	The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.	2.0

[72] CIPFA – Corporate Services Scrutiny Panel - States of Jersey Budget 2015 – Paragraphs 7.13 – page 38

Performance	**PR14**	The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement and commissioning.	2.0
	PR15	The organisation pursues value for money through active management of its fixed assets.	2.0

2.13 The score for PR8 is well below the average global scoring position of 2.8. The key issue with regards to this specific statement is whether or not the budgets produced are robust. Whilst we fully recognise the substantial work carried out by departments and Treasury & Resources in building up departmental estimates, we have some significant concerns around the assumptions associated with the calculation of Income Tax estimates that are contained across the MTFP 2 period.

2.14 PR12 specifically relates to medium-term financial planning. We would take the view that the submission currently considered by the Corporate Services Scrutiny panel does not constitute a Medium Term Financial Plan that fully informs and provide stability in the determination of financial strategy moving forward. The statement scoring is reflective of this position.

2.15 PR13 tests the good practice assumption that the organisation systematically pursues opportunities to reduce costs and improve value for money in its operations. This covers both business as usual and investment programmes. As part of the MTFP process, departments were required to make 2% savings from their 2015 expenditure base with a view to being applied on a recurring basis from 2016 onwards. Within MTFP 2, £38.06m of proposals for achieving savings and benefit changes to balance the budget has been identified.

2.16 Our discussions with some of the operational departments revealed significant work being carried out to continuously seek out efficiency savings and reprioritise investment opportunities. We were particularly impressed with the work that HSS - Health are doing to optimise available resources through a wide range of initiatives. We note that this approach has been consistently applied in Health before the latest MTFP 2 exercise was initiated (highlighted within our previous 2015 Budget work). Along with PR14, these statements seek evidence of an embedded approach being taken to continuously identify and exploit opportunities that deliver improved value for money. Whilst there is evidence of some progress, in part precipitated by the requirement to deliver 'short term measures' as part of the MTFP 2 process, we believe that there is still some way to go before this is a feature that is fully embedded within the 'DNA' of the states. In respect of procurement key performance metrics are still being worked up.

2.17 In respect of PR15, whilst there has been some progress on estate rationalisation we understand there is still some way to go before the States can optimise its working estates portfolio. We are unsighted on any expected asset disposal receipts that would impact MTFP 2 (although the Strategic reserve is to benefit from some £20 million of asset disposals to 2019) although we do recognise that through MTFP 1, Jersey Holdings was tasked with delivering some £13 million of property disposals.

2.18 In terms of investment the capital programme provides for a base £35m allocation for Capital investment in each of the four years covered by the proposed MTFP 2. Such capital allocations appears to be relatively arbitrary and lacking any obvious rationale although Section 15 of the MTFP 2 outlines the 'indicative' capital programme that is to be funded within this annual 'cash envelope' and some of this investment will appear as Non-Current Assets within the States Balance Sheet. In relation to 'non-cash' - depreciation there appears to be a lack of connectivity between the application of depreciation and the shaping of a strategy for asset replacement options and related decisions.

3. Specific areas of concern

3.1 Within our FM Model analysis across the range of relevant statements of good practice the following high level issues emerged – comments on some of these are outlined below:-

- Income estimates
- Delivering required savings
- Service redesign and Value for Money (VfM)
- Investment
- Carry forwards and Contingency
- Other sources of income - charges

Income estimates

3.2 Within our report on MTFP 1 we voiced concern about a lack of consistency between the way income estimates were set and prevailing economic trends and suggested that there may have been an element of optimism bias in the budget setting process. Whilst we fully endorse the measures taken to strengthen the Income Forecasting Group (IFG) and the achievement of a better alignment with the IFG and the Fiscal Policy Panel (FPP) we believe that there are still significant risks in running the MTFP 2 income tax yield estimates as currently presented, and remain unconvinced about the validity of assumptions used to predict Income Tax yields over the duration of MTFP2. Income Tax accounts for approximately 66% of overall States income and has a relatively high level of unpredictability – as measured against recent budgets.

3.3 The first two quarter's financial monitoring reports highlight a deterioration on tax yield. As at 30 June, Income Tax was £21.6m or 8% under profiled estimate position and there has been a re-forecasted 2015 outturn position of £438.0m against the budget of £455.0m and the 2015 income tax base budget has been recalibrated accordingly. However the year on year % growth positions are as follows – with the 2016 base being set at £458m – a real change of 4.6% on the 2015 re-forecast:-

Year	Actual 2013	Actual 2014	Estimate 2015	Estimate 2016	Estimate 2017	Estimate 2018	Estimate 2019
	£ m	£ m	£ m	£ m	£ m	£ m	£ m
	451.7	436.7	**438.0**	**458.0**	**475.0**	**499.0**	**519.0**
% Change		-3.3%	**0.3%**	**4.6%**	**3.7%**	**5.1%**	**4.0%**

Q2	Actual	£233.7m	**-£21.6m**	-8%	
	Forecast	£438.0m	-£17.0m	-4%	Note 2015 Budget was £455m

3.4 Whilst we are aware that the Fiscal Policy Panel (FPP) have endorsed the income assumptions used by the Income Forecasting Group (IFG) in the formulation of the revised income forecasts, we still find it difficult to draw consistency between the FPP's Jersey Annual Report September 2015 narrative on expected growth and the relevant GVA, Company Profits, Employment and Average Earnings metrics used to formulate the income base estimates. We understand that the metrics used to produce the revised Income Tax estimates include the following[73]:-

Central economic assumptions

% change year on year unless otherwise stated, bordered numbers indicate outturns.

Note: Changes in profits, earnings, employment costs and house prices are in nominal terms

Sources: Economics Unit calculations and Panel judgement

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

3.5 Despite the range of indicators and the analysis provided by the IFG there is no real detailed breakdown on workings which provides some visibility upon the detailed construction of income tax estimates. We are fully aware of the variability of the Corporation Tax component of overall Income Tax and the relatively limited field of potential tax payers within scope. In context it is worth noting that in May 2015 the Bank of England reduced its UK Growth forecasts to 2.5% in 2015, 2.6% in 2016 and 2.4% in 2017. Jersey's tax yield change on base is 4.6% for 2016 and 3.7% for 2017.

3.6 The States have set out to capture some £70 million in staff related savings. Savings of this magnitude will inevitably require the release of a significant number of staff. We are unsighted as to the potential negative impact that this may have on overall tax yields.

3.7 These income estimates were based on what is described as central scenario forecasts with +/-9% differentials around the central scenarios for high and lower scenarios. The IFG identified 'risks on the downside' of the central scenario positions and as a consequence, "the Council of Ministers has identified contingency plans at Section 13 depending the scale of variation."[74]

[73] Jersey's Fiscal Policy Panel Annual Report – September 2015 – Figure 1.2 – Page 20
[74] MTFP 2 – 2016-2019 – Section 8 Financial forecast 2015-2019 page 47

3.8 Section 13 provides additional proposals and short term funding measures which appears to be a range of additional/alternative measures that may be available to bridge any potential impact of risk to economic recovery and/or non-performance the generation of the expected level of efficiency savings. Whilst it is good practice to identify supplementary/contingency measures, such a practice can mitigate against optimal prioritisation of resources if such measures are not sufficiently formed/immature. In our view there is an absence of precision in the formulation of these alternative measures. Amongst the funding options for additional proposals listed within Section 13 is the Change in Accounting policy for Tax revenues, the effect of which will introduce a £60m positive unallocated balance within the Consolidated Fund (as a one off adjustment) in order to recognise a more appropriate treatment of current year basis tax revenues in the current year. We would not have any issues with this proposed change in accounting treatment if it provides for more accurate financial reporting and improved accounting standard compliance. By its very nature this is not an 'additional proposal', however the effect of this change is to restate the Consolidated Fund position and allows a positive balance to be achieved. Given the legal restrictions around allowing the Consolidated Fund to go into deficit, this adjustment will no doubt be regarded as being very welcome.

Delivering required savings

3.9 Section 12 of the MTFP 2 outlines proposals for savings to be delivered in 2015 and 2016 that will assist 'balance the budget'. Savings proposals for 2017-2019 are currently being formulated and will be presented within June 2016 submission as part of the detailed MTFP for the remaining three year period. By the end of 2016 some £38m of savings are due to be delivered by Departments from both 2015 (£12m) and 2016 (£26m). We have been assured that the 2015 savings are already 'in-train' and will be achieved. However, it is difficult to identify from the latest 2015 Q2 Financial Peformance Monitoring reporting the extent of actual achievement to date. We further understand that departmental budgets for 2016 have been top sliced for the remaining £26m and this has now been reflected within the Departmental Subjective analysis provided within the Annex 17/2015 issued on 24 July 2015.

3.10 Whilst departmental budgets have been reduced to reflect expected savings we understand that there is still uncertainty within departments as to exactly how such savings related to specific budget headings are going to be achieved. Departmental narratives within the Annex with associated cost reduction plans appear to be more aspirational than founded on precise plans. Given the lack of relative precision around the budget adjustments there must be some risk as to the non-achievement of the planned £26m 2016 savings. This risk has been recognised by the Fiscal Policy Panel within its latest annual 2015 report:-

"Implementing the £145 million of proposed measures looks challenging, particularly as the expenditure savings have not yet been fully identified. If a significant number of these savings are not achieved, then it increases the risk that the structural deficit will not be dealt with by 2019."[75]

[75] Jersey's Fiscal Policy Panel Annual Report – September 2015 – Key points - Public Finances - Page 4

3.11 Within our scrutiny work covering MTFP and the Budget 2015 we commented that some departments have previously struggled to demonstrate a strong track record of achieving savings as directed by the previous CSR exercise. In our 2015 Budget work we commented that *" although we do note that approximately £54.9m of savings has been reported to have been achieved from a £55,7m target for the period 2011 – 2013 although a further £6.478m is still required by 2016"*76. Given a 'drag effect' highlighted within the previous track record on the achievement of savings and the magnitude of the task going forward, it is difficult to conclude with any certainty that departments have enough agility to deliver the 2016 savings as set particularly in the face of unrelenting service pressures. In respect of balancing the 2015 position there is still a list of specific measures which are required to deal with an expected £66 million shortfall.

Service redesign and VfM

3.12 MTFP 2 savings on People relate to some £70m. Payroll costs accounts for approximately 50% of the overall budget. We understand that there is a turnover rate of approximately 500 full time equivalent (FTE) posts per annum or 6.5%/7% of overall posts. The MTFP 2 submission anticipates that a mix of pay restraint, vacancy management, VR/CR and service redesign – LEAN/eGov/mergers and service redesign will produce the required level of saving. Figure 46 on page 126 of the 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*."

3.13 We understand that at the point of writing some 129 applications for voluntary release had been received and 104 applications have been approved estimated to save some £4.2 million in recurring payroll savings.[77] Given this rather modest start in developing key transformational change the States have a significant challenge to deliver on the desired level of recurring payroll savings and, indeed, matching the indicative people savings profile targets of:-

- 2016 - £20m
- 2017 - £39m
- 2018 - £54m
- 2019 - £70m

3.14 Notwithstanding the work in train to down-size the workforce we are unsighted on the exact consequences for:-

- Pension Fund implications and recurring additional liabilities
- Impact on personal Income Tax yields relating to a large number of staff released (see metrics highlighted in paragraph 1.30)

[76] CIPFA - Corporate Services Scrutiny Panel – Budget 2015 - Page 15 - 3.19
[77] Briefing – Council of Ministers – Voluntary Release Scheme – September 2015 – slide 6

3.15 We would strongly recommend that appropriate impact studies are used to inform the forecasted metrics foundational to the formulation of personal Income Tax estimates and assess relevant implications for Pension Funds due to early release.

3.16 Specifically in terms of service redesign within the reform programme we are also unsighted as to the maturity of the actual work carried out to date at both departmental and corporate level. We have, however, been assured that workforce planning will be tailored to deliver robust value for money (VfM). The reform programme is absolutely critical to the States' ability to deliver a 'balanced' medium reform financial position. The lack of available detail on progress should be a cause for some concern.

Investment

3.17 Within the MTFP there are two streams of capital investment programmes. Within the total capital programme, Ministers have agreed increasing indicative capital project investment year on year to reach £35 million in 2018[78] with approximately £33 million schedule for 2019. In addition to the 'mainstream' projects there is a further group of projects designated as 'major capital projects' and highlighted separated from the overall Forecasted Funding Model. These are:-

- New Hospital;
- Les Quennevais School – transfer of some £40 million from the Strategic Reserve; and
- Office Modernisation.

3.18 In respect of the Hospital Project we understand that *"Plans are progressing for a Future Hospital"* [79]and "*We will also bring forward plans for the future hospital*"[80] and there is no provision for such a major investment within MTFP 2 despite an estimate programme cost of some £297m incorporated within the 2015 Budget position to be met from the investment returns from the Strategic Reserve. Relating to this source of funding we previously expressed concern about the "*the confidence attached to the level of sustained Investment Return performance which is assumed to achieve a consistent 6.5% per annum from 2018 through 2024 with 5.2% achieved within 2014 rising to 5.7% in 2015. Irrespective of the stellar 14.1% achieved in 2013 we would be more cautious about the general outlook. Indeed, the Minister for Treasury and Resources, in the Foreword to the Budget Statement 2015 suggests that "interest rates are expected to increase at a moderate rate next year which will start to alleviate some of the pressure on States income." If there is a positive level of correlation between base interest rates and investment returns then we would have some difficulty with base Investment Return assumptions as there are now indications that interest rates may not start to rise in a manner that was expected and even recently predicted.*[81]

3.19 Whilst we recognised that the MTFP2 includes for graduated additional health service investment to approximately £40 million by 2019, the omission of the £297 million project quantum for the new hospital yet the planned MTFP 2 retention of the transfer out of the

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[78] MTFP 2 - Summary Table F – Page 144 – Total Indicative Capital Projects - 2016 - £25.7 million and 2017 - £26.3 million
[79] MTFP – HAA Acute Services - Page 65
[80] MTFP – Council of Ministers' Executive Summary - Investing in our assets – Page 13
[81] CIPFA – Corporate Services Scrutiny Panel – Budget 2015 – Page 31/32

Strategic Reserve appears to confirm that the strategic reserve investment source will be retained for this specific project whatever the final option is agreed:-

"the agreed transfer to the Future Hospital of £22.7 million in 2015 in line with the previous funding proposals for the project. Once the proposals to facilitate the funding for a new hospital either on a new site or a rebuilt and refurbished hospital on the current site are finalised, these proposals will be brought to the States in the form of future amendments to the MTFP and appropriate legislation for approval."[82]

3.20 Within the period 2015 – 2017 there is approximately a £141 million[83] draw on the Strategic reserve, with the exception of a £20 million asset disposal augmentation in 2017. Should there be a further deterioration in the overall States' financial position and the asset disposal estimate is not realised (there is a further £20 million anticipated in 2019) it may well be the case that a further call may be made on the Strategic Reserve (subject to Ministerial approval). At the point of writing interest rates are still at extremely low levels with no real prospect of increases taking place (within the UK until the latter part of 2016). As a consequence, investment returns are unlikely to yield the levels envisaged when the original funding plan for the £297 million investment was put in place. If, when a final new hospital brief has been agreed and a similar level of funding is required, it would be our opinion that this level of funding and potential associated recurring life cycle running costs will further limit Jersey's ability to mitigate declining revenues and rising cost pressures across the public sector. In other words, the Hospital project has the potential to have a material impact upon the whole medium term financial modelling for the States.

