STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2013 – 2015 (P.69/2012): NINTH AMENDMENT (P.69/2012 Amd.(9)) – AMENDMENT

Lodged au Greffe on 30th October 2012
by the Council of Ministers

STATES GREFFE

1 PAGE 2, AMENDMENT 1 –

For the table in the amendment substitute the following table –

Ministerial Departments	**2014 £'000**	**2015 £'000**
Chief Minister	410	410
Home Affairs	50	50
Social Security	750	1,000
Transport and Technical Services	1,000	2,000

2 PAGE 2, AMENDMENT 2 –

In the inserted new sub-paragraph (c)(iv) for the amount "£5,690,000" substitute the amount "£2,210,000" and for the amount "£7,730,000" substitute the amount "£3,460,000".

COUNCIL OF MINISTERS

REPORT

The Corporate Services Scrutiny Panel has proposed that for the financial years 2014 and 2015 the net revenue expenditure of the States-funded bodies listed in the table below shall be decreased by the amounts shown –

Ministerial Departments	**2014 £'000**	**2015 £'000**
Chief Minister	1,700	1,670
Economic Development	350	350
Education, Sport and Culture	1,490	2,260
Home Affairs	250	250
Social Security	900	1,200
Transport and Technical Services	1,000	2,000

The Corporate Services Scrutiny Panel has proposed that the amounts of £5,690,000 and £7,730,000 be allocated to growth expenditure and that allocations to departments be appropriated in the annual Budgets for 2014 and 2015 respectively.

The overall financial implications of the proposed Amendment would be neutral, with funding being removed from departments' budgets in 2014 and 2015 and held in a central growth allocation.

The Corporate Services Scrutiny Panel has proposed this amendment to increase the flexibility within the Medium Term Financial Plan and to introduce a specific allocation for growth as envisaged by the Public Finances (Jersey) Law 2005.

The Council of Ministers is mindful of both of these points and considered them during the prioritisation of the growth bids and during the overall construction of the Medium Term Financial Plan. The Council of Ministers was presented with a range of compelling arguments for each of the growth bids, and this led to all available growth being allocated to the immediate strategic priorities of employment, economic growth and the reform of the Health Service. As a result, there is no growth allocation available for annual consideration as part of the Budget process.

To evaluate the proposed amendment from Corporate Services Scrutiny Panel, the Council of Ministers asked departments to consider their growth bids again to determine whether there are any amounts that could be held centrally. On this basis but without significantly affecting the certainty that departments need to deliver their services, the Council of Ministers are proposing to amend the amounts of growth held centrally, from those proposed by the Corporate Services Scrutiny Panel, to £2,210,000 for 2014 and £3,460,000 for 2015.

Overview

This amendment from the Corporate Services Scrutiny Panel is aimed at introducing additional flexibility into the Medium Term Financial Plan from 2014 onwards in the event that income levels are not met and expenditure levels become unaffordable. The proposed amendment is based on those schemes which are awarded growth from 2014 onwards with a list of projects from the growth proposals contained in the Medium Term Financial Plan –

		2013	2014	2015
Schemes starting in 2014 with ongoing costs	Dept	£'000	£'000	£'000
External Relations - Establish a London Representative Office	CMD	0	600	600
Finance Sector - JFL Saudi Office/GCC Financial Services	EDD	0	350	350
Private Sector Rental Support	SSD	0	750	1,000
External Relations: International Adviser to the Council of Ministers	CMD	0	50	50
External Relations: Shortfall in Grant to Channel Islands Brussels Office	CMD	0	50	50
External Relations: OECD Global Forum/Peer Review Group/British Irish Council Secretariat annual contribution	CMD	0	60	60
External Relations: International meetings, monitoring and visitors dignitaries	CMD	0	160	160
External Relations: External specialist advice	CMD	0	100	100
Law Draftsman: 1 additional permanent Law Draftsman	CMD	0	130	130
HR - Learning and Development - MMP and other programmes	CMD	0	170	170
Higher Education - Increased Fees	ESC	0	1,490	2,260
Equipment/Vehicle Replacement	HA	0	200	200
Maritime Incident Response Group	HA	0	50	50
Anti-Discrimination Legislation	SSD	0	150	200
Treatment and disposal of ash	TTS	0	1,000	2,000
HR Base Budget Shortfall on Staff	CMD	0	230	200
CSR: Fund permanent members of the CSR delivery team	CMD	0	150	150
Total		**0**	**5,690**	**7,730**

