

**QUESTION TO BE ASKED OF THE PRESIDENT OF THE POLICY AND RESOURCES
COMMITTEE ON TUESDAY 7th OCTOBER 2003,
BY CONNETABLE A.S. CROWCROFT OF ST. HELIER.**

Question

With reference to the recently agreed Resource Plan, (P.118/2003), would the President inform members -

- (a) whether the Committee was aware that the forecast deficit figure of £22 million by 2008, as quoted in the Resource Plan, was not cumulative; and, whether the President would agree that the forecast therefore understated the actual figure by £14 million, and, if the answer is in the affirmative, explain why this information was not revealed?
- (b) whether the Committee was aware that its Resource Plan proposition would require savings of approximately 600 staff over the four year period 2005 to 2008, and, if the answer is in the affirmative, will he explain why this information was not revealed? and,
- (c) of the precise methodology and assumptions which underpin the forecast of a two per cent increase in revenue per annum during the Resource Plan period, and what sensitivity analysis, if any, was conducted in respect of this methodology and the assumptions made, what external professional advice was commissioned, if any, to qualify these, and whether he is prepared to state what the cumulative deficit of £36 million projected for 2008 would become if tax receipts were to grow not by 2 per cent per annum as forecast but in the range of -3 per cent to +3 per cent per annum over the Resource Plan period, assuming that spending remained unchanged at 3 per cent per annum growth?

Answer

- (a) The Committee was fully aware that the forecast deficit figure of £22 million by 2008 was not cumulative.

The form of presentation does not differ from previous years' financial forecasts and is the universally accepted means to present both actual and budgeted performance.

The total deficit over the period 2004-2008, were no measures to deal with the situation introduced, would be £71 million; however, the in-year deficit for 2008 would be £22 million, although it has always been intended that early measures would be taken to avoid this deficit occurring.

- (b) The Policy and Resources Committee did not explicitly discuss a manpower saving of up to 600 jobs in initially considering the 2004 -2008 Resource Plan, concentrating instead upon the financial difficulties in which the committee and all of us find ourselves.

The Committee did, however, consider whether the savings required by the targets set in the Resource Plan were realistic and further to extensive consultation not only with Committee Presidents but also including States Members, both the Finance and Economics and the Policy and Resources Committees agreed that the proposals of the Resource Plan were achievable.

Up to 600 staff savings over the period to 2008 is not an unrealistic target provided there is a political will, and indeed is implicit given that 60% of our expenditure is staff related.

I must add of course that the estimate of up to 600 posts is just that at this stage, an estimate, and until the Fundamental Spending Review process is further progressed, the eventual figure will not be known.

- (c) Income tax forecasts are received by the Finance and Economics Committee twice annually. The first occasion is for the purposes of producing the Resource Plan. These figures are then revised later in the year, when more up to date information is available, for the Budget. These forecasts are then published in

the Resource Plan and Budget document respectively.

As I indicated in a similar question earlier this year, the Comptroller bases his estimates on the previous years' assessments, and these are broken down between the component areas of -

- sole traders,
- partnership,
- employees, and
- companies, including International Business Companies and Exempt Companies.

Estimates of the likely percentage increase are then factored in for each of the forecast years in respect of -

- Trading profits,
- Company profits,
- Wages and salaries,
- Investment income, and
- Property rentals.

The tax yield for each sector is then calculated by taking the effective rate of tax for that sector for the previous year of assessment and applying this to the new sector charge.

Based on past rates of tax collection, an estimate is made of the likely collection of tax in each sector, year by year, and similarly for collection of tax arrears and estimates of tax repayments. Finally, an estimate of the level of early assessments, which produce an early receipt of tax revenues, is made in respect of individuals who leave the Island during the year.

The Comptroller will also factor into his calculations any effect on tax revenues arising from the relocation or change in profitability of any major institutions, or indeed any new factors of which he becomes aware.

The initial estimates, produced for the Resource Plan are improved later in the year by reference to the tax assessments for the current year, which have all been issued by the end of September. It is these updated figures which will be used in the Budget Report to be published in early November.

The procedure generally follows the way in which tax revenue forecasts are prepared in the UK.

It should be noted that the 2004 Income Tax revenues will be based on income earned in 2003, and business profit earned in 2002. As a result, a reasonable indication of the levels of tax revenues likely for 2004 can be made prior to the budget being set, due to the time lag in the existing tax structure.

Because of the confidential nature of certain information, the forecasts are prepared primarily by the Comptroller of Income Tax. However, recognising the ever increasing importance of these forecasts, particularly given our current funding difficulties, the Finance and Economics Committee has commissioned the building of a more detailed tax forecasting model in order to further improve the process.

The Comptroller's estimates are indeed subject to a compounded annual +/- 3% forecasting variance, within which recent forecasts have proven to be accurate.

However, given the uncertainty inherent in forecasting tax receipts far into the future, the range of variation is only applied as far forward as 2005, by which time the range covers an upper end of £437 million and a lower limit of £343 million resulting in a financial forecast of between a deficit of £57 million and a surplus of £37 million.

However, I should like to stress that these would be the very outer limits of our current forecast, and as the Committee revises forecasts twice yearly, much more robust figures within a narrower range would be available well in advance.