STATES OF JERSEY

DRAFT ANNUAL BUSINESS PLAN 2011 (P.99/2010): NINTH AMENDMENT

Lodged au Greffe on 27th August 2010
by the Corporate Services Scrutiny Panel

STATES GREFFE

1 **PAGE 2, PARAGRAPH (a) –**

After the words "withdrawn from the consolidated fund in 2011" insert the words –

", except that the proposed total net revenue expenditure of £652,881,000 shall be reduced to £647,881,000 and that the net revenue expenditure of the ministerial departments as set out in the said Summary Table A shall be reduced on a pro-rata basis to achieve this £5,000,000 reduction as shown in the Summary Table A amended for Ministerial Departments (excluding Grant to the Overseas Aid Commission and Central Allocations for Treasury and Resources) set out below –

Summary Table A amended for Ministerial Departments (excluding Grant to the Overseas Aid Commission and Central Allocations for Treasury and Resources)

States Funded Bodies	**2011 Revised Gross Revenue Expenditure**	**2011 Income Allocation**	**2011 Revised Net Expenditure Allocation**
	£	**£**	**£**
Ministerial Departments			
Chief Minister	5,545,841	(493,000)	5,052,841
Economic Development	17,424,680	(1,475,000)	15,949,680
Education Sport and Culture	116,199,606	(16,904,000)	99,295,606
Health and Social Services	186,373,798	(20,118,000)	166,255,798
Home Affairs	49,670,364	(1,706,000)	47,964,364
Housing	17,127,883	(38,184,000)	(21,056,117)
Planning & Environment	10,316,435	(3,644,000)	6,672,435
Social Security	176,958,673	(3,335,000)	173,623,673
Transport and Technical Services	46,687,501	(18,602,000)	28,085,501
Treasury & Resources (Dept alloc.)	47,399,219	(7,712,000)	39,687,219
TOTALS FOR THESE MINISTERIAL DEPARTMENTS	**673,704,000**	**(112,173,000)**	**561,531,000**

2 **PAGE 2, PARAGRAPH (a) –**

After the words "with any increase above" insert the words "or decrease below" and for the word "compensated" substitute the words "to be adjusted".

3 PAGE 2, PARAGRAPH (e) –

After the words “within these amounts” insert the words –

> “except that the proposed total net revenue expenditure of the States funded bodies for 2012 and 2013 as set out in Summary Table E shall be decreased from £708,000,000 to £698,000,000 in 2012 and from £712,000,000 to £697,000,000 in 2013”.

CORPORATE SERVICES SCRUTINY PANEL

REPORT

Over recent years there has been considerable public disquiet about the increase in States' spending, a perception of considerable wastage and a growing appetite for a determined attempt to bring this under control. The report of the Comptroller and Auditor General – "States Expenditure Forecasts: updated evidence submitted by the Comptroller and Auditor General to the Finance Sub-Panel of the Corporate Services Scrutiny Panel – December 2009" in February 2010 (page 7) includes the table below outlining the growth in actual spend since 2001.The table illustrates that the rise in spending since 2001 has been significant. It <u>must</u> be brought under control.

Year of account	*Actual*	*Annual increase %*
2001	417	
2002	410	-1.68
2003	443	8.05
2004	460	3.84
2005	484	5.22
2006	504	4.13
2007	522	3.57
2008	562**	7.66
2009	598*	6.41

* *Estimated*
** *Excludes £103 million Energy from Waste plant*

There are many diverse views as to the scale and the way in which we make savings within the public sector in order to continue with our commitments to the Jersey taxpayer, who quite rightly expect 'value for money'. The Annual Business Plan being proposed to the States Assembly for 2011 incorporates the first phase of the Comprehensive Spending Review which represents 2% of the savings with 3% and 5% to follow in years 2012 and 2013.

The Council of Ministers have from the beginning decided to bring forward a 'happy medium' to attempt to remedy the forecast deficits by taking a 50/50 approach to both making savings and raising taxes. The Corporate Services Panel understand that in most cases a consensual approach is one by which Jersey has been used to over many years and that any attempt to do something other than this may be seen as too high a risk. After many hearings and discussions with Ministers and Chief Officers of all departments, the Panel remain unconvinced that everyone can take a holistic approach to this very worrying situation facing Jersey. We have identified several problems in the course of review on the Comprehensive Spending Review. Three are worth highlighting in the context of this amendment.