This approach is problematic because a number of these projects are funded from 2013 onwards, but either from base budgets or carry-forward amounts approved for that purpose. The use of a project list in this case, therefore, does not reflect departments' prioritisation process, nor the extensive work already completed in reviewing growth requests for 2013, 2014 and 2015 by the Council of Ministers.

Withholding a total growth amount of £5.69 million in 2014 and £7.73 million in 2015 based on projects has other consequences. Removing these projects from departments' cash limits removes certainty and the ability to plan and commit funds over a longer period of time. This is a fundamental principle of the Medium Term Financial Plan and one endorsed by both the Fiscal Policy Panel (FPP) and the professional advisers to the Scrutiny Panels charged with reviewing the Medium Term Financial Plan. It is important to balance flexibility with certainty to funding for departments. Any significant adjustment to growth allocations would impact on departments' decisions, plans and their ability to implement the changes that they have been tasked with delivering.

One of the other consequences of this amendment is the focus of departments on individual projects, rather than on the higher principle of retaining flexibility in 2014 and 2015. Individual departments have provided detailed justification for each listed project, which is understandable given that this is a process they have already been through.

The Council of Ministers has conducted an additional exercise to identify an amount that might be retained centrally as growth to evaluate the amendment proposed by Corporate Services Scrutiny Panel.

On the basis of this exercise, each individual department has responded and those amounts are identified within each section. The summary of this analysis is that the Council of Ministers' view is that a central growth allocation could be based on the following:

		2014 £000	2015 £000
Chief Ministers	External Relations: International meetings, monitoring and visiting dignitaries	160	160
	External Relations: External specialist advice	100	100
	CSR: Fund permanent members of the CSR delivery team	150	150
		410	410
Home Affairs	Marine Incident Response Group	50	50
Social Security	Private Sector Income Support	750	1,000
TTS	Treatment and disposal of ash	1,000	2,000
	TOTAL	**2,210**	**3,460**

The Social Security Department has also identified that the amounts within the growth allocation for 2014 and 2015 relating to anti-discrimination legislation are subject to States debate. In the event that these are not supported by the Assembly, there would be a return to the Treasury. It is not possible at this stage, though to identify these amounts as available for return. The amounts are –

		2014 £000	2015 £000
Social Security	Discrimination Law	150	150
		150	150

It is important for Members to set this amendment within the context of the flexibility that is already contained in the Medium Term Financial Plan through contingency in 2014 and 2015. In addition, although there has been debate regarding the income forecasts, the FPP has made no recommendation to revise these downwards.

Departmental Responses

Each individual department has given a response to the project amounts and these are set out below.

Chief Minister's Department

CMD Bids and proposed funding solution See section 56 of main report		**FTEs**	**2013**	**2014**	**2015**	**Existing Cost**	**Funding**
MTFP Ref	**Get People Into Work**						
1	External Relations – Establish a London Representative Office	0	0	600	600	No	Contingency in 2014. Growth from 2015
	Reform Health and Social Services						
	Other Growth						
30	External Relations: International Adviser to the Council of Ministers	1	0	50	50	Yes	Carry forwards or income in 2013. Growth from 2014
31	External Relations: Shortfall in Grant to Channel Islands Brussels Office	0	0	50	50	Yes	Carry forwards or income in 2013. Growth from 2014
32	External Relations: OECD Global Forum/Peer Review Group/British Irish Council Secretariat annual contribution	0	0	60	60	Yes	Carry forwards or income in 2013. Growth from 2014
33	External Relations: International meetings, monitoring and visiting dignitaries	0	0	160	160	Yes	Carry forwards or income in 2013. Growth from 2014
34	External Relations: External specialist advice	0	0	100	100	Yes	Carry forwards or income in 2013. Growth from 2014
60	Law Draftsman: 1 additional permanent Law Draftsman	1	0	130	130	Yes	Carry forwards or income in 2013. Growth from 2014
62	HR – Learning and Development – MMP and other programmes	0	0	170	170	Yes	Carry forwards or income in 2013. Growth from 2014
51	HR Base Budget Shortfall on Staff	2	0	230	200	Yes	CSR restructuring
52	CSR: Fund permanent members of the CSR delivery team	2	0	150	150	Yes	CSR restructuring
	0	**6**	**0**	**1,700**	**1,670**		