3.21 In relation to the annual base allocations there are a number of projects led by departments that vie for 'mainstream' inclusion. Bringing in mainstream capital spend to profile is not one of Jersey's strengths and there has been a consistent track record of underspending to programme:-

"The Budget 2014 included a capital expenditure allocation from the Consolidated Fund of £88.9 million. After removing allocations relating to the Housing Department and making other adjustments such as transfers to revenue budgets, there was an effective capital approval of up to £54.3 million. £6.4 million was returned to the Consolidated Fund and there were also £101.1 million of unspent approvals from previous years. During 2014 actual capital expenditure from the Consolidated Fund amounted to a total of £51.7 million."[84]

3.22 In respect of the current financial year the Q2 Capital Report on activity to 30 June 2015 highlighted that:

- Total unspent budget for departments as at the end of June was- £150.6 million
- Total capital expenditure for the **year to date for departments totalled £20.8 million**
- Revised total gross **forecast spend for 2015 is £115.5 million**

[82] MTFP 2016 – 2019 – Page 91
[83] MTFP 2016 – 2019 Figure 36 – Page 92
[84] States of Jersey Annual Report and Accounts – 2014 – page 31 – Capital Programme

3.23 As the 'mainstream capital programme is mainly funded from revenue allocations this consistent level of underspending can act as 'buffer' and some flexibility in managing capital/revenue funding. This is especially relevant where the initial resources tied up within the allocation approval process for indicative projects, that are likely not to spend, can be withdrawn/modified (subject to Ministerial approval). However, in terms of planning – such is the nature of the capital approval process where the entire funding is allocated in the first year – it must be extremely difficult to accurately predict the overall profile of capital expenditure in any given year and 'over programming' is not an option to account for natural slippage. The significant lack of consistency in profiled spending – particularly in final quarter of the financial year (40% in 2014 and 33% in 2015) does not indicate a controlled and co-ordinated approach being taken to the management of the capital programme.

3.24 A negative consequence of such controls could be the potential sub-optimal allocation of capital resources especially where project cost estimates and timescales are inaccurate or impacted by optimism bias. Optimism bias has been seen to mainly influence project duration and cost. An extract from HM Treasury's Supplementary Green Book Guidance on optimism bias suggests that the following table "provides adjustment percentages for generic project categories that should be used in the absence of more robust evidence."[85]

Project Type	Optimism Bias (%)[2]			
	Works Duration		Capital Expenditure	
	Upper	Lower	Upper	Lower
Standard Buildings	4	1	24	2
Non-standard Buildings	39	2	51	4
Standard Civil Engineering	20	1	44	3
Non-standard Civil Engineering	25	3	66	6
Equipment/Development	54	10	200	10
Outsourcing	N/A	N/A	41*	0*

Carry forwards and Contingency

3.25 The issuing of carry forwards and contingency funding within the early periods of MTFP 1 significantly distorted the capability to accurately track planned expenditure as expressed in MTFP 1 with actual outturns. This has led to difficulties in the assessment of the effectiveness of the MTFP as an effective planning tool. Whilst there has been significant improvement in controls over carry forwards since our previous work covering MTFP 1 (we

[85] HM Treasury – Supplementary Green Book Guidance on Optimism Bias – Page 2

highlighted that in some cases carry forwards were being utilised to mitigate following year efficiency savings targets) there is still evidence that sub optimal budget behaviours are arising – particularly at year end.

3.26 This is evident in the 'hockey stick' pattern associated with period 12 expenditure. The following table highlights the relationship between expenditure met in Period 12 of both 2014 and 2013 on the average period expenditure covering periods 1 – 11 for key areas of non-payroll expenditure:-

	Year	Year
Expenditure Type	**2013**	**2014**
Premises & Maintenance	158%	156%
Supplies & Services	166%	173%
Administration Costs	142%	210%

3.27 Such a pattern of spending behaviour is indicative of budget holders managing their budgets (spending to avoid loss of budget) rather than managing their costs. Such behaviour can negatively impair strategic financial planning capability.

Other sources of income - charges

3.28 MTFP 2 has introduced the concept of a Health Charge which *"proposes a new health specific income stream of £35 million by 2019."*[86] The target profile also assumes that the Health Charge will raise £15 million in 2018. This charge is still more conceptual in nature although MTFP 2 includes proposals for an additional £40 million of increased costs and provision of new services by 2019. A stated objective of this additional funding is to replace/reduce existing contributions from the Health Insurance Fund.

3.29 The Health Charge is a key component of the measures designed to deliver the £145 million target set by Ministers by 2019 to bridge the acknowledged structural deficit. As this measure is still to be properly defined - particularly in terms of how this charge is going to be levied/collected as well as substantiated, it would be our view that this measure lacks sufficient maturity within its development to validly incorporate it within the list of measures that are designed to promote "*sustainability in States Finances*[87]."

3.30 In terms of generic 'user pays' proposals - establishing a target of some £10 million by 2019 appears to be more aspirational than founded on detailed service business planning options. It is, however, recognised that the business case around the investment in solid and liquid waste together with commercial solid waste has been developed from investment requirements and there is significantly more potential to link such charges to a property based or metered consumption recovery process. Notwithstanding this position, there is still an acute lack of visibility on how the target level of additional income has been calculated. Within our previous work on both Budgets 2014 and 2015 we expressed doubts on the proposed sources of an overall funding package of some £75m of investment in the Liquid Waste Strategy:-

[86] MTFP 2016 – 2019 – Section 11 – Sustainability in States Finances - Page 79
[87] MTFP 2016 – 2019 – Section 11 – Sustainability in States Finances – Page 73

"..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. 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."[88]

3.31 A concern here would be that for other areas where efficiency savings are required to partially fund capital investment but are not likely to materialise, that the creation of a compensating income stream is seen as an easier option.

4. Strengths and areas for further development

4.1 In overall terms we summarise the key areas of identified relative strengths and areas for development that the States of Jersey should address in relation to developing MTFP 2. These are outlined below.

Strengths

4.2 During the course of our work we were able to identify a number of relative strengths associated with the MTFP and wider financial management arrangements. The following list highlights some high level strengths encountered:-

- Strong drive and commitment for improved financial management capability – notably from Treasury & Resources and Departmental Finance Officers;
- Financial strategy – strong corporate co-ordination and strategic direction;
- Robust departmental work on on-going service resource prioritisation;
- MTFP 2 provides an improving picture on horizon scanning - operational service demand/ demographic changes etc.;
- Basic Financial Management Information (MI) is sound; and
- Transparency – open and transparent relationship with key Stakeholders.

Development Areas

[88] CIPFA - States of Jersey Corporate Services Scrutiny Panel – Budget 2015 – Page 34/35 – Paragraphs 6.19 – 6.22

4.3 Our work identified a number of areas that, in our opinion, require strengthening. We have focussed on five areas which we believe are critical to the effectiveness of MTFP 2. These are:-

- Corporate Financial Strategy
- Delivery of key assumptions – Tax Yields
- Delivery of key assumptions – Efficiency Savings and Measures
- Delivery of key assumptions – Capital Programme
- Delivery of key assumptions – Health Charge and User Pays

4.4 Our high level comments, some of which are interconnected) can be summarised as follows:

Corporate Financial Strategy

- Lack of corporate agility – inability to manage/quickly adapt to budget volatility in difficult and changing conditions
- Absence of Risk Impact Assessment within MTFP 2 and appreciation of wider corporate risks
- Alternative plans and short term measures to counter emerging deficits are only reactive and short term tactical solutions - the main causal drivers need to be fully addressed
- Chief Officers – more explicit accountability for financial performance required
- Silo approach across departments still evident – stronger role for the Chief Executive and the Corporate Management Board of Chief Officers in tracking and managing the transformational change reform agenda
- Need to demonstrate better linkage between service outcome targets and financial performance
- Improved control on Carry Forwards but still evidence of inefficient budget management practice with budget holders managing their budgets rather than their costs
- MTFP 2 should consider impacts on service standards and quality of outcomes – especially in the context of fiscal retrenchment
- Absence of overall Balance Sheet within MTFP – this is critical

Delivery of Key Assumptions – Tax Yields

- Improved governance around IFG arrangements however, inadequate clarity on the calculation of base Income Tax estimates
- Income tax estimates more aspirational
- Key assumptions – continuing issue of optimism bias – neutral impact of downsizing the public service not yet evidenced

Delivery of Key Assumptions – Efficiency Savings and Measures

- Some efficiency savings aspirational/expectational/work in progress rather than formulated on fully worked up plans – for example the People Savings target of £70m by 2019

- Transformational service re-engineering work lacks visibility and may not be sufficiently advanced to meaningfully contribute to reduce costs over the period of MTFP 2
- Accountability for performance - a cultural acceptance of the concept of “slippage” and non-achievement
- Lack of visibility on what constitutes cashable savings as opposed to ‘counter factual’ savings - unrequired budget, re-phasing (stopping/slowing)of activity

Delivery of Key Assumptions – Capital Investment

- Lack of visibility on key new Hospital investment requirements
- Improved forecasting capability required
- Matching and ‘locking’ of approved funding may impair optimal investment capability
- Position on depreciation not adequately informing asset investment/replacement strategy
- More visibility on Investment Appraisal and Business Case methodology required

Delivery of Key Assumptions – Health Charge and User Pays

- Lack of visibility on the construction of related service provision that would be associated with charges
- Charges more conceptual rather than founded/modelled on definable outputs
- No real detail on how consumption relates to specific charging and how this may impact demand for such services
- Absence of detail on how such additional income could be collected

5 Concluding comments

5.1 Whilst we fully commend the extensive work that has been carried out in the formulation of the MTFP 2 submission, we would take the view that the submission currently considered by the Corporate Services Scrutiny Panel does not constitute a Medium Term Financial Plan which can fully inform and provide stability in the determination of financial strategy moving forward. At this stage within the cycle, running a four year MTFP based on only one year of detail and three years of control totals, with no reasonable detail for these three subsequent years, negates the benefits of the a medium term financial plan and significantly reduces its utility. A key strength of an MTFP is the provision of enhanced stability and medium term visibility/transparency within the financial planning process cycle.

5.2 Although a key attribute of a medium term financial plan is the provision of stability, it is clear that a combination of imprudent assumptions used within MTFP1 and lack of agility in adapting to a deteriorating financial position has driven the creation of a range of measures designed to counter emerging deficits. Strategic Financial Planning is in recovery mode rather than setting a stable financial strategy that delivers robust financial performance. At worst, using specific reserves to fund core expenditure and creating measures which are in effect short term tactical solutions without due focus being applied to causal drivers is not going to create the necessary conditions that will successfully recalibrate financial strategy for the medium and longer term.

5.3 Proposed total income of approximately £2.94 billion including some £35 million of a Health Charge is incorporated within the MTFP submission against what would be approximately £3.11 billion of total net expenditure. By any definition, there has to be a material change in the alignment of income and expenditure if there is to be a reasonable prospect of achieving a 'balanced budget' position over the four year period.

5.4 In respect of MTFP 2 the targeted £145 million of savings, charges and other measures by 2019 is highly ambitious and there is an acknowledged risk of non-achievement. Although MTFP 2 provides for an element of contingency, should such targets fail to be achieved, there is a lack of precision and definition on alternative options. In our view there appears to be almost a cultural acceptance that there will be a significant element of non-achievement. <u>It is our view that a number of key assumptions, principally around Income Tax and Savings targets including £70 million of People savings invite an unacceptable level of risk.</u> The introduction of a Health Charge and User Pay strategy scheduled to bring a combined additional income of £45 million per annum in 2019 is considered to be insufficiently developed at this stage to validly incorporate within a meaningful plan designed to eliminate the structural deficit. Limitations placed on MTFP, issues around key assumptions, and wider financial management capability issues have negatively impacted relevant statement scoring within the CIPFA Financial Management Model assessment.

5.5 Much has been said about Jersey's "strong" balance sheet position – this was a 'strapline' within the Minister of Treasury and Resources narrative to the 2014 Annual report and Accounts. No matter how 'strong' the States net asset position appears to be - there is not an infinite timeline which would allow it to continually support/maintain a low tax/high spend jurisdiction especially with significant investment needs to cover demographic pressures. Given the potential requirement to now look at User Pays/Benefits/Charges, significant unsupported investment in a new Hospital project and expected challenges in re-engineering and transforming services within an exceptionally tight timeline, it is essential that as part of the formulation of overall financial strategy, that the States of Jersey revisit/challenge prevailing tax policy and objectively consider all tax raising options, however unpalatable this may appear politically.

5.6 On a number of aspects of MTFP 2 the current direction of travel is the right one. MTFP 2 attempts to cover emerging demographic factors and the concept of developing a wide range of options and alternative measures provides assurance that financial strategy is being set for the medium and longer term. Notwithstanding the incomplete nature of MTFP 2 the submission is an extremely detailed document and the model architecture is well developed. In this regard we would wish to commend the work undertaken by the Head of Financial Planning and his team. Within Treasury & Resources and across the finance community within operational departments our evidence points to key finance staff possessing strong technical capabilities and we were impressed by the high level of commitment within departments in their contributions towards MTFP 2 and the on-going process of resource management.

5.7 Despite the current lack of detail on departmental expenditure covering 2017 – 2019 and our comments relating to key assumptions, it would be our considered view that MTFP 2 can still provide the strongest modelling platform for critical decision making. Indeed, there may be no other time within which the MTFP will be more relevant to the decision making processes that will deliver financial sustainability for the States of Jersey.

5.8 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.

6 Recommendations

6.1 In terms of strengthening the effectiveness of arrangements associated with MTFP 2 we would propose 17 recommendations (in no specific order of priority):-

	Corporate Financial Strategy
1	That a carefully controlled and tracked mechanism be devised to allow critical assumptions within the MTFP to be recalibrated/adjusted in the face of emerging conditions that cannot be corrected/influenced/ameliorated. This would incorporate a reforecasting facility and a required rebalancing or resources.
2	Risk Management – the identification and the full assessment of the impact of relevant risks, including wider corporate risks, must be fully articulated/incorporated within MTFP 2.
3	Accountability – Chief Officer require to be held to account for the performance on achievement of agreed savings targets - there should be effective responsibility and accountability specifically relating to the performance management of the achievement of expected savings targets.
4	Managers should be encouraged to manage costs rather than budget utilisation. A form of incentivisation should be introduced to allow managers to offer up unrequired budget.
5	The Corporate Management Board should be the crucible for driving the transformational change programme and be the core communicators on actions/progress.
6	The MTFP 2 should have stronger linkage between service outcome targets and forecasted financial performance.
7	The MTFP submission should include a full Balance Sheet analysis including a projected position for each year of the MTFP.
8	Within financial strategy formulation all Tax raising options should be objectively considered (including Income tax – personal and corporate) and should be explicitly modelled and incorporated within MTFP 2 submission supporting papers
	Delivery of Key Assumptions – Tax Yields
9	That consideration be given to adopting income forecasts at a point between the lower and central scenarios outlined by the Income Forecasting Group (IFG).
10	The detailed workings behind establishing Income Tax base estimates covering both Personal and Corporate should be highlighted and tracked to actual yields.
	Delivery of Key Assumptions – Efficiency Savings and Measures
11	The MTFP should only incorporate measures that are defined, have significant prospectivity of being implemented and have relative precision around the financial impacts that are going to be achieved. Such measures should not be conceptual but be formulated within existing business case methodology and backed by appropriate evidence.
12	The Treasurer should 'sign off' on savings, additional income and measures before incorporation within the MTFP.

