STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2016 – 2019: REVIEW OF COUNCIL OF MINISTERS' IMPACT ASSESSMENTS

Presented to the States on 27th May 2016
by the Corporate Services Scrutiny Panel

STATES GREFFE

REPORT

The Corporate Services Scrutiny Panel has been asked for feedback on a Council of Ministers ("CoM") paper regarding Impact Assessments. The Paper relates to Agenda Item B2 dated 10th February 2016 ("B2").

The Panel is disappointed that this work is at such an early stage, and would have liked the opportunity to comment on the impact assessments prior to them being presented to the Assembly. The Panel would ideally have liked to see an impact assessment on the overall economic, social, and environmental effects of these charges with historical data and comparisons from 2012; however, the Panel believe this is unlikely to happen and at best, the Assembly will be presented with an analysis lacking the important granular detail.

The Panel has serious concerns regarding the approach adopted by the Council of Ministers in relation to the distributional analysis (impact assessments) of measures to be included within the MTFP Addition. Impact Assessments should be used by Ministers to understand the impact of measures under consideration for inclusion in the MTFP and to assist in decision-making over the most appropriate measures for inclusion. However, it appears that impact assessments will only be carried out once policies have been agreed. This was not the process envisaged by the Panel when it originally called for impact assessments to be undertaken. Given that Article 8A of the Public Finances (Jersey) Law 2005 was specifically amended to allow extra time for the significant re-engineering and consequential change to line-by-line departmental estimates, the Panel and its adviser had assumed that this work would be started much sooner to help define the MTFP Addition well before lodging in June 2016.

The Panel's advisers, CIPFA, raise concerns that the distributional analysis on policy options appears not to be at an advanced stage, meaning that it will not be available to Ministers when making policy decisions in relation to the MTFP addition.

> *"…<u>we would have expected that the distributional analysis incorporating a range of policy options to be highly advanced in order to provide meaningful context to ministerial deliberations</u>. If most of the work had not been already been undertaken it is difficult to assume that such an options appraisal can be meaningfully informed by distribution analysis."* [1]

Efficiency Savings

With regard to the work to reduce the number of States employees, CIPFA comment that, notwithstanding the work in train to downsize the workforce, they are unsighted on –

- Pension Fund implications and recurring additional liabilities
- Impact on personal Income Tax yields relating to a large number of staff released.

CIPFA strongly recommend that appropriate impact studies are used to inform pension fund and income tax forecasting.

[1] CIPFA Report on Impact Assessments – March 2016

Benefit Changes

Although CIPFA endorse the analysis being proposed by CoM, they state it is unclear whether such measures on their own will materially affect the economy in a way that will further impact the current structural deficit.

Capital Expenditure

B2 states that it "*..may be even harder to determine the distributional impact of changes in public capital expenditure than current expenditure"*.

CIPFA have said they do not necessarily agree with this and state –

> *"…We would consider that the impacts of revenue expenditure change to be more opaque than that relating to Capital Expenditure so would not necessarily agree with this statement. For example it should be easier to model the economic impacts of a large capital project rather than the overall impacts of terminating the employment of some 1,000 staff…"*[2]

Revenue-raising measures

CIPFA comment that –

> *"It is critical that service users have clarity between what they are receiving and what they are expected to pay for a service. Indeed the introduction of charges for services that were hitherto financed from general taxation can be seen by many as an additional tax burden rather than a clear link between user consumption and the financing of that service."*

CIPFA also comment on there being no real detail on how consumption relates to specific charging, and how this may impact on demand for such services.