- **External Relations**

£1,020,000 of the total of £1,700,000 relates to External Relations.

£420,000 is required to support 5 key activities within External Relations which constitute the majority of its existing operations. The bids are to create a recurring budget for External Relations' operational expenditure which has been met from non-recurring sources outside the Annual Business Plan process since the function was established in 2008.

The Corporate Services Scrutiny Panel (CSSP) has noted in its report that the use of non-recurring Fiscal Stimulus and carry forward funding is not best practice. Reliance on non-recurring funding does not provide properly for External Relations' recurring commitments and obscures the real funding requirements from the States Assembly in the financial planning process.

A recurring operating budget is needed to meet best practice requirements for transparency and to allow planning certainty. Many international events are agreed a long time in advance and require commitments to be made across financial years.

The Chief Minister has identified 2 external relations projects that could be held as growth centrally:

		2014 £000	2015 £000
Chief Ministers	External Relations: International meetings, monitoring and visiting dignitaries	160	160
	External Relations: External specialist advice	100	100

Any other restriction in growth would affect the Department's ability to fulfil the legal responsibility to conduct the Island's external relations and the Assistant Chief Minister for External Relations would not be able to create a robust and effective forward plan for the Department which continues to grow in importance as Jersey seeks to secure its financial and international future on the world stage.

- **London Representative Office**

£600,000 is requested to establish a new London Representative Office to promote and protect Jersey's interests in the UK.

External Relations has been working since its establishment to build key relationships in the UK amongst both Ministers and officials. This work has now reached a critical point, where a permanent presence is needed in London to capitalise on this investment and make the best available use of the opportunities which arise to promote Jersey's future prosperity.

The failure to invest by 2014 will result in loss of the advantages gained from closer working to date and missing opportunities which are expected to arise from closer working with the UK government in the Medium Term Financial Plan period.

The failure to invest would also expose Jersey to increased future risk that UK government action could cause harm to the Island. Lastly, opportunities will be missed to attract new jobs and growth, which will instead be captured by competitor countries in Europe, the Caribbean and the Far East, all of whom maintain active London offices.

- **Law Draftsman**

The bid for permanent funding for one additional Assistant Law Draftsman will allow the Law Draftsman to retain the additional temporary appointment which has been put in place for 2012 and 2013 using CSR restructuring provision to continue to support the programme of Public Sector Reform.

If this funding is withdrawn, the consequences are that all departments will have to wait longer for Law Drafting time, which will limit progress on delivering those States strategic objectives which require law changes. Alternatively, the contract of the current temporary employee will have to be terminated and services brought in when required from the private sector at much greater expense.

- **Human Resources**

Learning and Development – the Modern Managers Programme and other core training were originally funded from Change Programme project monies in 2005. These monies will be exhausted during the course of 2013. This bid represents 63% of central training budgets for all States employees. Its removal will leave only £98,000 available to provide the minimum training requirements for 6000+ States employees.

The continuing investment in and development of skills in the workforce is a core requirement of the Public Sector Reform programme. The removal of this funding will threaten the success of the HR work-streams of the Public Sector Reform programme.