13	Savings need to be definable as recurring and 'cashable' – not counterfactual.
14	People savings including full transition costs – the MTFP requires to provide more detail on the critical assumptions and tasks/conditions/events needed to generate the expected profiled cost reductions for each component within the £70 million people target saving.
15	People savings related to staff down-sizing - it is recommended that appropriate impact studies should be used to inform the forecasted metrics foundational to the formulation of personal Income Tax estimates and assess relevant implications for Pension Funds.
	Delivery of Key Assumptions – Capital Investment
16	Improved visibility required on Investment Appraisal and Business Case methodology used on Projects incorporated with the Capital Programme. This should demonstrate full incorporation of life cycle costing with complete visibility on how the full current and future Revenue Consequences of Capital Projects is being provided.
17	There should be a link between the application of depreciation and asset investment/replacement strategy.

Appendix 1

CIPFA Financial Management Model – Extract of Relevant Statements and Supporting Questions

Supporting Performance – Process	
PR12	**The organisation's medium-term financial planning process underpins its strategic priorities.**
1.	Does the *Medium-term Financial plan* represent a properly resourced, realistic programme of action over the medium term?
2.	Does the *Medium-term Financial Plan* examine scenarios, risks and sensitivity analysis?
3.	Does the organisation use formal processes to link the *Medium-term Financial plan* to other organisational plans (e.g. IT strategies, workforce strategy, asset management plans and service development plans)?
4.	Does the organisation use formal processes to link the *Medium- term Financial plan* to the annual operational budgets?
5.	Does the organisation's *Medium-term Financial Plan* reflect joint planning with partners and other stakeholders?
6.	Does the organisation regularly review its *Medium-term Financial Plan*?
7.	Is there a requirement in the Financial Regulations or Standing Financial Instructions to evaluate the financial implications and the long term affordability of new policy options, initiatives and major projects, involving *Finance staff* and using recognised option appraisal methods?
8.	Is the long term affordability of new investment assessed?
9.	Are there arrangements to review whether expected financial cost savings are realised?
10.	Are there exit plans for time-limited funding streams?
11.	Are targeted zero based budgeting exercises undertaken periodically?
12.	Does the Medium-term Financial Plan consider options for new sources of income, new ways of reducing costs and of attracting additional sources of funding?
13.	Does the organisation evaluate opportunities to invest to save (e.g. early intervention and prevention), identifying evidence, probability and targeting of impact, value for money and methods of realising future benefits and savings?
14.	Does the organisation seek to diversify its funding streams, to reduce risk?

Supporting Performance – Leadership	
L4	**The organisation has a developed financial management strategy to underpin long term financial health.**
1.	Does the *Leadership Team* demonstrate commitment to the strategy for long term financial health through their statements and actions?
2.	Does the organisation review the balance of funding streams to ensure long term financial health, fairness to users, and development of the local economy, for example between tax raising, grant funding and charges?
3.	Are there clear financial management policies that together underpin sound and sustainable long term finances? Policies may include accounting practices, approach for bidding for external resources, levels of contingency funds and reserves, procurement, asset management, business cases, affordability of capital investment, efficiency gains and targets, financial risk management, risk financing and insurance, treasury management, wider market and trading opportunities, charges and subsidies for users.
4.	Do financial management policies support strategic business aims, resilience and financial standing?

5.	Are financial management policies communicated to *Managers* and the *Management Team,* widely understood and consistently applied?
6.	Does the *Board* or *Audit Committee* receive assurance on compliance with financial management policies and on the follow up of material deviations?
7.	Are financial management policies reviewed regularly and updated?
8.	Do post-completion project reviews take place and include identification of actions to improve financial management?
9.	Do external audit and inspection comment favourably on the processes for strategic risk management, resilience and financial standing?

Securing Stewardship – Process	
PR8	**Budgets are robustly calculated.**
1.	Does the organisation produce a *Medium-term Financial Plan*?
2.	Is the *Medium-term Financial Plan* consistent with the organisation’s aims and objectives?
3.	Does the *Medium-term Financial* plan take account of local and national priorities, changing legal requirements, demographic trends and demand levels and national standards?
4.	Does the organisation prepare its budget in accordance with its corporate objectives, strategies and *Medium-term Financial Plan*?
5.	Does a risk assessment of material items of income and expenditure inform budget setting, and their reporting to the *Board* with financial implications, mitigating actions and contingency provisions?
6.	Are fees, charges and concessions, including new options, related to policy objectives and reviewed annually?
7.	Are revenue and capital budgets based on plans and projections about resource needs, pay and inflation, productivity levels, and income?
8.	Are cost reductions, growth and savings options identified and reliably costed as part of the budget process?
9.	Is the reporting of cashable efficiency gains reconciled with and reflected in the budget?
10.	Are the revenue consequences of the capital programme and other expenditure commitments, including the consumption of capital (e.g. depreciation) reflected in revenue budgets?
11.	Are forecast or actual budget variances and trends reflected in budget preparation?
12.	Are managers fully involved in setting their budgets, working with *Finance staff*, so that they take ownership?

Supporting Performance – Leadership	
L3	**The organisation integrates its business and financial planning so that it aligns resources to meet current and future business objectives and priorities. Performance management is conducted through measures of service delivery and clear understanding of the costs incurred.**
1.	Does the organisation operate to clear criteria for reviewing and justifying its activities, expenditure and income policies, including the need for public subsidy, the economic value provided, the impact on people most in need, the risks involved and alternative agents of delivery?
2.	Does the *Corporate Business Plan* demonstrate how resources are allocated strategically to deliver the organisation’s aims, objectives and priorities?
3.	Does the *Medium-term Financial Plan* draw together realistic estimates of funding to support the achievement of strategic objectives?
4.	Does analysis of the medium term financial environment form an explicit backcloth to the *Corporate Business Plan*?
5.	Is formulation of the *Corporate Business Plan,* or the linked financial plan, based on analysis of cost implications of policy choices?
6.	Is the *Corporate Business Plan* developed in collaboration with delivery partners and stakeholders?
7.	Do delivery partners’ plans align with the *Corporate Business Plan*?

8.	Does the *Medium-term Financial Plan* examine scenarios to develop financial flexibility, adequate contingency and reserves, based on a risk assessment and sensitivity analysis?
9.	Do the *Corporate Business Plan* and *Medium-term Financial Plan* address the impact of key external cost drivers: social trends; demographics and changes in service demand; and accelerating commitments? Major examples include elderly social care, waste disposal, pensions, interest rates, environmental sustainability.
10.	Does the *Leadership Team* approve and understand the demand management strategies for demand led services and activities?
11.	Does the *Board* and *Management Team* regularly review priorities to enable resources to be redirected from areas of lesser priority, not relying principally on pro rata cuts to generate savings?
12.	Does the *Corporate Business Plan* or the linked financial plan; reflect efficiency targets, over a medium term time horizon?
13.	Is the *Corporate Business Plan* underpinned by clear and coherent operational plans, workforce plans, and procurement plans?
14.	Is the *Corporate Business Plan* reviewed and updated on a regular basis?
15.	Do measures used for performance management link outputs and outcomes with costs?
16.	Does *Board* and *Management Team* reporting bring together information on financial performance, activity levels, outcomes and risk?
17.	Does monitoring of performance give rise to rapid response and corrective action?
18.	Do external audit and inspection comment favourably on the processes for planning and review?

Securing Stewardship – Leadership	
L2	**The organisation's leadership allocates resources to different activities in order to achieve its objectives and monitors the organisation's financial and activity performance.**
1.	Do the *Medium-term Financial Plan* and budget show the resources allocated to major spending activities and programmes, with useful summaries?
2.	Is the financing of expenditure transparently explained in the budget summaries and reports?
3.	Does the *Medium-term Financial Plan* project forward the financial position for at least three years?
4.	Does the *Board* review activity levels, actual spend, balance sheet items, and forecast outturn against the budget, at a minimum quarterly, to ensure the organisation will not overspend and that income and expenditure are in line with budgets and agreed policy, and is achieving planned outcomes?
5.	Do the *Management Team* review activity levels, actual spend, balance sheet items, and forecast outturn against the budget monthly, to ensure the organisation will not overspend and that income and expenditure are in line with budgets and agreed policy, and is achieving planned outcomes?
6.	Does the *Leadership Team* monitor Key Performance Indicators at least quarterly?
7.	Is financial information relevant, clearly presented, timely and comprehensible to the non-financial reader? This applies to *Board* member reports as well as *Management Team* reports.
8.	Are budgets realistic, with over- and under-spending within expected tolerances?
9.	Are there governance arrangements for scrutiny, review and challenge of the draft budget, including stakeholder consultation?
10.	Are there processes to adjust budgets in year and to seek *Board* or *Management Team* level approval if major programmes are varied by more than pre-set tolerances?
11.	Are decisions to change resource allocations transparent, justified and made in accordance with the organisation's rules?
12.	Has the organisation a policy to avoid reliance on one-off resources to finance recurrent expenditure?
13.	Has the organisation a declared policy on treatment of over- and under-spending, including end of year flexibility?
14.	Does the *Leadership Team* receive reports that show clearly the impact of current allocations and performance on future years?

Supporting Performance – Leadership	
L6	**The organisation develops and manages employees pay and benefits strategically**
1.	Is pay based on an analysis and strategic planning for workforce needs?
2.	Do compensation arrangements reward in some way employees with excellent performance?
3.	Are employer pension contributions and future liabilities understood and are they sustainable?
4.	Is the impact of equalities legislation on workforce compensation understood?
5.	Does the organisation monitor and follow the outcome of legal cases that will impact on its pay liabilities?
6.	Are severance terms reviewed regularly and in line with sector comparators?
7.	Is the cost of absenteeism and sickness understood, monitored and reported?
8.	Does the organisation develop strategies to reduce the cost of absenteeism whilst supporting the well-being of employees?
9.	Is incremental pay progression understood and its impact on future payroll costs clear?
10.	Is the organisation clear about its flexibility under national agreements to vary pay?

Supporting Performance – Process	
PR13	**The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.**
1.	Does the organisation examine the relative cost and performance of services, including financial services, and test them against internal and external benchmarks to identify improvements?
2.	Are cost reductions and efficiency routinely sought and realised as part of service reviews?
3.	Do *Managers* focus on managing their costs and reducing inputs to achieve their goals rather than on using up their budgets?
4.	Are targets for efficiency gains and spending reductions routinely agreed and set?
5.	Does the organisation use national and local performance indicators to monitor performance (including financial performance)?
6.	Are alternative delivery methods (e.g. outsourcing, collaboration and shared services) investigated and pursued?
7.	Is cost reduction targeted at specific budgets or activities, following consideration of priorities, rather than as a standard percentage across all activities?”
8.	Do *Managers* examine cost drivers of high spend areas to understand risks and options for cost reduction?
9.	Does the organisation work across internal and organisational boundaries to achieve improvements (e.g. pooled resources, end to end process review)?
10.	Does the organisation routinely undertake business process reviews and implement findings?
11.	Does the organisation regularly examine its staffing structure, working practices and pay bill to improve overall productivity?
12.	Does the organisation use technology to improve productivity, e.g. automating processes, implementing self-service or encouraging mobile working?
13.	Is action taken to improve inefficient workflow processes (e.g. using lean thinking techniques, standardised processes, eliminating re-keying, reducing duplication)?
14.	Does the organisation seek opportunities to capitalise on its skills and assets, and to spread overheads, by undertaking work for other public sector organisations where this improves value for money?

Supporting Performance – Process	
PR14	**The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement and commissioning.**
1.	Does the organisation have a corporate procurement strategy?
2.	Does the organisation have procurement capacity to drive and realise the strategy?
3.	Does the organisation develop its capacity by training professionally qualified and expert procurement

	staff?
4.	Do *Managers* involved in procurement understand their responsibilities?
5.	Does the organisation publish a forward procurement plan for suppliers?
6.	Does the organisation participate in framework contracts, joint procurement or consortia to exploit economies of scale and market influence?
7.	Does the organisation evaluate appropriate procurement strategies, e.g. lease, buy or make?
8.	Does the corporate procurement strategy incorporate gateway reviews for high risk projects?
9.	Does the organisation ensure most purchasing is under formal contract and monitor off-contract purchasing?
10.	Does the organisation have effective and adequately resourced contract monitoring and reporting arrangements in place?
11.	Does the organisation ensure value for money during the life of a contract through active contract management, creating opportunities for improved methods during long life contracts?
12.	Does the organisation seek value for money through encouraging competition and contestability, accessing wider markets, packaging contracts, supply chain management and developing supplier relationships?
13.	Does the organisation research and gather market intelligence to develop creative solutions with potential suppliers?
14.	Does the organisation work with others to stimulate and develop markets where they are weak?
15.	Is procurement used to meet the strategic objectives of the organisation, including impacts on the environment, workforce training, the local economy or community engagement?
16.	Is e-procurement (e.g. purchase to pay and e-tendering) used as a means of reducing administration costs and/or increasing competition?
17.	Are e-auctions used as a method of increasing value for money?
18.	Does the organisation award contracts through assessing whole life costs and benefits using the appropriate investment appraisal technique?

Supporting Performance – Process	
PR15	**The organisation pursues value for money through active management of its fixed assets.**
1.	Does the *Leadership Team* actively review asset utilisation and opportunities for more intensive use and estates rationalisation?
2.	Is there an asset management plan that reviews the condition, sufficiency and suitability of assets in the light of business needs, and ambitions of the *Corporate Business Plan?*
3.	Does the *Medium-term Financial Plan* include targets for the value of asset disposals?”
4.	Are asset sales determined by planned rationalisation rather than as a quick fix funding stream?
5.	Are intangible assets, such as intellectual property, actively managed?
6.	Is stock management reviewed to optimise delivery times versus holding costs?

10. APPENDIX 2: ADVISOR’S REPORT – MJO CONSULTANCY

MEDIUM TERM FINANCIAL PLAN, 2016–19[89]

MICHAEL J. OLIVER

[89] The adviser would like to acknowledge all the help he has received from the Treasury, the Economic Adviser and the States Statistician for their patience and hard work in clarifying and supplying various figures and issues.

Contents

INTRODUCTION

The first Medium Term Financial Plan (MTFP 1) was presented to the States of Jersey in July 2012 and was approved with amendments in November 2012. The second Medium Term Financial Plan (MTFP 2) was presented to the States in July 2015 and will be debated in October 2015.

In essence the draft MTFP 2 proposes that between 2016 and 2019:

- Total states net expenditure will rise from £761 million to £768 million;
- Total net revenue expenditure will increase by a mere £400,000 from £734.4 million to £734.8 million.
- Total states income will rise from £665 million to £757 million with proposals to raise an additional £36 million annually from 2019.
- Aggregate capital expenditure will be £168 million.

Detailed expenditure for Departments is only given for 2016 and further work is required to provide the details for the entire medium term framework. The further work ('MTFP 2, Part 2' or the 'MTFP Addition') will be presented at the end of June 2016. Jersey has been running cyclical deficits since the late-2000s as well as a structural deficit of between £80 million to £145 million. There is an intention to eliminate the structural deficit by 2019, details for which are provided in high-level terms but this too requires a further decomposition. It is proposed to simultaneously cut expenditure in a series of savings measures and allocate additional expenditure to key strategic areas (primarily health and education). New revenue raising measures are proposed in MTFP 2 to also fund the additional expenditure.

The introduction of medium term financial planning in Jersey was welcomed by many back in 2012. The key benefits of medium term financial planning included a move away from short-term decision-making, flexibility, greater efficiencies and a focus on longer-term thinking. Clearly, MTFP 2 is very different to its predecessor and in some ways is more akin to a one-year business plan with all the associated drawbacks. The risks to achieving MTFP 2 are far greater than MTFP 1 and have been spelt out very clearly by the Fiscal Policy Panel (FPP Annual Report 2015, p. 41).