First, there appears to be no real vision for the future. The Island has been in a low-tax/high-spend mode over the past decade, but the current rate of increase in expenditure by the States is such that the Island is being nudged into a high-tax/high-spend economy without a public debate as to whether this is the route the community wishes to take. This is an issue which is fundamental to the future of the Island and it essential that this debate is held.

Secondly, there appears to be no real vision for the future, and the timescales of the Comprehensive Spending Review have been unreasonable in order to deliver appropriate sustainable savings that are acceptable to all. The public have not been adequately consulted; some of the States of Jersey employees have felt left out in the cold and the Assembly has been divided into many areas. This is no way to go about working towards the fundamental change that is required to establish sustainable public finances for the medium to longer term.

Thirdly, it has been questionable from the beginning of the Comprehensive Spending Review as to whether this was really about savings or whether it was about restructuring the way that public services are delivered. Perhaps it is both, but this has not been adequately explained by Ministers. Many would like to think that by restructuring services, significant savings would be achieved: this is exactly what the Corporate Services Panel were hoping the Review would produce, but as evidence has suggested, it is yet another political ball-game and a way to continue to push expenditure further up, therefore inevitably increasing taxes.

As Members know, the rise in expenditure has long been blamed on the States Assembly, who – so the argument goes – are unable to cut back and who instead continuously add to the deficit. Yet it is the Council of Ministers who have come to the States Assembly year-on-year with increased expenditure forecasts. This is amply illustrated in the forecast tables attached as Appendices to this amendment.

It is because of the recently completed Comprehensive Spending Review report and the expenditure forecasts outlined in the Annual Business Plan that the Panel felt it was only appropriate that the States Assembly regained the control of the public finances once and for all. It is our role to establish the envelope of States' expenditure going forward, and it will be the Council of Ministers' responsibility to ensure that the departments are able to deliver the agreed Strategic Plan within that envelope.

Although the 2011 Business Plan attempts to achieve a very wide scope of initiatives produced by the Treasury Department in a fairly tight framework, we are asking the Council of Ministers to reduce their expenditure even further.

The practice of setting a 50/50 approach to taxes and savings is, we believe, a practice that is not viable for the longer-term direction of the Island. The Panel's amendment redresses the balance. The increased savings required by this amendment will take the ratio of cuts to spending versus tax to the 80:20 split, which has been found to achieve the optimal results. It is also likely that there will be less public opposition to some increases in tax when the brunt of the cuts is taken by the public sector. We are therefore proposing an additional reduction of £30 million from States expenditure in order that taxes do not have to be raised as much. This will also avoid the path of the last 5 years where we continue down the road of higher taxes and small savings.

From what has been established during our review on the Comprehensive Spending Review, although not easy, there are opportunities for significant change and only very few are willing to take the initiative to drive those forward. We are now asking Members to forget the micro-management that continues on a daily basis by each one of us and to say 'enough is enough'. It is finally time to see these reductions in expenditure being made and to show the public that we can make these difficult decisions and prove we are capable of doing what some would assume is the impossible.

Financial and manpower implications

The report to this proposition has been fairly self-explanatory in terms of financial implications: should this amendment be adopted, the overall Net Revenue Expenditure of the States of Jersey will be reduced by £5 million for the year 2011, £10 million for the year 2012 and £15 million for 2013 respectively. In terms of manpower implications, as to the final decisions in determining exactly where within the departments the Council of Ministers will look to identify these further savings, the Panel notes that these savings will more than likely have an impact on manpower with a possible decrease due to a large proportion of the States Expenditure being within this area.

3. FINANCIAL FORECAST 2006 to 2011

3. FINANCIAL FORECAST 2006 TO 2011

3.1 Overview

The financial forecast at Table 3.1 has been prepared from the latest estimates of States revenues and expenditure. The forecasts work from a base agreed in the 2006 Budget and then reflect the proposals from the States Strategic Plan for expenditure and the latest forecasts of States revenues based primarily on the actual results for 2005 and trends in the early part of 2006. In respect of States revenues the forecasts only include those fiscal measures which have been approved and implemented at this time and are then adjusted "below the line" to reflect those measures approved in principle but not yet implemented.