HR Base Budget Shortfall – this bid represents transitional funding for 2 members of staff from CSR restructuring with whom we have permanent contracts. If this restructuring funding is not approved, savings will have to be made in HR opportunistically as vacancies arise. The CSSP is aware that HR is currently viewed as not fit for purpose, and any reduction in HR resources will reduce the service available to support Departments in their business as usual activities, as well as in the changes which are currently being scoped through the Public Sector Reform programme.

- **CSR – Fund permanent members of the CSR delivery team**

This bid is for funds from the Restructuring Provision to support the permanent members of the CSR delivery team for a further period to manage the reform programme. The total amount is £150,000 for 2014 and £150,000 for 2015.

This is a commitment from the restructuring provision so the impact of removing this bid will leave other programme activity funded without any resource to manage the delivery of the Public Sector Reform programme. Nonetheless, the Chief Minister has identified that this could be held centrally.

Economic Development Department (EDD)

The Ninth Amendment to the Medium Term Financial Plan will have the effect of reducing the Jersey Finance Limited (JFL) grant in 2014 and 2015. The grant reduction will prevent JFL from delivering a key component of the 2013 – 2015 JFL market development strategy. This strategy which was agreed as part of the Economic Growth and Diversification Strategy and the EDD Medium Term Financial Plan submission included the opening of a second office in the Middle East. This will compromise the ability to open new markets for Jersey's financial services sector, and in doing so damage the ability to deliver on the Strategic Plan priority to "Get People into Work".

With a doubling of deposits in 5 years, Gulf investors demonstrate their confidence in Jersey as a stable location for investments. Total deposits from the Gulf countries in Jersey reached £21.2 billion, accounting for 14% of the total deposits in Jersey's financial sector and representing a growth of 11% in Gulf deposits since the opening of the office by JFL in Abu Dhabi last year.

Statistics collated and prepared by the Island's financial regulator, the Jersey Financial Services Commission, for the period ending 31st March 2012, showed that £21.2 billion in deposits were recorded in Jersey from the Gulf, up from £19 billion at the end of 2010. It reflects a more long-standing trend which has seen bank deposits attracted to Jersey from the Gulf region nearly double in the last 5 years.

Jersey's attractiveness as an international finance centre for deposits has been further enhanced by the decision of the Abu Dhabi Commercial Bank (ADCB) towards the end of last year to open a branch in Jersey to attract offshore deposits – the latest in a string of high-profile Gulf-based financial institutions expanding into Jersey. This is a sign that Gulf institutions see clear benefits of Jersey's stable and secure jurisdiction.

JFL, the body that represents Jersey's finance industry, opened its first office in the Gulf region in Abu Dhabi in the first quarter of 2011 and has since used it as a hub for developing closer ties throughout the Middle East. JFL's profile-raising activities have contributed, in part, to the higher figures for the Gulf region. This performance is a clear indicator that Jersey and its strong banking brands provide the stable, secure and appropriately regulated jurisdiction that international investors are seeking.

There are around 15 banks and trust companies with offices in Jersey who are represented in the Gulf region, the National Bank of Abu Dhabi and ADCB are among those Gulf-based institutions with a presence in Jersey. This two-way representation illustrates the growing commercial ties between the locations, a factor which has been further reinforced by the ongoing visits to the Gulf by senior representatives from Jersey's government to meet with leading officials and finance practitioners in the region.

Since JFL opened its office, there have been agreements signed which also foster greater commercial activity between Jersey and the region. The Jersey Financial Services Commission has signed a Memorandum of Understanding with the Central Bank of the UAE, and Jersey's government has a Double Taxation Agreement in place with Qatar. Further agreements are anticipated as Jersey's officials build links with the authorities in the region, demonstrating Jersey's commitment to developing its relationship with the Gulf.

To build upon this success, the JFL 2013 – 2015 business plan, approved by the Minister for Economic Development and captured in the EDD Medium Term Financial Plan submission, proposes a second representative office, located in another Gulf jurisdiction, probably Saudi Arabia is planned.