Despite the drawbacks with MTFP 2 there are several positives to report since MTFP 1. First, a recommendation was made three years ago that the MTFP should incorporate the most up-to-date economic forecasts and these have informed MTFP 2. The Fiscal Policy

Panel (FPP) now works with the Economics Unit to produce forecasts on a mutually iterative basis. Secondly, since the poor forecasting outcomes of the first MTFP, the Income Tax Forecasting Group has been reconstructed into the Income Forecasting Group (IFG). The changes associated with this are to be welcomed. Thirdly, there are now more specific targets in the MTFP which are linked to the States Strategic Plan.

The adviser has assisted the Corporate Services Scrutiny Panel during the process of their review into MTFP 2. This report focuses on the following areas: the Medium Term Financial Plan, 2013–15; income forecasts; expenditure; and risks in the Medium Term Financial Plan. Conclusions and recommendations follow.

2. THE MEDIUM TERM FINANCIAL PLAN, 2013–15

2.1 Intentions of the first Medium Term Financial Plan

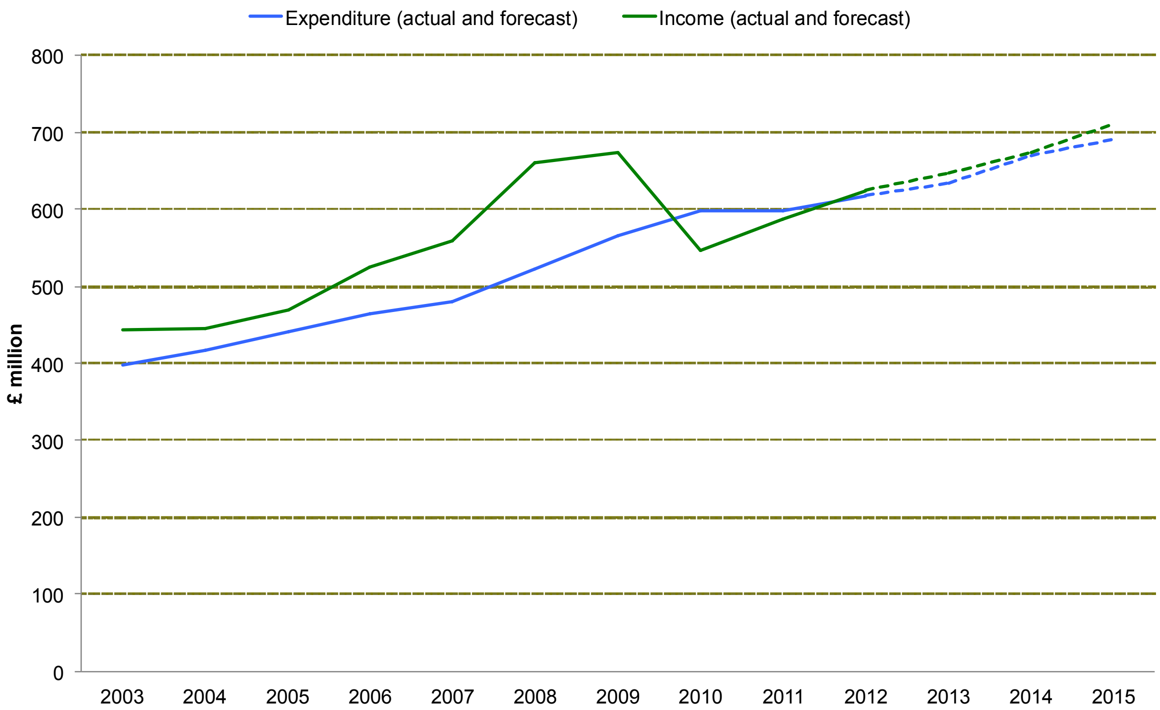
The first Medium Term Financial Plan (MTFP 1) was formulated at time when Jersey was dealing with the fall-out from the Global Financial Crisis of the late-2000s. The States had already lost £100 million as a result of moving to the zero/ten tax regime and a further £100 million deficit was predicted for 2013 because of the economic downturn. The projected deficit was to be dealt with by raising taxes; boosting economic growth through a fiscal stimulus of £44 million and cutting expenditure by £65 million. New tax measures were introduced but economic growth was not particularly bolstered by the fiscal stimulus (and considerably more than £44 million was spent) and the £65 million of savings was not achieved within the timescale envisaged.

Against this backdrop, medium term financial planning was introduced into Jersey to move away from short-term decision-making and to provide flexibility, deliver efficiencies and encourage longer-term thinking. It was recognised that greater control should be exercised on States spending and there were overall spending limits imposed. Departments would be given funding certainty over a period of time and there would be an allocation of an annual central contingency accompanied by annual end-year flexibility for departments. The MTFP 1 (as amended) suggested that:

- Total Department net revenue expenditure, excluding depreciation, would rise from £626 million in 2013 to £653 million in 2015;
- Total Departmental net revenue expenditure, including depreciation, would rise from £668 million in 2013 to £699 million in 2015;
- Total central contingency allocation would rise from £7.6 million in 2013 to £38 million in 2015;
- Net capital allocation expenditure would rise from £13 million in 2013 to £20 million in 2015;
- States income would rise from £647 million in 2013 to £711 million in 2015.

Figure 1 plots the intended path of MTFP 1 and shows the very small surpluses predicted each year against the pre-Global Financial Crisis backdrop.

Figure 1. Growth of actual net revenue expenditure allocation and income, actual and forecast, 2003–2015 (£ million, current prices)



Source: States Accounts and MTFP 1

2.2 Outcomes of the first Medium Term Financial Plan

2.2.1 Income

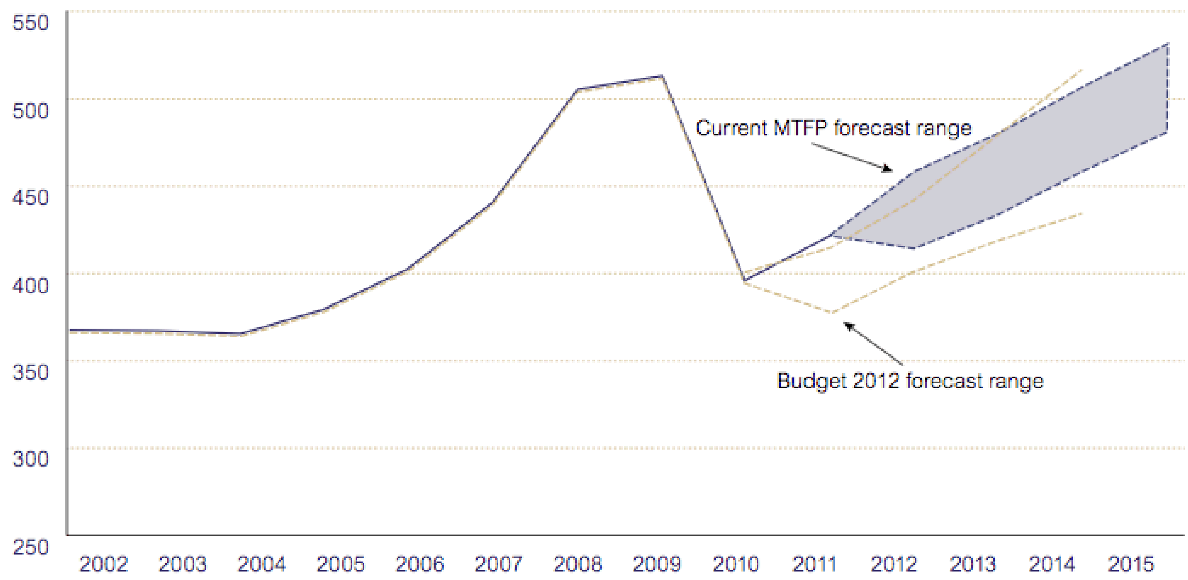
The most controversial part of MTFP 1 were the income projections and in particular the income tax forecasts. The economic assumptions from the MTFP 1 (Table 1) and the income tax forecasts (Figure 2) are reproduced below.

Table 1. Economic assumptions from MTFP 1

CURRENT Central scenario	**Outturns**		**Assumptions**						
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Real GVA	5.3	-3.2	-5.7	-4.9	1.2	1.4	2.0	2.5	2.5
RPIX/RPIY	2.6	5.1	3.5	2.6	3.7	3.3	3.0	2.9	3.0
Nominal GVA	8.1	0.5	-2.8	-2.4	4.9	4.8	5.0	5.6	5.6
Company profits	7.9	-5.4	-8.6	-7.0	5.2	5.6	5.5	6.0	6.0
Compensation of employees	8.3	7.5	1.6	1.4	3.5	4.0	4.8	5.1	5.3
Employment	2.4	2.3	-0.1	-0.1	1.0	0.5	1.0	1.0	0.5
Average Earnings	4.7	4.3	3.0	1.1	2.5	3.5	3.8	4.1	4.8
Interest rates (%)	5.5	4.7	0.6	0.5	0.5	0.5	0.6	0.9	1.4
Interest rates (pp change)	0.9	-0.8	-4.1	-0.1	0.0	0.0	0.1	0.3	0.6
House prices	12.7	20.3	2.4	-4.4	-0.8	1.0	3.0	4.0	5.0

Source: MTPF 1

Figure 2. Income tax forecasts from MTFP 1



Source: MTPF 1

The economic forecasts made during 2012 assumed a short recession and a return to trend growth by 2015. Subsequently, the income forecasts reflected positive growth. Table 2 shows the range of income tax forecasts for 2012 to 2015 and the outcomes thus far.

Table 2. Income tax forecasts and outcomes in the first MTFP, 2012-15 (budget years)

	2012	**2013**	**2014**	**2015**
	£m	£m	£m	£m
Upper	450	470	495	525
Central	**430**	**450**	**470**	**500**
Lower	410	425	450	475
Outcome	430	452	437	*435-455*[a]
Difference to central forecast	0	+2	–33	

Source: MTFP 1 and States Accounts, various years
Note *a*: the predicted outcome range is given for 2015

Table 3 shows total States income (which includes revenues from income tax, GST impôts duty, stamp duty, other income and the island rate) for the period of the first MTFP and the differences to forecast.

Table 3. Income forecasts and outcomes in the first MTFP, 2012-15 (budget years)

	2012	**2013**	**2014**	**2015**
	£m	£m	£m	£m
States Income	625	647	674	711
Outcome	628	637	649	
Difference to forecast	+3	–10	–25	

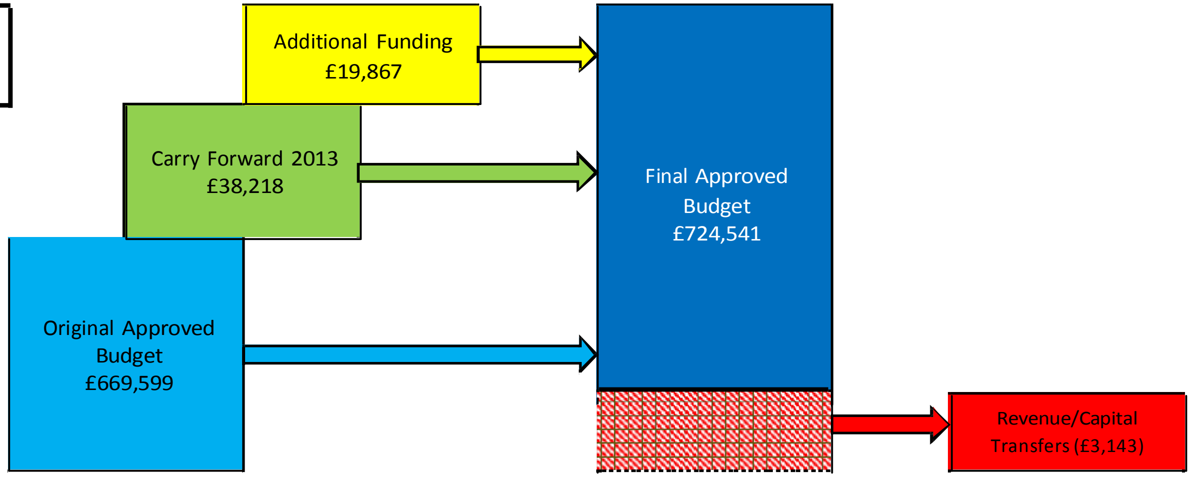
Source: MTFP 1 and States Accounts, various years

2.2.2 Expenditure

The expenditure side of the MTFP is more complex than the income side. It is possible to provide a snapshot of planned versus actual Department expenditure in a table for the first two years of MTFP 1 but because of transfers of services or parts of service between departments, the deferral of projects, initiatives or commitments from one year to another as ‘carry forwards’, the allocation of contingencies and the ‘transfer from/to revenue and capital budgets’ it is not straightforward. The complications are best illustrated (and made more simple) by an example shown in Figure 3 for 2014, kindly provided by the Treasury.

Figure 3 Difference between the original MTFP 1 allocation and final approved budgets (2014 Budget movements shown – Near Cash Departmental Net Revenue Expenditure)

Notes
All figures shown in £000s
Diagram not to scale



Original Approved Budget	This is the Departmental Net Revenue Expenditure budget that is approved by the States in the MTFP (2013-2015 as amended)
Carry Forward	This is the amount carried forward by departments following underspends in 2013. The amount above consists of the underspends allocated to departments plus an amount allocated to contingencies.
Additional Funding	This is additional funding that is made available to departments. This is unusually large in 2014 due to the reduction in income expected from Housing as a department as it became incorporated during the year. There was also additional funding given to EDD for the creation of the Jersey Innovation Fund. In general, items will be approved through this method for one off items of expenditure, and will be approved through the Ministerial Decision Process or by the States Assembly.
Transfers between Capital and Revenue	During the year, departments can request transfers between their capital and revenue budgets. These must be approved by Ministerial Decision both in the department concerned and in the Treasury and Resources Department and occur due to various reasons such as where expenditure incurred as part of a capital project does not meet the definition of capital expenditure as per the Jersey Financial Reporting Manual (JFReM) so must be expensed (i.e. go through a revenue budget), or an item is bought using the revenue budget, but meets the definition for capital expenditure as per the JFReM, so must be capitalised. In both of these cases, the actual amounts spent and the budget allocated must be shown correctly as capital or revenue. In 2014 there was an overall transfer of revenue to capital, reducing the Departmental NRE Budget.

Other transfers that have a net nil impact on the final approved budget numbers above are the transfers from contingencies to departments and transfers between departments.

All of these movements in budgets shown above result in the final approved budget figure. Variances from this budget figure to actual figures as at the year end are discussed in the departmental pages in the Annex to the Financial Report and Accounts produced on an annual basis.

The process to reach the Final Approved Budget, using 2014 as an example and illustrated in Figure 3, is as follows:

- The MTFP 1 debate in November 2012 amended total States Net Expenditure Allocations. Base Department Budgets for 2013 to 2015 and a revised total for 2012 were provided on page 47 of the MTFP as amended.
- In Figure 3, the Base Department Budget for 2014 was £641.3 million. That total was the approved budget for Departments, excluding central allocations.
- After central allocations of £28.3 million, the Original Approved Budget (blue box in Figure 3) became £669.6 million. This figure excludes depreciation.
- Adding on the Carry Forwards for 2013 of £38.2 million (green box in Figure 3) coupled to the additional funding of £19.8 million (the yellow box in Figure 3) gave a Final Approved Budget of £725 million (the dark blue box in Figure 3) for 2014.