CIPFA make the following key assumptions –

Health Charges 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

Tax yields

- inadequate clarity on the calculation of base Income Tax estimates
- Income tax estimates more aspirational
- Key assumptions – continuing issue of optimism bias

Distributional Analysis

There is no detail on how these charges will financially impact on each individual, nor of the cumulative financial impact of other tax increases and charges to date. The Panel would therefore recommend that a financial assessment of the impact of tax changes

[2] CIPFA Report on Impact Assessments – March 2016

(including changes in Social Security contributions and similar items) and charges; and also the impact of changes in Income Support provision (where appropriate), should be carried out to show historical data and comparisons from at least 2012 to 2019. Ideally, we would recommend using the position at the end of the following years as a basis of calculation: 31/12/10; 31/12/12; 31/12/15; 31/12/19.

This should be upon a range of types of individual and family groupings, by income range (for example: single pensioner; married couple; married couple with one child of school age, etc., etc.). Reference should be made to the relevant reports produced by the Statistics Department, such as Household Expenditure Surveys, etc., where appropriate.

Timescales

CIPFA comment that, despite confirmation from the Chief Minister at a public hearing in September 2015 that the studies are "being undertaken", significant work has yet to be completed on distributional analysis. They go on to comment that they would have assumed "that detailed work would have started as soon as the initial MTFP 2016 – 2019 was lodged with only one year of detail".

CIPFA also suggest that *"if some of the work is still to be commenced awaiting policy guidance around April/May, then it would be extremely challenging to achieve the June 2016 deadline submissions and allow the Council of Ministers adequate time to prepare a preferred position".*[3]

Conclusion

Although the Panel has no evidence to say the detailed work has not been carried out, B2 does not suggest the CoM are where they should be so close to the MTFP Addition lodging date of 30th June 2016. There is no evidence of sufficient progress being made within the 6 months since the debate on the MTFP 2016 – 2019, and the Panel has concerns that too little is being done too late. A fully integrated analysis is almost impossible due to the timeframe. Given that Article 8A of the Public Finances (Jersey) Law 2005 was specifically amended to allow for significant re-engineering and consequential change to line-by-line departmental estimates, the Panel and its adviser had assumed this work would be started as soon as the MTFP 2016 – 2019 was lodged showing only one year of detail.

> *"…As highlighted within our analysis the impact of options need to be considered across the segmented analysis. This requires knowing in advance what the range and size of policy options are being considered. The paragraph on timing suggests that some of such work cannot proceed until the policy options themselves are articulated and at the point of writing – these options have not been formulated. It would be our view that this position would make a fully integrated analysis almost impossible…"*[4]

It is stated that analysis for certain areas will consider evidence and research from elsewhere; however, CIPFA state that the geographic and demographic attributes specifically relating to Jersey are likely to make this type of analysis more problematic if unadjusted comparisons with the UK or other jurisdictions are used.

[3] CIPFA Report on Impact Assessments – March 2016
[4] CIPFA Report on Impact Assessments – March 2016

CORPORATE SERVICES SCRUTINY PANEL

REVIEW OF COUNCIL OF MINISTERS IMPACTS ASSESSMENT – MTFP 2016 – 2019

BRIEFING PAPER
MARCH 2016

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1. Introduction

1.1 This briefing paper will review the Council of Ministers framework proposal outlined in Appendix 1 – titled Summary of MTFP Additional 2016-2019 Distributional Impact Assessment) in the context of the following questions:

- Does the framework take sufficient areas into account to ensure a robust and complete result will be delivered in the final impact assessment?
- What are the financial and manpower implications within the Department for undertaking the work?
- Is there sufficient time for the impact assessments to be presented in time for the MTFP Addition lodging date?

1.2 Before addressing these questions it is appropriate to analyse each component of this agenda item paper within a 'bottom up' construction:

- Revenue Expenditure changes
- Benefit Changes
- Capital Expenditure
- Revenue Raising Measures
- Timescales
- Summary

Revenue Expenditure changes

1. Revenue Expenditure changes

There are measures in the MTFP that see increased investment in key public services such as health and education and reduction in spending in other services through savings. It is generally much harder to determine the distributional impact of increases or investment in government expenditure than changes in taxation or cash benefits. However, the analysis will consider what evidence and research from elsewhere suggests about the distributional impact of changes in public expenditure (i.e. how it impacts on people at different points in the income distribution) in the service areas affected by changes in the MTFP and whether there are reasons to think the analysis is relevant for Jersey. In addition, it will look at what information is available about the nature of the changes in expenditure that are proposed as part the MTFP and whether there is any reason that the impact of the increases will be different to the overall distributional impact of general public spending in the service area.