3.2 Strategic Plan Review – Financial Framework

As described in Section 2 in some detail, the new Council of Ministers has reviewed the Strategic Plan and proposed a new financial framework. This framework is based on sustainable investment in the economy and its priority public services resulting in increases in the spending proposals. In the Strategic Plan these were to be part funded from the balance available from the Dwelling Houses Loan Fund, but the improved forecasts of States revenues have meant that this balance can now be transferred to a Stabilisation Fund. The net effect of the financial framework has been to increase the spending limits in each of the forecast years. However, the financial position remains broadly balanced over the five-year planning period.

During the debate and approval of the draft States Strategic Plan the Council of Ministers was determined that even if additional objectives were approved the expenditure limits should not be further increased. The Council of Ministers will endeavour to ensure that the financial impact of those amendments which were successful are offset by compensating savings in other areas.

3.3 Draft Annual Business Plan

The forecasts of States revenues have been revised since those used to inform the review of the Strategic Plan in January and February. They are prepared on the basis of the 2005 Accounts which are now complete and have reported an improved financial position. The analysis has also used the early trends in revenues in 2006 to verify if the improvements in 2005 appear to be sustained for 2006 and future years.

The expenditure forecasts are based on the revenue expenditure proposals for the next three years from the Council of Ministers. These were agreed following the Strategic Plan Review and were issued to departments in April. Included in these expenditure proposals are minor transfers between departments representing further changes to the departmental structures as a result of the change to Ministerial Government. The amended objectives agreed during the strategic plan debate are assumed to be funded within existing spending limits.

The Capital expenditure forecasts are based on the priorities identified by the Council of Ministers in its review in February, which have now been translated into detailed programme of allocations for the next five years as endorsed by the Council of Ministers in May.

Table 3.1
Financial Forecast 2006 to 2011

Probable 2006 £m		<-- Estimates --> 2007 £m	2008 £m	2009 £m	2010 £m	2011 £m
	Income					
388	Income Tax	403	418	435	453	466
50	Impôts	49	49	48	48	48
19	Stamp Duty	19	20	20	21	21
24	Other Income	24	24	24	24	24
9	Island Rate	10	10	10	10	11
490	Total Income	505	521	537	556	570
	Expenditure and Transfers to Reserves					
449	Net Revenue Expenditure	474	492	507	518	532
39	Net Capital Expenditure Allocation	42	40	38	41	38
488	**Total States Net Expenditure**	516	532	545	559	570
-	Transfer to Strategic Reserve	-	-	-	-	-
488	**Total States Net Expenditure and Transfers**	516	532	545	559	570
2	**Forecast Surplus/(Deficit) for the year**	**(11)**	**(11)**	**(8)**	**(3)**	**0**
	Fiscal Measures to be approved:					
-	"0/10" Corporate Tax Structure	-	(3)	(3)	(70)	(75)
-	Goods and Services Tax	-	45	45	45	45
-	20 means 20 Income Tax Proposals	-	2	4	6	8
2	**Revised Forecast Surplus/(Deficit)**	**(11)**	**33**	**38**	**(22)**	**(22)**

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There are a number of assumptions behind the Financial Forecast in Table 3.1. These are:

Income Tax
- *2006 tax revenues are based on specific assumptions for the increase in taxable profits, earned and unearned income, but for the forecast years a general assumption of 3% increase in base income tax revenues is presumed.*
- *The impact of the change to a corporate structure "0/10" has been reassessed within the range £80 million to £100 million between 2008 and 2013, and the mid-point of this range is included in the below the line adjustments.*

Impôts Duties
- *The forecasts reflect the predicted trends in consumption, which include a drop off for some goods, but also include an assumption that there would be annual increases in duty at a level equivalent to the Island RPI(x), reflecting the currently agreed Alcohol and Tobacco Strategies.*

Stamp Duty
- *The forecasts assume that house prices in particular will continue to increase at approximately 2.5% and that house sales will remain at current volumes.*

Other Income
- *Within the forecasts are components of other income that may both increase and decrease so a cautious appraisal has been made.*

Island Rate
- *The Island Rate will increase annually according to the Island RPI as prescribed in the Rates Law.*

Revenue Expenditure
- *The increases provided within the revenue expenditure forecasts are described in detail in Section 4 of this report, and are net of the repayment of capital debt. Beyond 2009, the variations are principally within a total States expenditure increase of 2.5%, after having adjusted for the proposed Capital Programme. No additional efficiency savings are included beyond the £16 million revenue efficiency savings by 2009.*