It is hoped that at the end of the MTFP 1 period, a full a comprehensive summary can be provided which traces all the movements for 2013–15 in one table. A high level alternative would be to compare the Total States Net Expenditure Budget as amended for the 2013–15 period which sets out the expenditure limits, with the outcomes for the same period.

Recommendation 1: The Treasury to provide a series of detailed and high level comparisons of expenditure over the lifetime of the MTFP 1 in time for the MTFP 2 Addition in June 2016.

3. INCOME FORECASTS

The outcomes expected for income tax revenues have been significantly adrift from those predicted at the start of the MTFP 1 process. MTFP 2 begins from the premise that total income will be £18 million adverse compared to the 2015 Budget (the bulk of which will be made up of personal income tax). It is instructive to consider the deterioration in income forecasts since 2012.

Table 5 provides a summary of the income tax forecasts since the publication of MTFP 1. This table is grouped into seven. First, in rows 1-3 there are the forecasts prepared by the Economics Unit in March 2012 which were used in the MTFP published at the end of July 2012. Second, in rows 4 and 5 there are the forecasts which were prepared by this adviser with the assistance of the Economics Unit in the summer of 2012. Third, in rows 6 to 8 there are the forecasts prepared in March 2013, which fed into the long-term revenue projections for 2020. Fourth, in rows 9 to 11 there are the income forecasts produced in April 2014 which were used for the basis of the 2015 Budget. The fifth grouping in rows 12 to 14 is the forecast by the Income Forecasting Group which informed the Strategic Plan debate. In previous years, it would have been this forecast which would have informed the final preparation of the Annual Business Plan or MTFP. However, the sixth grouping in rows 15 to 17 shows the forecasts which informed the deliberations of the Income Forecasting Group for MTFP 2. Finally, rows 18 to 27 are a series of calculations showing the differences between the various forecasts.

Using the central forecasts (in bold) from Table 5 it should be noted:

- The Scrutiny 1 and 2 forecasts, widely criticized at the time for being too pessimistic, were clearly not pessimistic enough. The most recent central IFG forecast for 2015 is £62 million lower than the central forecast for 2015 in MTFP 1.
- Every forecast since the publication of MTFP 1 has shown a deteriorating trend.

Table 5. The evolution of the income tax forecasts since MTFP 1

	2013	2014	2015	2016	2017	2018	2019	2020
	£m	£m	£m	n.a				
(1) MTFP 1 Upper	470	495	525	n.a				
(2) MTFP 1 Central	**450**	**470**	**500**	**n.a**				
(3) MTFP 1 Lower	425	450	475	n.a				
(4) Scrutiny 1	**440**	**450**	**465**	n.a				
(5) Scrutiny 2	**440**	**455**	**475**	n.a				
(6) ITFG 2013 Upper	460	480	500	525				
(7) ITFG 2013 Central	**445**	**460**	**480**	**495**	**519**	**546**	**570**	**596**
(8) ITFG 2013 Lower	435	440	455	465				
(9) ITFG 2014 Upper		465	475	500	520			
(10) ITFG 2014 Central		**445**	**455**	**475**	**500**			
(11) ITFG 2014 Lower		420	430	450	470			
(12) IFG March 2015 Upper			455	485	515	555	590	
(13) IFG March 2015 Central		**437**	**443**	**463**	**488**	**513**	**534**	
(14) IFG March 2015 Lower			435	445	465	475	485	
(15) IFG May 2015 Upper			447	476	499	535	568	
(16) IFG May 2015 Central		**437**	**438**	**458**	**475**	**499**	**519**	
(17) IFG May 2015 Lower			430	440	451	462	471	
(18) Difference between (4) and (2)	-10	-20	-35					
(19) Difference between (5) and (2)	-10	-15	-25					
(20) Difference between (7) and (2)	-5	-10	-20					
(21) Difference between (10) and (2)		-25	-45					
(22) Difference between (13) and (2)		-33	-57					
(23) Difference between (10) and (7)		-15	-25	-20	-19			
(24) Difference between (13) and (7)		-23	-37	-32	-31	-33	-36	
(25) Difference between (13) and (10)		-8	-12	-12	-12			
(26) Difference between (16 and 10)		-8	-17	-17	-25			
(27) Difference between (16 and 13)			-5	-5	-13	-14	-15	

- Compared to the central MTFP 1 forecast, Jersey's income tax is now forecast to be £95 million lower for 2014 and 2015 based on the central forecast in IFG May 2015.
- The cumulative difference between the central ITFG 2014 forecast (which informed Budget 2015) and the central IFG May 2015 forecast is £67 million lower.
- In just three months in 2015, income tax forecasts for the period 2015 to 2019 have fallen by £52 million (central IFG March 2015 compared to central IFG May 2015).

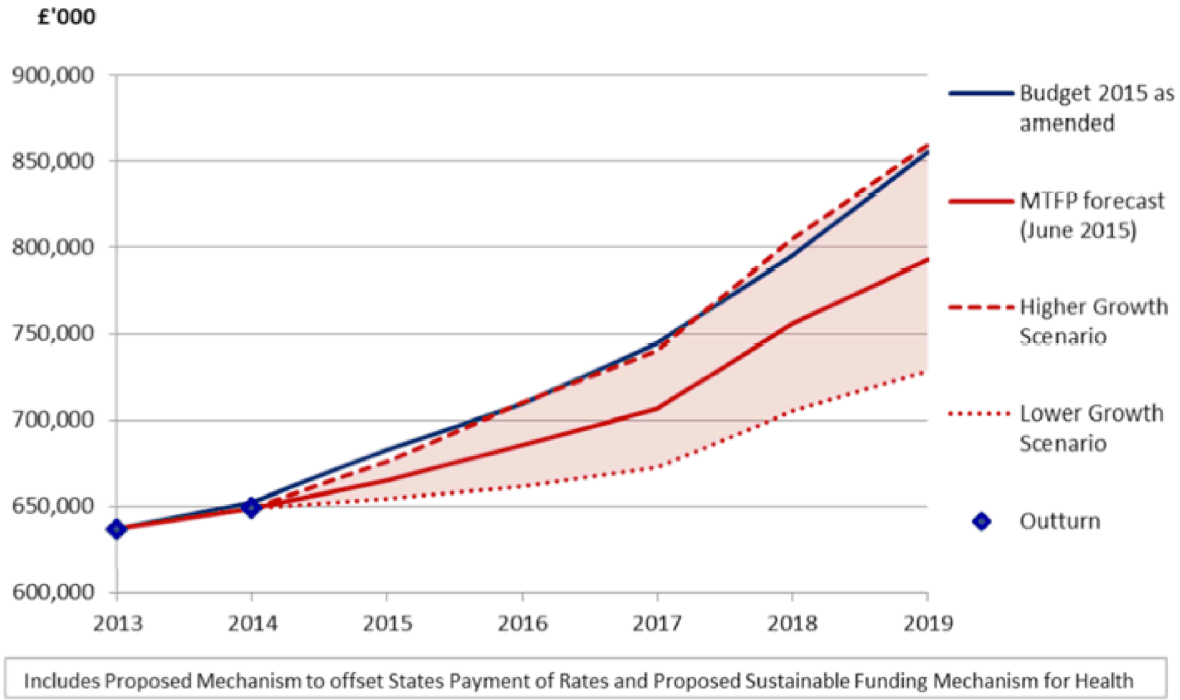
The actual income tax revenue received in 2014 was £437 million (below the MTFP 1 forecast range of £450 million – £495 million) and the provisional forecast for 2015 is between £435 million and £455 million (below the MTFP 1 forecast range of £475 million – £525 million). The adviser is well aware that economic forecasting is not an exact science and is more akin to an art with scientific qualities (see the adviser's contribution Corporate Service Scrutiny Panel 2008). The real world is more complicated than academic theories. As officials in Jersey, the FPP and international organisations have stressed, the current economic climate is still far from robust and particular challenges remain for offshore financial centres. In the jargon, there is still a lot of downside uncertainty. The structural changes that have occurred in financial services, particularly banking, around the world inevitably have consequences for Jersey. The recent recession was particularly protracted for Jersey and whilst economic growth for 2014 is positive for the first time since 2007, policymakers should not necessarily expect high and persistent healthier income tax receipts for the Treasury. Indeed, the length of the recent recession and other indicators suggest that the economy has undergone a step change (in the downward direction) which makes it more difficult to rely on the usual lodestars. These challenges are reflected in the range of income forecasts for 2015 to 2019 prepared by officials and which are illustrated in Table 6. It should be noted that the range for total States income by 2019 is 19 per cent in total.

Table 6. The range of income forecasts in MTFP2, 2015–2019

Income tax	2015	2016	2017	2018	2019
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Higher Scenario	447,000	476,000	499,000	535,000	568,000
Central Scenario	**438,000**	**458,000**	**475,000**	**499,000**	**519,000**
Lower Scenario	430,000	440,000	451,000	462,000	471,000
Range	2%	4%	5%	7%	9%
Impôt Duties	2015	2016	2017	2018	2019
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Higher Scenario	55,875	56,968	58,121	59,399	60,748
Central Scenario	**55,323**	**55,367**	**55,444**	**55,615**	**55,820**
Lower Scenario	54,770	53,799	52,880	52,064	51,295
Range	2%	6%	9%	13%	17%
Stamp Duty	2015	2016	2017	2018	2019
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Higher Scenario	26,161	27,760	31,146	34,382	36,295
Central Scenario	**25,524**	**26,357**	**28,802**	**30,946**	**31,799**
Lower Scenario	24,888	24,994	26,591	27,796	27,796
Range	5%	10%	16%	21%	27%
GST	2015	2016	2017	2018	2019
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Higher Scenario	82,530	84,911	87,379	88,897	90,460
Central Scenario	**81,740**	**83,334**	**84,968**	**85,779**	**86,609**
Lower Scenario	80,995	81,818	82,652	82,800	82,953
Range	2%	4%	6%	7%	9%
Other Income forecasts	2015	2016	2017	2018	2019
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Higher Scenario	65,691	64,175	63,667	71,352	67,871
Central Scenario	**65,642**	**63,057**	**61,173**	**67,830**	**63,723**
Lower Scenario	65,331	60,219	57,839	63,716	58,884
Range	1%	6%	10%	11%	14%
Total States Income	2015	2016	2017	2018	2019
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Higher Scenario	£677,257	£709,814	£739,313	£789,030	£823,374
Central Scenario	**£666,229**	**£686,115**	**£705,387**	**£739,170**	**£756,951**
Lower Scenario	£655,984	£660,830	£670,962	£688,376	£691,928
Range	3%	7%	10%	15%	19%

Given that income tax comprises 66 per cent of total States income it is particularly important to consider the robustness of the latest income tax forecasts. The significant downgrading of the forecasts over the last few years shown in Table 5 needs to be borne in mind when examining the forecast range of States income down to 2019 (Figure 4).

Figure 4. Forecast range of States income, 2013–19 (June 2015)



Source: MTFP 2, p. 47

It was recognised in the accompanying IFG Report to MTFP 2 that 'the forecast range will provide an indication of the likely risk in the income forecasts and can be used to establish a degree of flexibility within the forward plans' (Income Forecasting Group 2015, p. 9). The risks to the income forecasts have been well documented and Box 1 summarises the changes in assumptions since the 2015 Budget. Since the publication of MTFP 2, average earnings for 2015 are almost 1 percentage point below those assumed in the forecasts which informed MTFP 2. This does not imply that the entire forecast illustrated in Figure 4 should be recast but does suggest that caution needs to be exercised.

BOX 1: CHANGES IN ASSUMPTIONS SINCE 2015 BUDGET

Budget 2015 to FPP's Pre-MTFP Report (January 2015)

- Real economic growth is expected to be slightly stronger in 2014 and 2015 but slightly weaker in 2016 and 2017. For 2018 and beyond the FPP advised that the States should plan on the basis of a trend rate of real growth of 0%.
- Inflation is expected to be lower until 2017, recognising the recent sharp falls in oil prices and lower market expectations for interest rate increases.
- Financial services profits are expected to grow more slowly following information obtained through a series of interviews with financial services companies in November and December 2014. This is a key assumption for the company income tax forecast.
- Employment is expected to grow more quickly in 2014 and 2015 rather than in 2016 and 2017.
- Average earnings growth is expected to be weaker in 2015 and 2016.
- Interest rates are now expected to increase later and more slowly, according to financial markets expectations.

Changes in assumptions from FPP's Pre MTFP Report (January 2015) to April 2015

- Financial services profit growth is now expected to be slower in 2015, 2016 and 2017.
- Inflation is now expected to be slightly higher in 2015 and 2016.
- UK policy interest rates are now expected to be very slightly lower in 2015 and 2016 and very slightly higher in 2017.

Changes in assumptions in FPP's Annual Report (September 2015)

- Strong economic growth for 2014 of between 4.5% and 6.5%.
- An increase in finance sector profits for 2014, unchanged for 2015–17
- Employment growth revised upwards for 2015 but average earnings unchanged in subsequent years
- Company profits slightly lower in 2015

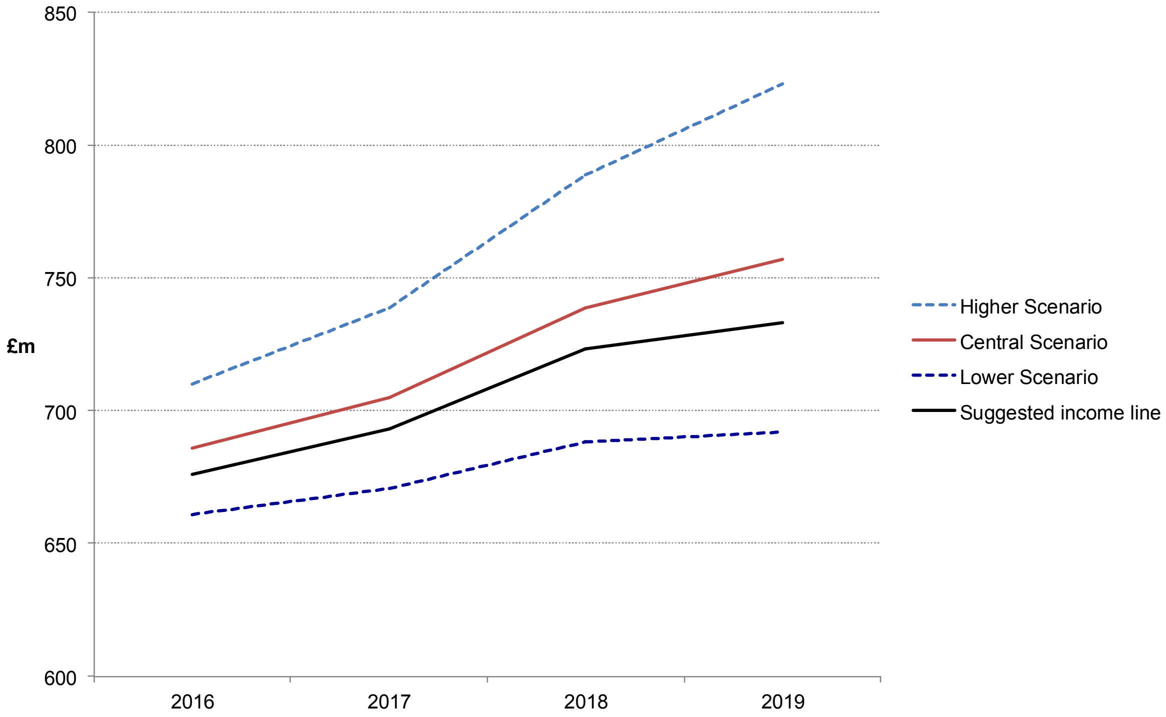
Source: IFG 2015 and FPP Annual Report 2015

As Table 6 shows, income tax is expected to grow at an average of 4.3 per cent over the period of the MTFP 2 rising from £458 million in 2016 to £519 million in 2019. The largest percentage increase occurs between 2017 and 2018, the justification for which is not really explained in the tax-forecasting note for the IFG (page 12 says 'new data and revised assumptions for the economic variables have a broadly neutral effect [on personal tax changes] for 2015 to 2018'). The case for being circumspect on income tax receipts has been well rehearsed in the adviser's previous reports to the Corporate Services Scrutiny Panel. Equally, as was noted in the 2008 report into income forecasting, between 1998 and 2007 there was a tendency to underestimate Jersey's gross revenue income in times of economic growth and conversely, to underestimate the growth in income during periods of declining GVA (Corporate Service Scrutiny Panel 2008).