Education, Sport and Culture Department (ESC)

Higher education fees growth bid is shown from 2014 onwards within the Medium Term Financial Plan. This is not a new activity, however, as the growth required for 2013 was removed on the basis that the Department was aware of an underspend in the current year which it could use to fund the required growth for 2013 only.

Should this amendment be approved, then the impact on the Department would be as follows –

- The Department would be unable to fulfil its responsibilities to fund the current higher education scheme as the growth bid was a direct reflection of the increased fees introduced by the UK from September 2012;

- The reduced budget would provide funding for the current students who have already commenced higher education to complete their studies, but there would only be minimal funding remaining and therefore consideration would have to be given to closing the scheme to new entrants in 2014 and beyond. There are usually about 400 new students receiving assistance from the States each year.

There would need to be a fundamental review of higher education grant scheme going forward, which could result in students being unable to afford to undertake higher education in the future, which goes against the States Strategic Priority of "Getting People into Work".

Home Affairs Department

- **Vehicle/Equipment Replacement £200,000**

This funding is required for the revenue consequences of the new vehicle acquisition arrangements managed by Jersey Fleet Management from 2012 and the reinstatement of funding for specialist equipment (previously minor capital items).

The Department would seek to manage slippage of one year only (2013) by phasing expenditure, but will only be able to manage this slippage in funding if it is able to carry forward unspent balances from 2012 to 2013. Growth funding will need to be reinstated for 2014 and subsequent years.

Vehicle and Equipment Replacement is managed on a rolling programme. Uncertainty over future funding will undermine the planning process, and does not sit well with the Medium Term Financial Plan which, for the first time, sets minimum budgets for all departments 3 years in advance and moves away from short-term decision-making.

It is interesting to note that the Corporate Services Scrutiny Panel is seeking to remove the funding for the Home Affairs Department's Vehicle and Equipment Replacement but seeks to retain growth funding for the Health and Social Services Department's Vehicle Replacement. This approach is inconsistent, especially as both Departments will need to replace emergency vehicles.

- **Maritime Incident Response Group (MIRG)**

In September 2011, the UK Department for Transport (DfT) announced that, as part of its Comprehensive Spending Review programme, the Maritime and Coastguard Agency would cease its share of the funding (circa £50,000 per team) for the National Marine Incident Response Group (MIRG).

Each UK Fire and Rescue Service has had to review its own response based on risk and budgets. The UK Maritime and Coastguard Agency (MCA) has stated that they would rely on ship's crew who have very limited training to deal with these types of scenario, and a response from the commercial salvage sector to deal with the incidents. French response capability is considered to be very limited, based as it is on a naval assessment deployment from bases at Cherbourg and Bordeaux.

Being an Island, Jersey is reliant on its maritime links to the UK and France. 750,000 passengers travel to and from Jersey every year on Condor Ferries and 98.6% of all goods are delivered to Jersey by shipping vessels.

Previous research on behalf of participating MIRG Fire and Rescue Services has shown that the cost of maintaining a marine response similar to the MIRG model would be £50,000 per team per annum (not including real emergencies, the costs of which can be reclaimed from ships' insurers).

Jersey Fire and Rescue Service currently has a fully trained and equipped Fire and Rescue Marine Response Team that can respond to any emergencies in Channel Island waters. All personnel who form part of the team volunteer to do so. They do not receive remuneration for providing availability; however they are paid to attend training events and genuine emergencies. The main costs of maintaining an off-shore marine response are associated with –

- equipment servicing and replacement programme;
- ship fire training; and
- helicopter transport and sea survival training.

The Home Affairs Department will fund the costs associated with Jersey's Fire and Rescue Marine Response in 2013, but will only be able to manage this slippage in funding if it is able to carry forward unspent balances from 2012 to 2013. Growth funding will need to be reinstated for 2014 and subsequent years.

Without certainty around the additional £50,000 funding, the Fire and Rescue Service would not be able to afford to maintain this crucial marine response capability. However, the Department has identified this as a project that could be held centrally. They would then undertake to request the Jersey Fire and Rescue Service to submit an updated business case that would allow this central allocation to be released.