Net Capital Expenditure Allocation
- *The forecasts are in line with the programme described in detail in Section 6 and after allowing for the "capital receipts (efficiency savings)" rising to £4 million per annum from 2009, to be achieved by Property Holdings.*

Strategic Reserve
- *No transfers are included in the forecast, but every opportunity will be taken to transfer any one off receipts which arise over the forecast period to either the Strategic Reserve or a Stabilisation Fund once established.*

Stabilisation Fund
- *Proposals will be developed and brought forward for the establishment of a Stabilisation Fund, initially set up from the £32 million identified as available from the Dwelling Houses Loans Fund. However, if this is established as a Special Fund, it will be separate from the Consolidated Fund and will not appear as part of the financial forecast.*

Forecast Surplus/(Deficit)
- *The forecasts show an improvement on previous forecasts but rely on a number of significant assumptions described above.*

Fiscal Measures still to be approved
- *The forecasts assume the tax measures approved in principle by the States in the Fiscal Strategy will be implemented in accordance with the agreed timescales and budget yields. As these figures are indicative then no adjustments are included for indexation.*

Revised Forecast Surplus/(Deficit)
- *The figures can only be forecasts and are as accurate as the assumptions they are based on. Beyond 2007 the forecasts in particular of States revenues can only be considered to be indicative.*

3.4 Revised Forecasts of States Revenues

Based on the 2005 results and the early trends of revenues in the first few months of 2006 the forecasts for impôts and stamp duty have been revised. In both cases the 2005 results exceeded the forecasts. For impôts duty, the 2005 results showed a change from the trend in the 2004 results, where consumption had fallen off quite significantly, and a return to income levels in line with the longer term trends. The 2006 and future forecasts have been increased by approximately £4 million per annum as a result. It has also been assumed that annual increases in line with RPI(x) will be applied, reflecting the currently agreed Alcohol and Tobacco Strategies.

There were a number of significant transactions within the stamp duty income in 2005 which helped contribute to the increase of £4 million over the 2004 figure. However, analysis of the latest data suggests that, when taking into account the prospect of a reasonably buoyant property market leading to increases in house prices, a forecast of £19 million should be achieved for 2007. No allowance has been made for any future duty increases or changes to share transfer transactions.

The forecasts for other income, which mainly consists of a number of small elements of investment income, should sustain a similar level to the 2005 results with no significant change expected in interest rates or in other returns on investments over the forecast period.

The forecasts for income tax are primarily based on the 2005 outturn. These results showed an increase of £7 million in income tax revenues compared to the amounts forecast in September 2005 for the 2006 Budget. The reasons for the increase have been analysed to establish the appropriate tax base from which to forecast future revenues. This analysis shows that the underlying tax base was fairly accurately forecast and that the additional income in 2005 was from adjustments to tax liabilities and provisions for post and prior year adjustments.

At this point in the year there is no more up to date information than the 2005 assessments on which to base the forward assumptions, either in respect of company profits or personal incomes. Until later in the year when a greater proportion of the current year assessments have been finalised the forecasts for income tax remain relatively unchanged. One minor change included in the revised forecasts is in respect of the EU retention tax. A conservative estimate of £1.5 million had been made for the six month period to be collected in 2006, but to date £13 million has been collected of which the States will retain 25% or just over £3 million. The rate of this EU retention tax increases over the next five years and it is likely that taxpayers will choose not to pay this tax and potentially move their funds outside the Island.

As in previous years the approved measures for ITIS and Economic Growth are included in the base five-year forecasts presented, and the additional revenue from the remaining measures of a 3% Goods and Services Tax (GST) and the proposed withdrawal of allowances for those on higher incomes (20% means 20%) are now included as adjustments to the bottom line position.

As it has been almost two years since the initial estimates of the effect of the "0/10" corporate tax proposals these are now being reviewed. The initial findings suggest that whilst there have been some variations in the detail of the figures, the estimated effect appears relatively unchanged and as such the latest estimate is still a reduction in corporate tax revenues in a range between £80-£100 million. A profile of reduced tax revenues starting in 2008 has been included, with the loss of income from Exempt Companies being only partly reimbursed by a proposed new company fee. This increases to £90 million in 2013, representing the mid-point of the predicted range of impact, and this has been included in the five-year forecasts at Table 3.1. The range of possible outcomes from £80-£100 million is reflected in the graph of the indicative forecasts to 2015 at Table 3.2.