1.3 Revenue Expenditure changes are considered to be fundamental to bridging the gap in overall budget setting. Within the original proposals to fund the priorities 2015 – 2019 some £70m was attributed to People savings that were required, £40m to Non Staff savings such as benefit changes and some £35m for the Health charge. Arguably the people component is considered to be the most fundamental are for change to the redesign of the public services. People savings of some £90m per annum was estimated to be required to be delivered at 2019. Most of such savings were attributed to a radical reengineering of services through business reprocessing using LEAN and eGov advances, eradicating duplication and driving out efficiencies. Within our Report on the MTFP 2016 – 2019 we remarked about what we saw was a lack of a "*Lack of corporate agility – inability to manage/quickly adapt to budget volatility in difficult and changing conditions".* Before the setting of the 2016 – 2019 MTFP, payroll costs were attributed to account for some 50% of overall budgeted expenditure. The ability to achieve some £70m of payroll saving phased as £20m in 2016, £39m by 2017, £54m by 2018 and £70m by 2019 is arguably more difficult to achieve than any of the other components such as the Health Charge/User Pays and Benefit changes.

1.4 Within our final report on the MTFP 2016 – 2019 we outlined our concerns about the ability of the States to deliver such a level of transformational savings through service redesign and the lack of evidence demonstrating that there was analysis of the distributional impacts of reducing the workforce. On the delivery of transformational savings our conclusion included the following bullet points –

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[1]

1.5 Paragraphs 3.14/15 outline our concerns and how required People Savings were intrinsically linked to Income Tax yields and potential addition pension fund costs –

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)

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.

1.6 The areas of targeted growth in 2016 were scheduled to be more than met by savings including some £10.9m on pay restraint and some other £15.2m on other savings. Whilst it is important that distributional analysis is used to understand the likely impacts upon the economy, looking at specific decision making 'streams' in isolation, such segmented analysis is not going to provide the level of clarity required to allow decision makers to make fully informed policy

[1] CIPFA – Review of Medium Term Financial plan 2016-2019 – September 2015 – Page 21

decisions. Changes to Revenue Expenditure in a way envisaged within the MTFP 2016 – 2019 will have a direct impact upon disposable incomes linked to tax yield relating to personal income tax as will disposable incomes be impacted by Benefit Changes.

Benefit Changes

2. Benefit Changes

Considerable written information has already been provided during the MTFP process on the proposed benefit changes in respect of the legal changes that were required. Every individual change was subsequently challenged as part of MTFP debate and additional information was provided as part of the response. This analysis will therefore collate all information included in the public reports to show:

- *Number of claimants affected by one or more changes*
- *Demographic info on these claimants*
- *Approximate weekly impact of changes in 2016 (i.e. at current prices)*

The economic assumptions used for the MTFP Addition will be used to show the impact on typical benefit claimant households over 2017 – 2019. Consideration will also be given to any implications for changes in behaviour.

1.7 Whilst we would fully endorse such an analysis it is unclear whether such measures on their own will materially affect the economy in a way that will further impact the current structural deficit.

3. Capital Expenditure

It may be even harder to determine the distributional impact of changes in public capital expenditure than current expenditure. However, the analysis will consider what evidence and research from elsewhere suggests about the distributional impact of public capital expenditure and whether it is relevant for Jersey. In addition, it will look at what information is available about the nature of the changes in capital expenditure that are proposed as part of the MTFP and whether there is any reason that the impact of the changes will be different to the overall distributional impact of public capital spending.