Social Security Department

- **The introduction of Discrimination Legislation**

A recently as July 2011, the States Assembly unanimously agreed to request the Minister for Social Security to lodge ‘au Greffe’ a draft Discrimination Law and to request the Minister for Treasury and Resources to allocate funding for the implementation of that legislation in future cash limits.

The Minister will be lodging draft legislation for consideration by the States in 2013. In the event that the States approve the legislation, but ongoing funding is not provided for, the Minister for Social Security will not be in a position to request that the States bring the legislation into effect.

- **Increased Support with rental costs for those in receipt of Income Support renting property in the private sector**

Associated with the increases in support being proposed for those Income Support recipients renting in the Social Housing Sector as a fundamental corner-stone of the Housing Transformation project, came the requirement to review the existing provision for those renting in the private sector and the need to develop a policy specific to that sector. That work is reaching a conclusion and will be published alongside the lodging of the Housing Transformation proposals in December 2012.

Not making financial provision to further support those in the private sector will mean that the policy proposals which will be recommended could not be implemented, and no further support for those renting in the private sector would be provided, whilst at the same time those in the social sector will receive further support. 56% of those on Income Support who currently rent property in the private sector pay more for their rent than is currently provided for in accommodation components of Income Support.

The Minister for Social Security, however, recognises that this matter would require States debate and approval. On this basis, it is possible for this to be held as a growth item centrally.

Transport and Technical Services

The decision to centrally hold the funding of £1 million in 2014 and £2 million in 2015 for Ash Particle Contaminant (APC) residue, recycling of bottom ash and export of the backlog APC will cause departmental uncertainty. There may be resulting additional costs of creation of high specification APC storage cells and increase in backlog of APC residue that would result in increased costs in the short to medium term. Each APC ash cell costs in the region of £1 million and it is estimated that the costs of export of stored APC could be in the region of £700,000 – £1 million per year of stored residue. Although bottom ash could be stored within existing resources, it is unlikely that the additional costs of APC cells could be managed within the proposed capital budgets. However, on the basis that the strategy for the disposal of ash still needs to be finalised, the Council of Ministers can agree that this funding will be held centrally.

Council of Ministers' Key Themes

Key Theme – Flexibility

A number of comments have been made in the lead-up to the Medium Term Financial Plan debate about whether the proposals allow sufficient flexibility to deal with variations in States income, but also to address any new spending priorities and pressures which emerge during the course of the next 3 years.

The Council of Ministers has proposed that all available growth is allocated to the immediate priorities of Getting People Back to Work, Economic Growth and Reform of the Health service. Together with the other priorities identified by departments through the extensive prioritisation process, this has not left any growth funding to be allocated in future years.

Notwithstanding the proposals to allocate the Growth funding to departments as part of the initial spending limits, there is still a significant amount of flexibility within the Medium Term Financial Plan to address new developments or new policies as they arise.

The total Capital Programme proposed in the Medium Term Financial Plan amounts to £222 million and decisions to allocate this funding to individual capital projects will not be taken until the annual Budget each year. This means that £56 million will be decided in the 2013 Budget, £89 million in 2014 and £77 million in 2015.

The Council of Ministers has proposed that central contingencies are reduced from initial levels, but the Medium Term Financial Plan still proposes that £19 million will be available over the next 3 years with £6 million in 2013, £6 million in 2014 and £7 million in 2015.

A new process for carry forwards is now in place where departments have been given greater certainty in respect of the carry forward of identified underspends against future commitments. The process also provides that any windfall or unforecast underspends are returned to the Treasury, which provides an opportunity to consider whether these funds should be returned to the Consolidated Fund or used to provide a further contingency against any unfunded priorities during the course of the next 3 years.

The certainty over carry forward arrangements is crucial to departments to enable them to manage changes in priorities over the 3 years of the Medium Term Financial Plan. In addition, departments have been encouraged to hold and develop appropriate contingencies to manage any pressures and priorities as they arise, and must demonstrate that they have considered all other measures before they need to approach the Treasury for any central contingency.