3.5 Indicative Forecasts to 2015

In recent years' States Business Plans an indicative forecast has been included to illustrate the scale and profile of the impact of the "0/10" corporate tax proposals beyond 2010.

Indicative forecasts have been produced for the period to 2015 based on the following assumptions:

- States expenditure is assumed to increase at the long-term target of RPI(x), currently in the order of 2.5%;
- The underlying States revenues, before the proposed new tax measures, are assumed to increase at a similar level of 2.5% in the longer-term;
- The proposed new tax measure of a Goods and Services Tax is implemented in line with the current timetable and generates additional revenues from 2008 of £45 million;
- The proposed new income tax measure of "20% means 20%" is implemented in line with the current timetable and generates additional revenues increasing from £2 million in 2008 to £10 million by 2012;
- The new corporate tax structure "0/10" is introduced with a forecast range of between £80 million to £100 million loss in tax revenues over the period 2008 to 2013; and
- The current Economic Growth Plan is extended for a further five years, with the effect that economic growth of between 0% and 2% in real terms is achieved through to 2015.

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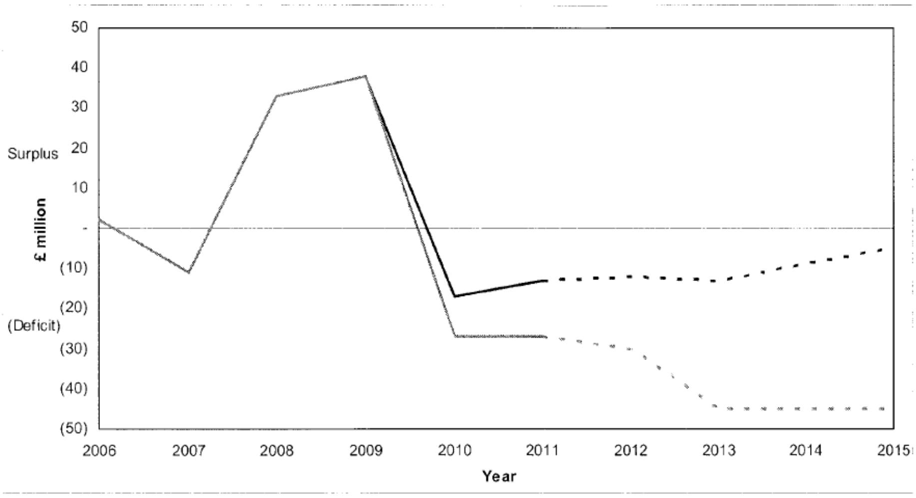
For the purpose of the indicative forecasts all other factors within the Jersey economy are assumed to remain constant or stable.

On the basis of these long-term and fairly imprecise forecasts, it can be seen, from the graph in Table 3.2, that there would be the potential for deficits in the longer term if no corrective action were taken.

However, the Council of Ministers will keep these forecasts under constant review and is committed to a balanced financial position over the five-year planning cycle. As the forecasts become accurate and, if the five-year financial position is not balanced, then such corrective action as may be necessary will need to be taken.

With those caveats on the accuracy of the forecasts and emphasising that the indicative forecasts are an illustration of the possible financial position, the graph is presented in Table 3.2

Table 3.2 Graph of Indicative Financial Forecast to 2015



Note:
A comprehensive list of assumptions is provided with Table 3.1.

The indicative forecast shows that, assuming GST is implemented in 2008 ahead of the impact of "0/10" from 2010, the States should benefit from two years of significant surpluses. These surpluses would provide a contingency which should allow the States time to review the initial impact of the move to "0/10" in 2010 before considering if any appropriate action is required to sustain a position of balanced budgets in the longer term. Consequently, the indicative forecast serves to emphasise the importance of adhering to the current fiscal strategy timetable if the States finances are to remain sustainable over the forecast period.

3.6 Fiscal Strategy – Remaining measures and timescales

"0/10" Corporate Tax Structure
Due to competitive and international pressures, in order to maintain a prosperous and competitive economy, the States agreed in July 2004 (P106/2004) to move to a "0/10" corporate tax structure by 2009. Extensive research on the detailed design of the "0/10" tax model has been undertaken resulting in:

- proposals published at the beginning of May 2006;
- consultation on these "0/10" proposals to be concluded during July 2006;

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- a Report and Proposition to be presented to the States for 'in-principle' approval;
- the final "0/10" tax legislation to be lodged by the end of 2006; and
- "0/10" will be debated early in 2007.