Given the requirement that the second MTFP 2 needs to be more flexible than the first it might be argued that this should be accompanied by a more prudent approach than just using the published central income forecast for expenditure purposes. In the first MTFP, it appears that planned expenditure was predicated on adjusted income levels; this is not the case for MTFP 2. What would constitute a more prudent approach in MTFP 2?

Despite the income tax forecasts from MTFP 1 being below the bottom of the range, baring a significant economic disaster it is perhaps over cautious to plan expenditure for the lifetime of MTFP 2 using these (i.e. £440 million in 2016, £451 million in 2017, £462 million in 2018 and £471 million in 2019). One approach which might be adopted is to take the mid-point between the lower range and the central line of the income tax forecast as the 'income tax' contribution to total States income for the period and aggregate this to the other (unchanged) central scenarios. This new profile is shown as 'suggested income line' in Figure 5. The 'suggested income line' reduces total States income by £62m between 2015 and 2019.

Figure 5. New suggested income line, 2016–19



Source: MTFP 2 and adviser's calculations
Note: This figure does not include the proposed mechanism to offset payment of rates and proposed sustainable funding mechanism for health.

There are various other combinations that might be adopted between the lower and higher scenarios in Figure 5 but the point being made is that this introduces an 'income contingency' whereby the central scenario remains in place but for expenditure purposes, the new suggested income line is used for expenditure purposes. If income receipts are above the new line, then they could be used to begin to replenish the Strategic Reserve or Stabilisation Fund. The economic assumptions indicate that there will be steady rates of economic growth over the lifetime of the MTFP. This will also give the Council of Ministers (a) an added incentive to control expenditure and (b) afford them with the opportunity to replenish reserves which have been used over the past decade.

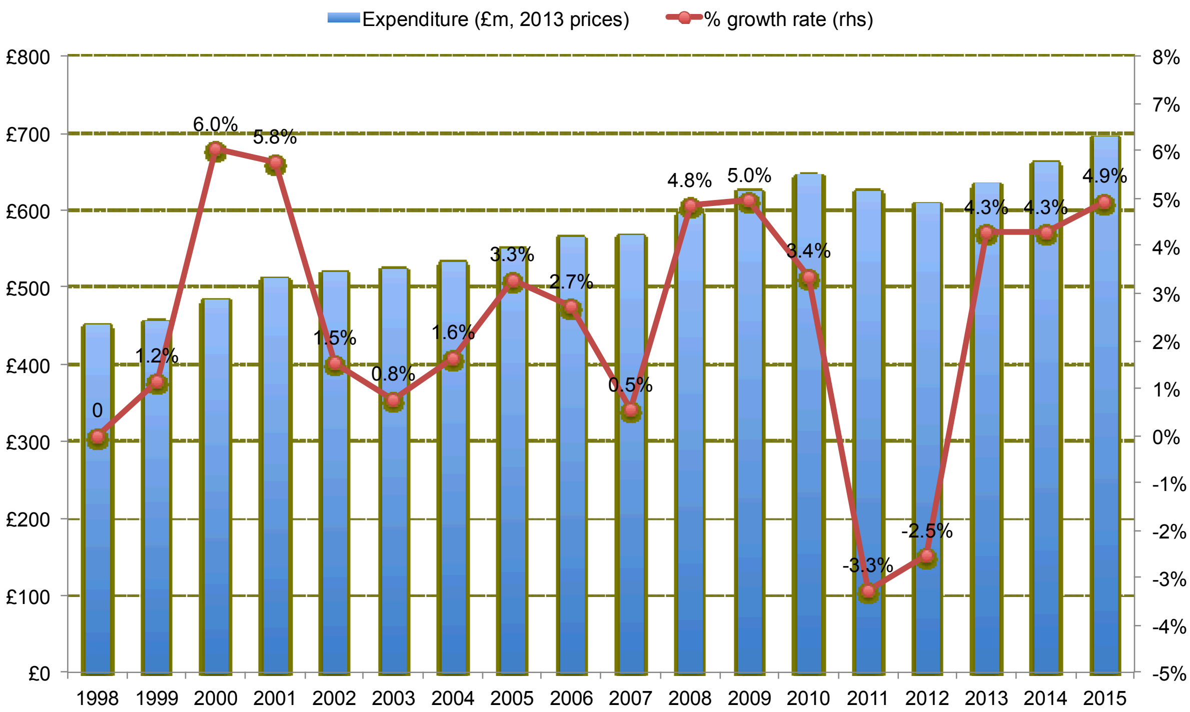
Recommendation 2: By the time of the MTFP Addition in June 2016, officials should consider whether it is feasible to use a low central income target and plan for any additional income to be transferred to the Strategic Reserve or Stabilisation Fund.

4. EXPENDITURE IN THE MEDIUM TERM FINANCIAL PLAN

4.1 Expenditure patterns in Jersey

In previous reports this adviser has discussed the pattern of nominal growth of net revenue expenditure in Jersey. Figure 6 shows the growth of net revenue expenditure since 1998 in real terms. This reveals that since 2000, net revenue expenditure has grown by almost 40 per cent. As can be seen on the graph, the years of significant real term cuts for department occurred in 2011 and 2012 but were followed by three years of growth at over 4 per cent each year.

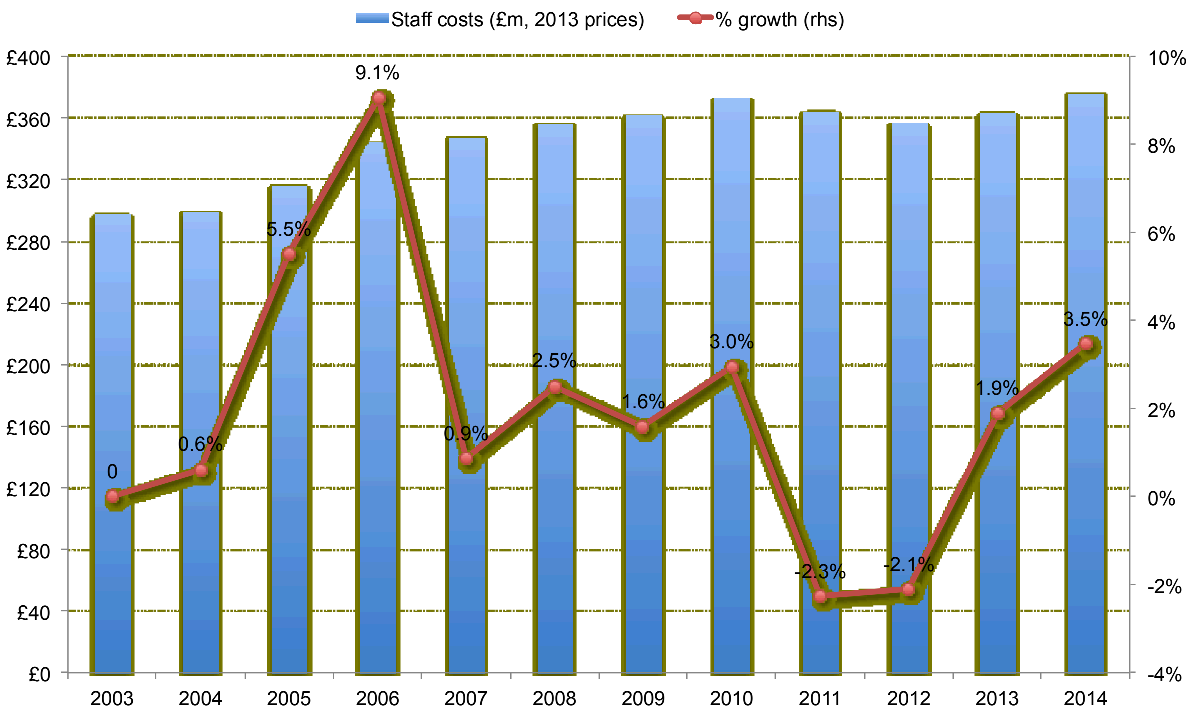
Figure 6. Growth of net revenue expenditure, 1998–2015 (2013 prices)



Source: States Accounts, various years

The biggest item of States expenditure is staff costs, which includes items such as salaries and wages, pensions costs, social security costs and States members remuneration. Figure 7 illustrates real terms staff costs since 2003. There was a squeeze in staff costs in 2011 and 2012 as a result of the Comprehensive Spending Review but over the entire period, staff costs have grown by almost 20 per cent.

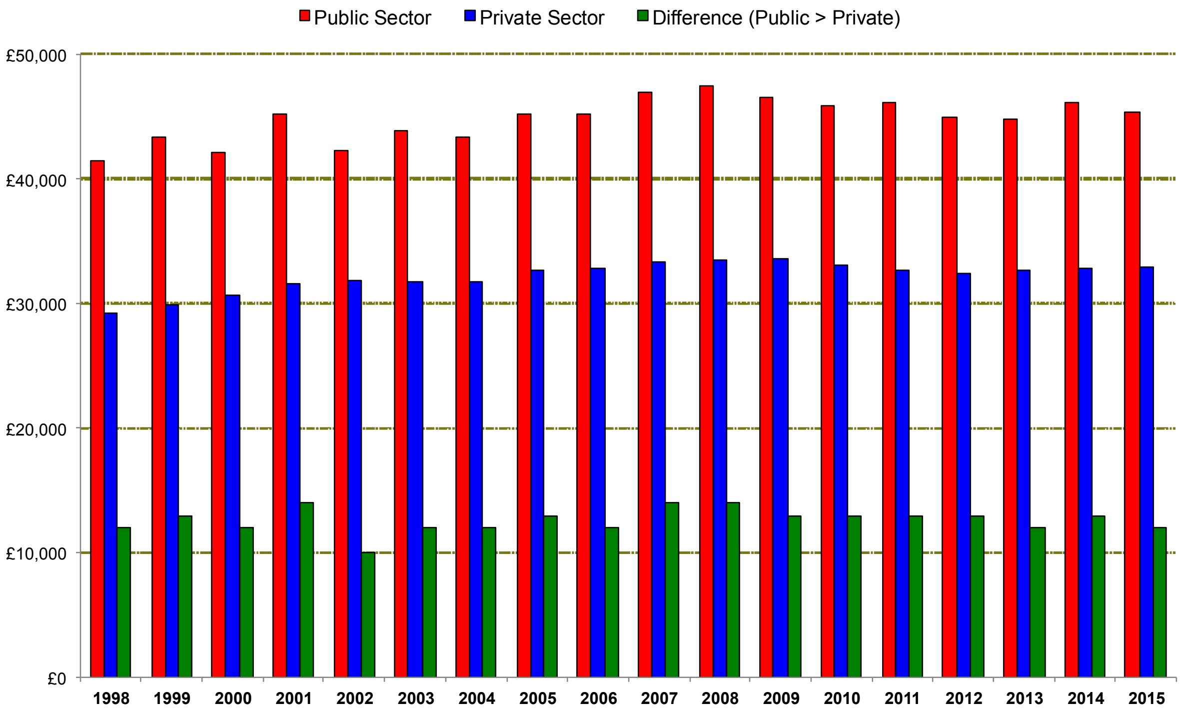
Figure 7. Total staff costs in the public sector, 2003–2014 (2013 prices)



Source: States Accounts, various years

A more detailed examination of earnings can be seen in Figure 8. This figure gives the *level* of average earnings in real terms for the public and private sectors going back to 1998. When a comparison was last made between the public and private sectors in 2011 (Corporate Service Scrutiny Panel 2011, p. 23) total compensation in the public and private sector from 1998 was plotted in nominal terms, divided by per full time equivalent (FTE) employee. Total compensation included salaries, wages, pension and social security. The different methodology used in 2011 enabled the sectoral total of the compensation of employees to be taken from the GVA calculations to allow an annual difference (public-private sector) and the individual worker level (either FTE or per headcount). Since the Control of Housing and Work Law, zero-hours workers and previously unrecorded workers/employees in the public sector (e.g. 'non-States workers, SOJDC, etc) it is now complicated to do a similar comparison. Instead, Figure 8 derives a more robust approach by estimating the difference in average earnings per FTE in the public and private sectors, derived from data compiled by the annual survey to measure the index of average earnings.

Figure 8. Average earnings in the public and private sector, 1998–2015, per FTE (2013 prices)



Source: Statistics Unit, States of Jersey

It should be noted that:

- By 2015, average earnings in the public sector were £45,000 compared to £33,000 in the private sector.
- Since 1998 the smallest gap between earnings in the public and private sector was in 2002 (at £10,400) and the largest was in 2009 (at £13,964). The average differential over the period is £12,600.
- Despite the squeeze in staff costs shown in Figure 7 in 2011 and 2012, real earnings have risen again in the public sector and by 2014, they had almost reached their 2009 levels.
- It was noted in 2011 that much of the additional increases in compensation in the public sector have arisen because of increasing costs rather than increasing headcounts; the evidence now suggests that headcounts have risen.

Recommendation 3: Given the uncertainty about long-term fiscal sustainability, the recommendation by the Corporate Services Scrutiny Report (S.R. 4/2014) on the affordability of the proposed employer's contribution cap should be examined within the context of a lower employer's contribution than 16% or 16.5%.

Due to the large earnings differentials between the public and private sector there are clearly implications for income tax receipts if cuts in higher paid jobs in the public sector are made as part of the £70 million in proposed staff savings. Economists could well assume that displaced workers from the public sector will gain jobs in the private sector but existing market imperfections suggest that this will not happen without significant retraining of workers (the finance sector currently already requires more highly skilled workers than are available in the Jersey workforce).