1.8 Given the geographic and demographic attributes specifically relating to Jersey it is likely that this type of analysis may be more problematic if unadjusted comparisons with the UK or other jurisdictions are used. We note the overarching high level FPP recommendations on maintaining investment. Indeed, this position is sustained within the Fiscal Strategy Framework and the MTFP II itself commits a level of drawdown from the Strategic Reserve as follows –

"We will withdraw **£70 million** from the Strategic Reserve to fund items like our capital spending programme."[2]

1.9 The Agenda paper puts forward the view that it "… *may be even harder to determine the distributional impact of changes in public capital expenditure than current expenditure.* We would consider that the impacts of revenue expenditure change to be more opaque than that relating to Capital Expenditure so would not necessarily agree with this statement. For example it should be easier to model the economic impacts of a large capital project rather than the overall impacts of terminating the employment of some 1,000 staff.

4. Revenue raising measures

i. General revenue raising measures

For each proposed revenue raising measure which applies to the population of the island generally, the analysis will indicate the distributional impact of the measure on a range of different households. Wherever appropriate the analysis will be produced in graphical form to aid understanding and to highlight the resulting change in effective tax rates at differing income levels.

ii. Charges/User Pays

The analysis will consider what evidence and research from elsewhere suggests about the distributional impact of user pays charges, including those in health for the different services or departments (i.e. how they impact on people at different points in the income distribution) and whether there is reason to think the analysis is applicable to the proposals for such charges in Jersey.

1.10 It is critical that service users have clarity between what they are receiving and what they are expected to pay for a service. Indeed the introduction of charges for services that were hitherto financed from general taxation can be seen by many as an additional tax burden rather than a clear link between user consumption and the financing of that service. Within our MTFP 2016 – 2019 Report we highlighted our concerns about Revenue raising assumptions covering tax yields, user pays and the Health Charge –

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

[2] MTFP 2016-2019 Council of Minsters – Executive Summary – Page 10

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

1.11 Whilst distributional analysis should provide valuable insight it will be difficult to acquire strong evidence on how revenue raising measures will direct impact behavioural change that may affect the macro-economic position on growth.

Timescales

1.12 We note that *"some of the analysis will not be able to start until there is a clearer direction in terms of the actual policy e.g. revenue raising measures/revenue expenditure savings.."* see below:

iii. Timescales

Some of the analysis of measures that have already been decided will be undertaken in March/April e.g. revenue expenditure investment in health/education and benefit changes. However, some of the analysis will not be able to start until there is a clearer direction in terms of the actual policy e.g. revenue raising measures/revenue expenditure savings, although it is intended that this work will be done in April/May. This will enable the inclusion of the impact analysis in the MTFP Addition when it is lodged at the end of June 2016.

1.13 It is difficult not to conclude that the tenor of this paragraph suggests that significant work has yet to be completed on distributional analysis since the MTFP 2016 – 2019 was lodged. Indeed, within the Public Hearing of the Corporate Services Panel on the Medium Term Financial Plan 2019 – 2019 held on 7 September 2015 it was confirmed that the distributional analysis had been started ("Those studies are being undertaken" – Chief Minister) but would not be available for publication until the additional detail for 2017 to 2019 is made available by 30 June – an extract is highlighted below

Deputy J.A.N. Le Fondré:

Yes. 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.

Deputy S.M. Brée:

Can you give us any timeframe as to when it will be completed?

The Chief Minister:

I am going to look to Chris because I am not sure which ... I think Treasury and Resources and Social Security are undertaking it, is that right?

Head of Financial Planning:

I think it will be overseen by Economics.

Economic Adviser:

We need to know the detail in terms to assess distributional impacts but certainly the intention is to provide that information ahead of the ... in an additional addendum next year. So further distributional ...

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 on 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 be part of informing the decision-making process whether the States think the individual measures are appropriate or not.