In order to help fill the revenue deficit arising from the move to "0/10" and for the Island to become somewhat less reliant on corporate and direct taxation, the States agreed in July 2005 (P44/2005) to introduce a 3% broad-based Goods and Services Tax (GST) in early 2008.

Goods and Services Tax (GST)
The introduction of GST at 3% is estimated to raise £45 million in taxation revenue. However, this tax yield is based on the assumption that there are very few exclusions from the tax. If significant exclusions are proposed and approved then the effect would be to raise the rate of tax above 3% in order to generate £45 million and significantly increase the cost of collection for both businesses and the States. A considerable amount of implementation work is currently taking place in planning for the introduction of GST:
- consultation on the Primary law is underway;
- a parallel consultation exercise is also taking place on how GST might work for the Financial Services industry to ensure that it will contribute some £5 million to £10 million in indirect tax in addition to a continuing significant contribution in direct profit taxes at the 10% rate under the "0/10" system;
- consultation on the secondary legislation (the 'Regulations') is due for July and August 2006;
- responses from the consultation exercises will be carefully considered; and
- the final GST legislation will presented to the States for approval in November 2006.

The States agreed that, prior to the introduction of GST, a revised Income Support scheme would be introduced in order to help to cushion those on lower incomes from the effects of GST. This would be a better way of targeting benefits for those who need it rather than allowing blanket exclusions to GST, from which even the very rich would benefit. Detailed work in this area is being led by the Minister for Social Security and legislation for a revised income support scheme is due to be debated by the States in the second half of 2006.

Withdrawal of Income Tax Allowances for Higher Earners ("20% means 20%")
The States also agreed in July 2005 (P44/2005) that, in order to raise £10 million in taxation revenue, income tax allowances for higher earners should be phased out. Not only would this proposal assist in filling part of the revenue deficit following the move to "0/10" it would also make the package of fiscal measures proposed by the former Finance and Economics Committee progressive. Because of the high level of tax allowances in Jersey it is, at present, not uncommon for households with incomes in excess of £100,000 to be paying an effective rate of tax of less than 15%. Though the effect will vary, depending upon households' circumstances, generally the former Committee's original proposals would have increased the rate of tax paid by a married couple earning £100,000 by up to £3,000 a year, over a five year period. The proposals were a means of increasing the effective rate of tax for higher earners without raising the headline 20% rate of tax which has been in existence for 65 years.

Over the past five years incomes have increased but tax exemption thresholds, apart from an increase for the year of assessment 2003, have remained constant. Consequently, recent calculations have shown that the anticipated tax yield, based on the proposals originally put forward for last year's Budget, would have raised significantly in excess of £10 million. Accordingly, if the objective remains one of raising approximately £10 million from taxpayers with higher disposable incomes, this objective can be achieved by more closely targeting those at the higher end of the income spectrum.

Concerns have also been expressed by taxpayers about the loss of certain allowances and reliefs to which they had been accustomed and which they had taken into account in their financial planning.

In the light of those concerns, and the higher yield, it is now proposed that the earlier proposals for raising more tax from those on higher incomes are amended in the following manner:

- Tax relief for children, including those in higher education, will be retained for all taxpayers;

- Relief will continue to be available on the first £1,000 of life assurance premia on all policies in existence as at 31 December 2006; and
- Tax exemption thresholds for all taxpayers will be increased by 2.5% per annum in the December 2006 Budget, with similar proposals in 2007 and 2008. These will affect the years of assessment 2007, 2008 and 2009 respectively.

The biggest change to the original proposals, however, is to combine the introduction of the phasing out of allowances with a commitment to increase exemption thresholds for all taxpayers by 2.5% a year in 2007, 2008 and 2009. Raising exemption thresholds will remove a significant number of households entirely from the payment of tax and benefit those on so called "middle incomes". Generally, this effect will be to reduce the impact of 20% means 20% on "middle incomes". Many previously affected by the proposals will now find no change in their tax bills and, in certain circumstances, the raising of exemption limits will result in tax bills actually reducing.

In addition it is proposed that the phasing out of allowances for higher earners will take place over a 5-year period commencing 2007, so for many the full impact will not be felt until 2011.