Other provisions are in place to deal with some of the known funding pressures for the next 3 years. These include a provision for the costs of claims from the Historic Child Abuse Enquiry (HCAE) process, provision in the form of a smoothing reserve and funds in the Criminal Offences Confiscation Fund (COCF) in respect of any increase in court and case costs and a fully funded central insurance fund.

Each of the flexibility options would enable provision to be made during the next 3 years for any priorities or pressures that may arise and before any change in underlying tax and spending policies are required in the next Medium Term Financial Plan. The Council of Ministers will also consider any opportunities for budget reductions or efficiency savings that may arise from the Public Sector Reform and Modernisation Programme which may provide additional flexibility particularly by 2014 and 2015. However, at this stage it is too early in the process to consider either the timing or at what level these budget reductions may be achieved.

Key Theme – Income Uncertainty

A number of comments have been made in the lead-up to the Medium Term Financial Plan debate about whether the States income forecasts are robust or indeed that they are overly optimistic in the light of economic forecasts.

A robust methodology was used to develop the economic assumptions and the income tax forecasts. The Corporate Service Scrutiny Panel noted in their report that "*some welcome improvements have been made to the modelling of income from income tax*". In addition, comparisons show that the economic assumptions used reflect the same level of caution as other independent bodies. The Medium Term Financial Plan forecast was done in March 2012 and based on the published FPP economic forecasts at that time with assumptions used for 2013 and 2014 being that the economy would return to an average performance, reflecting long-term trends and recent experience. The approach taken is consistent with that adopted by the UK's independent Office for Budget Responsibility (OBR).

MTFP Jersey assumptions v OBR UK forecasts

	Outturn	Forecasts				
Real economic growth % change	2010	2011	2012	2013	2014	2015
Jersey	-5.0*	1.2	1.4	2.0	2.5	2.5
UK	2.1	0.8	0.8	2.0	2.7	3.0

The available evidence suggests that the forecasts are robust. The most recent monitoring information at the end of the second quarter shows that income tax receipts are higher than budget and exceed the forecasts in the Medium Term Financial Plan by £7 million. This is consistent with us achieving the levels of income set out in the Medium Term Financial Plan. This likely higher starting point for 2013 acts as a mitigation against some of the lower economic forecasts and assumptions referred to by the Scrutiny Panel.

The Corporate Services Scrutiny Panel advisor produced scenarios where more pessimistic assumptions were used to model future income tax forecasts, and even with these assumptions the income forecasts were still broadly within the range of forecasts calculated for the Medium Term Financial Plan.

These scenarios helped to confirm the sensitivity analysis calculated at the time of the production of the Medium Term Financial Plan which showed, from an evaluation of the key drivers of income tax revenues, that there would have to be a significant percentage change in the key economic variables to drive tax revenues to fall outside the current range of forecasts. As an example, a +/-1% change in employment or earnings growth would lead to an approximate £3 million variation in tax revenues.

The Fiscal Policy Panel has downgraded its economic assumptions for 2012 and 2013 and comments that the income forecasts are likely to be in the lower range by 2014 and 2015, but there is no recommendation to amend the Medium Term Financial Plan forecasts.

There has also been comment as to the level of increase in tax revenues over the Medium Term Financial plan period, but the key drivers of that increase are in relation to personal income tax (corporate income tax receipts are only forecast to grow £9 million over the course of the Medium Term Financial Plan period). The forecasts are based on the level of inflation plus a weak growth in employment and earnings and a small improvement in the tax yield, and these assumptions are consistent with those used by the OBR where growth in earnings in excess of inflation is forecast to be greater in the UK than assumed for Jersey.

The only conclusion that can be reached is that income tax forecasts are by their very nature uncertain, but the range around the income forecasts in the Medium Term Financial Plan and the underlying methodology can be demonstrated to be robust when compared to other independent forecasts.

Financial and manpower implications

The financial implications of the proposed Amendment are neutral and there are no manpower implications.