1.14 The paragraph on 'Timescales' – page 3 of the agenda item – would suggest that the 'clearer direction' will not be available to April/May which leaves little time for any detailed analysis presumably across various jurisdictions. Given that Article 8A of the Public Finances (Jersey) Law was specifically amended to allow for significant service reengineering and consequential change to line by line departmental estimates we had assumed (when delivering our report to the Corporate Services Scrutiny panel in September) that detailed work would have started as soon as the initial MTFP 2016 – 2019 was lodged with only one year of detail. We would restate or comments on this –

"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."*[3] 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.[4]"

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

4 CIPFA – MTFP 2016 – 2019 – Para. 1.11 Page 6

1.15 Notwithstanding the fact that policy options are yet to be finalised at this time we would have expected that the distributional analysis incorporating a range of policy options to be highly advanced in order to provide meaningful context to ministerial deliberations. If most of the work had not been already been undertaken it is difficult to assume that such an options appraisal can be meaningfully informed by distribution analysis.

Summary – Agenda Item B2

1.16 The Summary to the agenda item suggests that the MTFP 2016 – 2019 has followed the high level advice from the Fiscal Policy Panel and that further advice will:

" ..be critical in determining the overall approach in the MTFP and making sure that the economic impact is such that it allows the economy to recover and addresses any underlying structural imbalance in States finances at the right time. However, the fiscal measures – either changes in expenditure or revenue – will impact differently on different groups in the island community, as is the case with any fiscal adjustment. The distributional analysis that will be undertaken on the measures set out in MTFP Addition 2016–19 will help the States to understand how the impacts may vary across households at different points in the income distribution. This will be informative for the States in understanding where the burden of the adjustment may lie and whether it is deemed to be fair.

1.17 Rather than awaiting for further macro-economic advice it is submitted that strong and immediate action needs to be taken to recalibrate overall expenditure with income. Within our report on the MTFP 2016-2016 we had concluded that:

"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.

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. 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."[5]

1.18 In his June 2015 update report to the Corporate Services Scrutiny Panel on a Council of Ministers Paper, Professor Michael Oliver highlighted the following observations:

[5] CIPFA – MTFP 2016 – 2019 – Concluding Comments – Paras. 5.3/5.4 Page 22

"The Treasury have had since at least 2014 to make plans to address the deficit if the income forecasts were accurate, and unfortunately the forecasts have got worse and there is still no concrete Plan A."

"The 'short-fall' (temporary) in funding might be a permanent decline and if so suggests that more substantial measures might be required."[6]

1.19 The MTFP 2016 – 2019 analysis on the Jersey economy highlighted the following points;

"The most recent data on the performance of the Jersey economy continues to show positive developments."[7]

"The positive sentiments in the qualitative surveys are now translating into firm improvements in key economic variables."

"These positive developments in financial services are being reflected in the non-finance sector BTS results."

The FPP also advised what the overall approach should be on fiscal policy over the life of the MTFP:

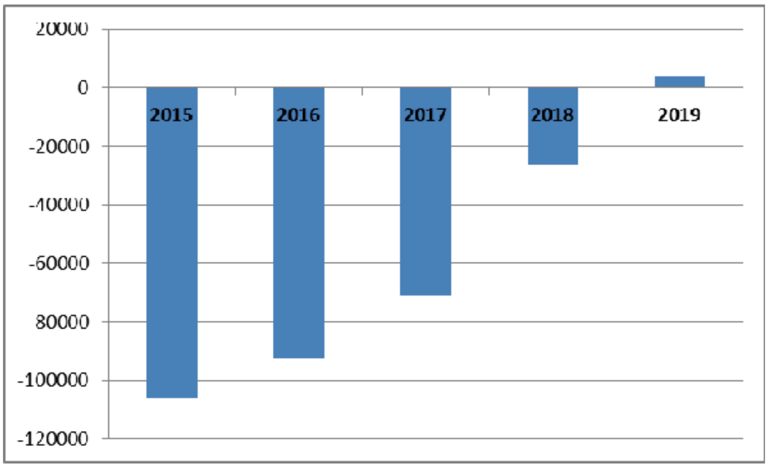
The States should develop a plan that will address any structural deficit by 2018 and 2019. Care should be taken to ensure that the range and timing of the measures minimises the risk to the economic recovery, which, in the early stages, may involve using the States' reserves.