It is important to consider these issues through a piece of economic research which examines the impact of staff savings but also the benefit cuts and the wider distributional consequences of social and economic reform in the public sector. There are legitimate concerns to be addressed that disadvantaged groups in society on low incomes might be affected as well as higher earnings, where the impact might be felt through falling house prices.[90]

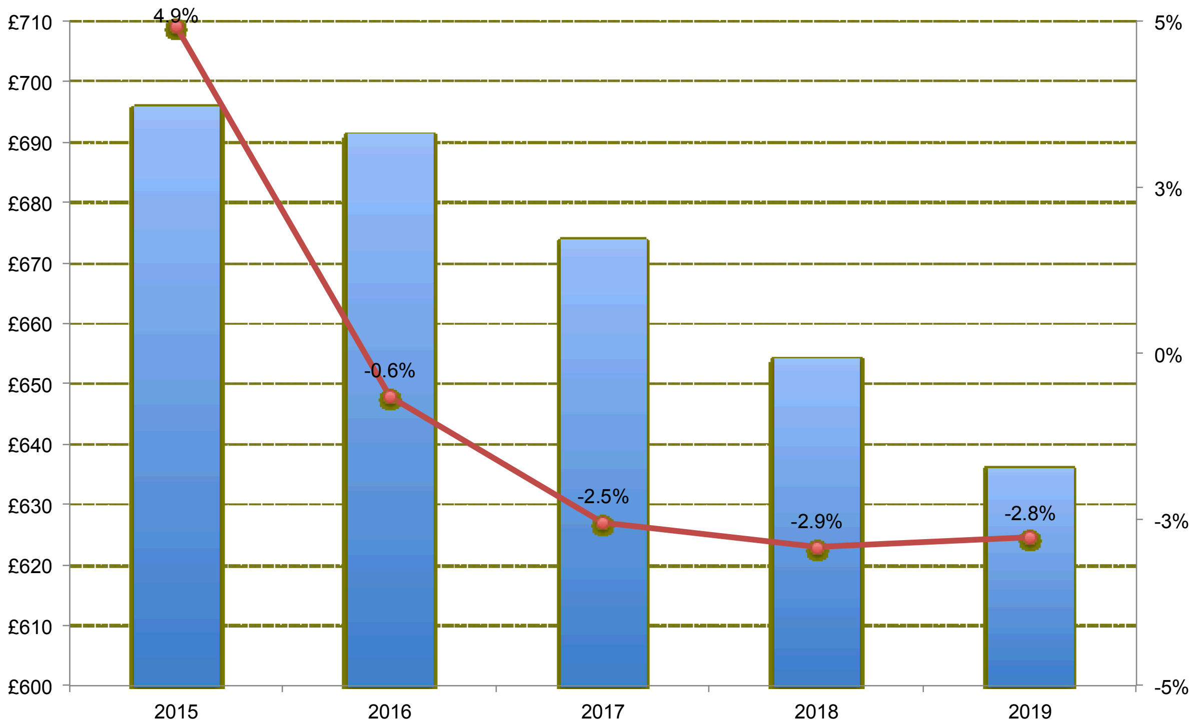
Recommendation 4: A full impact and distributional analysis of the cuts to the public sector on Jersey's economy needs to be undertaken by the time of the MTFP Addition in June 2016.

4.2 Expenditure plans for 2016–19

Aside from 2016, the draft MTFP 2 only gives planned totals for expenditure between 2017–19. However, it is still possible to look at the pattern of predicted expenditure (again in real terms) over the next four years. Figure 9 plots net revenue expenditure for the last year of MTFP 1 and the four years of MTFP 2.

[90] The University of Warwick has undertaken a number of excellent studies in the UK examining the impact of spending cuts, see http://www2.warwick.ac.uk/fac/soc/law/research/centres/chrp/projects/spendingcuts/resources/database/reportsgroups/

Figure 9. Projected net revenue expenditure, 2015–19 (2013 prices)



Source: MTFP 2

There is a significant contraction in expenditure (in real terms by almost 9 per cent) but at the same time, additional money will be made available for strategic priority areas, particularly in health and education. It is recognised in the MTFP that Departments have not fully identified the full impact of savings, efficiencies and redesign for the lifetime of the MTFP 2, with clear implications for a reduction in FTE numbers. However, Figure 25 of the MTFP 2 (page 63) suggests that an additional 261 FTEs will be added because of the additional growth funding between 2016–19. By 2019, at least an additional £61 million will be required annually to fund the measures set out in Figure 25.

As Table 7 illustrates, there is also an additional £168 million of capital expenditure allocated in MTFP 2 (as opposed to £222 million in MTFP 1). The £168 million does not include any new future hospital or the office modernisation project. In MTFP 1, it was calculated that £1.65 billion (current prices) would be needed for capital projects between 2012 and 2032, roughly £82 million (excluding inflation) annually.

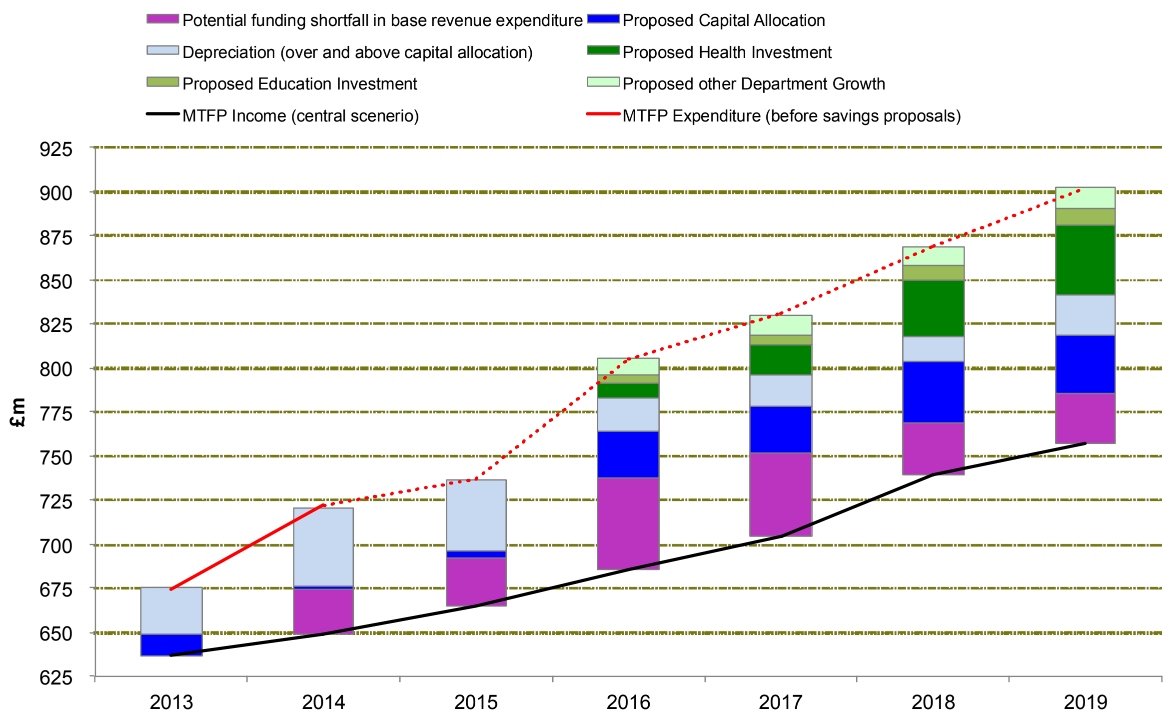
Table 7. Capital expenditure allocation in the MTFP 1 and MTFP 2 (£ million)

	2013	2014	2015	2016	2017	2018	2019	Total
MTFP 1	£56.1	£88.9	£77.3					£222.3
Actual/*forecast*	£43.2	£88.9	*£75.1*					£207.2
MTFP 2				£26.7	£65.3	£43.2	£32.9	£168.2

4.3 Expenditure plans and the new suggested income line

One of the most important tables which summarises the size of the structural deficit by 2019 is given on page 74 of the MTFP 2 and is reproduced as Figure 10 below.

Figure 10. Projected Funding Shortfall before savings and funding measures

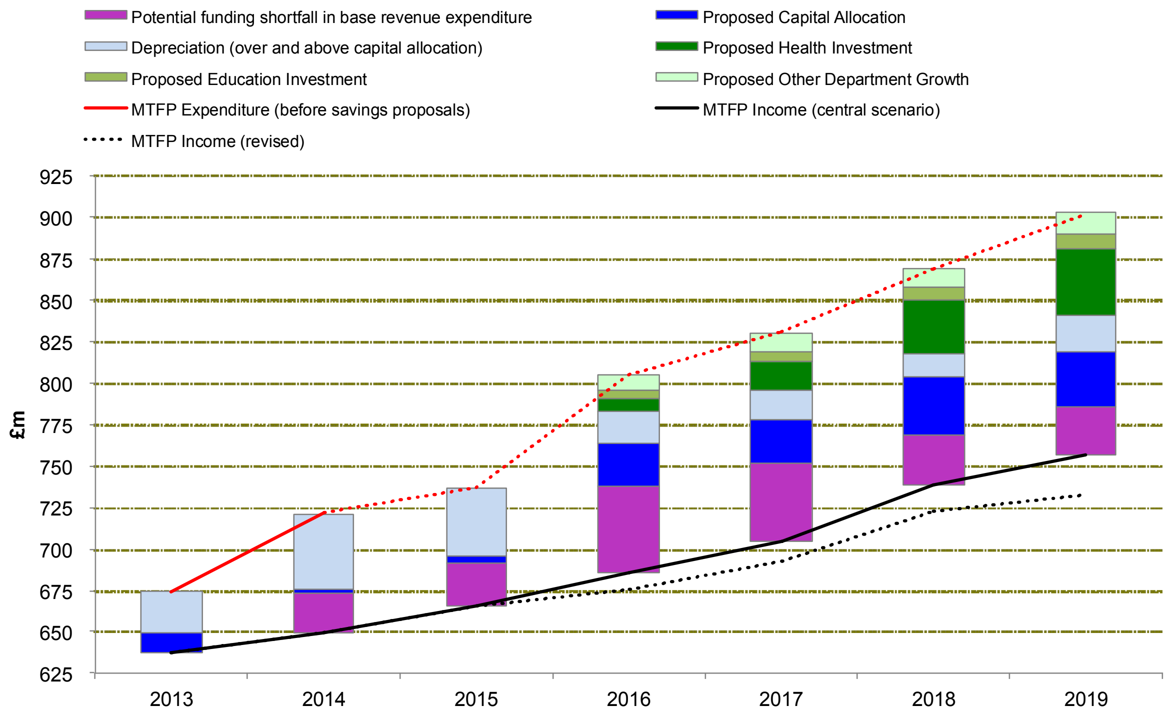


Source: MTFP 2, p. 74

Note: This figure does not include the proposed mechanism to offset payment of rates and proposed sustainable funding mechanism for health.

This figure suggests that the scale of the measures being proposed intend to close a structural deficit of £80 million to £145 million (echoed by the FPP in their 2015 report). This is the first time that the structural deficit has been quantified, admitted by officials and endorsed by the FPP. However, what would the situation look like if the income forecast were adjusted to that suggested in Figure 5? Figure 11 profiles this.

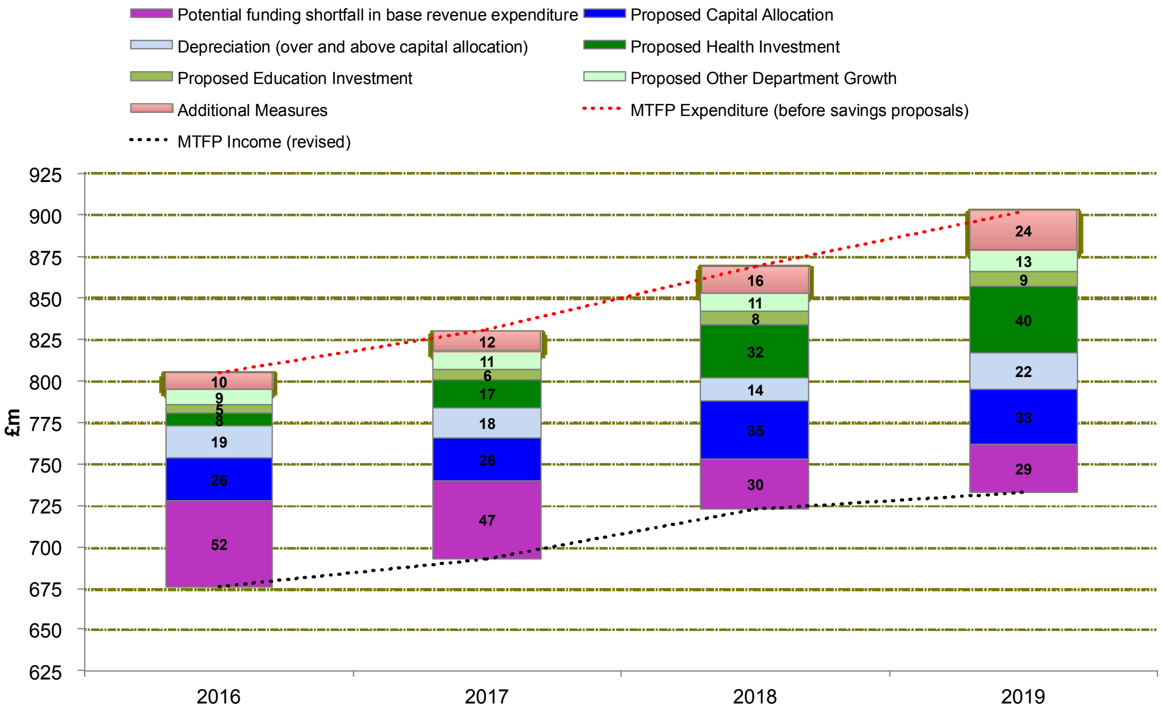
Figure 11. Projected Funding Shortfall before savings and funding measures and with a revised income line



Source: MTFP 2, p. 73 and adviser's calculations
Note: This figure does not include the proposed mechanism to offset payment of rates and proposed sustainable funding mechanism for health.

Figure 12 examines this more clearly to suggest that if the income forecasts are lower then the projected funding shortfall could be up to £170 million by 2019 (with 'Additional Measures' indicating what is required to bridge the gap between revenue and expenditure using this new calculation).

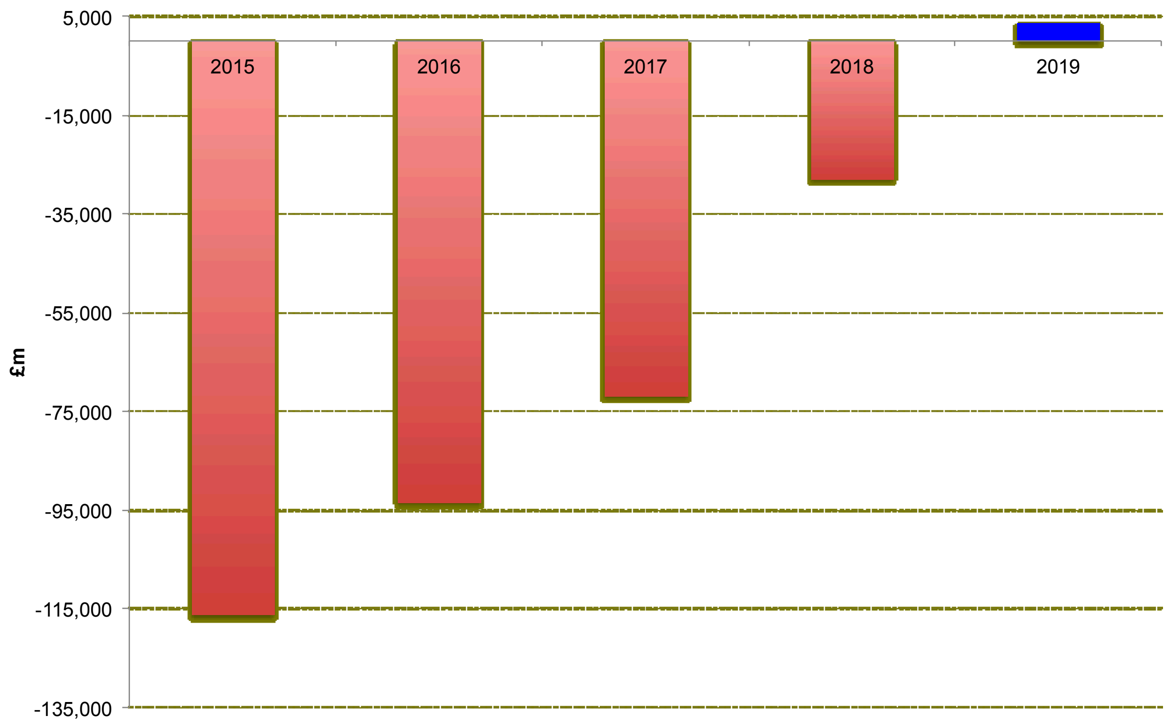
Figure 12. New Projected Funding Shortfall before savings and funding measures and with a new income line



Source: MTFP 2, p. 73 and adviser's calculations
Note: This figure does not include the proposed mechanism to offset payment of rates and proposed sustainable funding mechanism for health.