The current timetable for the 20% means 20% proposals is:

- consultation currently taking place on revised proposals as above;
- responses from the consultation exercises will be carefully considered;
- proposals will be debated by the States for approval in July 2006; and
- legislation will be implemented alongside the 2007 Budget in December 2006.

Other Measures – Environmental Taxes

Detailed research work, led by the Director for the Environment, is also being undertaken on potentially appropriate environmental taxes and land development levies. This will also include a mechanism to replace the revenues currently collected through Vehicle Registration Duty (VRD), where VRD is to be replaced once GST is introduced.

Whilst it is not anticipated that such economic instruments will generate any additional net tax revenues they could make a substantial contribution to achieving our strategic environmental aims. A high-level options paper will be published in the States Autumn session outlining specific preferred proposals to deliver beneficial environmental objectives for the Island.

Following the publication of the Household Expenditure Survey at the end of June 2006 a data re-validation exercise will be undertaken for all strands of the Fiscal Strategy. Using the most up-to-date data, tax yields, costs of implementation of the fiscal proposals, the size of the "0/10" revenue deficit and tax revenue receipts from economic growth will yet again be calculated. The results from this exercise will then enable a household impact assessment to be undertaken before the end of 2006 demonstrating how typical households may be affected once all of the fiscal measures have been implemented.

3.7 Balanced Budgets

One of the key objectives must be to maintain sustainable public finances. This was endorsed in the financial framework within the States Strategic Plan and will be achieved by having a policy of balanced budgets. The aim is therefore to have balanced budgets not every year but over the five-year planning cycle.

Consolidated Fund

In the short-term while any deficits have been relatively small, balanced budgets have been able to be managed using the accumulated balance on the then Capital Fund. The remaining balances in the Capital Fund have been carried forward under the new Public Finances (Jersey) Law 2005 to the Consolidated Fund and the indicative forecasts show that these balances should allow the public finances of the Island to remain sustainable through to 2012. This forecast position is based upon all the assumptions with regard to introduction of fiscal measures, control of expenditure and other factors described earlier in this section.

The forecast of sustainable finances in the short to medium term must not however lead to complacency. What is clear is that the size of the variations in the budget forecast are increasing and as we look further ahead, admittedly with a fairly cautious view of our revenues, a period of possible deficits could occur. These must not be allowed to continue.

This position must be monitored and reviewed very carefully and, at least annually, all the underlying assumptions must be checked and verified. This must take place as part of the annual business planning process and, if the forecasts remain as they are, then appropriate action would need to be taken.

Stabilisation Fund

Following the successful amendment to the States Strategic Plan, the Council of Ministers is now committed to the immediate establishment of a Stabilisation Fund. This is likely to take the form of a "Special Fund" and could be proposed alongside the 2007 Budget. In the meantime the terms of reference for such a fund need to be determined and this will be prepared jointly by the Chief Minister's and Treasury and Resources departments.

Part of this work must also be to establish what part a Stabilisation Fund might play in sustaining public finances in a period of recession. What is clear is that the Consolidated Fund balances may be exhausted in the next five to ten years. Whilst this fund will continue to provide flexibility between year on year fluctuations it may no longer serve as a buffer against the more substantial variations currently forecast. If we are to protect the Strategic Reserve, our safeguard against major structural, economic or natural influence, then an alternative source of substantial funding is required.

The Budget Report, to be lodged in October, will provide another opportunity to update the States on the progress of the Fiscal Strategy. Alongside the Budget Report, the Council of Ministers intends to lodge a separate report and proposition to establish the terms of reference for a Stabilisation Fund and the approval of the transfer of the £32 million identified as available from the Dwelling Houses Loans Fund.

ANNUAL BUSINESS PLAN 2008

Table 3.1
Financial Forecast 2007 to 2012

Revised Estimate 2007 £m		Forecasts 2008 £m	2009 £m	2010 £m	2011 £m	2012 £m
	States Income					
420	Income Tax	435	455	470	490	510
-	0/10% Corporate Tax Structure	(3)	(3)	(67)	(72)	(77)
-	Goods and Services Tax	30	45	46	47	48
50	Impôts Duty	51	51	51	51	51
25	Stamp Duty	26	27	27	28	29
-	Tax/Stamp Duty on Share Transfer	1	1	1	1	1
33	Other Income	32	31	27	24	23
10	Island Rate	10	11	11	11	11
538	**States Income**	582	618	566	580	596
	States Expenditure					
482	Net Revenue Expenditure	505	525	545	565	583
42	Net Capital Expenditure Allocation	40	38	39	39	40
524	**Total States Net Expenditure**	545	563	584	604	623
14	**Forecast Surplus/(Deficit) for the year**	**37**	**55**	**(18)**	**(24)**	**(27)**
	One-off expenditure					
	Income Support - Transitional relief	10	6	4	2	1
14	**Revised Forecast Surplus/(Deficit)**	**27**	**49**	**(22)**	**(26)**	**(28)**
(10)	Transfer to Strategic Reserve	-	-	-	-	-