Once Jersey is on a sound path to structural fiscal balance, the States should aim to balance its tax revenues and current expenditure over the economic cycle, including an appropriate allowance for depreciation.

The Council of Ministers has taken this advice seriously and framed the MTFP to follow this advice in terms of addressing any structural imbalance and being careful about the impact on the economic recovery. The chart below shows that after all the measures proposed in the MTFP the current budget (including depreciation) will move from a deficit of £90m (2% of GVA) to being in slight surplus by 2019. This therefore suggests that on the basis of the FPP advice any underlying structural mismatch between revenue and expenditure should be addressed by 2019.

Figure 11: States current budget position

£000



[6] Observations on CoM Papers from 10 June 2015 – Professor Michael Oliver
7 MTFP 2016 – 2019 – Page

1.20 During the MTFP 2016 – 2019 we had concerns about the tax yield assumptions which were partly based on a range of indicators outlined within Figure 19 – Economic Assumptions (April 2015) for draft MTFP 2016 – 2019[8] below:

Central scenario - updated 14 April 2015						
	Forecast				Return to trend	
	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %
Real GVA	1.6	1.2	1.1	1.4	0.0	0.0
RPI	1.6	1.6	3.1	3.1	3.3	3.3
RPIY	1.6	1.8	2.6	2.6	3.0	3.0
Nominal GVA	3.2	3.0	3.7	4.0	3.0	3.0
Company profits(a)	2.5	2.4	3.3	3.7	3.0	3.0
Financial services profits	1.8	1.1	3.1	3.3	3.0	3.0
Compensation of employees(b)	3.7	3.5	4.0	4.3	3.0	3.0
Employment	1.0	1.0	0.5	0.5	0.0	0.0
Average earnings	2.6	2.5	3.0	4.0	3.0	3.0
Interest rates (%)	0.5	0.5	1.1	1.6	2.0	2.5
House prices	3.3	3.0	4.0	5.0	3.0	3.0

1.21 In seeking evidence around the accuracy/relevancy of these indicators we were advised that some 'tracking' had been made with the UK OBR forecasts and there was some level of correlation. It looks likely that the rationale for such reliance or tracking may be misplaced as we are aware of further downward forecasts of UK economic growth and related remedial action to be taken by the Chancellor of the Exchequer to be announced in the forthcoming Budget on 16 March 2016. Additionally, financial performance of financial services has not been strong reflecting both uncertainty/volatility in the banking sector and regulatory change. Such impacts may yet further negatively impact this sector within Jersey which provides the only source of corporate tax and is a significant source of to personal income tax through their Jersey based employees. Given the current general economic position interest rates are unlikely to rise to the 1.1% envisaged for 2016 and 1.6% for 2017 – we had previously highlighted our concerns on such growth relating to investment performance which was underpinning assumptions in funding infrastructure options.

1.22 The summary of the agenda item B2 concludes with the objective set for the utilisation of distributional analysis and the hope that *"this will be informative for the States in understanding where the burden of adjustment may lie and whether it is deemed to be fair."* Whilst this is a commendable objective if the financial performance continues to flat line or indeed deteriorate, the measures required to bring back some alignment on structural balance may be of such a magnitude (and be suitably radical) that such options will need to be underpinned by extremely detailed distributional impacts across a wide range of options. Without detailed analysis there is risk that policy option decisions will be ill-informed. On our high level comments on the Corporate Financial Strategy we highlighted an *"Absence of Risk Impact Assessment within MTFP 2 and appreciation of wider corporate risks".*

[8] MTFP 2016 – 2019 – Page 49

1.23 All of the measures by type will undoubtedly need specific analysis – however, from an economic perspective chosen policy options impacts will cut across these segmented analysis as changes to one set of measures can have a significant impact on another – e.g. the levying of user pay charges may change consumption behaviours to the extent that revenue expenditure may need to be changed as the relationship between direct and indirect costs for a service changes where demand diminishes as consumers exercise choice through a different route of supply.