Various iterations of Figure 12 could be plotted, bearing in mind that the proposed growth bids (health, education and other Department growth) would not be allocated unless savings were made and income growth occurs. However, if all goes according to the plans in MTFP 2, the indicative net total position is illustrated in Figure 13 which shows a very small surplus by 2019. As the final section of this report suggests, however there are risks to achieving this profile.

Figure 13. Forecast Deficit/Surplus of General Revenue Expenditure and Income, 2015–2019



Source: MTFP 2, p. 43

5. RISKS IN THE MEDIUM TERM FINANCIAL PLAN

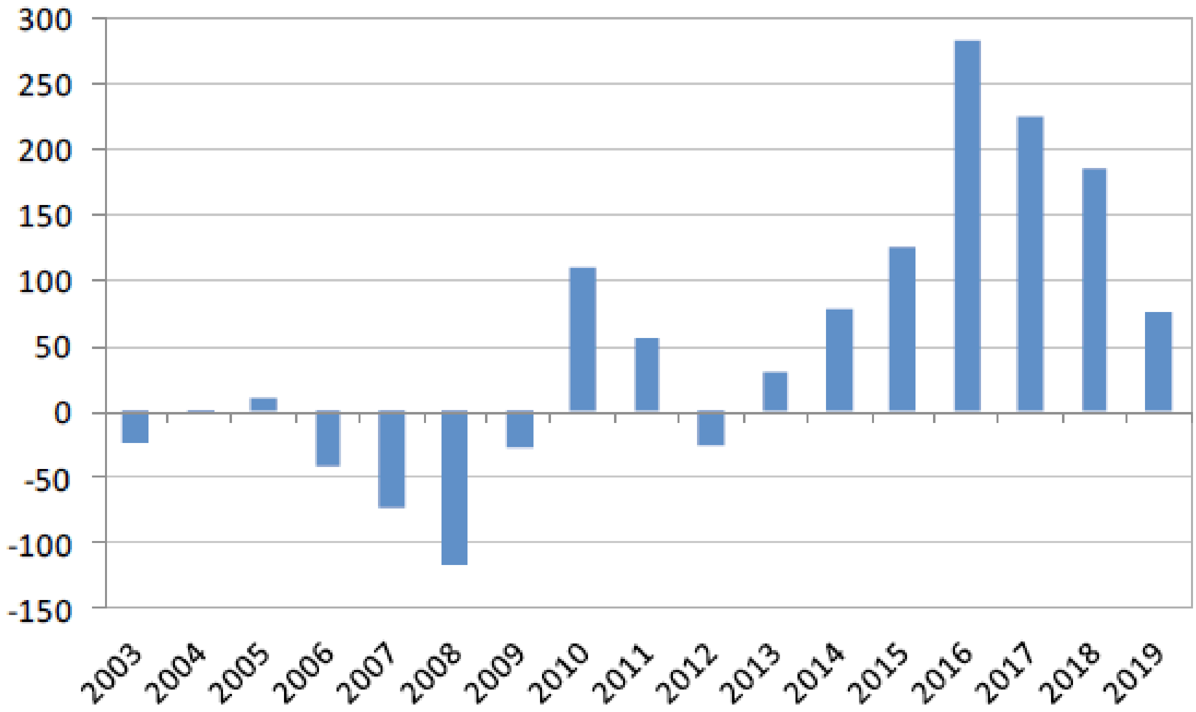
The risks to achieving MTFP 2 are far greater than MTFP 1 and have been spelt out very clearly by the Fiscal Policy Panel (FPP Annual Report 2015, p. 41-42).

In the absence of any transfers of capital expenditure to revenue expenditure for Departments, the proposed overall contraction in net revenue expenditure is on a scale which has never been implemented before in the public sector in Jersey. Previous fundamental spending reviews and comprehensive spending reviews have promised to deliver but subsequent analysis has revealed that the rationale for the spending cuts were similar to the much-discussed criteria given to the fiscal stimulus: temporary, timed and targeted. In the past there has not been any serious, long-term and sustained delivery of savings which has resulted in a step-change down in public expenditure and redesign of services.

One major concern is that the expenditure cuts are highly aspirational without sufficient granular detail to judge whether they can be achieved (that is, other than simply by not providing cash to Ministerial and Non-Ministerial departments). Many of the decisions for 2017–19 have yet to be formulated and need to be undertaken in a short-time scale for inclusion in the MTFP Addition. There are numerous threats to achieving the reduction in expenditure, not least the resistant by the trades unions in the absence of industrial relations reform. Ultimately stakeholders might successfully contest these changes if their expectations about levels of services are not met. There are also the distributional consequences to consider. The scale of the changes required to save money suggests that the reform of the public sector will need to be particularly well designed but again, details are not available about the shape of what this will look like.

The word ‘flexibility’ is associated with MTFP 2 and it might be useful to consider what this means in practice. For instance, what will it mean if the Jersey economy grows more slowly over the period of MTFP 2? The FPP have produced two graphs which are instructive and are reproduced as Figures 14 and 15. The period 2009 to 2013 was when Jersey was in recession and from 2014 to 2019 it is assumed that the Jersey economy will have faster growth rates. However, the planned expenditure in excess of raising revenue post-2014 is on a scale far greater than during the recession (Figure 14) and even if this expenditure is reduced (Figure 15) the States will still be running significant budget deficits.

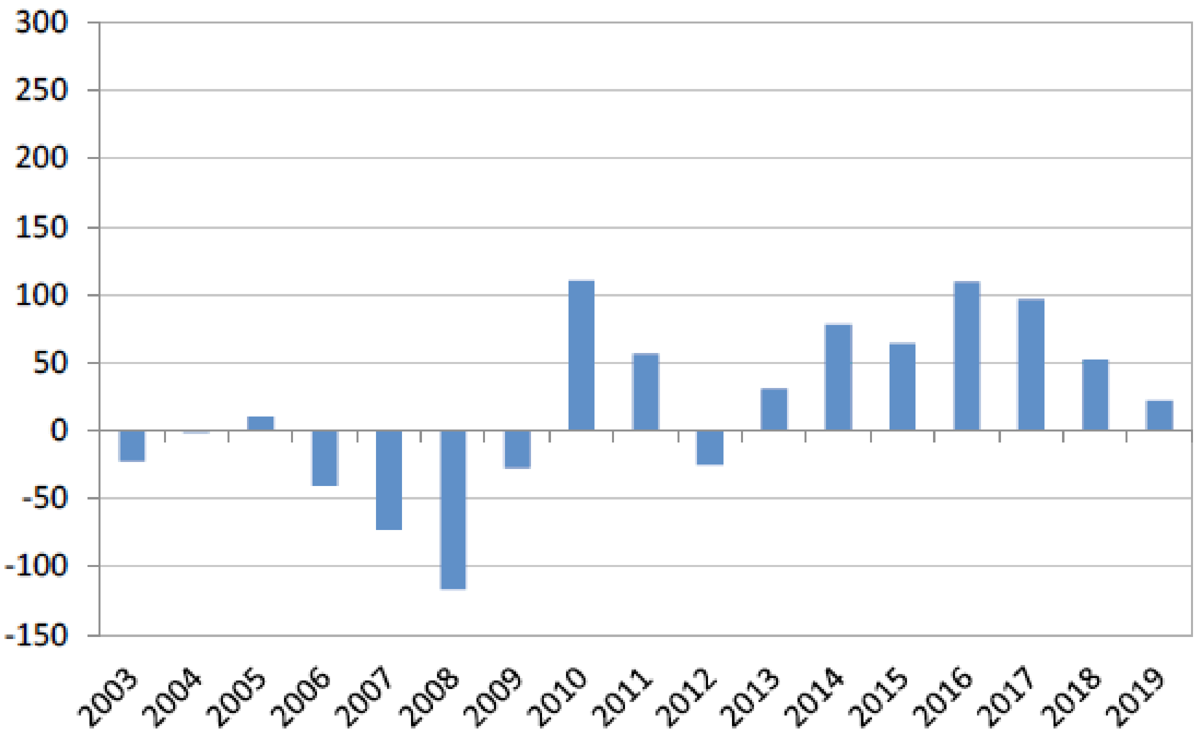
Figure 14. Estimates of how much the States has spent and will spend in excess of raising revenue 2015-2019, Scenario 1 (£m current prices)



Source: FPP Annual Report 2015, p. 30

An argument might be made that of the economy suffers further falls in GVA, further expenditure (i.e. in addition to that outlined in Figure 14) would be appropriate. It is unclear whether further counter-cyclical spending is apt for an economy which appears to have undergone structural change and which is more in need of a major productivity revival. On productivity, the excellent report on innovation recently completed by Tera Allas (2015) makes for sobering reading. Many of the productivity gains that might be delivered if the recommendations in the innovation report are followed will take time to deliver and sustained faster rates of economic growth with increased living standards might be delayed until the second half of the 2020s. However, as the FPP acknowledge, there are considerable difficulties in spending an additional £20 million in four years (proposed in the MTFP) and in the first instance existing expenditure needs to be reprioritised.

Figure 15. Estimates of how much the States has spent and will spend in excess of raising revenue 2015-2019, Scenario 2 (£m current prices)



Source: FPP Annual Report 2015, p. 30

In the meantime, the pressure on existing population and immigration because of the scale of the proposed capital expenditure is another area of concern. In the short-run the capital expenditure (if delivered according to the plan in the MTFP) might provide a boost to economic growth but there is also the possibility that if the economy is growing more quickly, it will lead to bottlenecks, overheating and inflation. As the FPP (2015, p. 4) note, 'the timing and size of the capital spending is very important, as is how it is delivered (the extent of on and off-island labour and materials content), it is important that the consequences for the local economy are managed taking account of the prevailing economic conditions'.

6. CONCLUSIONS AND SUMMARY OF RECOMMENDATIONS

6.1 Conclusions

6.1.1 At this stage, it is difficult to critique fully the outcomes of the first MTFP and it is hard to provide detailed comments on the second MTFP.

6.1.2 The threat to successful delivery in MTFP 1 was the over optimistic income tax forecasts.

6.1.3 MTFP 2 has far more realistic income forecasts but it has been suggested in this report that a more prudent income line for expenditure could be adopted.

6.1.4 In MTFP 2, the biggest threat to successful delivery is the capability and capacity to cut expenditure to eliminate the structural deficit by 2019. The incomplete figures for 2017–19 are an inauspicious start in the attempt to regain fiscal credibility but the extra detail required for subsequent years suggests that the MTFP Addition in June 2016 could be a four-year MTFP over the period from 2017–2021. The adviser suggested in MTFP 1 that the MTFP should be a rolling plan which encompasses 5 years. If the MTFP Addition were to cover 2017–2021, officials would have effectively moved to a five-year MTFP (if 2016 is included).

Recommendation 5: The MTFP Addition in June 2016 should cover the period 2017–21.

6.1.5 A final note of caution is needed. The advisor fully recognises that Jersey has long enjoyed low rates of tax but a combination of falling revenue and increased government expenditure has transformed the fiscal framework. If the structural deficit is not eliminated by 2019 and it proves impossible to reverse the increase in public expenditure, the temptation to draw on the Strategic Reserve will be strong. Rather than drawing on the reserves, tinkering with tax rates and allowances or introducing additional user pay charges, it is strongly recommend that there should be a root and branch review of the tax system as currently configured.

Recommendation 6: A full review of Jersey's tax system needs to be undertaken before 2019.

6.2 Summary of Recommendations

Recommendation 1: The Treasury to provide a series of detailed and high level comparisons of expenditure over the lifetime of the MTFP 1 in time for the MTFP 2 Addition in June 2016.

Recommendation 2: By the time of the MTFP Addition in June 2016, officials should consider whether it is feasible to use a low central income target and plan for any additional income to be transferred to the Strategic Reserve or Stabilisation Fund.

Recommendation 3: Given the uncertainty about long-term fiscal sustainability, the recommendation by the Corporate Services Scrutiny Report (S.R. 4/2014) on the affordability of the proposed employer's contribution cap should be examined within the context of a lower employer's contribution than 16% or 16.5%.

Recommendation 4: A full impact and distributional analysis of the cuts to the public sector on Jersey's economy needs to be undertaken by the time of the MTFP Addition in June 2016.

Recommendation 5: The MTFP Addition in June 2016 should cover the period 2017–21.

Recommendation 6: A full review of Jersey's tax system needs to be undertaken before 2019.

References

Allas, T. (2015), *Jersey Innovation Review*, Jersey: States of Jersey, September.

Corporate Service Scrutiny Panel (2008), *Review of States of Jersey Financial Forecasting*, S.R. 13/2008, Jersey: States of Jersey.

Corporate Service Scrutiny Panel (2011), *Comprehensive Spending Review: 2012 – 2013 and Delivery*, S.R. 14/2011, Jersey: States of Jersey.

Fiscal Policy Panel (2015), *Jersey's Fiscal Policy Panel Annual Report*, September 2015.

Income Forecasting Group (2015), *IFG update report on draft forecasts of states income from taxation and duty for the preparation of MTFP 2016-2019*, P.72/2015 Add, 18th June.

11. APPENDIX 3: 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 Fondrˆ , Chairman

Deputy S.J. Brˆ e, Vice-Chairman

Connˆ table C.H. Taylor

Deputy K.C. Lewis

The following Terms of Reference were agreed for the review:

Financial, economic and growth forecasts

- To consider the economic context of the MTFP, including growth forecasts and the economic impact of the MTFP's expenditure proposals
- To examine how income is forecast and the levels of income against expenditure
- To examine the assumptions made for the economic forecasts
- To look at the impact of the financial and economic forecasts in MTFP 2016-19 on the Stabilisation Fund

Design and implementation of the MTFP, 2016-2019

- To consider what allowance is made for the possible structural deficit in 2018 and beyond the period of the MTFP
- To look at contingencies; their use, and how they are allocated
- To consider, in the light of the 2013-2015 MTFP how the treatment of contingencies, or any other areas of non-routine proposals have evolved in respect of the MTFP 2016-2019
- To identify the variances from budget of the MTFP 2013-2015 and any lessons learnt therefrom and to consider any effect upon the MTFP 2016-2019

Expenditure proposals within the MTFP

- To look at how spending will be prioritised
- To look at how spending will be funded
- To clarify how States expenditure has materially evolved
- To look at individual departmental budget areas and their feasibility based on future spending
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- To investigate the link between the spending proposals in the MTFP 2016-19 and the requirements of the Long Term Revenue Programme
- To look at the deliverability of capital projects

Evidence Gathered

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

a) Medium Term Financial Plan 2016 – 2019

b) Draft Annex to the Medium term Financial Plan 2016 – 2019

c) Comptroller and Auditor General - Review of Financial Management

d) Review of the Medium Term Financial Plan – S.R.18/2012

e) P.72/2015 – Medium Term Financial Plan

f) Public Finances (Jersey) Law 2005

g) P.42/2015 Public Finances (Amendment of Law No.2) Regulations 201-

h) Review of the Proposed Amendment to the Public Finances Law – S.R.2/2015

The Panel held the following public hearings, transcripts of which are available on the Scrutiny website (www.scrutiny.gov.je):

Minister for Treasury and Resources – 21/07/15 and 07/09/15

Chief Minister – 05/08/15 and 07/09/15