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2. FINANCIAL FORECAST 2008 - 2013

2.1 Overview

The financial forecast at Table 2.1 has been prepared from the latest estimates of States revenues and the proposed levels of States expenditure. States expenditure reflects the proposals from the Council of Ministers as a result of the recent business planning process and is in line with the proposals agreed by the States in September 2007. The forecasts of States revenues reflect the fiscal measures that have been approved in principle and that will be implemented in 2008.

Table 2.1 Revised Financial Forecast (July 2008)

Probable 2008 £m		Forecasts 2009 £m	2010 £m	2011 £m	2012 £m	2013 £m
	States Income					
460	Income Tax	**475**	490	510	530	550
-	0/10% Corporate Tax Structure	**(9)**	(77)	(82)	(87)	(96)
30	Goods and Services Tax	**45**	46	47	48	50
50	Impôts Duty	**50**	49	49	49	49
30	Stamp Duty	**31**	32	33	34	34
-	Tax/Stamp Duty on Share Transfer	**1**	1	1	1	1
44	Other Income	**33**	27	25	24	23
10	Island Rate	**10**	11	11	11	12
624	**States Income**	**636**	579	594	610	623
	States Expenditure					
524	Net Revenue Expenditure	**531**	549	567	584	602
143	Net Capital Expenditure Allocation	**38**	40	37	35	16
667	**Total States Net Expenditure**	**569**	589	604	619	618
(43)	**Forecast Surplus/(Deficit) for the year**	**67**	**(10)**	**(10)**	**(9)**	**5**
-	Transfer to Strategic Reserve	-	-	-	-	-
(38)	Transfer to Stabilisation Fund	-	-	-	-	-
13	**Estimated Consolidated Fund balance**	**80**	**70**	**60**	**51**	**56**

Notes:

There are a number of assumptions behind the Financial Forecast in Table 2.1. These are:

Income Tax

- *Income tax forecasts are unchanged since those produced in March from the 2007 outturn and the next update will be produced for the 2009 Budget in October.*
- *2008 tax revenues are based on specific assumptions for the increase in taxable profits, earned and unearned income. These reflect the increases seen in the 2007 revenues. For the forecast years a cautious approach has been taken until specific figures relating to the impact of the 'credit crunch' are available.*
- *Proposals for new Company Fees as part of the 0/10% proposals will be brought forward to replace*

Figure 3.3 - Revised Financial Forecast (June 2009)

Probable 2009		<------------ Forecasts	------------>	
		2010	2011	2012
£m		£m	£m	£m
	States Income			
490	Income Tax	**500**	525	550
(12)	0/10% Corporate Tax Structure	**(80)**	(88)	(96)
50	Goods and Services Tax	**51**	53	54
49	Impôts Duty	**49**	48	48
-	Proposed Environment Tax	**2**	2	2
20	Stamp Duty	**20**	21	21
-	Land Transaction Tax (Share Transfer)	**1**	1	1
41	Other Income	**42**	40	38
11	Island Rate	**11**	11	11
649	**States Income**	**596**	613	629
	States Expenditure			
559	Net Revenue Expenditure	**585**	609	618
38	Net Capital Expenditure Allocation	**21**	21	19
597	**Total States Net Expenditure**	**606**	630	637
52	**Forecast Surplus/(Deficit) for the year**	**(10)**	**(17)**	**(8)**
44	Fiscal Stimulus Package	**-**	-	-
8	**Forecast Surplus/(Deficit) for the year**	**(10)**	**(17)**	**(8)**
	Economic downturn adjustment			
(10)	**Central scenario**	**(41)**	**(53)**	**(48)**
	Forecast Surplus/(Deficit) for the year			
(2)	**Central scenario**	**(51)**	**(70)**	**(56)**