1.24 Given the relative imbalance of income to expenditure, unless the States is willing to allow the Strategic Reserve to be negatively impacted outwith the parameters set within the MTFP 2016 – 2019, it may be necessary to quickly confront the obstacles to realignment and produce radical options. Such decisions which may need a radical approach to service reengineering/taxation may have to be taken in advance of receiving FPP macro-economic advice indicating that the conditions would be right – it would be safe to pursue a more radical approach.

2. Questions

2.1 Moving on to the questions posed by the Corporate Services Scrutiny Panel in relation to this agenda item our position for each is informed by the foregoing analysis.

Does the framework take sufficient areas into account to ensure a robust and complete result will be delivered in the final impact assessment?

2.2 We foresee the need to further break down components of Revenue Expenditure by activity as the relative impacts of losing staff will be completely different to that of cutting supplies and services. This will need detailed analysis for each activity of expenditure – employee costs, property costs, supplies and services etc. as each subjective revenue expenditure heading has differing characteristics with consequential differing impacts.

2.3 As highlighted within our analysis the impact of options need to be considered across the segmented analysis. This requires knowing in advance what the range and size of policy options are being considered. The paragraph on timing suggests that some of such work cannot proceed until the policy options themselves are articulated and at the point of writing – these options have not been formulated. It would be our view that this position would make a fully integrated analysis almost impossible.

What are the financial and manpower implications within the Department for undertaking the work?

2.4 As indicated above there needs to be relative precision surrounding the formulation of policy options (even if they are not going to be used) before any robust distributional analysis. We has assumed that such work would have started as soon as possible after the 2015 submission of the MTFP 2016 – 2019 given that the law was changed[9] specifically to allow for a delay of submission of one year to ensure that detailed provision could be worked up and the optimal

[9] Article 8A – Public Finances (Amendment of Law No 2) (Jersey) Regulations 201 impacting the Public Finance (Jersey) Law 2005.

choices being made on a fully informed basis. It is understood that the analytics will be undertaken by the Economic Unit. We are unsighted as to staffing capacity/skillsets, etc. and we are unaware of specific consultancy support that would be able to complete this level of work without a considerable lead in period or consequential resource day quantum relative to the complexity of work required.

Is there sufficient time for the impact assessments to be presented in time for the MTFP Addition lodging date?

2.5 Given the relative complexity of the analysis required across a wide range of policy options and the level of integration of impacts at the highest levels, if some of the work is still to be commenced awaiting policy guidance around April/May then it would be extremely challenging to achieve the June 2016 deadline submissions and allow the Council of Ministers adequate time to prepare a preferred position. We do note, however, that the Chief Minister (at the Corporate Services Scrutiny panel meeting on 7 September 2015) had indicated that "*Those studies are being undertaken.*"

2.6 However, if work will only commence when policy options are formulated – from a 'standing start', the probability of robust analysis being available to provide the most effective decision support by an appropriate period to allow a robust MTFP Addition submission to be made, would be in our view very low. Undue haste/speed imports risk. We would restate our paragraph 1.15 above:

Notwithstanding the fact that policy options are yet to be finalised at this time <u>we would have expected that the distributional analysis incorporating a range of policy options to be highly advanced in order to provide meaningful context to ministerial deliberations.</u> If most of the work had not been already been undertaken it is difficult to assume that such an options appraisal can be meaningfully informed by distribution analysis.